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TESTIMONY

TAKEN BEFORE THE

JOINT COMMITTEE

OF THE

Senate and Assembly

OF THE

State of New York

To investigate and examine into the business and affairs of

LIFE INSURANCE COMPANIES

Doing business in the State of New York

VOLUME VI

BRANDOW PRINTING COMPANY
STATE PRINTERS
ALBANY, N. Y.
1905

Committee

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COUNCIL CHAMBER,

CITY HALL, NEW YORK CITY.

December 12, 1905.

The Committee met pursuant to adjournment, Senator Armstrong in the chair.

THOMAS F. RYAN, resumed.

BY MR. HUGHES:

Q. Mr. Ryan, at the hearing on Friday you testified that Mr. E. H. Harriman desired to share the purchase of the Equitable stock with you and that you refused. The question was then asked: "What did Mr. Harriman say to you in connection with the matter?" That question I now repeat? A. Mr. Chairman, I trust the committee will understand my motives in not answering the question when I was on the stand before, and I do not wish the committee to understand that I meant any disrespect; I wished to preserve their confidence, but I did not wish to answer the question until I was satisfied that I would be obliged to answer.

THE CHAIRMAN: I think we understand it.

THE WITNESS: As the District Attorney has determined that I shall answer the question I shall give my best recollection of the conversation.

THE CHAIRMAN: That is all we desire.

THE WITNESS: Your question, Mr. Hughes, please.

Q. The question that I put to you before was what did Mr. Harriman say to you in connection with the matter and in answering I should be very glad if you will state fully what was said and done. A. Immediately after my purchase of the Equitable stock Mr. Harriman called on me and had a conversation—we had several conversations during the few days following the purchase, and one of those conversations was in the presence of my counsel, Mr. Root and Mr. Cravath. Some of the conversations were over the telephone. Mr. Harriman, as near as I can remember, said that as he had devoted a large amount of time and work to the Equitable situation I should not have come into the situation without consulting him and as I had bought Mr. Hyde's stock he demanded that I should share—let him share in the purchase and have an equal voice in the management. He also objected to the trustees—objected to having the stock trusteed, but finally said if I would allow him to share in the purchase and in the management and would allow him to name two trustees with Mr. Cleveland, Judge O'Brien and Mr. Westinghouse, that he would assent to my plans. He also said that he did not think that I could carry out my plans without his aid. I said that I had determined in the interest of the policy-holders of the Equitable and in the public good to divest myself of all control of the Equitable, and while I desired very much the co-operation of Mr. Harriman and all other large financial interests, the task would be a hard one, and I regretted very much to have his opposition, but that I could not give up my intention to trustee that stock, and as I had made up my mind to it as soon as I purchased that whether I had his opposition or not I was going to try to carry out that plan.

Q. The purchase was effected by you on Friday the 9th of June? A. I don't remember the date, Mr. Hughes.

Q. It was a Friday, was it? A. The deal was completed late on Friday.

Q. Friday appears to have been the 9th of June. A. There was an agreement reached on Thursday night or early Friday morning, but no papers signed.

Q. It was on Friday afternoon that Mr. Morton was elected chairman of the board? A. It was.

Q. When did you first hear from Mr. Harriman in regard to the matter? A. I think I had a conversation with Mr. Harriman on Friday.

Q. On Friday the same day this took place? A. But I did not tell Mr. Harriman I had bought the stock.

Q. Well, what was that conversation? A. Well, Mr. Harriman wanted to know—I think he suspected I was in the Equitable situation in some way—I had very little to—it was a short conversation, and it was the following Monday or Tuesday——

Q. Then did you have another interview with him on Saturday? A. No, sir.

Q. Was this interview with him an interview at your office or his office? A. It was an interview, I think, at my office—In fact, I know it was at my office.

Q. The first interview? A. Yes.

Q. That was before Mr. Harriman knew you had bought the stock? A. Yes, and I did not tell him at that interview.

Q. At that interview you did not tell him what your plans were? A. No.

Q. And the conversation was a general one? A. General one.

Q. And the next time he saw you did he see you alone? A. I don't remember, Mr. Hughes, whether he saw me the next time with Mr. Root and Mr. Cravath or alone.

Q. When did he see you with Mr. Root and Mr. Cravath? A. I think it was either Monday or Tuesday.

Q. The following Monday or Tuesday? A. The following Monday or Tuesday.

Q. And where did that interview take place? A. That took place in my office.

Q. And then was the matter that you have stated fully discussed? A. It was.

Q. Were all these things that you have said that Mr. Harriman said brought up at that interview? A. Most of them.

Q. When Mr. Root and Mr. Cravath were present? A. They were.

Q. Did you at the first interview with Mr. Harriman after you had bought the stock tell him of your intention to hand it over to trustees? A. You mean on Friday?

Q. No, the next interview after the purchase had been completed? A. Yes, sir.

Q. Did you tell him who the trustees were? A. I did.

Q. That had already been publicly announced? A. Yes, sir. I wrote Mr. Cleveland a letter—in fact, the three letters went on Friday afternoon—Friday night, were published in the papers on Saturday morning.

Q. You say that Mr. Harriman said that he had devoted so much time to the matter—did he say in what way? A. Well, in trying to straighten out the Equitable affairs; he was on the Frick Committee; he was a director of the company.

Q. Did he tell you what he desired to accomplish by being interested in the purchase of the stock? A. No, sir.

Q. Did he advance any reasons why you should allow him an interest in the purchase? A. No further than I have stated as I remember.

Q. You have said that he desired to participate in the management. What was said between you as to the management of the company? A. There was nothing special said about it, Mr. Hughes.

Q. Well, did he say anything as to the policy which should be adopted by the company? A. No, sir.

Q. Or by the managers? A. No, sir.

Q. What did you tell him precisely as to the plan that you had for the management of the company? A. I told him—I stated to him the way I proposed to work out the transaction.

Q. And did he object to that? A. Yes, he objected to having —thought I was making a mistake to have the stock trusteed.

Q. Did he tell you why he thought that was a mistake? A. No. It ended there.

Q. Was it at the interview when Mr. Root and Mr. Cravath were present that he suggested a desire to name two trustees? A. It was.

Q. Were those two trustees to be in addition to the three? A. They were to be in addition to the three.

Q. Did he say what he expected to be able to accomplish by nominating two additional trustees? A. He made no special——

Q. What did he say in that connection? A. He simply said—he simply demanded that he should have the right to name two trustees.

Q. And also what part of the stock? A. My impression now, Mr. Hughes, is that he wanted half.

Q. He wanted half of the stock and the right to name two trustees? A. Yes, sir.

Q. What did he say to you which would indicate a reason why he thought you should give him half the stock and the nomination of two trustees? A. For the reason that he had been in the Equitable, had been a director, he had been trying to work out—settle the difficulties through the Frick Committee. I concluded that was the reason—that was the only reason he assigned.

Q. He wanted a part of the control—that was the substance of it? A. That was the substance of it.

Q. And he was not satisfied that the control should be exclusively in your hands or in the hands of trustees nominated by you? A. I so understood it.

Q. Now you said that he told you that you would not be able to carry out your plan against his opposition. What opposition did he say he would give? A. He said his whole influence would be against me.

Q. What sort of influence did he mention? A. I don't know as he mentioned any special influence.

Q. Didn't he say that his political influence would be against you? A. Yes.

Q. Did he tell you what sort of political influence he would urge against you? A. He did not.

Q. Did he mention any names? A. He did not.

Q. Did he refer to the Legislature? A. He referred to probable legislative action or action—said that the Legislature would probably take action.

Q. Did he say what sort of action it would probably take? A. No, he did not.

Q. Did he say whether it would be in legislation or investigation? A. No. I think my recollection is that he said legislative action—some legislative action.

Q. Well, now, can you state the substance of what he said—how did he put that with regard to legislative action? A. I think he said that legislative action would probably result and that his influence for or against me would be important.

Q. Did he tell you that if you acceded to his request his influence would be thrown in your favor? A. That was plain that it would be.

Q. That was plain. And he told you that if you did not divide the control with him that his influence would be thrown against you? A. He said his whole influence would be against me.

Q. And that there would probably be legislative action? A. Yes, there might be legislative action.

Q. Now, in what event—I want to get this as precisely as possible—in what event did he say there would be legislative action? A. Well, the air was full of talk about legislative action at that time, Mr. Hughes.

Q. In that interview? A. No, I mean the atmosphere about insurance companies; not in that interview—I would not put it that way.

Q. Did he refer to the political influence that he would exert at the interview at which Mr. Root and Mr. Cravath were present? A. My recollection is that he did.

Q. Did he refer to the probability of legislative action at that interview? A. He did.

Q. Did he say anything about the probability of legislative action in the event that you gave him a share of the purchase? A. No.

Q. Then his mention of legislative action was in connection with your refusal to grant his request? A. Well, I tried to put that as I recollect it, Mr. Hughes. It was that in the event of legislative action that his influence would be important for or against me.

Q. In the event of legislative action his influence would be important for—— A. Might be.

Q. Might be important for or against you. Did he explain how his influence would be important? A. No, he did not.

Q. Did you say anything to him in regard to that? A. No, I did not pay any attention to it.

Q. You did not ask him why it would be important? A. No.

Q. Didn't he tell you in substance that if you did not meet his wishes in the matter there would probably be legislatlve action? A. No, he did not say that.

Q. Didn't he tell you that if you did not meet his wishes or permit him to have a share of the stock that his political influence would be thrown against you? A. Not in those——

Q. Not in those words, but in substance? A. I understood that his entire influence, whether political, financial or otherwise, would be against me.

Q. If you did not yield to his request—that was it, wasn't it? A. That was my understanding.

Q. And that included whatever influence he was able to exert directly or indirectly to bring about legislative action? A. I would not say that, Mr. Hughes.

Q. But he told you that his influence was important and would be important in case there was legislative action? A. Yes, sir.

Q. That is the substance of it? A. Yes.

Q. And you understood fully that in refusing to meet his wishes you were taking the chance of whatever opposition he could bring to bear upon you? A. In any direction.

Q. And with that understanding you did refuse? A. I did.

Q. And you told him that you intended that the management of the Equitable should be entirely independent? A. I did.

Q. Independent of what? A. Independent of me and everybody else.

Q. Independent of you and independent of him? A. Yes.

Q. Why were you not willing to have Mr. Harriman name two trustees to go in with Mr. Cleveland, Judge O'Brien and Mr. Westinghouse? They would have been a minority? A. That is true, Mr. Hughes, but I was determined to carry out—I was determined to try to carry out the plans that I had formed.

Q. You did not want Mr. Harriman as a partner in that enterprise? A. I did not want anybody as a partner.

Q. Now, is there anything that you recall that you have said that Mr. Harriman told you that was not told you in the presence of Mr. Root and Mr. Cravath? A. I do not recollect. We had several interviews.

Q. The whole matter was gone over then? A. The purport of all the interviews was about the same as the interview we had with Mr. Cravath and Mr. Root.

Q. And subsequently you had other interviews when Mr. Harriman and you were alone? A. I think the next two interviews were over the telephone.

Q. Did you have any other interviews after the interview when Mr. Root and Mr. Cravath were present at his office or at your office? A. No, I think not.

Q. And what were these interviews over the telephone? A.

Q. To find out whether you had changed your mind? A. Yes, to find out whether I had changed my mind; and finally over the telephone I told him there was no use talking about the matter any more, that I would not change my mind, and there the incident ended.

Q. Did he repeat anything he had said to you at this interview when Mr. Root and Mr. Cravath were present about the consequences of your refusal? A. No, not that I remember, over the telephone.

Q. I asked you, on Friday, this further question: "Did Mr. Harriman say there would be any results injurious to your interest in case you refused to admit him to share in the ownership?" I will repeat that question. A. Mr. Harriman said that his entire influence would be thrown against me.

Q. Including his political influence and financial influence? A. Well, I included his political——

Q. Well, he mentioned the word political, did he not? A. Did at one interview.

Q. At this interview when Mr. Root and Mr. Cravath were present? A. Yes.

Q. And in connection with your refusal to sell the stock? A. Yes.

Q. I will ask you the further question that I put on Friday: "Now, did he say that any action on the part of the Legislature or any official, and officer of the government, would be taken in the event you would refuse to accede to his request?" A. He did not.

Q. I also asked you this question: "You said, well, I told Mr. Harriman that I wanted to be free and did not want any partners in the transaction. Q. Did you tell him why? A. My principal reason was that I wanted to make this trust deed in my own way. Q. Did you tell him that? A. I did. Q. What did he say to that?" That question was not answered. A. Well, I do not specifically, Mr. Hughes—I do not remember what he said.

Q. What he said has been covered by your statement already? A. It has been covered by my previous answer.

Q. I also asked you "Did he," that is Mr. Harriman, "say whether or not he was willing to put it," referring to the stock, "in trust?" A. He finally agreed—proposed if I would accede to his wishes in allowing him to become an owner of the stock and name two trustees, that he would agree that it should go in trust.

Q. Did Mr. Harriman tell you in substance that he did not propose to have anybody own the Equitable stock or the control of it without his having an interest in it? A. Well, I should not like to say that, Mr. Hughes. The conversation between Mr. Harriman and me was rather strenuous sometimes.

Q. Well, I mean whether that was the substance of his remarks? A. I do not think he intended anybody to come into the Equitable situation if he could help it.

Q. By the Equitable situation you mean the control of the stock? A. Yes.

Q. You have now stated, Mr. Ryan, that all that took place between you and Mr. Harriman with reference to the Equitable stock and his desire to acquire a portion of it with you? A. To the best of my recollection, yes, sir.

Q. And after that time, I refer to the few days immediately succeeding your purchase from Mr. Hyde, have you had any further interviews with him about it? A. Not that I remember.

Q. The matter has not been brought up again? A. Since the purchase of the stock?

Q. Yes. A. No.

Q. I understand you completed the purchase on the 9th of June and the trust deed was executed about the 15th of June and that these interviews took place during the intervening period? A. Yes.

Q. And since that time nothing has been said or done about it between you and Mr. Harriman? A. No.

Q. And I think you said the other day that nobody else had tried to obtain any part of the stock either at that time or subsequently? A. No, sir.

Q. In referring to the probability of legislative action, did Mr. Harriman say anything to indicate the nature of the action to which he referred? A. He did not.

Q. Has anybody else had any talk with you with regard to the action either of the Legislature or of the Governor? Of course, I mean apart from your consultations with your counsel? A. No, sir.

Q. Or with reference to this investigation? A. No, sir.

MR. HUGHES: That is all, Mr. Ryan.

THE CHAIRMAN: I presume it might be unnecessary for us to assure you, Mr. Ryan, that we are grateful to you for coming here under somewhat embarrassing circumstances, and we, of course, appreciate how a man who is willing to reveal his own acts and conversations may hesitate to reveal the acts and conversations of another; but we are here on a serious and important inquiry, and we felt that it was a matter of importance to the subject of our investigation and we must not let feelings of that sort interfere with what was very plainly our duty, and, as you explained your position when you came to the stand, I want you to understand as you leave it that the Committee is very pleased indeed that you have returned to the witness stand voluntarily and made the statement of the facts.

THE WITNESS: I appreciate it, and I thank you.

MR. HUGHES: Mr. Chairman, are we ready to proceed?

THE CHAIRMAN: Yes.

JOHN F. DRYDEN, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Senator Dryden, you are the president of the Prudential Insurance Company of America? A. Yes, sir.

Q. How long have you been president of that company? A. About twenty-four years.

Q. You have devoted your attention to the insurance business for a long period? A. Yes, sir.

Q. When did you begin to take an interest in insurance questions? A. About 1865.

Q. When did you first become connected with any insurance enterprises? A. Officially?

Q. Or as a student? A. Well, about 1865.

Q. Did you make a special study of industrial insurance in Great Britain? A. I did study it later on, yes, sir.

Q. When did you first become connected with the company that is now the Prudential? A. I was connected with it from the time its charter was granted in 1873.

Q. Under what name was it first incorporated? A. The Widows' and Orphans' Friendly Society.

Q. In what capacity were you then associated with this society? A. I was the secretary of a tentative organization working out—well, I was working out the plan upon which the company is at present organized.

Q. The company continued business under that name for how long? A. Until I think it was 1875.

Q. It was incorporated by special charter? A. By special charter of the Legislature of New Jersey.

Q. Of the Legislature of New Jersey? A. Yes.

Q. And this amendment was by special charter in 1875? A. Yes, sir.

Q. What sort of business did it do during that period? A. Well, it did a similar business in practice to that that it now does, but differing in details.

Q. It did what is called an industrial business, weekly payments? A. Of that nature, yes, sir.

Q. When I referred a moment ago to your study of this subject it was with the understanding that prior to the time you became connected with the New Jersey company, you had had some connection with similar companies abroad? A. No, sir, no connection with similar companies abroad. I had studied the subject in all the books and literature that I could find in the libraries here. I had some interest in it, I think, originally by a reference to it by Mr. Elizur Wright in one of his early reports, and it seemed to me that there was a great field for the operation of that business in this country, and, my attention being directed to it, I began to study it. At that time there was comparatively little literature to be had in this country upon it, but whatever there was relating to friendly societies and kindred organizations I tried to find and read.

Q. And that continued until 1873? A. Yes, sir.

Q. When you became interested in this society you have mentioned? A. Yes, sir.

Q. Was the Widows and Orphans' Friendly Society a stock corporation? A. Yes, sir.

Q. What was the amount of its capital stock? A. The authorized capital stock was twenty-five thousand dollars, not exceeding one hundred thousand dollars, of which twenty per cent. must be paid in.

Q. How much of the capital stock of that company was paid in? A. Ultimately do you mean, Mr. Hughes?

Q. Yes. A. Ultimately, something like ninety-one thousand dollars was paid in by stockholders.

Q. When was the name of the company changed from the Widows and Orphans'—from the Prudential Friendly Society, which I understand was the name in 1875? A. From the Prudential Friendly Society, my impression is it was in 1876, about that time.

Q. And its name became what? A. The Prudential Insurance Company of America.

Q. The name it now has? A. Yes.

Q. You were originally secretary? A. Yes, sir.

Q. And you remained secretary for how long? A. I was secretary until I was elected president in 1881, I think.

Q. At what time was it that the ninety-one thousand dollars was paid in, or by what time had the payments aggregating that amount been completed? A. Fifty-nine hundred dollars was paid in when the company was put upon its present basis, in 1875. That amount of capital continued at that figure until the company desired to enter the States of New York and Pennsylvania, in 1879, when the capital was then increased by an additional payment by the stockholders and a small dividend out of the then surplus of the company making the capital of the company sufficient to enable it to comply with the requirements of the laws of New York and Pennsylvania.

Q. And at that time was the aggregate reached of ninety-one thousand? A. That was the aggregate paid in by the stockholders; as I explained, there was a small additional amount paid out of the then existing surplus, making it one hundred thousand dollars.

Q. What have been the additional increases in the capital stock of the company? A. They have been increased from time to time, until the capital stock is now two million dollars.

Q. Is it a fact that all the increases from the time when it was one hundred thousand dollars to the present time have been through stock dividends? A. That is a fact.

Q. Yes. A. If you will allow me to explain, the Prudential was organized as a stock company purely and simply; there never was at that time a thought of its doing a mutual business. Its business was confined exclusively to industrial insurance; following the precedent of the Prudential of London, from which the company took its name and system of business, whatever surplus might be created out of the business was then considered as the property of the stockholders of the company. Out of this surplus thus created and belonging to the stockholders, from time to time dividends were declared until, as I said, the capital amounted to two million dollars.

Q. So that capital of two million dollars represented $91,000 originally paid in, and the profits upon that investment? A. About $91,000. There was a mere fraction of difference.

Q. And the rest was profits upon that investment? A. Precisely.

Q. When was it that the stock reached the aggregate of two million dollars? A. If you will allow me to refer to a paper, Mr. Hughes, I will tell you.

Q. Certainly. A. The story has been told to the public many times, and I have no objection, I am sure, to repeating it here. The last increase in the capital stock from the surplus of the company was in the year 1893. If I follow the line here correctly, 1893.

Q. What dividends are paid upon the capital stock of two million dollars? A. Ten per cent. annually.

Q. That has been so continuously from 1893 to the present time? A. Yes, sir, and prior to that.

Q. Who are the officers of the Prudential? A. I am the president. Dr. Leslie D. Ward is vice-president, Edgar B. Ward is second vice-president, and then the counsel, Forrest Dryden, is third vice-president. Mr. Wilbur F. Johnson is fourth vice-president and comptroller. Edward Gray is the secretary. Do you wish the other junior officers, such as the actuaries and doctors, and so forth?

Q. No, that will do. Who are the directors of the Prudential? A. We have fourteen directors. I have not a list of them. I think I can give them from memory.

Q. The officers you have mentioned are all directors? A. The officers I have mentioned are all directors, excepting the secretary, who is not a director.

Q. Is Forrest F. Dryden a relative of yours? A. He is my son.

Q. How long has he been connected with the company? A. Well——

Q. I am furnished with a list of the officers which I will read:

Leslie D. Ward, vice-president.
Edgar B. Ward, second vice-president.
Forrest F. Dryden, third vice-president.
Wilbur S. Johnson, fourth vice-president and comptroller.
Jacob E. Ward, counsel.
Edward Kanouse, treasurer.
Edward Gray, secretary.
T. C. E. Blanchard, superintendent of real estate.
Fred. C. Blanchard, supervisor of loan department.
John K. Gore, actuary.
Directors:
John F. Dryden.
Leslie D. Ward.
Edgar B. Ward.
Theo. C. E. Blanchard.
Seth A. Keeney.
Fred. C. Blanchard.
Edward Kanouse.
Forrest F. Dryden.
Jerome Taylor.
William T. Carter.
Jacob E. Ward.
Anthony R. Kuser.
Uzal H. McCarter.
Wilbur S. Johnson.
Thomas N. McCarter.

Q. How long has Mr. Forrest F. Dryden been connected with the company? A. I think he first entered the services of the company fully twenty-five years ago as a boy, for which he received three dollars a week. He remained in that connection for possibly two years, when he left and went to school. He returned later on and went into the service of the company in the field work as an inspector, and afterwards became assistant superintendent in the field. Following that he became superintendent of a district. Following that he became assistant secretary of the company—upon the death of the previous secretary or resignation of the previous secretary he became secretary. Subsequently he was made third vice-president, which office he now holds. I think his last connection with the company probably covers a period of about twenty years.

Q. Have you any other relative connected with the company, Senator? A. Well, I believe I have one or two relatives, not very near and not holding very important positions. I have a nephew who is getting, I think, twenty dollars a week. He has been with the company five years and now gets that salary. I do not recall that I have any other direct relatives. My son-in-law, I should say, is a director in the company, but not in the employ of the company.

Q. That is Mr. Anthony R. Kuser? A. Yes, sir.

Q. Mr. Edgar Ward and Mr. Leslie D. Ward are brothers? A. They are brothers, and they have been associated with me from 1875 when the company was organized upon its present basis.

Q. Is Mr. Jacob E. Ward also a relative? A. He is a brother of the other two gentlemen named Ward.

Q. And Uzal H. McCarter and Thomas N. McCarter are brothers? A. They are.

Q. What arrangement was made in or about 1903 for the transfer of the control of the stock of the Prudential to the Fidelity Trust Company? A. I suppose you will allow me to make a little statement, will you, explaining the transaction?

Q. Certainly. A. For some time I had been apprehensive as to the distribution of the stock of the company. The founders of the company, those who were associated with me, and my other co-workers were getting older and dying off, and the stock was passing into the hands of their estate or it was being sold and distributed. I saw that the time might come when that would be a very dangerous situation for the policyholders of the company. The company had been my own life work, and I had my pride in it and in addition to that I was extremely anxious to protect the great mass of policyholders who had shown their confidence by insuring with us. I consulted counsel as to various schemes. My first proposition was to extend to the policyholders the right of franchise, the right to vote at the annual meetings. I was advised that without the unanimous consent of all the stockholders, and in the face of the objection of any stockholders that that scheme could not be carried into effect. I think it was several years that I had that scheme in my mind and talked at different times with counsel as to the matter. Finally I was compelled to abandon it because I knew it was impossible to get the unanimous consent of all the stockholders. I then began to inquire as to some other plan by which that stock could be concentrated and held together for the protection of the company, and as a defense against the attempts of any selfish interests to get control of that company for selfish purposes. A number of different schemes were proposed and rejected. This plan of selling to the Fidelity a majority of the stock of the Prudential and then in turn of purchasing of a new issue of stock of the Fidelity a sufficient amount for the Prudential to own a majority of that stock, and thus control the situation was proposed, and after careful consideration was adopted.

This matter was talked over very fully with the managers and members of the Board and enough of the stock of the Prudential entered into an agreement with the Fidelity, under which they bound themselves to sell to the Fidelity a sufficient amount of

Prudential stock to lodge in that company the control. I was about to take steps to carry out the other part of the scheme, viz., the purchase by the Prudential of enough of a new issue of the Fidelity stock to give it control of the Fidelity, when action was taken before the court and the court intervened, and an objection was raised, and sustained by the court. In the meantime this other part of the contract, as to purchasing the Prudential stock by the Fidelity had become a contract. Every party including the Fidelity was bound to carry out that contract. This scheme I advertised widely; it was not done in a corner. I published it in the newspapers. I sent notices of it to every stockholder; I notified every Insurance Superintendent in the country; I sent out circulars to our entire field staff; so that they might circulate it among our policyholders, and I gave to it in every way the widest publicity that I could.

At that time the Prudential stock was selling in the market at between 800 and 900. Those who entered into this contract with the Fidelity agreed to sell their stock to that company at 600. Small blocks, as I say, commanding a price of between eight hundred and nine hundred and it is needless to say that the control of the company would have commanded a much higher price. Many of the stockholders of the Prudential were so dissatisfied with the price which it was proposed by the Fidelity to pay for this that they absolutely refused to join in it, so that when the matter was consummated only about 60 per cent. of the Prudential stock was willing to sell or would sell at that figure, practically 40 per cent., 39 and a fraction per cent. refused absolutely to sell to the Fidelity at that price; but those of us had entered into the contract to deliver a majority of the Prudential to the Fidelity were bound to keep that contract, and thus individually we were forced to sell to the Fidelity in order to carry out that contract a larger percentage of our holdings than we had anticipated or than we desired to sell.

Now, that part of the contract being consummated we were unable to carry out the other part of the contract. I had in mind two matters—two important matters in which I wished to protect the policyholders of the Prudential Company. One was, as I have said as to the control of the company in order to keep it out of the hands of selfish and designing men who had no sentimental attachment to it and the other was to quiet an increasing demand on the part of certain stockholders for an increased cash or stock dividend. That demand became clamorous and threatening. I had concluded that the company had reached its length, that it had gone as far as it ought to go, and I was determined that so far as I was concerned I would never permit another increase of one dollar either in stock or cash dividends by that company, and that I would use every influence that I legitimately could to prevent it. That was another reason for placing this stock where a majority of it could be controlled.

Q. Who were the parties to the contract with the Fidelity? A. Well, I was one of them—I think every officer who held the Prudential stock joined in it, some individually outside—stockholders.

Q. Was that part of the proposed plan carried out so that the Fidelity itself held a majority of the stock of the Prudential? A. No, sir, not at present. There was objection to the Fidelity's holding a majority of the stock of the Prudential and therefore the Fidelity agreed to sell a small amount of that stock so that it does not hold a majority.

Q. What amount does the Fidelity Trust Company hold? A. Nearly a majority—I don't remember the exact percentage but very near a majority.

Q. What is the par of your shares? A. $50.

Q. So that there are 40,000 shares? A. Yes, sir.

Q. And does the Prudential hold over 19,900? A. The Fidelity.

Q. I mean does the Fidelity hold over 19,900. A. I am not sure as to the exact amount. It is a little under a majority.

Q. A little under 20,000 shares? A. Yes, sir.

Q. Had the majority or over 20,000 shares been already sold to the Fidelity? A. Yes, sir.

Q. And the Fidelity then parted with a fraction? A. Yes, sir.

Q. To reduce its holdings to something under half of the entire amount of the stock? A. It did.

Q. This took place in 1903? A. Yes, sir.

Q. And the holders of the 20,000 approximately who sold to the Fidelity received approximately $6,000,000? A. Yes, sir, they did.

Q. And those who received $6,000,000 for the stock were substantially of the company, were they not? A. Largely so, yes, sir.

Q. Well, they embraced yourself and the Messrs. Ward and the Messrs. McCarter? A. Well, Mr. McCarter I think held a very small amount—very small amount if any; I don't recollect; I presume he held some but it was very small.

Q. You yourself held a very large part of it? A. I held a considerable.

Q. And the Messrs. Ward? A. Yes, sir.

Q. In other words the controlling interest in the company resided in your family and the Ward family, did it not? A. Not absolutely, no, sir, it did not.

Q. How nearly? A. If it had I should not have needed to carry out this scheme. I should say that the Ward family and myself possibly held one-third—around one-third—about one-third possibly.

Q. And the McCarter family? A. Well, they held practically—I don't know of any of the McCarter family but one that possibly held any at that time and if he held any it was a very slight amount.

Q. Now the Board of Directors of the Fidelity Trust Company included yourself? A. Yes, sir.

Q. And Mr. Leslie D. Ward and Edgar B. Ward? A. They did.

Q. And Forrest F. Dryden? A. I think he was a director at that time.

Q. And Anthony R. Kuser? A. I think so.

Q. And Uzal H. McCarter and Thomas N. McCarter? A. Yes.

Q. And Wilbur S. Johnson? A. I think not—not at that time. Let me say, if your will, that a little over one-third of the Board of Directors of the Fidelity are interested in the Prudential either as stockholders or as officers and stockholders, nearly two-thirds of the directors of the Fidelity have no interest in the Prudential whatever.

Q. But the officers of the Prudential that I have mentioned are also directors of the Fidelity? A. I think so.

Q. And were at that time. Now, having carried out so far as possible the plan for placing the stock with the Fidelity, that is in effect a fraction under a majority, how far were you able to carry out the plan of placing the control of the Fidelity Trust Company with the Prudential? A. We were not able to carry it out at all so far as the Prudential as a corporation was concerned; the Prudential was prevented from taking any additional stock at that time. The Prudential owned and had owned for a few years some of the Fidelity's stock but it was not permitted to take any more.

Q. There was an increase of stock by the Fidelity Trust Company, was there not? A. Yes, sir.

Q. Are we right in the year in saying 1903 that this sale of the Prudential's stock—— A. I believe that to be so—1903—I think that is so.

Q. Was there an increase in the Fidelity Company's stock in 1902? I note from your list of stocks owned that $250,000 in par value of the stock of the Fidelity Trust Company was purchased in 1900 and $238,500 in par value. was purchased on February 28th, 1902, the latter purchase having been made at $500 for price of $1,192,000; and deducting certain stock sold, your present holding of the Fidelity Trust Company's stock is stated to be $480,000 in par value with a book value of $1,775,000. Now was any part of that stock acquired with reference to the plan that you have suggested? A. Not a share of it.

Q. So what you proposed to accomplish was to acquire stock in addition which would give a control of the Fidelity? A. Yes, sir.

Q. But owning $480,000 in par value of the stock of the Fidelity, you were short of a control of how much? A. After the stock was increased?

Q. Was it increased? Was the stock of the Fidelity increased? A. The stock of the Fidelity was increased.

Q. To what amount? A. To $2,000,000.

Q. And representing what number of shares? A. Previous to that it was $1,500,000, and the increase would represent five thousand shares—$500,000 increase.

Q. There were twenty thousand shares all told? A. Yes, sir.

Q. Of which you have forty-eight hundred? A. Yes, sir.

Q. Now, have you increased your holdings in the stock of the Fidelity? A. Personally?

Q. No, I am referring to the company. A. The Prudential —no, sir.

Q. Do you hold stock of the Fidelity Trust Company? as collateral when you—when I say you I am referring to your company? A. I think not. I do not think we have a share of the Fidelity stock as collateral.

Q. It has been suggested that in order to effect the control of the Fidelity you have made large loans upon its stock—is there any truth in that? A. Absolutely nothing. We did at one time have a little Fidelity stock as collateral, but that I have taken out entirely, and we have not had for perhaps a year and a half—have not had a share of it.

Q. Pardon me—did I interrupt you? A. No, sir.

Q. Where did the Fidelity Company get the money to buy stock of the Prudential, that is the six million dollars, approximately, that was required for that purpose? A. It got it from its assets, its capital and surplus, and so forth.

Q. The Equitable Life Assurance Society invested considerable in the stock of the Fidelity, did it not? A. I believe they did.

Q. And when did it make that investment? A. I think—well, I should say perhaps in 1902, although I am not positive.

Q. At the time that you got the additional two thousand three hundred and eighty-five shares? A. I should think so; I am not positive.

Q. Did they invest at that time about the same amount that you invested? A. No, sir, I should think not, I don't recollect just what their investment was, but my impression is they did not invest as much as we did.

Q. From the last report of the Equitable it appears that they were the holders on December 31, 1904, of $250,000 in par value of the capital stock of the Fidelity Trust Company of the book value of $1,375,000; was that acquired in 1902, according to your recollection? A. Well, I should think so, but I don't want to speak with too much positiveness on that.

Q. Who took the increased shares of the Fidelity when in 1903 it increased its stock? A. They were taken by individuals. I took some and my association took some.

Q. Were the increased shares taken largely by those who sold shares of the Prudential to the Fidelity? A. I think some who sold stock to the Fidelity took none whatever of the increase.

Q. And others did? A. And others did, yes.

Q. And in addition to the stock holding that you had in the Fidelity, you kept for a considerable time a large amount of money on deposit with the Fidelity. Looking at the report of your company, of its monthly balances, it would seem that the balance with the Fidelity Company has remained at substantially $1,480,000 for about a year—in effect that $1,400,000 and upward since May, 1904, and prior to that time, and through the years 1903 and 1904, to May, 1904, it was in the neighborhood of $5,000,000. Do you recall that fact? A. I do.

MR. HUGHES: I will read the balances upon the record from January 31, 1903, that is the monthly bank balances of the Prudential Insurance Company of America, with the Fidelity Trust Company, of Newark.

January 31, 1903	$4,928,752.00
February 28, 1903	4,953,811.00
March 31, 1903	5,293,177.00
April 30, 1903	4,125,650.00
May 29, 1903	4,493,405.00
June 30, 1903	5,346,685.00
July 31, 1903	5,598,092.30
August 31, 1903	6,261,068.74
September 30, 1903	6,211,988.33
October 31, 1903	6,036,439.37
November 30, 1903	6,397,138.31
December 31, 1903	4,098,255.21
January 30, 1904	4,013,198.92
February 29, 1904	4,411,350.15

March 31, 1904	5,101,123.32
April 30, 1904	4,621,432.32
May 31, 1904	1,457,317.47
June 30, 1904	1,543,531.65
July 29, 1904	1,460,147.53
August 31, 1904	1,439,745.06
September 30, 1904	1,441,412.77
October 31, 1904	1,467,463.50
November 30, 1904	1,480,565.38
December 31, 1904	1,480,505.06
January 31, 1905	1,480,311.26
February 28, 1905	1,482,327.04
March 31, 1905	1,482,800.37
April 29, 1905	1,482,809.39
May 31, 1905	1,480,176.90
June 30, 1905	1,485,694.96
July 31, 1905	1,485,375.38
August 31, 1905	1,485,234.20

Q. Is this account with the Fidelity Trust Company an active account? A. Not so active as some other accounts at present. It has been at times very active.

Q. Apparently you plan to leave with that company at present about one million four hundred thousand dollars on deposit? A. That has been our plan for some little time.

Q. Well, I suppose that is not an accident; that is the understanding of what should be left on deposit? A. Our understanding with the Fidelity was that they should be our main depositories. They are a large tenant of us, occupying important quarters in our building, and it was only proper, we thought, it was only proper that we should treat them as our principal depositories and we have so done.

Q. What rate of interest do they pay you upon the deposit? A. Two per cent.

Q. Upon the entire amount? A. Yes, sir.

Q. Did they pay you two per cent. interest when formerly the deposit was five million dollars, approximately? A. Yes, they did.

Q. For what reason did you reduce the amount left on deposit with the Fidelity from about five million dollars to a million and a half? A. We did it to reduce the obligation of a single corporation to our company.

Q. And about the same time you increased your balance with the Equitable Trust Company of New York? A. We did.

Q. Is the Prudential interested in the Equitable Trust Company of New York? A. Not——

Q. Has it any stock interest in it? A. No stock interest.

Q. Have the officers of the Prudential a stock interest in the Equitable Trust Company? A. I think possibly two or three—the officers have a very small interest. I personally had a very small interest. I had an interest of 275 shares out of—I think their capital is three million, and I had $275,000. My interest was the largest of any of the officers, and that was the extent of my interest.

Q. That remains true now? A. That remains true now.

Q. Were any of the officers of the Equitable Life Assurance Society officers or directors of the Fidelity Trust Company? A. They were.

Q. Who were directors—you said $275,000 as your interest in the Equitable—you meant—— A. $2.750. You confuse me with your array of figures, Mr. Hughes.

Q. We can straighten it out. A. $27,500. I have got it at last. That was the extent of my interest—$27.500.

Q. Now, what officers of the Equitable Life Assurance Society are officers of the Fidelity Company of Newark? A. Mr. Hyde still remains a director—— Well, of the Equitable Trust Company?

Q. Of the Equitable Life Assurance Society? A. If you treat Mr. Hyde as still a member of the Equitable Life Assurance Society, he is a director. Mr. McIntyre is a director, and Mr. Winthrop is a director, Mr. Alexander, Mr. James W. Alexander has been until recently a director, but he has resigned.

Q. Now, a question came up as to the amount of your investments in the Fidelity Trust Company with the Insurance Commissioner of Massachusetts, I understand? A. Yes, sir.

Q. And what was the question? A. The Commissioner objected to our having so much at risk in one company, including our holdings in the stock of that company and our deposit in the company.

Q. He figured out you had more than your capital and surplus, in fact, with one company? A. I think so.

Q. And you entered into some agreement with him? A. I did.

Q. What was that agreement? A. That agreement was that the company would not have at risk in any one trust company or bank, either by ownership of capital stock or deposit, or both, more than fifty per cent. of the surplus.

Q. Has that been lived up to? A. Yes, sir, absolutely.

Q. When was that agreement made? A. I think a year and a half ago, possibly two years—I can't remember.

Q. And it was about that time that you decreased your deposits with the Fidelity? A. I think it was. We proceeded at once to carry out my agreement with the Commissioner of Massachusetts.

Q. Yes. Now, is it a fact that the Prudential and those who were interested in the Prudential as officers or stockholders controlled the Fidelity Trust Company? A. I think that is so.

Q. What is the Public Service Corporation? A. Well, the Public Service Corporation is a corporation which owns and controls a large number of electric light plants, gas and trolley companies in New Jersey.

Q. Are officers of the Prudential interested in the Public Service? A. They are.

Q. Is the Prudential a holder of securities issued by the Public Service Corporation? A. The Prudential is and has been for a long time—long before the Public Service was formed, the owner of the securities of some of the companies which are now subsidiary companies of the Public Service.

Q. The Public Service Corporation is what is called a holding company—that is, it issues its securities against the stocks and bonds of subsidiary corporations, who continue to maintain their identity and manage their business? A. No, sir. The Public Service has guaranteed certain returns upon the stock of some of those corporations. The Public Service, when it organized, assumed similar obligations, which had been created previously by other corporations.

Q. To what extent is the Prudential interested in securities of companies owned by the Public Service Corporation? A. We hold the bonds of some sixteen different companies controlled by Public Service. These bonds, a number of them, are on very old companies, and their bonds are what are known as underlying —that is they are away down below the securities created more recently. The Prudential owns no stock whatever, either of the Public Service or of any subsidiary company of the Public Service. The bonds of those sixteen companies already issued amount to about twenty-four millions of dollars, and in addition to that there is an issue of stocks by those various corporations amounting to something like over a hundred million dollars more. Now, of the bond issue the Prudential owns of those sixteen corporations a shade over five per cent. of the entire issue, practically ninety-five per cent. of those bonds are owned by the great investing public.

Q. Now, the Prudential makes loans to the Public Service Corporation, does it? A. We have done so in several instances. My belief is that they have not had a loan with us for some time. Every loan that we ever made was paid off I think long ago.

Q. When was the Public Service Company organized? A. I think it was about two years ago—about two years and a half ago I would say, Mr. Hughes.

Q. I note here on December 29, 1903, four loans of 500 each. A. $500,000.

Q. $500,000 each, making a total of two million of dollars? A. Yes, sir.

Q. Which apparently were renewed in May, 1904, and carried to November 25, 1904, when they were paid, there being an additional loan of a million of dollars on October 31, 1904, which was also paid in November, 1904. Were the loans that I first mentioned made to facilitate the organization and acquisition of properties of the Public Service Corporations? A. I, of course, cannot tell just what the Public Service used that money for, but our loans were made upon bonds which were ample security for the money we loaned. I did not follow the money, as a matter of course after it left us.

Q. Are you a director of the Public Service Corporation? A. I am.

Q. And is Mr. Leslie D. Ward also a director? A. He is.

Q. And are Messrs. Anthony R. Kuser, Uzal H. McCarter, and Thomas N. McCarter also directors? A. They are.

Q. Are there any other officers or directors of your company who are directors of the Public Service Corporation? A. I think so; I think not.

Q. How many directors are there in the Public Service Corporation? A. My impression is that there are twenty-five.

Q. And who is the president of the Public Service Corporation? A. Thomas N. McCarter.

Q. He is one of your directors? A. He is.

Q. Who is President of the Fidelity Trust Company? A. Uzal H. McCarter.

Q. What interest has the Prudential Company in the Union National Bank? A. We are a stockholder in that bank.

Q. To what extent? A. $450,000.

Q. And what is the entire amount of the stock of the Union National Bank? A. $1,500,000.

Q. Do the Prudential Company and the officers and directors of that company control the Union National Bank? A. Meaning the officers and stockholders of the Prudential?

Q. Yes. A. No, sir, I should say not by any means.

Q. I am informed that the capital of the Union National Bank is $1,000,000. Does that accord with your recollection? A. I think it is a million and a half; that is my recollection—my recollection is it is a million and a half—my recollection is it is a million and a half.

Q. You maintain a balance, bank balance with the Union National Bank of approximately a million and a half? A. We do, yes. That is a very active account, our checks come from all over the country to that bank and it is an important bank for us.

Q. And for a long period, that is apparently since December, 1903, your monthly balances have not fallen below a million dollars and for most of the time they are considerably in excess of that? A. We keep them up to that figure.

Q. And what interest do you get upon your balances? A. Two per cent.

Q. Who is the president of the Union National Bank? A. William Sherer.

Q. He is a director in the Fidelity Trust Company? A. Yes, sir.

Q. And a director in the Public Service Corporation? A. I think not, no sir, I think not.

Q. Are you a director in the Union National Bank? A. I am.

Q. And is Mr. Leslie D. Ward? A. Yes, sir.

Q. And Edgar B. Ward, Forrest H. Dryden, Uzal H. McCarter, Thomas N. McCarter? A. Yes, sir.

Q. You have said that the president of the Fidelity was Uzal H. McCarter—who is vice-president? I am vice-president and have been since the company was organized, many years before the Prudential had any interest in it whatever.

Q. You have said that the president of the Public Service Corporation was Thomas N. McCarter? A. Yes, sir.

Q. Who is vice-president? A. Well, I think there are four vice-presidents—three.

Q. Is any one of them connected with the Prudential? A. No, sir, I think not.

Q. You have said that William Sherer is president of the Union National Bank; who is vice-president? A. Leslie D. Ward, I think.

BY MR. TULLY:

Q. Is that a Newark bank? A. Yes.

Q. Is that the same Mr. Sherer who is manager of the New York Clearing House? A. No, sir; that is a different gentleman.

BY MR. HUGHES:

Q. Is the Prudential Company the owner of any other stocks save those of the Fidelity Trust Company and the Union National Bank? A. None whatever.

Q. All its other investments are in bonds? A. Yes, sir.

Q. Who are Robert Winthrop and Company? A. They are a very old, respectable and responsible banking house in New York.

Q. With whom your company has very large dealings? A. Yes, sir; our first financial transactions in the way of buying securities were made with Robert Winthrop and Company; we were recommended to them by conservative bankers in our city, and, having made a connection with them many years ago, we have continued it down to the present day.

Q. I note a considerable amount loaned to Robert Winthrop and Company. Is any officer of your company, of the Prudential Company, interested in any of those loans? A. Not to the extent of one cent.

Q. Are those business loans made to the firm of Robert Winthrop and Company on approved collateral? A. Entirely so.

Q. They are not loans made in their name for any one else? A. No, sir.

Q. I note that a very large number of your purchases of your securities are made through Robert Winthrop and Company? A. They are.

Q. Was any officer or director of your company interested in those purchases? A. Not to the extent of one cent.

Q. Receives in no way any commissions upon them or interest in the firm of Robert Winthrop? A. In no way, in no manner whatever.

Q. Do you know Isle and King, the agents of the Equitable? A. I do—yes, sir.

Q. It appears that you make loans from time to time to Isle and King? A. They have ceased to be agents of the Equitable and opened a banking house in Newark, and we loan them as bankers.

Q. When did they cease to be agents of the Equitable? A. I think probably a year ago; I am not accurate as to the date.

Q. So that the loans mentioned on your sheet were subsequent to the time when they were agents of the Equitable? A. Yes, sir.

Q. Is it a fact that the policyholders in the Prudential at one time did have a right to vote? A. There was such a provision in the charter as originally passed, but when the company was organized on its present basis it was thought by the directors and stockholders better to abolish that provision, and while I regret now it was done, it was done, as a matter of fact, thirty years ago, or about that time.

Q. What was the nature of the provision? A. Well, it is rather indefinite; it is so long ago since I looked at it; but as I remember it every one holding a policy was a member of the association or company and as such had a right to vote; I am not clear in my memory.

Q. I think you testified that an act of the Legislature took away the right of the policyholders to vote? A. Yes, sir.

Q. Was the passage of that act procured by your company? A. Yes, sir.

Q. In order that they might go under a stockholding ownership entirely? A. Yes, sir.

MR. HUGHES: For the convenience of the record I will refer to the act of March 30th, 1880, passed by the Senate and General Assembly of the State of New Jersey.

Q. Does any officer of your company receive from the firm of Robert Winthrop and Company any commission in the way of interest or otherwise in any individual account? A. None whatever.

Q. We have asked your company to supply us with a statement as to contributions made for political purposes; is this statement which has been handed us complete? A. It is complete as far as I know.

MR. HUGHES: I will read it upon the record:

"The company has made no contribution to any political campaign fund, either national, state or municipal, during the ten years last past, except as follows:

To the Republican national campaign in 1896, $6,000.

In 1900, $10,000, and in 1904, $10,000.

Q. You have been asked to furnish the committee with a statement of the legal expenses incurred by the Prudential Company? A. Yes, sir.

Q. For ten years last past? A. Yes, sir. I have a copy here.

Q. Is this statement complete? A. Yes, sir, as far as I am aware.

MR. HUGHES: I will have it marked for identification.

(Statement marked Exhibit No. 674.)

MR. HUGHES: This is condensed form and I will read it upon the record.

Q. I call your attention to the item for the year 1899, services and disbursements in connection with legislation, $15,899.42; to what does that pertain? A. That is 1899 in connection with legislation?

Q. Yes. A. We have two payments here, one of $2,521.50 and the other of $2,500, paid to Andrew Hamilton. We employed him that year, and so far as the records show and as I can recollect it was the only time he was employed by us. Judge Hamilton was a man of wide reputation as an authority upon the insurance law; he was the author of a book upon insurance law. We had some trouble in the different legislatures and I sent for Judge Hamilton and asked him to represent us. That accounts for $5,000 of that amount. Then we had in Colorado what to us was a very important matter. The Legislature of Colorado had passed a law prohibiting insurance upon the lives of children. It was the only State that had passed such a law, although an effort had been made at different times in different States. I believe it was the only legislative body in the world as my memory serves me that had passed a law prohibiting absolutely insurance upon the lives of children. We were extremely desirous of getting that law repealed, and we employed in Denver a prominent counsel who practically devoted his winter to that work in the effort to get that law repealed, appearing before Committees and before the Legislature and so forth. That amounted to $7,500, the amount we paid to this gentleman.

Q. Who was he? A. James H. Blood, which together with the $5,000 we paid to Judge Hamilton accounts for $12,500 of the $15,000 disbursements.

Q. Do you recall the way in which the rest was disbursed? A. We paid to the Metropolitan Life Insurance Company as our proportion of some expenses in matters of litigation—of legislation which they looked after—we paid to them that year $3,377.92. That accounts for about all of it.

Q. In connection with what legislation was Mr. Hamilton employed? A. My memory is not as clear as I wish it was, but it related to Illinois for one State, and I think there were some other States in which there was threatened legislation which we were desirous of protecting the company against.

Q. Do you know the nature of the legislation threatened? A. I cannot remember it. I suppose it is the usual kind that comes up.

Q. Did you understand that Mr. Hamilton was to render services himself or was to employ others? A. I understood he was to render services himself.

Q. You knew that he was a New York attorney? A. Yes, sir.

Q. Did you know whether he had any facilities for rendering the services himself in Illinois? A. Well, I do not recall particularly about that.

Q. Did you know his relation to the New York Life? A. Not particularly; no, sir.

Q. Who introduced you to Mr. Hamilton? A. My impression is that I sent for Judge Hamilton, having heard of his standing as an authority upon insurance legislation.

Q. Did you frequently co-operate with the Metropolitan in regard to matters of legislation? A. Yes, sir; we have done it a number of times, for the reason that we have found it more economical and often more efficient; instead of working at cross purposes there is a concentration and uniformity of effort.

Q. I suppose that relates particularly to industrial matters? A. Largely so; yes, sir.

Q. And in such a case, who undertakes the management of the matter—the Metropolitan or yourself, or do you do it jointly? A. Usually the Metropolitan; in some cases we have looked after matters ourselves, but usually the Metropolitan, I think, looks after the majority of cases.

Q. Have you ever paid any money to A. C. Fields? A. No, sir. A. C. Fields? There is a gentleman by the name of Fields who was a resident of Baltimore, that we have at different times —he is a prominent counsel there—that we have paid small sums of money to; that is Charles W. Fields, a different man. No, sir; we have never paid any money to A. C. Fields.

Q. Have you any particular counsel, or is there any person who looks after matters of legislation for your company, as a rule? A. No, sir, we look after it ourselves, employing from time to time such counsel as we think necessary for that purpose.

Q. Is it not a fact that being so largely engaged in the industrial business you have nearly every winter to consider legislation as affecting that business? A. Unfortunately it is true.

Q. Is it your idea that you have had more antagonism in proposed legislation than is met with by most insurance companies? A. Well, I do not know that I can say that, Mr. Hughes; we have a great deal of trouble.

Q. Well, you in the ordinary department are engaged in business similar to that of the other large companies? A. Yes.

Q. And then on your industrial side, you have a specialty in regard to which there has been much legislative activity? A. Yes, sir.

Q. And I was wondering whether the fact was not that you had perhaps more to do with legislation than a company ordinarily would? I should say that the fact that we had the two departments does add to our troubles in that direction.

Q. And is this a complete statement of all the moneys that you have been called upon to disburse in connection with legislation? A. Complete so far as I know. Our records have been carefully examined and I believe it to be accurate.

Q. You have no account to which items of this sort are charged under other headings? A. None whatever.

Q. So that when we look at this list we know every dollar that you have paid out for the purpose? A. Every dollar.

Q. Do you contribute to the New York Life to enable it to defray expenses in connection with legislation? A. Nothing, we have never paid them a dollar, to my knowledge.

Q. Or to the Equitable? A. Not to my knowledge.

Q. Or to the Mutual? A. No, sir, not to my knowledge.

Q. Or to any one connected with them? A. I think to none other, except the Metropolitan, as stated.

Q. How is is possible you have been able to deal with legislation in many jurisdictions on so small an outlay? A. Well, Mr. Hughes, we have worked hard and tried to be honest, and we have used our best endeavor to avoid any unnecessary expense, in that as well as many other directions.

Q. In how many States do you do business? A. We do business in nearly all the States, I should say in round numbers, forty States; but not industrial business in all of those.

Q. In how many do you do industrial business? A. We do industrial business in all the Eastern, Middle and Western States, and in the Border States, along the South, but not in the Southern States.

Q. Are moneys paid out by the Prudential upon executive order without further authorization? A. In many cases they are necessarily paid out on executive orders, but afterward brought before the committees and approved.

Q. In what classes of cases are they paid out in the first instance, upon mere executive orders? A. Oh, in many cases.

Q. Are you referring now to the ordinary routine of the business? A. Ordinary routine of the business, yes sir.

Q. Of course, payments would have to be made constantly in that routine? A. We could not do business otherwise.

Q. Certainly not, but apart from the general routine of the insurance business, and coming to special payments to meet particular emergencies, are such payments made upon executive order? A. I should say as a general matter yes, a general proposition, yes.

Q. Do you have a system of vouchering by which your vouchers show the services rendered in case of legal service?

A. We have a system, but the investigations which I have made in answer to your inquiry has developed the fact that they are not quite as full as I wish they had been in the past, and as I intend to have them in the future. Many of these small vouchers, would say, for instance, for legal services, without particularly specifying the nature of the legal service. The whole matter, of course, was explained at the time the voucher was put in, and satisfactorily explained.

Q. Can you tell me what of the moneys stated here to have been spent in connection with legislation have been paid to the Metropolitan? A. Yes, sir, I can tell you year by year.

Q. If you will, please. A. Of course, as requested by you, this record goes back only ten years.

Q. Yes. A. During the year 1895, nothing appears to have been paid to them. In the year 1896 we paid them $4,078.34. In the year 1897 we paid them $6,572.18. In the year 1898 we do not appear to have paid them anything that I can discover. In the year 1899——

Q. Pardon me a moment, Senator. I have been told that you have made a mistake in 1898, there were several payments there. A. I beg pardon, yes; that is true. In 1898 we paid them one amount of $250, one of $2,000, one of $500, one of $1,660, making in all four payments. That was in 1898. I overlooked that. In 1899 we paid them $3,317.92. In 1900 we paid them $3,043.72. In 1901 we paid them $3,628.43. In 1902 we paid them $1,832.40.

MR. WARD: There was one other payment in 1902 of $420.

THE WITNESS: Yes, $420, and also $1,832.40.

MR. FISKE: Those two items are the totals. It is not in addition to the original $1,800.

MR. LINDABURY: Those two sums are all that they pay.

THE WITNESS: Two sums of $20 and $1,832.40.

MR. FISKE: Those are the only ones.

THE WITNESS: Those are the only ones. One sum of $420, and one sum of $1,832.40. In 1903 we appear not to have paid them anything. In 1904——

MR. FISKE: One thousand two hundred and forty-seven dollars.

THE WITNESS: One thousand two hundred and forty dollars in 1904. This year we have paid them nothing.

Q. Were these sums paid directly to the Metropolitan? A. Yes, sir.

Q. What sort of vouchers does your company hold for them? A. We hold the receipt of the Metropolitan.

Q. Have you anything to show the purposes for which they were used? A. They specify legislation; I am not sure about that.

Q. Can you tell us what the nature of the legislation has been in connection with which these amounts have been expended? A. It has been all kinds of legislation, attacking industrial insurance, child insurance, business in every phase. I want to say that at the time these payments were made, explanations, verbal explanations were always made to us to satisfy us that they were correct.

Q. Who made the explanations? A. Mr. Fiske.

Q. Mr. Fiske had charge of that matter for the Metropolitan? A. Yes, sir; and in every instance he has made to me or to some of the other officers an explanation of the disbursement.

Q. So you have no knowledge yourself as to the nature of the disbursements, that matter was in Mr. Fiske's hands? A. Yes.

Q. Have you memoranda from which you can tell us a little more in detail what the legislation has been that you were opposing? A. Well, it has been so various it would be hard to state. Now, Mr. Hughes, I read in the papers that a previous witness said that in five years there had probably been seven hundred bills introduced into the Legislatures of the States. I took pains to look that up from the best authority that I know upon that subject in the country, and I find as a matter of fact, that in the last five years three thousand bills or over have been introduced affecting the life insurance business.

Q. We had a very interesting memorandum from the files of the Equitable which showed that that company was interested not simply in insurance matters but in a great variety of subjects that might be affected by legislation, railroad companies, trust companies, water rights, and almost everything that could come up for legislative action, was the subject of their instruction to those who had charge of the matter. Now, I wanted to know whether you kept yourself within any more circumscribed limits than they? A. Never to my knowledge has there been one dollar of the company's money spent in legislative matters except in a legitimate way and upon matters that affect our own company. Never has been one dollar improperly expended. Never has been one dollar spent in any way than in legal, legitimate, open ways, in appearing before legislatures, and legislative committees in reference to the matters. You asked how it happened that we had kept our legislative expenses so low. I have time and time again personally been before the legislatures and committees of the legislatures to argue upon bills and explain the nature of our business, and to do my best to satisfy the committees, not to pass inimical and hostile legislation. That of course cost the company nothing.

Q. And you generally found it effective? A. I am happy to say that in most cases we were successful, sir.

BY THE CHAIRMAN:

Q. Senator Dryden, what do you consider the best authority, the one you referred to as to the number of bills introduced? A. The Weekly Underwriter, a publication called the Weekly Underwriter. They have a legislative bureau for keeping track of all legislative bills and for a mere nominal sum they furnish to the company a list of bills introduced into the different legislatures.

BY MR. HUGHES:

Q. Who does this, Senator? A. The Weekly Underwriter.

Q. All the bills. How long has that been the case? A. Oh, probably ten or fifteen years.

Q. All of the bills introduced in the different States? A. So far as they can ascertain them, yes, sir.

Q. It is not necessary to maintain an establishment for that purpose, to get that information? A. Well, there is this trouble about that, that their information when it reaches the companies is liable to be a little bit late. They have to wait for reports from all over the country. When they publish——

Q. It is a sort of post mortem information? A. When they publish this list, perhaps the bill has been passed, and the mischief has been done. But for the purposes I refer to it as the record of the bills that have been introduced, it was sufficient for my purpose.

BY THE CHAIRMAN:

Q. Senator Dryden, is there any publication that you know of, or publicity bureau or other means of information whereby the insurance company that wishes can keep informed in reasonable time of the introduction of bills and the nature of them? A. I do not know of any. We have had in some cases, we have made an arrangement with a clerk for instance, of a committee or something of that kind, who is right on the spot, to advise us when a bill is introduced, but I do not know of any other organized effort.

BY MR. COX:

Q. What was the result of the Colorado matter to which you referred, was that law repealed? A. That fight continued up to the very last hour of the session. It was repealed, as I remember, by one house; a majority in the other house had expressed themselves as in favor of repeal. In the meantime the Legislature had fixed a day and an hour for adjournment, and one of the opponents of the appeal talked the matter to death and the Legislature adjourned and we did not get it.

Q. Did it not come up again the following year? A. Well, we made an effort, but not so determined an effort, subsequently. We became rather discouraged, and we found after all that its effect in other States was not so bad as we feared it might be. We feared that it might serve as a precedent in other States. The industrial business in Colorado itself was not of so much importance as it was to prevent a precedent for hostile legislation.

Q. It is still a precedent for hostile legislation? Is it still the law of Colorado? A. Yes, sir; it is still the law, and it is the only State that I know of that has a law to this effect.

Q. So you do not do business of this character in this State? A. We are doing business with adults but not with children.

BY THE CHAIRMAN:

Q. Before you leave this topic of legislation, I would like to ask you a question or two. How long have you been in public office, Senator Dryden? A. I was elected in 1902.

Q. Then your adoption of this method of publicity in regard to legislation, and open antagonism, and appearing before committees, perfectly legitimate channels of opposition, antedated your going into public life? A. Oh, yes, sir; since I have been in public life I have not had an opportunity of appearing, I am sorry to say. I do not recall a case in which I have appeared since I became a public man.

Q. What I really was getting at was this. I did not know but that your experience of yourself in public life had demonstrated to you that that was the preferable course? A. Well, I think there is a great deal to be said in favor of that. I hear a great deal about lobbyists, and corruption, and all that sort of thing. Nobody has troubled me since I have been in public life or office with corruption.

Q. The experience of your company, if I understand you aright, shows that publicity and open legislative ventilation or criticism of bills is all that is necessary to protect you to a reasonable extent from adverse legislation? A. Yes, sir. I believe that would go a long ways. I do not mean to say that it may not be necessary for someone to appear before a committee and explain in a proper way the effect or purpose or nature of a bill, but I believe that publicity is a great cure for these evils.

Q. And in the years that you have been in charge of this company you have never had to resort to any other method or contribute to any means which were used to your knowledge or any other method to protect your company? A. Never to the extent of one dollar.

BY MR. HUGHES:

Q. Did you know whether the Metropolitan was employing Mr. Hamilton? A. I did not.

Q. Did you know to whom the money you paid to the Metropolitan was disbursed? A. I did not.

Q. Did you not know what means they took? A. I did not.

Q. Did you ever co-operate with any of the other insurance companies in regard to legislation? A. Never and we did it with the Metropolitan on account of our industrial business.

Q. Did you also understand that the John Hancock was contributing to the Metropolitan? A. I did.

Q. Is it a fact that the three industrial companies placed in the Metropolitan's hands, or combined for the purpose of defeating obnoxious legislation? A. That is substantially correct. The Metropolitan looked after the matter largely in the interest of all the companies, and so far as we were concerned we considered it only proper that we should bear our part of the expense.

Q. Did the John Hancock bear an equal part? A. No, it was divided by a percentage based on the volume of business; as the John Hancock was not so large a company as either the Metropolitan or Prudential we thought it a fair division that the Metropolitan should pay two-fifths of the expense, the Prudential two-fifths of the expense, and the John Hancock one-fifth of the expense.

Q. So the amounts stated by you to have been paid to the Metropolitan according to your understanding were two-fifths of the expense incurred? A. Yes, sir.

Q. Now, you were saved, were you not, the necessity of making considerable disbursements in connection with ordinary life insurance business by the activity of the three large companies? A. I think that is wholly probable.

Q. The moneys that you spent were connected with the industrial insurance? A. I have no doubt almost wholly so.

Q. So it would not be proper for us to draw the conclusion that under the methods that were employed it was unnecessary to expend the amounts that were expended for legislative purposes, simply because of the fact that you did not expend them? A. Oh, no. I do not wish to express an opinion upon that.

Q. But you were not especially looking after the other lines of insurance? A. No.

Q. When a bill came up, for example, that would enable a policyholder to bring a suit for an accounting in New York by repeal of legislation to the contrary, did you interest yourself in that? A. I do not remember that we did. I should——

Q. You would be content to allow that to be handled by the other companies? A. I should say so, yes, sir.

Q. So in effect it was only industrial matters or legislation that concerned you? A. I think that is correct.

Q. But you have about $380,000,000 of the other business, in the ordinary department? A. Yes, sir.

BY MR. COX:

Q. Would you say there was more inimical legislation proposed relating to industrial insurance than the ordinary insurance? A. I think that in the past it has probably been so, for this reason. Industrial insurance is a comparatively new system of insurance. The old business was better understood and more firmly established. The industrial insurance for various reasons, some people do not approve, and I think it has led to attacks on that account.

BY MR. HUGHES:

Q. But from your experience both in and out of office you have no reason to doubt that whether the subject of legislation is industrial insurance or any other kind of insurance, your policyholders can be protected from anything really hostile to their interests by open appearance and public argument? A. I believe so, and I would not pay a dollar for any other purpose.

Q. And you do not think it necessary for any company to expend money in the employment of lobbyists or for any other purpose than intelligent argument? A. I do not wish to express an opinion which may be construed as a criticism of any company, but I would say that as far as we are concerned, it has not been necessary and it has not been resorted to.

Q. To what account on your books did you charge the moneys paid out for campaign purposes? A. In all cases—in two cases we charged them to expense and in one case to legal expense.

Q. In the statement of legal expenses you have in 1905 fifty thousand dollars in connection with litigation; 1904, $49,000 in connection with litigation; an amount considerably in excess of the expenditures of earlier years. What was the occasion for that? A. The litigation in 1904 followed—the expenses for the litigation in 1904 grew out of the attack on the Prudential-Fidelity arrangement. As I say, that matter was taken into court and bitterly fought. The very action that was taken in that matter only confirmed the fears that I had had before, which led me to seek some plan which would safeguard the policyholders of the company. I did not believe and I do not now believe the litigants in that case were the real litigants. I am satisfied that there were influences and powers and resources behind that attack which did not come to the front. I had that suspicion, and I believe it to be true. We made a stubborn fight to carry that matter to success, and in doing that it involved us in large legal expenses. That accounts for the matter of 1904 largely. In 1905 we had one large item of legal expenses in what is known as the Blair case, a case as you are doubtless aware. Mr. Blair was a very prominent man in St. Louis, and committed suicide. We had a policy I think of one hundred thousand dollars on his life, being the re-insurance of another company to that extent. That litigation cost us $25,000. In addition to that we had some trouble with the Wisconsin Department that involved expensive litigation. That has been amicably settled since, and I think those two items, Mr. Hughes, would make up the bulk of that large amount of legal expenses for 1905.

Q. The litigation over the Wisconsin Department related to the charges of the Commissioner for an examination? A. No, sir. The charges of the Commissioner for an examination had been paid, and were in a separate item, another item. The Commissioner attempted to cancel our certificate of authority to do business in that State. We took the matter to the United States Circuit Court, and the judge of the Circuit Court overruled the action of the Commissioner and ordered him not to interfere with our authority to do business in that State, and subsequently issued another order compelling him to reissue our certificate of authority, which I think had been formally cancelled. That was the litigation that I referred to as involved in this item.

Q. To what extent have you been subject to annoying demands upon the part of the Insurance Department? A. We have been greatly troubled.

Q. Have you been compelled to expend considerable sums in connection with such demands? A. No, sir; I think this Wisconsin case is the only prominent case, the only one that has involved any considerable amount, the only one that I recall. I do not recall any others.

Q What amounts of money have you had to expend in connection with examinations by State Departments? A. This examination by the Wisconsin Department was the most expensive of any that we have had, and that involved $22,000. Aside from that we have been examined, I think, only by the Department of our State, and the cost has been quite nominal, quite small. Perhaps we have had some minor examinations, but if so I do not just now recall them.

Q. You have spoken of the litigations caused by the plan to sell stock to the Fidelity Trust Company and to purchase its stock. Was that not stimulated by the action of the Massachusetts Commissioner? A. Possibly it was. The Massachusetts Commissioner wrote a letter at that time disapproving the plan.

BY MR. WEMPLE:

Q. What became of the Blair case? A. That was compromised, and I think 25 per cent. of the claim was paid.

MR. LINDABURY: One-fifth.

THE WITNESS: Twenty per cent. of the claim was paid by the different companies.

Q. Was a judgment first obtained in any court? A. It was not, I think it was compromised.

BY THE CHAIRMAN:

Q. Did not the companies interested in the Blair case unite in defence of the actions? A. I presume they did, although I cannot state authoritatively. We did not issue our policy direct to Blair. We had re-insured another company to the extent of one hundred thousand dollars, and therefore our action was through that company, as they were primarily responsible.

Q. That is what made me wonder why your expense was so great as twenty-five thousand dollars A. It does seem a large item, and that I do not know about it We had simply to deal with the other company, because we did not insure him direct.

Q. Evidently that did not cover the cost of the litigation, because that was only your share of it? A. Evidently, that is right.

BY MR. ROGERS:

Q. What other company was that? A. The Mutual Life.

BY MR. HUGHES:

Q. What was the cause of the action of the Wisconsin Department? A. The Wisconsin Department having examined the Prudential and we having thrown open every book and record and paper in our office to them at the conclusion made a demand upon us for information which, in my judgment, strictly amounted to an examination of both the Fidelity Trust Company and the Union National Bank. I said to the Commissioner, The Union National Bank was an institution incorporated under Federal Law subject to Federal supervision, and whatever information the Comptroller of the Currency chose to give him as to the condition of that bank, he could so do, of course, but that I could not and should not. I said to him, as to the Fidelity that it was a State institution, was not within his jurisdiction, was not subject to his supervision, but that it was subject to the supervision of the Insurance Department of the State of New Jersey. The Insurance Department of the State of New Jersey had just then completed an examination of the Fidelity and had announced its condition entirely satisfactory. I declined to furnish to the Insurance Commissioner of Wisconsin the information he asked for with reference to the Fidelity, but referred him to the Insurance Department of the State of New Jersey. Upon that, he shortly thereafter notified us that he should cancel our certificate of authority to do business in that State, and upon that notification we made the issue and went before the United States Circuit Court as I have explained. The Court ruled in our favor, and commanded him to reissue our certificate and not to interfere with our business.

Q. You have been asked with regard to the syndicate participations of your company and its officers, and have presented to the Committee a statement, is that a complete statement? (Handing paper.) A. That is complete and accurate as I believe and know.

MR. HUGHES: I will read it in evidence:

"SYNDICATES.

"The company has never been a member of any syndicate formed for the purchase, acquisition or underwriting of bonds, stocks or other securities, nor has it ever entered into any syndicate agreement relating either to the underwriting, purchasing or acquisition of any securities, whatsoever, nor has the company ever purchased or acquired any bonds, stocks or other securities from any syndicate, of which any officer of the company was a member or in which he was in any way interested."

Q. Has the Prudential Company been interested in any syndicate where the participation was taken by the Fidelity Trust Company? A. The Prudential Company has never been interested in any syndicate whatever at any stage of the existence of any syndicate.

Q. Whether the participation was in the name of any one? A. In no respect.

BY MR. COX:

Q. Have any of the officers of the Prudential been interested in any syndicate underwriting matters? A. Oh, the officers as individuals have, but not in any matter with which the company was connected.

BY MR. HUGHES:

Q. I understand your statement here to be that in no case where any officer of your company has been interested in a syndicate has the company directly or indirectly taken any securities from that syndicate? A. That is correct.

Q. That is a complete and full statement? A. That is correct.

Q. And there has been no cover of any such transaction by the use of the name of any trust company or individual? A. Absolutely not.

Q. Now, has your company, that is, the Prudential Company, been interested in any joint account with any trust company, broker, banker or other person for the purchase or sale of securities? A. It has not.

Q. Has any officer of your company been interested in any purchase or sale of securities by your company? A. It has not.

Q. Has any officer of the Prudential Company ever received any commission upon the insurance written or any part of it? A. The general insurance, the insurance that comes into the company from the field, or otherwise, do you mean?

Q. In any way, has any officer of your company had a commission arrangement? A. No, sir.

Q. Have you ever received a commission on any business by the Prudential? A. No, sir, except I want to explain this. About 1886, I think it was, we established a rule at the home office, we established what we called the home office account, under which any employee at the home office, whether he be an officer or clerk, a man or woman, any one who was an employee in the home office, if he took a policy on his own life, should receive a commission on that policy; but that is applicable to an entire class, embracing everybody in the home office.

Q. Including the officers? A. Including the officers and employees.

Q. How was the rule promulgated? A. I think by an executive order.

Q. It took formal shape? A. Yes.

Q. And so I suppose all the officers of the Prudential have received commissions upon their own insurance? A. Under that rule, and so have clerks.

Q. And all employees? A. Yes, sir.

Q. And have these commissions been the same as those ordinarily paid to an agent? A. Yes, sir.

Q. Have they been allowed in reduction of the premiums? A. Well, they have been allowed when the premium was paid, they were paid as a reduction of the premium at that time.

Q. And I suppose all have availed themselves of the rule? A. Yes, sir, a great many of them.

BY MR. COX:

Q. Does that include renewal commissions? A. Yes, sir. We justify that on the ground that that account was not subject to any agency expense such as rent, unusual agency printing matter or anything of that kind. It was free from expense and therefore we based it on that ground.

BY MR. HUGHES:

Q. Have you any facilities for writing insurance that is offered to you directly by the proposed policyholders? A. I do not think we have. The volume of it, the amount of it, would be so infinitesimal that it would be a failure to attempt to do it, and it would not justify the expense of maintaining a system for it.

Q. So if one were to come to your office in Newark, and offer himself for insurance, you would turn him over to an agent of the company? A. Yes, sir, we would turn him over to an agent because if we did not we would have to get out sets of books and keep them, and go through all the formalities that we do for an agent, and as I say, the expense of doing it would not justify it, the amount of business we would get would not justify the expense of doing it.

Q. Is there any law against rebating in New Jersey? A. I think not at present. I think there was at one time.

Q. Was it repealed? A. I think it was, yes, sir.

Q. When was it repealed? A. Do you remember when it was repealed?

MR. LINDABURY: The law is in force yet.

MR. HUGHES: Have you, Mr. Lindabury, a copy of the text of the law?

MR. LINDABURY: I can send it to you.

MR. HUGHES: I would be very glad to have it. Is it similar to the New York Law?

MR. LINDABURY: No, not closely similar, it is on general lines, but it is not the same.

BY MR. WEMPLE:

Q. Was there any secrecy about that executive order about commissions? A. No, not the slightest; every clerk around the office knew it, and pains were taken to have them know it.

Q. Do you know of any company that has a similar order? A. No, I do not know of any.

Q. Do you think the public generally understood that that was issued? A. No question about it.

BY MR. HUGHES:

Q. Of course, the result was that the officers and employees of your company got their insurance cheaper than other people? A. No cheaper, of course, than an agent.

Q. Not cheaper, of course, than anybody who got it as cheap? A. No.

Q. But cheaper than the general public? A. But the agent who would write an application upon his own life would receive and would be entitled to the commission.

Q. That has always been a rule of your company? A. Yes, sir.

Q. Is that a general rule among companies? A. As I am informed, I believe it is.

Q. What is your rule in regard to the answers that come in from advertisements by your company? A. We have a department that looks after those answers. If a person shows an interest in the company that department communicates with the nearest agent or superintendent, as the case may be, furnishing the name of the party to the agent or superintendent, with the request that he should visit that party, and see if he is an insurable party, and if so, try to insure him.

Q. There is an additional question which it is my duty to ask you, and that is whether in any campaign in which any officer of the company has been interested directly or indirectly, any of the company's money has been expended in any way to procure his election? A. Not one cent.

Q. Or to aid in it? A. Not one cent.

THE CHAIRMAN: The Committee will now take a recess until 2:30 o'clock sharp this afternoon.

AFTER RECESS.

JOHN F. DRYDEN resumed.

BY MR. HUGHES:

Q. There is something you desire to add I understand to what was said in regard to commissions upon insurance? A. Yes, sir. You were asking if any of the officers had ever received commissions on business. I want to explain that we have a rule in our office that the clerks in the employ of the company at the Home Office may write applications and receive their commissions the same as agents; and some of the junior officers, under the operation of that rule, have availed themselves of the opportunity and have done it. No executive officer has ever received any commission whatever so far as I know.

Q. Are you yourself insured in the Prudential? A. Yes, sir.

Q. To what amount? A. I am insured in the Prudential for $15,500.

Q. And that is on the ordinary plan? A. Yes, sir. $500 is on the industrial plan.

Q. And what commissions do you receive on that insurance or have you received? A. I receive it on the industrial policy 25 per cent. of the premium paid annually, that is usually paid weekly, the premium on that kind of a policy; I pay my premium annually and receive 25 per cent. the same as anyone else employed in the Home Office. And on the ordinary plan I receive 7 1-2 per cent.

Q. That is a renewal commission of 7 1-2 per cent.? A. Yes, sir.

Q. What was the initial commission? A. In one case 45 per cent. and in the other case 50 per cent., I believe.

Q. And the renewal commission is to continue how long? A. I think it is not limited; I do not remember that it is.

Q. And that is paid by the company or allowed in reduction of premiums? A. Allowed when I pay my premiums, I get that in reduction.

Q. Are you insured in any other insurance company? A. Yes, sir.

Q. In what company? A. I am insured in the Mutual Life and in the Provident Life and Savings.

Q. To what amount? A. In the Provident Life and Savings I have a policy of $10,000 and in the Mutual Life $5,000.

Q. And that is all? A. That is all.

Q. And have you received commissions upon either of those policies? A. I have in the case of the Provident Life and Savings.

Q. To what amount? A. I think it is 7 1-2 per cent.—5 per cent., I think.

Q. What was the initial commission? A. I do not recall now. It was the ordinary commission.

Q. When was it taken out? A. It was taken out, I suppose, twelve or fifteen years ago.

Q. Have you received any commissions directly or indirectly on the Mutual policy? A. No, sir.

Q. You are not insured in the Equitable? A. No, sir.

Q. Have you a statement of the salaries paid to the executive officers of your company? A. I can give you all the chief officers from memory.

Q. Very well. A. My salary is $65,000 a year. The salary of the vice-president is $60,000 a year; of the second vice-president and general counsel $40,000 per year; of the third vice-president

$30,000 per year; the fourth vice-president and comptroller $20,000 per year; of the counsel $16,000 per year. The secretary is $10,000 ——

MR. WARD: $12,000.

THE WITNESS: $12,000.

Q. Has there been any change in those salaries in recent years? A. No, sir.

Q. For how long has your salary been $65,000? A. I should think seven or eight years. I can tell ——

Q. What was it previously? A. Before that it was $50,000. Perhaps I had better get the paper and be accurate.

(Witness produces paper.)

Q. You have a statement of the salaries there? A. I have a statement of the salaries of myself and the vice-president, second vice-president and third vice-president. Not of the other officers here.

Q. For a period of how long? A. From the organization of the company in 1875 down to the present time.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 675.)

MR. HUGHES: This shows the following salaries paid to John F. Dryden.

1875, October 13th, $100 per month to February, 1876.

1876 to 1878, inclusive, $1,800.

1879. $3.250.

1880 to 1884, $5,000, which salary was paid to Mr. Dryden as president beginning May 25th, 1881. In addition to the $5,000 for 1884 there was paid an amount equal to 2 per cent. of the cash savings of 1884, total payment not to exceed $10,000.

Q. What was meant by the cash saving? A. Whatever we increased the cash assets of the company, that is to say, the amount left from the receipts after the disbursements had been paid.

MR. HUGHES: 1885, $5,000 and 5 per cent. of the cash saving, no limit.

1886 and 1887, the same.

1888, $5,000 and 5 per cent. of the cash savings until October 8th. Changed October 8th to flat salary of $20,000.

1889 and 1890, $20,000.

1891 and 1892, $30,000.

1893 to 1898, inclusive, $50,000.

1899 to 1905, inclusive, $65,000.

Q. You have never received any portion of the cash saving or any other amounts in addition to your salary than is stated there? A. None whatever.

MR. HUGHES: Compensation to Leslie D. Ward:

1876, medical director, none.

1877 and 1878, the same.

1879, as medical director, $1,000 per year.

1880 to 1883, inclusive, $2,000 per year.

1884, as first vice president and medical director, $4,000.

1885 to 1887, inclusive, $4,000 and 3 per cent. of the cash savings in each year.

1888, $4,000 and 3 per cent. of the cash savings, changed to a flat salary of $15,000.

1889 and 1890, salary $15,000.

1891 and 1892, salary $25,000.

1893 to 1898, inclusive, salary $45,000.

1899 to 1905, inclusive, salary $60,000.

EDGAR B. WARD.

1875 to 1879, inclusive, attorney, no salary.

1880 to 1884, inclusive, counsel, $400 a year.

April 14th, 1884, changed to $1,500.

1885 to 1886, $5,000.

1887 and 1888, $6,000.

1889, $8,000.

1890, $10,000.

1891 and 1892, $15,000.

1893 to 1898, as second vice-president and counsel, $25,000.

1899 to 1905, inclusive, $40,000.

MR. COX: Mr. Hughes, in the testimony before recess there was a very small item that appeared in the statement of legal expenses as general counsel. I wondered at the time just what that meant. It evidently did not include payments to the general counsel of the corporation.

THE WITNESS: Oh, no.

Q. What was it for, Senator Dryden? A. I do not recall now what that particular item was.

BY MR. COX:

Q. From year to year, Senator, appeared comparatively small items designated as general counsel. A. Meaning by that counsel that we called in from outside for special advice upon various subjects, not the regular counsel of the company.

MR. HUGHES: Forrest F. Dryden's compensation is stated as follows:

1883, appointed clerk at salary of $3.00 a week February 26th, 1883, and remained in office until June 13th, 1885. Salary at the time of leaving $10 a week.

1888. Appointed Inspector October 4th, 1888, salary of $12 weekly increased January 7th, 1889, to $15.

Acting Superintendent at Elizabeth, January 28th, 1889; Superintendent April 1st, 1889, $25 weekly, increased August 25th, 1889, to $30 a week.

1889. Assistant Secretary, $1,500.

1889. Appointed Secretary at the same salary.

1891 and 1892, Secretary, $5,000 a year.

1893 to 1898, inclusive, $10,000 a year.

1899 to 1903, inclusive, $20,000 a year.

Appointed third vice-president, and in 1904 salary fixed at $25,000 a year and in 1905 at $30,000.

Q. You have referred to the general counsel fees which appear in your statement of legal expenses to be small amounts from time to time, but in 1904 amount to $28,000. What was that disbursement for? A. That was the reduction following the Roebottom suit in the Prudential-Fidelity matter.

Q. But this apparently was independent of the fees in litigation? A. I will have to look at my memorandum. In 1904, Mr. Hughes?

Q. Yes. A. Yes, sir. The general counsel fees were the settlements with counsel, most all of it was for counsel fees in connection with that litigation which had taken place.

Q. Who was the counsel to whom that was paid? A. Well, the larger amount was paid to Mr. T. N. McCarter, who was then Attorney-General of the State, but acted for us.

Q. Under the laws of the State of New Jersey the Attorney-

General is able to transact private business at the same time he was Attorney-General? A. I assume that is so.

Q. And while Mr. McCarter was Attorney-General he was acting for you in this litigation? A. Yes, sir.

Q. That is for the Prudential Company. And what amount of the $28,000 was paid to him? A. $27,500. He had general charge of that whole subject. I had consulted him a long time before the matter matured or come to a head, and during its progress and during the litigation and after the litigation in connection with proposed legislation in Massachusetts in particular and in hearings before committees and the commissions, and Mr. McCarter was engaged for a long time in that service.

Q. He resigned as Attorney-General to become president of the Public Service Corporation, did he not? A. No, sir; he resigned as Attorney-General to become general counsel of the Fidelity Trust Company, and he resigned as general counsel of the Fidelity Trust Company to take the presidency of the Public Service Corporation.

Q. And who succeeded him as Attorney-General? A. His brother Robert H.

Q. Robert H. McCarter? A. Robert H. McCarter.

Q. I wish you would take this list of securities owned by the Prudential Insurance Company and read upon the record those items which formed the underlying securities of the Public Service, showing when they were obtained and the par and book value. You will simply extract from the total of securities those that are connected with the Public Service Corporation. If you have a separate list it will be a convenience. (Paper produced.) If you have it in condensed form I will put it in in that shape, making the record complete. A. I have it showing the amount purchased and the rate of interest realized on those securities.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 676, and read in evidence by Mr. Hughes.)

Q. Are all the collateral loans which have been made to the Public Service Corporation included upon this list of collateral loans, which has been furnished the Committee by your company? A. I believe that is so.

MR. HUGHES: I will have this first marked for identification.

(Paper marked Exhibit No. 677 for identification.)

MR. HUGHES: I will read the following loans to the Public Service Corporation:

PUBLIC SERVICE CORPORATION OF NEW JERSEY.

Rate: 4 per cent. Terms: on demand.

Date.	Amount of loan.
December 29, 1903	$500,000
May 19, 1904, payment in full	500,000
Same rate. Same terms.	
December 29, 1903	500,000
May 19, 1904, payment in full	500,000
Same rate. Same terms.	
December 29, 1903	500,000
May 19, 1904, payment in full	500,000
Same rate. Same terms.	
December 29, 1903	500,000
May 19, 1904, payment in full	500,000

Same rate. Terms: six months.	
May 24, 1904........................	500,000
November 22, 1904, payment in full....	500,000
Same rate. Same terms.	
May 24, 1904........................	500,000
November 22, 1904, payment in full....	500,000
Same rate. Same terms.	
May 24, 1904........................	500,000
November 22, 1904, payment in full....	500,000
Same rate. Same terms.	
May 24, 1904........................	500,000
November 22, 1904, payment in full....	500,000
Same rate. Terms: on demand.	
October 31, 1904....................	1,000,000
November 25, 1904, payment in full....	1,000,000

Q. I notice in the statement of collateral loans, loans from time to time to members of your Board of Directors. Were those loans made upon security containing an ample margin? A. In every case.

Q. Were they loans for the benefit or interest of anyone other than the persons here named? A. No, sir.

Q. How are loans made by your company; that is to say, what is the machinery for their authorization? A. We have a Finance Committee which meets every week and goes over all these names or applications for loans, but loans are not always approved by the Finance Committee in advance; they are made by the executive officers in due course of business, and reported to the Finance Committee.

Q. Who are the members of the Finance Committee? A. Mr. Edgar B. Ward, Mr. Uzal H. McCarter, Mr. A. R. Kuser and myself, ex-officio.

Q. Have you an Executive Committee? A. We have.

Q. Who are the members of the Executive Committee? A.

Mr. Jerome Taylor, Mr. Theodore C. Blanchard, Mr. Edgar B. Ward and myself, ex-officio.

Q. Do the members of your Board of Directors receive fees for attending meetings? A. Yes, sir.

Q. What amount? A. The members of the board receive for attending board meetings twenty-five dollars; for attending committee meetings, those who are on committees receive fifteen dollars.

Q. How often are the meetings of the board? A. Once a month.

Q. You have special meetings frequently? A. Not frequently, but if there is any special thing that requires it, we call a special meeting.

Q. How many times did you have special meetings in 1904, approximately? A. I cannot remember definitely, but not many meetings. Committees meet every week; the board once a month regularly, and occasionally, if necessary, a special meeting.

Q. Do the salaried officers of the company receive fees for attending meetings of committees? A. Nothing whatever.

Q. Or for attending meetings of the board? A. Nothing whatever.

Q. This sheet, showing the purchases or the securities owned, is a complete list? A. I so believe it to be.

MR. HUGHES: I will have it marked for identification.

(Paper marked Exhibit No. 678 for identification.)

MR. HUGHES: I will read upon the record so much of this as pertains to the ownership of stocks.

Fidelity Trust Company; date of purchase, January 5, 1900;

par value, $250,000; price, $250,000; book value, $625,000; purchased from National City Bank of New York.

Same, purchased February 28, 1902, $238,500; price, $500; book value, $1,192,500; purchased from the Fidelity Trust Company. Net value of stock sold, $8,500,000. Par value, $42,500. Book value, leaving value of present holdings of stock of Fidelity Trust Company, $480,000 par value, $1,775,000 book value.

Stock of Union National Bank, purchased June 17, 1902, $400,000; price, $240; book value, $960,000, from the Fidelity Trust Company, and purchased June 23, 1903, $50,100; price, $240; book value, $140,240; purchased from the Fidelity Trust Company.

Making the total stock of the Union National Bank $450,100; book value, $1,080,240.

Q. Were you not in error in putting the purchase of the sales of the Prudential Insurance Company by the Fidelity Trust Company in 1903? Was it not in 1902? A. During the recess Mr. Ward, the counsel, has corrected my memory on that point and he thinks it was 1902, probably that was so.

Q. On January 1st, 1902, the Fidelity Trust Company held 74.27 shares of the stock of the Prudential Company in trust for another party—that is your understanding, is it not? A. Yes.

Q. And between that time and the end of 1902 it acquired 20,001 shares? A. Yes.

Q. The Fidelity Trust Company now has upon its books—that is the Fidelity Trust Company now owns according to your books 19,993 shares of the Prudential stock—is that correct? A. I think so.

Q. Eight shares were transferred from the Fidelity Trust Company December 11, 1902? A. Yes.

Q. That was after the decision in the injunction suit to which you have referred? A. Yes.

Q. Originally 20,001 shares, just a majority, were transferred to the Fidelity Trust Company and after the decision eight shares were transferred out of it? A. Yes, sir.

Q. I would like you to state from whom the 20,000 shares were transferred and the date? A. They were taken from P. C. Blanchard, E. C. Blanchard, J. F. Dryden, Cynthia F. Dryden, F. F. Dryden, E. Kanouse, Susan A. Kenney, E. B. Ward, J. E. Ward, L. B. Ward, Minnie P. Ward, W. H. McCarter—that should be U. H. McCarter—this is a misprint—U. H. McCarter, Jerome Taylor, Sarah Johnson, Emma P. Woolsey, W. S. Johnson, Annie D. Ward.

Q. Does the Fidelity Trust Company hold in addition to the 19,993 shares transferred to it and held by it in absolute ownership certain other shares in trust? A. I am of the impression that they do not now. They did for a time but I think the estate has been settled, that Campbell estate; I am not sure, but my impression is the estate has been settled and that they do not hold this now.

Q. When was that trust matter terminated? A. Well, I cannot state definitely.

Q. Some time ago? A. Possibly a year or so ago. I want to be understood as not testifying positively that it has been, but it is my impression that it has been.

Q. It has been stated that the Fidelity Trust Company owns as trustees and votes shares amounting to 538.44—I assume in addition to the 19,993 shares which it owns outright? A. I think so.

Q. Is that true? A. I think so.

Q. Is that true at the present time? A. I cannot state that definitely. I am under the impression that that trust has been terminated.

Q. That is a matter to which you alluded a moment ago? A. Yes, sir.

Q. And for whom was that trust? A. Mr. Charles T. Campbell. He has since died and I think the estate has been settled.

Q. Whatever control the Fidelity Trust Company may have is now limited to the 19,993 shares? A. Yes.

Q. It owns no shares and votes no other shares directly or indirectly? A. No; and I would like to state in that connection, Mr. Hughes, that the persons to vote the proxy for that stock are appointed by the Board of Directors annually and appointed only for one year, and, as I have already testified, nearly two-thirds of those Directors are not stockholders nor interested in any way in the Prudential Insurance Company.

Q. But I understood that the stockholders in the Prudential Insurance Company and that company do own a control of the Fidelity Trust Company? A. I am not sure that they do own a full control, but they and close friends of those who are not in the company own a control.

Q. In addition to this 538.44 shares which at one time were voted by the Fidelity Trust Company as trustee, were there also some 74 shares and a fraction which were held by an officer of the Fidelity as trustee—I am referring to shares of the Prudential? A. I believe that is so.

Q. That is still so? A. I don't know that it is. I am under the impression it is not, but I do not wish to testify positively upon that point.

Q. Who was that? A. Jerome Taylor.

Q. For whom was the trust? A. I cannot remember, Mr. Hughes, in whom the trust was.

Q. Now the Prudential Insurance Company, starting, or having in 1877, a surplus of $6,115, at the end of 1904 had accumulated a surplus of $13,324,000? A. It is technically called surplus, that is in accordance with the practice of the insurance companies, placing that item under that term.

Q. Does that include the capital stock? A. No, sir, I think the capital stock——

Q. The capital stock is as a liability? A. Yes, that does include the capital stock.

Q. That does include the capital stock? A. Yes, sir.

Q. Now, how much of the business of the Prudential Insurance is participating? A. Mr. Gore, what is it, about 70 per cent.?

MR. GORE: About 69 per cent. and on the ordinary about 78 per cent.

THE WITNESS: Mr. Gore is the Actuary and I accept his statement as correct.

Q. At the end of 1902 it appears by the Blue Book that the surplus of the Prudential was $9,521,405. That included, I assume, the $2,000,000 of capital stock and the figures that you have named as the prices at which shares were transferred in the market showed a value somewhat in excess of the book value of the stock? A. Yes, sir.

Q. I suppose in anticipation of the continued success of the company? A. I have no doubt.

Q. And the $600 a share was also considerably in excess of the book value of the stock at that time? A. Yes, sir.

Q. Now under the plan that you had developed for putting a majority of the stock in the ownership of the Fidelity Trust Company, it would follow that the owners of a bare majority of the stock of the Fidelity Trust Company would have controlled the Prudential? A. Yes.

Q. And to put that concretely, the Fidelity Trust Company at that time with its increased capital had how many shares? A. With its present capital it has 20,000 shares.

Q. Twenty thousand shares, so that the holders of 10,001 shares of the Fidelity Trust Company stock, or one share more than half of that stock, would have controlled the Prudential Company? A. Yes, sir, and that involves the whole purpose of the plan which I had worked out and tried to have adopted, to hold and safeguard that stock so as to control and preserve the company against any possible accident or misfortune of its falling into the control of selfish persons.

Q. I wanted to bring that out, so if, for example, there were 40,000 shares of Prudential stock it would take 20,001 shares to control that Company? A. Yes.

Q. Now if those 20,001 shares were owned by the Fidelity Trust Company and the shares of the Fidelity Trust Company were 20,000 in number, it would take only 10,001 shares of the Fidelity Trust Company to control the Prudential Company? A. Yes, sir.

Q. And therefore by the placing of the control of the Prudential in the hands of the Fidelity you in effect limited the number who, through the ownership of Fidelity shares, could maintain a control of the Prudential, and that was what you had in mind in speaking of the preserving of control? A. Yes, sir, to collect and hold together this stock so as to protect the company.

Q. Now if you had gone a step further and put the control of the shares of the Fidelity Company in the hands of the X Company, one-half of the shares of the X Company or one more than one-half would have controlled the Fidelity and in turn the Prudential? A. Yes, but we did not go that far.

Q. I know that, but that could be continued so we could have, by a succession of companies, on that plan, a progressive limitation of the number necessary to control all the companies in the series? A. But I am sure that question does not interest me except as an academic one.

Q. Well in that shape it is a very interesting one? A. Yes.

Q. Now, to come back, your company has in a comparatively short period of years made out of its profits over and above all that it has distributed to its stockholders and its policyholders an amount which at the end of 1904 was $13,000,000, and during the past ten years or so I understand it has been paying 10 per cent. on its capital? A. Yes, sir. Let me, are you through?

Q. Certainly, go on. A. I want to say a word with respect to that so-called surplus. For twenty years we have been issuing participating policies in the ordinary branch, about twenty years. Since 1897 we have been giving a participation to the industrial policyholders. The surplus of $11,000,000, less the capital, is not in the strict—is not in that sense a surplus to stockholders, but it is a large part of it a surplus to policyholders. And the actuary estimates that if we continue to pay to our industrial policyholders and our ordinary policyholders the same rate of dividends that we have been paying for the last few years, 90 per cent of that surplus will ultimately be returned to the policyholders.

Q. But at the present rate of progress during the same time you will accumulate a surplus equal to what you now have and leave you at the end of the period with a greater amount as surplus? A. Naturally that will be so, but we have to consider the business from this standpoint, that possibly some time the company will cease to write new business. Then what will remain for it will be to close up its old business, which will occupy a long period of time, and at some time in the course of the company's history such a condition—a turning point—will have been reached in its affairs when its assets and surplus will begin to decrease, and ultimately will all disappear and all be returned to the policyholder.

Q. To those then existing? A. Yes, sir.

Q. Now, the theory you develop—not the theory, but the fact that you develop—is that in this surplus so called are all the amounts awaiting apportionment to your deferred dividend policyholders? A. Yes, sir, and dividends to the policyholder which we declare from year to year by a resolution of the Board of Directors. I wish in this connection to call your attention, Mr. Hughes, to this important fact, that we have upon our books some millions of policies on the industrial classes, the original contract of which never called for one cent of return in the way of dividends. We have already paid out to such policyholders voluntarily over six millions of dollars, and we expect in the future to pay a vastly greater sum than that, and from year to year we are now doing that by the action of the Board of Directors.

Q. But your surplus each year is determined after all the payments of the year in the way of dividends have been made? A. Yes, and it naturally increases as the volume of business grows.

Q. In accordance with your success and gains from the various insurance sources as well as from investments? A. Yes, sir.

Q. But whatever has not been paid out, and which will at any time be apportioned by way of dividends to policyholders, is a part of this amount called surplus? A. Yes, sir.

Q. And while you have not as yet taken upon yourself by an apportionment a legal obligation to pay a particular amount to any one, you present the facts that in this so-called surplus is the accumulation out of which the dividends to your deferred dividend policy holders particularly will be paid? A. Yes, sir.

Q. Do you keep an accounting with each policy holder of the amount to which he will become entitled at the end of a deferred dividend period? A. We certainly do not with the industrial policyholders and with the ordinary we do not.

Q. Then you do not take upon yourselves any obligations or define any amount which will at any time become payable until the expiration of the period set for the deferred dividends? A. No. The dividends which are paid during any term of years are voted by the Board of Directors at the beginning of that year.

Q. But with all that taken into consideration, it is apparent from the fact that you commenced with a cash capital of $91,000 and that you have now this amount of surplus, that the business of the company has been extraordinarily successful? A. We have been successful, undoubtedly.

Q. And it was in recognition of that and of the probability of the continued success of your company that this amount of $600 a share was fixed at the time of the sale of the Fidelity? A. No doubt of it.

Q. That success has been largely due to your industrial business? A. Yes, sir, that was our foundation.

Q. When did you begin to write ordinary policies? A. I think it was in 1886.

Q. And when was it that your ordinary business reached any considerable sum? A. Well, I should say that for the first ten years it was quite limited, and from that time it began to grow and increase, from that time on.

Q. It appears from the blue book that in 1904 your industrial insurance outstanding amounted to $675,992,239 and that your ordinary amounted to $380,740,769. Your industrial business is nearly twice your ordinary business? A. Yes, sir.

Q. Now, your rates for your industrial policies are about twice the amount of your ordinary rates, are they not? A. Not twice. We find that the mortality among the industrial classes is nearly one hundred per cent. greater than among the selected risks in the ordinary classes. I think, to be accurate, it is about 93 or 94 per cent. higher, but our rates to the industrial policy holders are only about 60 per cent. greater.

Q. Would that rate of 60 per cent. higher obtain generally through the various classes of industrial insurance? A. I should think so.

Q. Now, I call your attention to a book which has been sent me by your company, which I understand to be your manual in the ordinary department. Is that right? A. Yes, sir, agents' manual.

MR. HUGHES: I will have that marked for identification.

(Book marked Exhibit 679 for identification.)

Q. It bears the imprint of 1900. Does it contain the rates that are now in existence? A. I believe that is so, sir.

MR. GORE: 1900?

MR. HUGHES: Yes.

MR. GORE: No, our rates were changed in 1901.

MR. HUGHES: This was sent to us.

MR. GORE: Here is one.

(Handing book.)

THE WITNESS: The other book is a later edition.

Q. The book now shown you is the present book? A. Yes, sir. That is issued for January, 1906.

MR. HUGHES: I will have that marked for identification.

(Book marked Exhibit 680 for identification.)

Q. And this that I now show you is your table of rates for industrial policies now in force? A. Yes.

MR. HUGHES: I will have that marked for identification.

(Card marked Exhibit 681 for identification.)

Q. Now, if you refer to the Industrial Life Insurance Table of rates at age forty, to obtain five hundred dollars of insurance there must be paid how much? A. Fifty cents a week.

Q. Or twenty-six dollars a year? A. Yes, sir.

Q. Now, if you will take your ordinary rates for whole life insurance for one thousand dollars, or twice the amount which is mentioned the premium for a participating whole life policy at age forty, would be how much? A. $32.68.

Q. So the one who insures in your company on the industrial side, paying fifty cents a week or twenty-six dollars a year, gets five hundred dollars insurance and the one who insures in the ordinary department and pays $32.68 a year gets one thousand dollars of insurance? A. Yes, sir.

Q. And that would be a fair illustration of the difference between costs? A. I think so.

Q. Both policies participating in whatever accumulation may apply to either? A. Yes, sir. Of course, there is a very sufficient reason for that.

Q. You might state that now, if you desire to. A. In the case of the ordinary policy, there is in the first place a careful selection of the risk. We have a most thorough medical examination by at least one doctor, and if the amount is large enough, by two doctors. Then the premiums are paid not less frequently than once a quarter, the premiums are usually paid by that class of people who insure under that form of policy by check sent to the agent, or sent to the company, and the cost of making those collections is, of course, inconsiderable. In the case of the industrial policy, we send an agent at least fifty-two times a year to a man's house or shop, to collect his premium. Frequently the agent, on account of not finding the party at home, or in his shop, will have to go two or three times in a week to get that premium. That makes it expensive. Then the machinery for taking care of that business at the home office is very elaborate, and somewhat complicated, and necessarily must be so, because we require a report from each agent among all the thousands of agents in the employ of the company, scattered all over the country. We require a report from each agent, upon his business every week; and if there is a failure to make a report for a single week by a single one of these thousands of agents, our machinery is put into operation to ascertain the reason why we have not received that report. In the field we maintain an organization which is not dissimilar to that of a military organization in its efficiency for work.

Q. And also in its discipline? A. Yes, sir, necessarily it must be so in its discipline. In dealing with millions of people we must see that they are fairly treated, and not neglected or abused; and therefore we have to maintain a rigid discipline. Our superintendent, who is over a number of assistant superintendents, and they, each one of them, over a certain number of agents, is charged with the responsibility of seeing that policyholders in his district are fairly and honestly dealt with, that they are punctually looked after as to paying their premiums, because if they get in arrears it becomes very difficult for them to catch up. He, in turn, holds the assistant superintendent under him to a rigid accountability for their agents; and the assistant superintendent has upon him the responsibility placed of seeing that the people are looked after, and the assistant superintendent, in order to assure himself that there has been no neglect and no abuse, and no misrepresentation on the part of the agent, has, as a part of his duty, to visit these houses from time to time, to see the people who pay their premiums, and compare the premium receipt book with the agent's collecting book to see that they tally, and to find that the whole business is kept up and honorably and honestly conducted. Now, that costs money.

Now, in addition to that, it is a fact, Mr. Hughes, it is not a theory, but it is a fact, which a vast amount of experience has demonstrated beyond all question, that the mortality among that class of people is higher. Unfortunately they are not as well clad, nor as well fed, nor can they surround themselves with the comforts and the necessities of life, that people in better circumstances can. That increases the mortality, and in a business of this kind it all has to be taken into consideration.

Q. The result is that your premiums are in the ratio of fifty to 32.68, comparing the industrial with the ordinary departments, because of the high rate of mortality, and because of the great expense incident to the business? A. Yes, sir.

Q. What method of selection have you in taking your risks in the industrial department? A. We have for some of the policies, we have an examination by the doctor, to whom we pay a fee of fifty cents. Then we have, in addition to that, a system of inspection on the smaller policies, for which we pay twenty-five cents.

Q. What is done under that system of inspection? A. The inspector is required to visit the home where the people live to see the surroundings, to see the person whose life is to be insured, to ask certain questions, and in a general way to satisfy himself that for the purposes of an industrial company it is a proper risk. Now, upon that question of medical examination, the great Prudential of London, which is the great leader of us all, in that branch of business, has gone into it with extreme care and after great experience and an exhaustive analysis, they came to the conclusion some years ago that it was better not to attempt to examine all the risks, but that they could better afford to deal with the people in a more liberal way than by paying out so much money, as they would be required to do by medical examination, if they were required to examine everybody. We do not examine everybody, except in some States, where we are required by law to do that.

Q. Where is that? A. I think Massachusetts is one, if I am not mistaken.

Q. May I interrupt you to ask what is the rate of mortality shown in Massachusetts as compared with your industrial business? A. The rate of mortality on Massachusetts in our own company?

Q. Yes, where you have—

THE WITNESS: Have you any figures?

MR. FISKE: It is higher.

MR. GORE: Higher.

THE WITNESS: Higher, yes, sir.

Q. Is that because the doctors are more inefficient in Massachusetts? A. No, sir, I think not.

MR. FISKE: On account of the climate and the nationality and work.

THE WITNESS: The cotton mills—

MR. HUGHES: And the examination?

MR. FISKE: No, it is the climate and nationality and the class of work. They are factory operatives, French and Irish, and live in a very trying climate.

MR. HUGHES: So it might be a good deal worse if they were not examined?

MR. FISKE: Unquestionably.

Q. Proceed, Senator Dryden. I interrupted you. A. Perhaps I had said about all I needed to say.

Q. What proportion of your business is inspected in this general way by a visual examination? A. Do you know what proportion of our business is inspected?

MR. GORE: More than half of it.

THE WITNESS: By the medical inspectors or inspectors and others—

MR. GORE: By medical inspectors.

THE WITNESS: By medical inspection, meaning the doctors, and medical inspectors, more than half of it is inspected.

Q. You mean by that inspected, as contrasted with a medical examination? A. I include in that the medical examinations and the inspections on the industrial business, more than half of it.

Q. What proportion of the industrial business involves an inspection as contrasted with a medical examination? A. Do you know that, Mr. Gore?

MR. GORE: Well, everything below $250 in amount, and that would be—

MR. HUGHES: About what volume of your outstanding insurance has been taken on that basis?

MR. GORE: Perhaps 60 per cent.

MR. HUGHES: Of the industrial insurance?

MR. GORE: I should think so.

MR. HUGHES: We may also assume that 60 per cent. of your industrial insurance is represented by policies calling for not more than $250?

MR. GORE: That is an estimate, but it is not far wrong one way or the other.

Q. Who makes these twenty-five cent inspections, regular physicians in actual practice or those who are retained exclusively for your work? A. No, sir, I think they are usually young doctors in general practice, young doctors.

Q. And then your examination is paid for at the rate of fifty cents? A. Yes.

Q. And what do you pay in Massachusetts for a medical examination? A. I think the rate is the same.

Q. Fifty cents? A. Excepting in Massachusetts we are required to have everybody examined.

Q. There you have 100 per cent. of your industrial risks medically examined, while here you have 40 per cent., approximately, medically examined, and the price for the examination, if there is one, is the same in both places? A. Yes, sir.

Q. Notwithstanding the high premiums on the industrial department, based upon the high rate of expected mortality, it would appear from your gain and loss exhibit of last year that your percentage of actual to expected mortality was 114.99 per cent.? A. Yes, sir.

Q. So that your actual mortality is largely in advance of what you base your premiums upon? A. Yes, our premiums are based upon the regular table, the American Experience 4½ per cent.

MR. GORE: That is the legal requirement, but we base them upon our own experience.

THE WITNESS: But the table shows we base them on the American 4½ per cent.

Q. I understand you base your premiums on the industrial business on the high rate of mortality, so I presume you base your premiums in that department upon your own experience?

MR. FISKE: That department requires us to compare it with the standard table.

MR. HUGHES: So this gain and loss exhibit does not show the actual to the expected mortality as the latter is regulated in your premium rate sheet?

MR. FISKE: No, that is right.

Q. What is the result actually of the business of your company? I mean in its industrial department, how does your actual mortality in the industrial department compare with the expected mortality indicated by your premium rate in that department?

MR. GORE: It is lower.

MR. HUGHES: You have a saving?

MR. GORE: Yes.

MR. HUGHES: Can you tell me what the ratio was last year of the actual to the expected mortality in the industrial department?

MR. GORE: We cannot tell that exactly, Mr. Hughes.

MR. HUGHES: Can you approximate it?

MR. GORE: The table that we work on was built some ten or twelve years ago. That is what we call our Prudential Experience or Mortality Table, was built ten or twelve years ago.

MR. HUGHES: But you made up this table of rates this year. When you made that up you must have had some idea of how your mortality compared with your anticipated mortality.

MR. GORE: Those industrial rates have not been changed for a number of years.

MR. HUGHES: Then the rates I referred to a moment ago by error were in the ordinary department, but you have not had any change in the industrial for a number of years?

MR. GORE: No.

MR. HUGHES: What is your actual experience?

MR. GORE: Possibly about 90 per cent.

Q. When I spoke to you a few minutes ago about the comparison of rates between your industrial and your ordinary department I showed you a statement of participating rates. Now you have a non-participating rate? A. Yes, sir.

Q. I understand a large part of your industrial business is in fact participating? A. Yes.

Q. We shall come a little later to the extent to which the policy-holders on the industrial side benefit by that participation, but just now I would like to have you state on the record what the non-participating rate of a whole life policy of one thousand dollars is at age 40 in your ordinary department? A. Non-participating rates for one thousand dollars for a whole life policy is at age 40 $27.03.

Q. And the rates for $500 on the industrial side with such participation as it may receive is $26? A. Yes, sir.

Q. So that the non-participating rate on the ordinary side is but a little more than one-half of the regular industrial rate at the same age?

MR. GORE: Which is participating?

MR. HUGHES: Which is participating to the extent which will be developed in a few minutes. A. Yes.

Q. Now, I have asked you to state to the Committee the extent to which your business persists or your ratio of lapses, and I have received here a table of lapses which we may assume to be correct? A. Yes.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 682.)

MR. HUGHES: I will read it upon the record.

Q. Before we leave that table, Senator, I would like to have you look at the rate of lapse in the industrial department, under the head of the year 1900. I understand from that table that of the issue of policies in the Industrial Department made in the calendar year 1900, there lapsed in the year 1900, 37.51? A. Yes, sir.

Q. And in the next year, that is, the second calendar year, or in 1901, 22.87? A. Yes, sir.

Q. In the third calendar year, that is, in 1902, 5.71; in the fourth year, that is in 1903, 3.39, and in the fifth year, that is in 1904, 2.61? A. Yes.

THE CHAIRMAN: For the five years that is seventy per cent.

Q. So that of the industrial business written in the year 1900, about seventy-two per cent. had lapsed at the end of five calendar years, lapsed in the five calendar years, 1900 to 1904, inclusive? A. It would appear so, and yet this explanation should be made, that many of those policyholders come in and go out, a man will take a policy in January, perhaps he has paid three or four months and lapsed for one reason or another, and perhaps the next month he is persuaded by the agent to renew his insurance. Now, he pays that premium, although that has been treated as a lapse, and when he comes in again it is a revival, treated as new insurance.

Q. If he lapses again? A. If he lapses again and the same policy may lapse and be revived half a dozen times during the year, so that apparent lapse is not the real lapse.

Q. But taking the apparent lapse in the absence of figures showing the real lapse, we have lapsed in two years, that is, of the business of 1900, in the Industrial Department, there was lapsed before the end of, or by the end of 1901, something over sixty per cent.? A. Yes, sir.

Q. And in three years about sixty-six per cent.? A. Between sixty-five and sixty-six per cent.

Q. Now, the figures given on the Ordinary Department side show that of the business written in the year 1900, there lapsed in that year 9.48 per cent., and in the next calendar year, that is 1901, 27.46 per cent.? A. Yes, sir.

Q. And in the next calendar year, 1902, 7.55 per cent.? A. Yes, sir.

Q. In the next calendar year, 1903, 3.76 per cent.? A. Yes, sir.

Q. And in the next calendar year, 1904, 2.55 per cent.? A. Yes, sir.

Q. About fifty-one per cent. in the five years? A. I have not added it up; I have no doubt that is correct.

MR. HUGHES: Now, with that understanding of that table, I will complete the reading of the Exhibit:

Q. Now, have you a statement which will show what you referred to a moment ago as the actual lapsed rate as compared with this apparent lapsed rate? A. No, sir, I don't think it would be practicable.

THE CHAIRMAN: That lapsed rate included deaths?

MR. HUGHES: Which were stated to be about one per cent. of the number.

THE WITNESS: If I understood the point of your inquiry it was whether we can furnish you with the information as to the actual lapsed rates, taking into consideration those insured who come in and go out.

Q. The ins and outs? A. Yes, sir; we have no such information as that. I would say that we can trace the individual policy through its whole course, but we have nothing to show aggregate facts.

MR. GORE: We are now reviving fully 16 per cent. of all policies that have lapsed, and would be subject to revival. Of course some that go off our books—deaths, I do not include those—of all those that lapsed we are now reviving about ten per cent. this year.

Q. That is a statement which we can accept that the revivals amount to about 16 per cent. of the lapses? A. Yes, sir, that would throw light upon that question.

Q. So that if we reduce the number of lapses by 15 per cent. we would have a very close approximation to the actual lapses? A. That is true.

BY MR. COX:

Q. What advantages do the policyholders get out of a revival of these contracts?

MR. HUGHES: We are coming to that; will you hold that for a moment?

MR. FISKE: I claim that they come back without revival, and that they come in and out all the time. We know that they do. They take in new policies, the same man.

THE WITNESS: Of course, yes.

MR. FISKE: That is not a lapse at all. These revivals are strict revivals.

THE WITNESS: I was speaking only of the actual policies issued. This matter which Mr. Fiske brings up is another phase of it, which is correct, that a man may lapse a policy this year, and next year take a new policy entirely, and the same party, the same life, is insured again.

MR. FISKE: Two in the same year?

MR. HUGHES: That is done in ordinary insurance. We all discontinue policies, and take new policies.

THE WITNESS: Unfortunately.

Q. And we let some lapse and we take others? A. Yes.

Q. And it depends a great deal on the ingenuity and persistence of the agent we happen to meet; so that we are entirely in the realm of conjecture with regard to that, but if you take the business issued of the two classes, and compare with the business issued the amount of lapses as determined by your book, you have a reasonably fair criterion of persistence of the particular kind of business; that is what we want to get at.

THE CHAIRMAN: Was the 16 per cent. the actuary spoke of actual revivals, with payment of the arrears?

MR. FISKE: That is it.

MR. GORE: Those are actual revivals, those policies.

THE CHAIRMAN: Accompanied by payment of arrears?

MR. GORE: Yes.

MR. HUGHES: I am about to add the statement which appears on a page succeeding the one I have read, which I will offer in evidence.

(Statement marked Exhibit 683.)

THE WITNESS: This is a statement which shows how the persistency in insurance, and the percentage of revivals is increasing from year to year. For instance, in 1895 the per cent. of revivals of policies lapsed was only 5.21 per cent., while for the year 1904 the percentage of revivals was 16.03 per cent., showing that there had been an increase in the percentage of revivals of lapsed policies of more than 300 per cent.

MR. HUGHES: That table I will put in in a moment. We had just introduced as Exhibit 683 an addition to what your company had stated regarding its lapses, which should be read in connection with that, as follows:

MR. HUGHES: In this statement that has just been read, Exhibit 683, with reference to revivals, do you refer to calendar years or policy years?

MR. GORE: Those are policy years.

MR. HUGHES: The conclusion, then, that I would draw is as follows: That taking your record of 90,000 and following them for one year, you would find, including deaths, which amount to less than 1 per cent. of the number issued, a total lapse in the policy year of 51.3 per cent., and that of the revivals in 1904 it is found that about 5 per cent. of the lapsed policies revived were those that had been in force for less than one year?

MR. GORE: Yes.

MR. HUGHES: Now, Senator, I will offer in evidence this table you gave of the ratio of policies revived to policies lapsed.

Paper marked Exhibit 684 and read in evidence by Mr. Hughes.

Q. Now, Senator, suppose an industrial policy lapses in the first policy year, does the insured become entitled to receive anything? A. No.

Q. He does not? A. No.

Q. Suppose a lapse in the second policy year, does he become entitled to anything? A. He does not.

Q. In the third policy year? A. He becomes entitled to a paid-up policy.

Q. For lapses in the third year? A. After three years.

Q. So that if there is a lapse within three years from the date of issuance of the policy the insured gets nothing. A. No.

Q. So that unless the policy-holder takes out—revives his policy, if he lapses within three years he gets nothing at all for the moneys he has paid in? A. Except that he has been protected by insurance in the meantime.

Q. Undoubtedly, but we are now taking a case, or considering the fact that there is a continuous stream of the insured, and that without picking them out individually you find that a certain percentage of them will not persist? A. Yes.

Q. For more than three years. In fact it would appear from this that 51 per cent. will drop out in one year. A. And that is an enormous loss to the company.

Q. Undoubtedly; we will come to that in a moment. And it is pretty certain that over 70 per cent. will drop out within three years? A. Probably.

Q. So that in the run of your industrial business there are on the average about 70 per cent. of those who take insurance who drop out and get nothing? A. Except the protection.

Q. Except the protection which they have during the meantime, which taking those on the average means to those who drop out, no return? A. Yes.

THE CHAIRMAN: Is that 70 per cent. for three years or 72 per cent. for five years?

THE WITNESS: What is that percentage for two years, Mr. Gore?

MR. GORE: Sixty-six per cent.

MR. HUGHES: That is justified because the 72 per cent. you are thinking of was for five years, but from the fact that there was 72 per cent. for calendar years, and 52 per cent. in the first policy year on the table, with regard to two policy years, I inferred that it was probable that for three policy years there would likely be a lapse of about 70 per cent.

THE CHAIRMAN: Is that the fact? That is a very important fact and he ought to be able to give us some light on it.

MR. HUGHES: Let us see if that is proper, Senator Dryden. There is 72 per cent., according to your table in the Industrial Department, that lapses in five calendar years, but according to your generalization, based on ninety thousand policies, there is 51 per cent. that lapses in one policy year, and about 60 per cent. in three calendar years. Now, if we took three policy years, what in your judgment would it amount to? It would be something more than 66 per cent? A. Undoubtedly.

Q. Would be in the neighborhood of 70 per cent.? A. Undoubtedly.

MR. GORE: About 67½ per cent., somewhere around there.

Q. Now, let us take the policies that lapsed after three years. What does the policyholder get, assuming that he does not revive—that is, what does he get in the way of paid-up insurance or cash surrender value? A. After three years he gets a paid-up policy. If you look at the space marked B you will see a table of surrender values and paid-up policies, which the company gives under its contract—the paper marked B.

Q. That is the table of surrender values and paid-up policies taken at age twenty-one at issue at the end of various years? A. Yes.

MR. HUGHES: I will mark that for identification. That is not a complete table, but that is what the Committee called for with reference to page 21?

THE WITNESS: Yes.

(Paper marked Exhibit No. 685 for identification.)

Q. Now, is this policy that I show you one of your regular forms of industrial policies containing upon the second page the table of privileges showing the paid-up insurance and the cash values which you allow? A. Yes, sir.

MR. HUGHES: I will offer that in evidence.

(Policy marked Exhibit No. 685.)

Q. Now, these benefits stated on the second page of this policy, that is the additional benefit after five years, the cash dividends after fifteen years, the cash surrender values after twenty years, and the paid-up policy after three years are your regular privileges? A. Yes, sir.

Q. This is a complete statement of that? A. Yes, sir. That is a contract we make with our policyholders.

Q. Before reading this it may be well to bring out the fact that you do not have a great variety of industrial policies, do you? A. No, sir. We have the regular industrial and the intermediate industrial and the child's endowment, pure endowment; we have, though, stopped issuing child's endowment.

Q. You don't have the increasing endowment plan that the Metropolitan has? A. No.

Q. Your industrial policies are whole life policies in the main? A. Yes, sir.

Q. These—that is, benefit payable only at death? A. Yes, sir.

MR. HUGHES: Now, we have Exhibit 686, which provides for the insurance of the life of the person designated as the insured and an agreement to pay the stipulated benefit as shown by the schedules, subject to the privileges, conditions and provisions contained on the second and third pages. Then follows a schedule showing a table of benefits if the insured is less than ten years of age next birthday for a weekly premium of five cents.

Q. In other forms of policies you have a table for benefits corresponding to the age at which the insurance is written, and the premiums paid? A. Yes, sir, we have.

Q. Now, taking the privileges there, drawing your attention first to the provision after three years, in case of lapse, after three years the insured is entitled to a paid-up policy? A. Yes.

Q. The provision is that if this policy shall become forfeited for the non-payment of any premium after having been in force for three full years and the insured shall be over thirteen years of age at date of such forfeiture the company will grant a non-participating paid-up life policy in accordance with Chapter 356 of the Laws of 1895 of the State of New Jersey. Now, supposing one had been insured at an age under ten, and three years had elapsed. Would there be any right to get a paid-up policy? A. Not, I believe, unless the insured is thirteen years.

Q. You do not give any paid-up policies in case of lapse under thirteen years of age? A. No, sir, we do not.

Q. Do you give one in case of a lapse under thirteen years of age, when the insured arrives at the age of thirteen? A. Yes, sir, we do.

Q. You do in that case, but he does not become entitled to it until he becomes thirteen, and the reason for that is that there are no reserves? A. Yes, sir.

Q. Until they are thirteen years of age? A. Yes, sir.

Q. And the New Jersey law, it is stated, provides for a paid-up policy in case of lapse when the insured is at least fifteen years old? A. Yes, sir.

Q. Your point is that you give a little more than the law requires? A. Yes. sir.

Q. By giving a policy when the insured is thirteen years old? A. Yes.

Q. The next question is, what is the amount of that policy, suppose the insured pays ten cents a week? A. It is an amount of paid-up policy which may be bought by two-thirds of the reserve. Am I right about that, Mr. Gore?

MR. GORE: Two-thirds reserve American, four and a half table.

Q. Take the case of a person who is insured at twenty-one years of age on the industrial plan, and pays ten cents a week for three years, or $15.50 in all in the three years, and then lapses, for what amount will he receive a paid-up policy? A. I have not the table here. Won't that instruction book to agents show that, Mr. Gore?

Q. You now show me a sheet showing your paid-up values per one hundred dollars, whole life industrial? A. Yes.

MR. HUGHES: Which I will mark for identification.

(Sheet marked Exhibit 687 for identification.)

Q. This says paid-up values per one hundred dollars—what does one hundred dollars mean?

MR. GORE: Of insurance.

MR. HUGHES: One hundred dollars of insurance?

THE WITNESS: Of insurance, yes.

Q. If one were twenty-one years of age, and paying ten cents a week, he would have over $168 of insurance? A. Yes.

Q. To take a round figure, let us take one at forty, who pays fifty cents a week, or twenty-six dollars, in a year, and has five hundred dollars in insurance. Assume that he pays that twenty-six dollars for three years, pays a total of seventy-eight dollars and then lapses, what will he get a paid-up policy for? A. What does that table say?

MR. GORE: Forty dollars, I think; eight dollars a hundred.

THE WITNESS: He gets eight dollars a hundred, forty dollars of the five hundred dollar policy.

Q. He will get at the rate of eight dollars a hundred, or forty dollars? A. Yes.

Q. And that paid-up insurance will be paid at death. A. Yes.

Q. Now, if this man at age forty had paid ten cents a week, he would have had an insurance of a hundred dollars and at the end of three years on lapsing he would have been entitled to a paid-up policy for eight dollars? A. Yes, sir.

Q. What are the provisions of Chapter 356 of the Laws of 1895 of the State of New Jersey referred to here? A. Paid-up policy.

Q. Yes? A. It provides that we must give either a paid-up policy or a term policy, at the option of the insured, for an amount which two-thirds of the reserve will purchase at his then age.

Q. Now, we find that after five years the policy provides for what is called an additional benefit? A. Yes.

Q. That if the insured should die after five years from the date hereof the company will pay, in addition to the benefit herein provided, an amount to be determined from the tables of additional benefits issued by the company from the year in which death occurs. Have you the table of additional benefit issued last year? A. The actuary, I think, has.

MR. HUGHES: I will mark this for identification.

(Paper marked Exhibit 688 for identification.)

MR. HUGHES: This is headed additional benefits and cash dividends on regular industrial policies payable during 1905, and in that statement appears the following: "Continuation of voluntary concessions first made in 1897, and continued each year since then.

The Prudential Insurance Company announces to its old policyholders that the voluntary dividend concession first made in

1897 on its regular industrial policies will be continued through policy or a term policy, at the option of the insured, for an in the year 1905. The concession: Additional benefits will be paid on all regular industrial policies which have been five or more years in force, and will become claims by death during 1905. The amounts of such additional benefits may be found from the table on page two of this circular. Now, on page two of the circular appears the following:

"If a person insured under a regular industrial policy in one of the years given below dies during 1905 the company will pay not only the amount of the policy, but also the following additional benefits: For each one hundred dollars of the sum insured by the policy in the case of an infantile policy (issued at age under ten) the additional benefit will be paid on the amount of policy at the age of death."

Then follows a table. To find the amount payable on policy in case of death in 1905 of the person insured, multiply the amount insured in policy by 100 plus the additional benefit opposite the year in which policy was issued, as above, and divide the result by 100. Example: To find amount payable on policy of $144 issued in 1894 which has been in force for eleven full years, multiply 144 by 103 and point off two places to the left, and the result is $148.22, and this amount will be paid by the company in case of the death of the insured.

That means, Senator, that if that person who was insured in 1894 for $144 dies in 1905 his beneficiary will receive $4.22 more than the face of the policy? A. Yes, sir.

Q. That is the additional benefit? A. That is it.

Q. After eleven years of payment at that rate and for $144 the insured would have paid about how much for insurance? A. Take the age, Mr. Gore, and look at the table—Mr. Hughes has the table of rates here.

Q. I find in that table of rates that the insurance table is $144 at age twenty-seven on a payment of ten cents a week, so the payment of ten cents a week, $5.20 a year for eleven years, would then give the insured $148.22? A. Yes.

Q. Now, going a step further, we find that after fifteen years certain cash dividends are allowed by the policy, as follows: At the end of fifteen years from the date hereof, and at the end of each fifth year thereof this policy will be credited with a dividend from the surplus apportioned by the company to policies of the same class, payable in cash to the insured, unless payment shall be made as provided in Article 2 under the head "Provisions Below." Now, have you a statement of the dividends paid in 1904, what amounts are apportioned to industrial policies?

THE WITNESS: Have you got that statement, Mr. Gore?

Q. I am referred to the same circular, Exhibit 688 for identification, on the third page, for the cash dividends for the year 1905. These are cash dividends as distinguished from cash surrender values; this page, under the head of cash dividends for the year 1905, contains a table, appended to which is the following: "To find cash dividends on a ten-cent policy, multiply the above amount by 2, by 3 for fifteen-cent policy, and so on. For example, on a policy issued in 1890, at age thirty, premium ten cents, the company will pay in 1905, after the policy has reached its fifteenth anniversary, a cash dividend of $6.60." Can you tell me approximately what proportion of your industrial policies reached the fifteenth anniversary?

MR. GORE: Somewhere around eighteen per cent.

THE WITNESS: Eighteen per cent.

MR. GORE: Between sixteen and a half and eighteen per cent.

Q. Between sixteen and a half and eighteen per cent. reached the fifteenth anniversary and became entitled to be credited with dividends. Does this statement which is handed me of dividends purport to set forth the dividends under this provision allowed on industrial policies? A. The first column.

Q. That does not include any other amount, but simply the cash dividends allowed on industrial policies under the privilege in the clause, "After fifteen years cash dividends"?

MR. GORE: No, it includes also additional benefits.

MR. HUGHES: I thought so. How are we to segregate them to see what is paid actually or credited in the way of cash dividends on policies that reach their fifteenth anniversary? Have we any statement of that? Can you give that? A. I can get it.

Q. Now, this provision for cash dividends, provides that at the end of fifteen years from the date of the policy, and at the end of each fifth year thereafter, dividends will be apportioned? A. Yes, sir.

Q. The amounts which you have furnished in the statement shown me gives the aggregate dividends allowed on industrial policies in 1904, which include the additional benefits after five years, the cash dividends after fifteen years, and also the cash dividends on policies that had reached their twentieth and twenty-fifth and thirtieth anniversaries, does it not? A. Yes, sir, every five years after fifteen years.

MR. HUGHES: I will read that upon the record.

DIVIDENDS, INDUSTRIAL.

1900	$433,790
1901	446,966
1902	494,755
1903	569,566
1904	650,494
1905 (estimated)	750,000

Q. Now, I should like to have those totals divided.

MR. GORE: I will get those.

MR. HUGHES: So we can see how much of these payments stand for the five-year benefits, and how much for cash dividends and will also indicate what amount of policies persist for fifteen years, twenty years, twenty-five years, and so on.

THE WITNESS: The actuary will prepare that for you, Mr. Hughes.

MR. GORE: I can give that to you now. (Producing paper.)

Q. I am furnished by the actuary of your company with a statement of lapses which shows what issues of industrial policies were in force on September 30, 1905. That is the percentage of the issue of prior years then in force, as follows:

32.22 per cent. of the issue of 1900 in force September 30, 1905.
18.92 per cent. of the issue of 1895 in force at the same date.
13.05 per cent. of the issue of 1890 in force at the same date.
19.66 per cent. of the issue of 1885 in force at the same date.
6.01 per cent. of the issue of 1880 in force at the same date.

THE CHAIRMAN: That does not justify the actuary's figures that sixteen and one-half to eighteen per cent. persist for fifteen years, because there it is only thirteen per cent.

Q. The Chairman suggests that that table does not justify your suggestion that sixteen and one-half to eighteen per cent. persisted for fifteen years, as it would appear that only 13.05 per cent. insured in 1890 were in force in 1905.

MR. GORE: The year 1890 was a very peculiar year in that respect. You will notice the year 1895 still has 19.66 per cent. still in force. The average would be fully what I have stated.

MR. HUGHES: I think for the purposes of the record it might be well if the actuary were sworn so he could interpolate his answers as part of his evidence.

THE CHAIRMAN: Yes, I think so.

JOHN K. GORE was then duly sworn, testified as follows:

BY MR. HUGHES:

Q. In your judgment, Mr. Gore, sixteen and a half to eighteen per cent, of the policies issued on the industrial plan would be in force approximately at the end of fifteen years? A. Yes.

Q. And the table which you have just furnished me, and which I have read upon the record, showing the percentages of the issue of 1880, 1885, 1890, 1895 and 1900, inclusive, was made up by you from the data on the company's record? A. Yes.

Q. And is believed by you to be correct? A. It is.

Q. Have you, Mr. Gore, any policies in force that were written in 1875 or 1876, I believe your company was organized?

MR. DRYDEN: Practically 1876, we did not commence to issue policies until 1876.

A. Policies in force?

Q. Yes. A. We have some.

Q. What percentage? A. Probably about six.

Q. It is six on 1880. A. They would be very close together.

JOHN F. DRYDEN resumed:

BY MR. HUGHES:

Q. Now, in addition to these additional benefits and cash dividends, which are totalized in the statement which has been put upon the record, your industrial policy also provides for a cash surrender value? A. Yes.

Q. But no cash surrender value is given until after twenty years? A. That is correct.

Q. All the other benefits are in the nature of reversionary additions? A. Yes, sir.

Q. The table of cash surrender values, as stated in the policy itself, and as I understand it, the cash surrender values available at the end of twenty years, or of any fifth year thereafter, if the policy is continued in force? A. That is correct.

Q. Now, take for example a policy issued at age two, and continued for twenty years, then there would be on the surrender of the policy and release of your company, how much paid in cash? A. Seventeen dollars.

Q. That is on the basis of what payment? A. I do not know that I understand.

Q. That is in case the insured has paid how much a week? A. That is in case of a weekly payment of ten cents.

Q. And if the weekly premium is five cents? A. It would be one-half of that amount.

Q. It would be one-half? A. Yes.

Q. Suppose he is insured at the age of twenty-one, and pays ten cents a week for twenty years, what will be the cash surrender value of the policy at that time? A. Thirty-three dollars.

Q. And if he is insured at age forty and carries the policy paying ten cents a week until he is sixty what will be the cash surrender value? A. Thirty-eight dollars.

Q. Now, take the age two, and assume the policy at ten cents a week to have been carried for twenty-five years, what will be the cash surrender value? A. Twenty-six dollars.

Q. The assumption on the policy issued at age twenty-one? A. Forty-five dollars.

Q. And the policy issued at age forty? A. Forty-nine dollars.

Q. Why is it on receiving the same amounts of money from the insured you have the variant surrender values? A. Because of the greater risk in carrying the insurance upon these lives.

MR. GORE: They are the full term reserve.

THE WITNESS: Yes, that is the explanation, the full term reserve. The reserve is greater, therefore the cash surrender value is greater.

Q. If a policy is issued at age sixty, and ten cents a week is paid, the amount at the end of twenty years is how much? A. Twenty-seven dollars.

Q. And that is less than the amount of a policy issued at age twenty-one? A. Yes, sir.

Q. How do you account for that?

MR. GORE: The amount of the policy is a great deal less.

A. The man at age sixty would get less insurance.

Q. For the same payment? A. For the same payment.

Q. So that the maximum surrender value corresponds to the maximum insurance and the maximum reserve for the same payment? A. Yes.

Q. In other words, you have a fixed payment of so much a week and the amount of insurance a man gets depends upon his age and expectation of life? A. Yes.

Q. And the amount of the cash surrender value varies accordingly? A. Yes, sir.

Q. Now, those are all the benefits which are receivable exclusive of the death benefit under your industrial policy? A. Yes, sir.

Q. What amount did you pay out in your industrial department for cash surrender values in 1904? A. Have you got that table right there, Mr. Gore?

MR. GORE: We have not any table of our cash surrender values in the industrial department.

THE CHAIRMAN: When you finish this topic we will take our usual adjournment.

MR. GORE: We can furnish that.

THE WITNESS: The actuary will furnish you that information.

MR. HUGHES: Permit me a question or two before we adjourn.

Q. You have stated here the gross amount of your premiums received. Have you a statement showing the amounts of premiums you get from your industrial business? A. Have we got that statement here, Mr. Gore?

MR. GORE: No, we have not those separated.

MR. HUGHES: You can easily make the separation.

MR. GORE: It is about twenty-six and a half million dollars, but we can find that for you.

Q. About twenty-six and a half million dollars received in premiums on the industrial business last year. If you could give me the data for the Industrial Department separated, showing the premiums received and the death claims paid, and the matured endowments, if any, the surrender values paid and the dividends credited, and the totals to policyholders in that department for a period, say, of five years, that would be a very useful table, indeed, to have.

THE WITNESS: Can you have that to-morrow morning, Mr. Gore?

MR. GORE: Some time during the day.

Q. I want to ask you before we leave this subject to-night, what is done in case a man lapses, to revive him? Do you have a medical examination? A. No, not within the first year of lapse.

Q. After the first yeat of lapse, do you have a medical examination? A. Yes, sir.

Q. Does he have to pay all the arrears? A. Yes, sir.

Q. Why would it not be better for him to take out a new policy? A. Because the policy it not at first in benefit, in full benefit; if he has maintained a policy for one year it becomes in full benefit. Now, if he lapses that and takes a new policy he has got to go through that probationary period and be for a considerable portion of the year uninsured or insured for a less amount.

Q. When you speak of full benefit, you mean that the policy provides that if the insured shall die within six calendar months from its date the company will pay only one-quarter of the sum? A. Yes.

Q. And if the insured shall die after six months and within one year the company will only pay one-half of the sum? A. Yes.

Q. And after one year it will pay the full amount? A. Yes.

Q. Then that also means that having a longer period of insurance to aid him in complying with the conditions upon which he becomes entitled to these privileges—— A. Yes, sir; and also that he will be one year older than he was when he first insured, and consequently the sum of his insurance would be a little less.

Q. But when he is revived and pays up the arrears and is re-insured you treat that as new business on your books? A. Yes, sir; that is, it appears to be a new policy.

Q. Do you give your agents commission on it? A. The agent's commission is based upon two features; first upon a percentage upon the amount of money that he collects, which is called the ordinary salary, and second, an amount based upon the net increase in its collectible debit. Now, if he reinstates an old policy, the effect upon him is just the same as though he had written a new policy, so far as that amount is concerned.

MR. GORE: Senator, we do issue policies, you know, with a policy lien, where they do not have to pay up the arrears of premiums. We revive those.

THE WITNESS: Yes. I want, if you please, to add to my statement, that we do revive old policies and take a lien upon the policy without any cash payment by the policyholder. The policyholders sometimes are unable to pay the arrears, but want to continue the insurance, and we take a lien without requiring any cash payment.

Q. It is called to my attention that not only are your rates in the Industrial Department higher than in the Ordinary Department, but in our comparison we took the total amount of the benefit on the industrial policy at the end of the year, but as a matter of fact through the first year the policy is only good for a quarter of that amount during the last six months. A. Yes.

Q. So, that really for the first year's insurance, comparing the industrial policy with a non-participating ordinary policy, the insured is paying during the first six months eight times as much as he would be paying on the non-participating policy, and during the last six months four times as much. A. I want to explain to you about that partial benefit during the first year. I have already explained to you the nature of our medical examinations, that the business is such, and the initial payments are such, that the company cannot afford to have a thorough medical examination as we do in the case of the ordinary life insurance. Now, it would be in the first place too much of a risk for the company to take during the early months, to pay these policies in full immediate benefit, and besides it would cost so much to pay for the medical examinations, which would justify the company in taking that risk so early in the life of the policy, that it would make it prohibitory. Therefore, instead of adopting the course that some lodges or mutual benefit societies have adopted, of charging an initiation fee, we get the equivalent by obligating ourselves for a less amount of risk during the early months of the policyholder.

THE CHAIRMAN: The Committee tomorrow will probably meet in the Aldermanic Chamber at the other end of the building as usual. An adjournment will now be taken until 10.30 o'clock tomorrow morning sharp.

MR. HUGHES: Mr. Chairman, Mr. Lindabury desires me to have corrected an answer in Senator Dryden's testimony.

THE CHAIRMAN: Very well.

BY MR. HUGHES:

Q. I asked you, Senator, what the agreement was that you entered into with the Massachusetts Department, and you answered:

"That agreement was that the company would not have at risk in any one trust company or bank, either by the ownership of the capital stock, or deposited, or both, more than fifty per cent. of its surplus. Is that right, Mr. Ward? Yes."

Will you state whether that answer was correct, and if not give me a correct answer to the question, what the agreement was with the Massachusetts Department.

MR. LINDABURY: That is correct, copied from your minutes.

(Handing paper to witness.)

THE WITNESS: I wish to amend my answer by saying that we also included any amount that might be loaned upon collateral securities.

MR. LINDABURY: Upon the collateral of those stocks.

THE WITNESS: Precisely, upon the collateral of those particular stocks. In other words, that we should not have more than one-half of our surplus at risk at any one time, in any one bank or trust company.

MR. WARD: This is taken from the agreement. That agreement was that the company would not have at risk in any one trust company, bank or other financial institution, either by the ownership of the capital stock, or deposited by loan upon the stock of such trust company, bank or other financial institution, or all three, or more than fifty per cent. of the net surplus as determined by the said Insurance Commissioner.

BY MR. HUGHES:

Q. Has that contract as stated in your amended answer been complied with? A. Completely.

(Adjourned to Wednesday, December 13th, 1905, 10.30 A. M.)

COUNCIL CHAMBER,

CITY HALL, NEW YORK CITY.

December 13th, 1905.

The Committee met pursuant to adjournment, Senator Armstrong in the chair.

JOHN K. GORE resumed.

BY MR. HUGHES:

Q. Mr. Gore, have you a statement showing the benefits and dividends credited to policyholders in the Industrial Department? A. (Producing paper.) Those two.

Q. The paper you offer me is the amount of additional benefits, which, after five years, are credited to the policyholders in the Industrial Department. This additional benefit is the amount added to the insurance in case of death after five years, the first privilege mentioned in the policy? A. It is.

MR. HUGHES: I offer the table in evidence.

(Paper marked Exhibit 689.)

Q. Have you a statement of the amount of death claims paid on industrial policies at hand? A. I will have a better one in a few minutes. This is the first draft, but it is all right (handing paper).

Q. The statement you now hand me is limited to industrial policies? A. Yes.

Q. It would appear that in 1904 the total amount paid upon death claims was $8,637,287. Now of that $8,637,287, $93,760.34 consisted of the additional benefits payable under the first privilege? A. That is right.

Q. You have also produced a statement of the cash dividends credited to the policies in the Industrial Department? A. I have.

Q. What is meant by the column headed fifteen-year dividend in this statement? A. The policy provides for a cash dividend after fifteen years and a cash dividend at the end of each fifth year thereafter. The first column represents the fifteen-year dividend.

Q. The second column headed five-year dividend represents what? A. Dividends paid at the end of five-year periods thereafter.

Q. The total amount of such five-year dividends? A. Yes.

Q. Paid in the year opposite which the amount appears? A. Yes.

MR. HUGHES: I offer that table in evidence.

(Paper marked Exhibit No. 690, and read by Mr. Hughes.)

Q. Now this statement that you have just handed me shows the premiums received on industrial policies in the years 1900 to 1904, inclusive, the death claims paid, the surrender values paid, the dividends paid or credited? A. Paid.

Q. Paid, with the policies? A. Those include the additional benefits as well as the cash dividends; the cash dividends are paid on the policies still in existence.

Q. Well, they are credited, are they not? A. Yes, credited to the policies each year as paid out during the year. Those are paid in cash.

Q. Those dividends that you refer to after fifteen years and at each period of five years thereafter are payable in cash if the policyholder desires to take them? A. Yes, they are paid in cash.

Q. And the amounts of such payments are included in the total dividends here stated? A. Yes.

Q. And then in the final column you have the total payment to policyholders? A. Yes.

MR. HUGHES: I offer the table in evidence.

(Paper marked Exhibit 691.)

MR. HUGHES: From this table it appears that in the year 1900 the amount received in premiums on industrial policies was $17,507,655.55; and in that year there was paid in all to policyholders $6,313,344.71; that amount being distributed as follows: Death claims, $5,559,105.43; surrender values, $320,449.65; in dividends, $433,789.64.

In the last year on the statement, 1904, it appears that the premiums received on industrial policies amounted to $26,943,891.14, and that the total paid to policyholders was $9,884,461.09, consisting of death claims, $8,637,287.00; surrender values, $596,680.00; dividends to policyholders, $650,493.00.

In the five years, 1900 to 1904 inclusive, the total amount of premiums received is $110,449,373.12; the total amount paid to policy holders is $39,240,948.52, of which $34,598,637.97 was paid upon death claims, $2,046,739.01 for surrender values, and $2,595,571.54 for dividends to policyholders.

Q. There is also a statement of the amount included in surrender values, for cash surrender value; what is meant by that?

A. The total item, surrender values, includes the values of paid-up policies as well as surrender values paid in cash.

Q. Well, do you mean that you include in the total payments to policyholders the amount of the value of paid-up insurance upon which no moneys have been paid? A. Yes, that goes right into our reserve.

Q. Yes, but you have got a great deal that goes into your reserve which you do not schedule as paid to policyholders. A. Well, that is the requirement of all the State Departments.

Q. Do you include in your statement of outstanding insurance your paid-up policies? A. Yes.

Q. And you have your reserve against those as you do against your other policies? A. Yes.

Q. But when you are making up a statement of the payments you have made to policy holders you do not include insurance policies upon which in fact you have made no payment, do you? A. We follow the requirement of the State Departments and the amount of money we transfer from our reserve as single premiums for insurance goes under the head of payments to policyholders. We have no control over that item.

Q. Then of the $2,046,739.01 which is stated here as surrender values and included in the total payments to policyholders, how much was actually paid in cash during the years 1900 to 1904 inclusive? A. A little more than $125,000——

Q. Give me the exact amount if you can add it rapidly? A. $145,947.74.

Q. And the residue of about $1,900,000 included under the head of surrender value is simply in the shape of paid-up insurance? A. Yes.

Q. What amount of the $2,595,571.54, the total of dividends to policyholders and included in the total payments to policyholders consists of reversionary additions to policies and not paid in cash? A. That is all cash.

Q. Included in death claims paid you apparently have certain annuities? A. Yes.

Q. What are those annuities? A. They are in the form of sick benefits; the company for one or two years of its existence at the outset issued a few sick benefit policies upon which it is still paying annuities.

Q. Well, those are actual cash payments? A. Those are actual cash payments.

Q. Included in the claim? A. Yes.

Q. I should like to have you take the Blue Book and tell me with approximate accuracy what is the total amount that has been paid to your company in premiums by policyholders since its organization—I figure it about two hundred and eighty-seven millions roughly. A. If I come as near as that——

Q. Oh, yes, if you get within a million dollars of it it will be satisfactory. A. What is it you make it?

Q. I figure it very roughly at about two hundred and eighty-seven million dollars. A. About two hundred and eighty-seven million dollars.

Q. Now during the period that your company has been in business, what amount is the aggregate of its payments to policyholders, including death claims, endowments, surrender values and dividends—all payments? A. About ninety-two million dollars.

Q. Now, during the same period, what has the company received, approximately, in its earnings or interest upon investments or income apart from the premiums paid by policyholders? A. About nineteen and a half million dollars.

Q. And what has been the total of its expenses, that is, its disbursements exclusive of the amount paid to policyholders during its history? A. About one hundred and thirty million dollars.

Q. And what were the assets of the company at the end of 1904? A. $80,511,955.

Q. And against those assets what amount represented its liabilities at that time, including its reserve to meet policies in force? A. $75,187,108.

Q. These approximate amounts you have given to show the income payments by the company here from the period of the company's organization to the end of 1904? A. Yes.

Q. What amount of the present surplus of $13,324,847 do you calculate is held to meet dividends upon policies in force? A. Well, something over 90 per cent.

Q. Something over 90 per cent.? A. Yes—that is, I should say eleven million; two millions of that was capital stock.

Q. Is that thirteen million dollars the entire amount of your surplus? A. Including the capital stock, yes.

Q. What is meant by the item in your report to the New York Insurance Department under date of December 31, 1904, among your liabilities, "Special reserve, $3,711,122"? A. That is divided in our acounts into two parts. One part is made up of $1,000,000 and the other part of $2,711,122. The $1,000,000 was set aside at different periods to provide for what seemed to us a fund—to provide a fund for what seemed to us should be the difference perhaps between the reserve we actually hold according to the requirements of the State Department, and especially of our own State, New Jersey, and the reserve that might be necessary if we were compelled to value upon our own experience basis. At that time it was thought sufficient to cover all the difference. The other item of $2,711,122 represents really the difference between our liability in the State of Massachusetts and our reserve liability in the State of New Jersey or of New York.

Q. What is the occasion for that difference? A. The method of valuing industrial policies is different in Massachusetts from the method in the State of New York or in New Jersey.

Q. What is the difference between the two methods of valuation of industrial policies? A. Well, it amounts in effect to our having to hold a reserve on our industrial policies in Massachusetts as if they were a half year older than in New Jersey or New York.

Q. In other words, you take the age as of the time—— A. In Massachusetts we take the age at issue.

Q. In New York? A. In New York we take the age next birthday, which is a half age older.

Q. And that makes the valuation in Massachusetts $2,700,000 in excess of the valuation in New York and New Jersey? A. No, that item would really favor Massachusetts a little bit because they allow us to take a half age younger, but they assume at the end of the first year the policy is a half a year old, and in the State of New York we start at the end of a half year to value our policies.

Q. And the net result? A. The net result is the main item of difference.

Q. Does that acount for the whole of the $2,700,000? A. Yes, because through the history of these policies the Massachusetts policies are assumed to have been half a year longer in force.

Q. And the other million dollars included in the special reserve is established by your company because of the higher rate of mortality, according to your experience of that, upon which you have calculated in establishing legal reserve? A. Yes.

Q. Now, the fact is that you collect enough from your policyholders to pay out for what dividends may be required and to meet all claims and increase your surplus? A. Yes.

Q. So that while you theoretically say that 90 per cent. of the surplus on hand awaits apportionment in dividends, as matter of fact you are constantlv collecting enough to take care of all your apportionment of dividends and of all your claims and leave you at the end of each year with a larger surplus than you had the year before? A. As the business grows that is necessary. If we should stop doing business you understand, of course, this fund would gradually grow out again. We must be ready for it.

Q. Take, for example, your situation in the year—at the end of the year 1897 you had then a surplus of $5,240,119. Between that time and the present you have made total payments to policyholders of about sixty million dollars—between 1897 and 1905? A. Yes.

Q. And yet at the end of 1904 you have thirteen million surplus; so that during this period while you have been paying such large amounts to your policyholders on claims and in dividends you have more than doubled your surplus after deducting the special reserve? A. Yes.

Q. The result is that you are receiving in dividends amounts largely in excess of the immediate necessities of your company, taking into consideration the annual requirements for claims and apportionment of dividends, and that excess is represented by your growing surplus? A. Yes, but, Mr. Hughes, may I make a little statement here?

Q. Yes. A. Industrial insurance in this company is yet less —is no more than thirty years old, and it has not had, of course, the vast experience of what is called ordinary insurance. It is still to a certain extent somewhat of an experiment. We have years of issue on which the company to-day is paying in death claims as much as it is receiving in premiums. That, of course, is to be expected, but is provided for in the reserve; but it was freely predicted when industrial insurance was started that it never could carry itself. It is yet somewhat of an experiment, and the Prudential up to this time has felt that it is feeling its way yet. It has not even rounded out a generation; and it was felt necessary to accumulate this fund which we are preparing to give out, so that, as I have said already, to the policyholders actually on our books to-day we expect to give out almost all of this surplus.

Q. Well, the policyholders on your books last year will fare proportionately as well as the policyholders on your books this year? A. Yes.

Q. And you paid out last year in dividends $650,493? A. Industrial dividends.

Q. On industrial dividends. That represented the entire amount that your industrial policyholders were, according to your methods, entitled to share in the surplus? A. Yes.

Q. For that year? A. Yes.

Q. Now, if you will take the entire amount of your business, that is the ordinary department and the intermediate department, as well as the industrial department, the entire amount paid in dividends last year was about $885,000? A. Yes.

Q. But you took in in that gross amount of your premiums some forty-one millions of dollars? A. Yes.

Q. And your total disbursements to policyholders were some thirteen million dollars; so that you took in more than enough to allow for what would be distributable according to your method, and enable you to increase your surplus over three millions of dollars in one year? A. Yes. Mr. Hughes, may I add a note here?

Q. Certainly. A. In reading sometime ago onto the record of premiums and expenses and claims and so on, it seems to me there should be read into the record at the same time the fact that during five years, that was the period you first included, the company has added, I think, more than forty-one millions to its liabilities in the form of policy reserves, that is put to the credit of policyholders. I think that should go in where you are speaking about payments to policyholders.

Q. I, in effect, stated that because I stated the total amount of your assets, and the total amount of your surplus; the rest will be the difference, but I will put it in in that form; I will state that now that at the end of 1904 the assets of your company amounted to $88,511,950, your liabilities, including the reserve against your outstanding insurance, amounted to $75,-187,108, and the surplus, $13,324,847. A. You have read that before, but in connection with the five-year payment you did not mention the fact that we had added about forty-one million dollars to our reserve.

Q. During the five years? A. Yes. That was not read in at that point.

Q. Now, in this you have called attention to the last five years. I wish you would tell me what amount of industrial business, industrial insurance has been written as new insurance in the years 1900 to 1904, inclusive, approximately? A. Industrial insurance?

Q. Yes. A. The total amount issued in the five years 1900 to 1904 inclusive, was $864,944,290.

Q. Now, during that period the net amount of your outstanding insurance, comparing the amount outstanding on December 31, 1899, with that outstanding on December 31, 1904, in the Industrial Department, was how much? A. You want the increase?

Q. Increase? A. $286,952,982.

Q. In other words, during the last five years you have put on your books $864,000,000 of industrial insurance, but your net income has been only $286,000,000? A. Yes.

Q. In your Ordinary Department, however, you have during the same period put on your books how much? A. The total amount issued by the Ordinary Department in the same five years was $426,485,286.

Q. And the net increase of insurance comparing December

31, 1899, with December 31, 1904, is how much? A. $267,578,-540.

Q. So you wrote nearly twice as much industrial business as ordinary business in that period. Your net increase in the industrial business was only a trifle more than your net increase in your ordinary business? A. Yes, sir.

Q. Which would indicate that the industrial business was only about half as persistent as your ordinary business? A. Yes, on the total.

Q. Now, taking your company as a going concern, and drawing an inference from its experience from 1876 to 1904 inclusive, it would appear that the policyholders have received up to date, that is up to December 31st, a little less than one-third the amount they have paid in? A. I cannot say exactly as to that.

Q. Well, you said they paid in in all about $287,000,000 and there had been paid out in all about $92,000,000? A. Yes, and they have to their credit $75,000,000.

Q. We are looking at it as a going concern because if you take any particular period of this 28 years and take the receipts and disbursements to policyholders we will find about the same ratio, will we not? A. Not if it is worked out to the end, I should think not.

Q. Well, if there is an end; but you take the man who is coming into your company now—what he will put in—I do not mean a single man, the men—the total of your present policyholders and the amount which they will contribute and the amount which will ultimately be paid to them at one time, treated as a class. will be in the neighborhood of about one-third? A. No, I should think it would be much more than one-third.

Q. You do not think then that it is fair to take the entire amount that has been received by your company during the period of twenty-eight years, and the entire amount that has been paid to policyholders during that same period of twenty years in order to draw an inference as to what proportion of the premium receipts has ultimately returned to policyholders? A. Why, no, I certainly do not.

Q. Will you explain why not? A. If you could imagine a company, we will say a hundred years old, which had completed a great many thousands—millions we will say—of policies, completed the entire record, and assumed that the company had stopped increasing, as all companies must some time, if you could follow that during an even period or of a certain time, you can see—we can all see that it could not be in this ratio, because the older policies in their due proportion of the total and they would be receiving more in claims than they were paid in premiums.

Q. You mean those that existed at that particular time? A. Yes.

Q. But if you take a period of years during which we have a number of policyholders paying money to the company and try to ascertain how much of that money comes back to this number of policyholders upon an average, do you think it will show while the company is a growing concern more than one-third? A. It depends on how rapidly the company grows. Of course it would depend upon what percentage of the total policyholders on the company's books were old policyholders, and what percentage were new. Of course, the Prudential, as you know, has grown very rapidly.

Q. What effect would that rapid growth have? A. It would tend to have upon the company's books a great many policyholders who had not reached a high death rate yet, and who were paying in naturally as policyholders due at the outset of their contract much more than comes back to them.

Q. And to the extent that the business of a certain class goes off the books at an early period, the policyholders of that class get a less return? A. Yes, necessarily.

Q. And as in the industrial business, a very large percentage of the business is non-persisting. The industrial policyholders get a smaller return on the average than the holders of ordinary policies who persist longer? A. Yes, they do.

Q. A very much smaller return, do they not? A. Yes.

Q. If you were to take any of the large companies doing an ordinary insurance business and were to take a period of years and compare the amounts paid in by policyholders in premiums and the amount during the same period received by the policyholders or their beneficiaries in the payment of death claims and dividends, you would find that the policyholders had received a very much larger percentage of the premium income than in the case of the Prudential, would you not? A. You refer to ordinary?

Q. Yes, ordinary policyholders? A. Yes.

Q. Well, why is that so? A. You have named one reason, it is the fact that our industrial policyholders do not persist and they pay a short time before the death rate increases and before they reach surrender value. Another reason is, which I think has been explained, the expense rate is necessarily higher for an industrial company depending upon the very nature of the business.

Q. Now, you take for example your neighbor, the Mutual Benefit of New Jersey, and you take a period of some thirty years, say from 1875 to the end of 1904, and the total amount of premium income during that period appears to be approximately how much? A. You said thirty years?

Q. Yes. A. I make it about $196,000,000.

Q. One hundred and ninety-six millions. And during that time they had paid to their policyholders in claims and dividends and other ways a total of about how much? A. I should think somewhere around one hundred and five or a hundred and six.

Q. One hundred and five or one hundred and six millions. It is suggested to me that that is the case of a very old company; but what would you say was the reason for the fact that during thirty years they get in one hundred and ninety millions dollars and pay their policyholders one hundred and five million or one hundred and six million and the Prudential in the same period gets in two hundred and eighty-seven millions and pays its policyholders ninety-two millions? A. Well, two very important reasons would be these. First, the company has grown, as compared with the Prudential, very much less; for example, its total premium income in 1904 was considerably less than three times its total premium income at the beginning of that period, 1875; whereas the Prudential's has gone up, you might say, an infinite number of times.

Q. Then rapid growth does not benefit the policyholders? A. Not temporarily. If you analyze any one policy account you would find it would come out all right.

Q. If he lives long enough? A. Yes. You must see that point, Mr. Hughes, that a rapidly growing company has this great mass of new business on its books.

Q. And the new business pays more proportionately? A. To the company.

Q. To the company? A. Yes.

Q. Hence the more new business there is on the books the greater proportion of policyholders who are paying more than the average cost, we might say? A. Yes, but that does not affect the fact that they are just as likely to come out better than that would indicate, if you allow them to go over their proper period of time.

Q. Unless we take a sufficiently long period? A. Yes.

Q. Twenty-five or thirty years, which will enable us to find out how the thing will work out on the average? A. Yes.

Q. And that was my intention. Now, lest it may be said to suggest an unfair inference, by taking an old company, and a long established company, let us take the Mutual Company of New York; let us take the period of the last thirty years? A. About eight hundred and sixty million dollars.

Q. That is the total premium income for what period? A. For thirty years.

Q. Thirty years last past? A. Yes.

Q. Now if you will take the total paid the policyholders, paid by the Mutual in that time, including claims and dividends? A. Somewhere around five hundred and sixty millions.

Q. $560,000,000. So the ratio in your company is as 92 to 287, and in the case of the Mutual Benefit is as 105 is to 190 and in the case of the Mutual as 56 is to 86. A. Now, Mr. Hughes, the Mutual Life received in 1904 less than four times the premiums it received in 1875. It seems to me——

Q. It has not grown fast enough? A. That has not grown as fast as the Prudential.

Q. Take the New York Life and see whether that has grown —or has any company grown as fast as yours? A. Well, there is no company that started just at the same time. It does not seem to me any comparison, if you are going to bring those figures one against the other, is fair.

Q. It is incomparable? A. Yes.

Q. Well there is enough elicited to make the point I have in mind, and it is this. You have grown so rapidly that there is a great amount of new business on your books? A. Yes.

Q. Now that rapid growth is largely in your industrial department? A. Both departments.

Q. Well, it is more conspicuous in the industrial department, is it not? A. The industrial department is ten years older, and the ordinary department is about ten years old. Of course it has grown very rapidly too, both departments have.

Q. You have in the last five years put something like $864,-

000,000 of new business on your industrial department books? A. Yes.

Q. And that would seem to be a growth rapid enough to suit anyone; and putting that amount of new business on your industrial books you have had during that period a great army of policyholders who were paying at rates, compared with the amount of insurance benefits, that were heavier than those that would be paid by older policyholders? A. Yes.

Q. And that business has not persisted, it has gone off the books very rapidly? A. Yes, sir.

Q. So that you have been consequently in receipt of a much larger amount from your policyholders proportionately by reason of your industrial business than an old line company in the ordinary business would receive from its policyholders? A. Yes.

Q. And you have received proportionately from your industrial policyholders a larger amount than an old line company in its ordinary business would receive as compared with the amount distributed annually to policyholders? A. Yes.

Q. So that we have, as I understand you, two explanations; first, the rapidity of the growth and the great amount of new business on your books; and secondly, the fact that so much of it lapses. A. Yes.

Q. That is the policyholders do not stay in long enough to get the advantage of continued connection with the company and of the enlarged benefit? A. Yes, that is one factor.

Q. Now, something was said yesterday by Senator Dryden as to the great loss to the company that accrued through the lapsing of policies. Of course, it would be a great deal better for your company if these policyholders would continue to make their payments would it not? A. Yes.

Q. If they did continue to make their payments you would reduce their premiums? A. Yes.

Q. If they did continue to make the payments at the present scale of charge and they persisted, you would have more money than you could possibly handle? A. We would have much heavier assets.

Q. So that it is obviously a loss to the company when men do not continue to pay premiums which have been based upon an expectation which is not substantially exceeded by the company? A. Yes.

Q. It gets less money? A. Yes.

Q. But looking at the position now of the policyholder who lapses, he, of course, is in a position where he has lost all that he has put in, is he not, if he lapses during the first three years in the industrial line? A. Well, he has had protection.

Q. Yes, he has had protection; but of course, each individual can say I pay so much to be protected for three years, as I will pay so much to have my house insured for a certain time, and if his house does not burn down he has had the protection and to a certain extent the equivalent of his money; but when you look at the matter as a going thing with a certain maintained average of people who go in expecting to receive benefits, or to continue so they will ultimately get benefits, and that a certain number do not persist, you come to the conclusion that there is a very large waste from the policyholders' standpoint, do you not? A. Yes.

Q. And that is illustrated by the fact, as I understood the testimony yesterday, about two-thirds of your industrial policyholders in fact get no money back because they lapse before they are entitled to anything? A. Two-thirds of those who enter?

Q. Yes. A. Yes.

Q. Now, what is the number of your industrial policyholders? A. Our total number of industrial policyholders at the end of 1904 was 5,642,335.

Q. That is the number of outstanding policies in the Industrial Department? A. Yes.

Q. And would it be fair to assume that it is one policy, one person? A. No, about thirteen policies to ten persons.

Q. Thirteen to ten; so you make the total persons carrying industrial insurance in your company about how much? A. Nearly eighty per cent. of that number, somewhere around 4,-500,000.

MR. COX: 5,100,000.

Q. Mr. Cox says 5,100,000. Do you want to figure it up? A. Well, it does not make any difference to me, I estimated that number.

Q. Between four and one-half and five millions of individual industrial policyholders? A. Yes.

Q. And it is pretty certain from the law of averages, that two-thirds or something over three millions of those people will never get any money from the Prudential? A. Oh, no; those are policies in force. It is two-thirds of the issue.

Q. Yes, but those policies in force include how many that were issued in 1904? You are quite right in that, because you have taken out those that have lapsed the first year of issue? A. Yes.

Q. And of those in force there will be a much larger percentage which will persist, those that are in force at the end of the year. That is quite evident. A. Yes.

Q. Taking those that were added during the year 1904, you have a number of policies issued in that year of about 1,547,-000? A. Industrial?

Q. Yes. A. Yes.

Q. Something like 1,300,000 of persons insured in the industrial line in that year. And of course, to get the number of persons as to whom we could take the proportion of two-thirds, we would have to include all those who took policies in the Industrial Department in 1904? A. Yes.

Q. Can you tell me what proportion of the twenty-six million and upward of premiums paid in 1904, was paid in by policyholders in the Industrial Department who had received insurance in that year? A. In that calendar year?

Q. Yes. A. I have not that item here. I have not that item with me, Mr. Hughes.

SENATOR DRYDEN: Mr. Johnson says they are about 1,250,000.

THE WITNESS: I think he misunderstood the question.

SENATOR DRYDEN: Will you repeat the question, Mr. Hughes?

Q. (Read by Stenographer.)

MR. FISKE: Do you mean who took out the policies that year?

MR. HUGHES: Yes.

Q. In other words, I would like to know what amount of money was paid in on industrial insurance written in 1904, first, with the object, of course, of ascertaining later what amount of money was paid in by those who did not carry their insurance, and whose policies lapsed in the same year in which it was taken. A. Well, it was probably—I cannot—it is only a guess; I have not the figures—I should think somewhere about four million dollars.

Q. That would be the amount that you think could fairly be said to have been paid in on the new insurance written in the Industrial Department, written in 1904? A. Paid in during that year.

Q. And about on the calendar year basis, about thirty-seven per cent. of the policies issued in that year would lapse before the end of the year?

MR. LINDABURY: Mr. Johnson says that cannot possibly be right.

THE WITNESS: I can get that figure for you perhaps later in the day, but I have not it with me.

Q. What is the average amount paid by the industrial policy-holder, what do they average? A. The average premium per week?

Q. Yes. A. About ten cents.

Q. About ten cents is the average? A. Yes, sir

Q. If you take the amount of policies issued in 1904 and have the average premium paid, multiply the one by the other, would you not get practically an average of the amount paid on the new business in that year? A. No. Those who come in and go out pay about six weeks' premium. Those who come in and stay until the end of the year pay about twenty-three weeks of premium.

MR. LINDABURY: The assistant actuary says it is about $2,300,000.

Q. $2,300,000? A. Well, he is familiar with those figures.

Q. Well, put that down. $2,300,000, that is the amount estimated to have been received in 1904 on industrial policies issued in that year? A. Yes.

Q. And about twenty-seven per cent. of those policies lapsed in 1904. A. Yes.

Q. Will you tell me what amount is received within three policy years from the policyholders in the industrial department whose policies lapse during that period? A. I have not those figures.

Q. Those can be stated, I suppose? A. Yes, we could get that quite closely.

Q. Senator Dryden remarked yesterday in connection with the plan for transferring the control of the Prudential that the question of further stock dividends might be raised. Is it the fact that the profits of your company were so great that the matter of additional dividends was imminent. A. I know nothing about that. You know the——

Q. But knowing the amount of money received by your company, were you aware that it was possible for the company to increase the benefits to the policyholders? A. It might be possible to increase them. I doubt whether I would say it would be safe to increase them.

Q. And why would you doubt the wisdom of such a step? A. As I said before, the business is really young yet, and up to the present time we have not felt we could increase our benefits to any higher point than they are at the present time.

Q. Take, for example, the John Hancock, is that an older company than yours? A. Yes.

Q. How much older? A. I do not know exactly.

MR. LINDABURY: It is not in the industrial department?

THE WITNESS: It is not in the industrial business, but it is an older company, however.

Q. It was incorporated in 1862, it appears, and it took up the industrial business at about the same time—— A. 1879, I think.

Q. Or a little later than the Prudential. It appears from the Blue Book that your company in surrender and lapsed values allowed in 1904 33.64 of the reserves and dividends released to surrender and lapse, while the John Hancock allowed a percentage of 83.83 per cent. What explanation will you make of that? A. Mr. Hughes, I cannot make any positive explanation. I have an opinion about it.

Q. Well, state that? A. In my opinion it is blameable entirely on the gain and loss exhibit.

Q. In what respect does the gain and loss exhibit make an inaccurate showing? A. The gain and loss exhibit includes certain items that are positive and known. All of those items could be found, I think, from a company's annual statement, most of them. It also includes a number of items that necessarily must be estimated. One of the items represents gain in mortality——

Q. We are talking entirely about this matter of reserves and surrenders? A. It seems to me that that item must have been forced on the John Hancock statement, because every company has to force at least one of its items in order to make that gain and loss exhibit come out right.

Q. What item do you force? A. We force our loading.

Q. Why do you have to force an item to make it come out right? A. Well, we know of no possible way to calculate the loading on a premium actually received by our company. When you think that we have over six millions of policies in force, coming into the company at all times of the year, and going out at all times of the year, and in the industrial the amounts are made to the even dollar, so that the loading very slightly——

Q. You were interrupted. Go on. A. From that fact, that we have so many millions of policies with the loadings varying on each amount, and especially on the industrial at each age, because we give amounts for even dollars—it is evident that without increasing our office force two or three hundred fold we cannot do anything more than to approximate the loading each year on our policies.

Q. Do you know your gain on mortality? A. We know it probably within a fraction of a per cent.; we know that quite closely.

Q. Do you know your gain in surrender and lapse values? A. We know the gain that is required according to that gain and loss exhibit. We do not feel that we gain that much money.

Q. Do you know actually the gain that is required to be stated by a comparison of released reserves with amounts paid? A. We worked that out quite closely.

Q. You get that quite closely? A. Yes.

Q. Do you know your investment gains? A. Quite closely.

Q. And you know the total amount of your gain at the end of the year according to the balance sheet? A. Yes.

Q. And if there is only one item missing, and that is the loading, a deduction of the total of the other items from the total of your gain must give that with absolute precision? A. Well, may I speak a little further on that point?

Q. Certainly. A. One of the questions to which we were asked to give an answer was the amount of forfeited reserves in 1904 within the first three years of insurance. In the Prudential that amount was $2,000,000—$2,011,684. Of that amount $641,523 was in the industrial department, and $1,370,161 in the ordinary. In the ordinary, of that $1,370,000 about $1,060,000 came from policies in their second calendar year of insurance. Of those policies 60 per cent., a little more than 60 per cent., lapsed during the first three months, January, February and March of the calendar years. Now, those policyholders had paid, the great majority of them had paid but one quarterly premium, and yet the company must put up the full mean reserve for the year. Now, the gain and loss exhibit, as we interpret it, requires us to put down the amount of reserve released, and so that is accurate, we have that reserve put up. Of course, in our statement we have a credit for the first premiums, which would account for part of that, but there is no such arrangement in the gain and loss exhibit; it is the amount of reserves released, and according to our idea we estimate about half of that amount is fictitious.

Q. Do you keep in your own records, or do you make up for your own purposes a gain and loss exhibit which does show how you are coming out annually. A. We analyze our business.

Q. You analyze your business? A. Yes.

Q. Now, what different items do you take in making up an accurate gain and loss exhibit for analysis of your company's transactions, for a year? A. Well, our ordinary method is to place on one side our premiums received, which we divide according to our estimates and calculations into years of issue; also the interest on the reserve is in the credit. In the other column we have our claims surrender values, dividends to policyholders, increase of reserve and expenses as our charges. Those are divided into the years of issue, as our figures show. Some of those are partly estimated, but after years of long practice we feel we get them very closely.

Q. As I understand you, this statement shows the results of policies of each year of issue? A. Yes, we try to work out the separate years. Of course, it is not absolutely accurate, but it is very close.

Q. Does any department require that information of you? A. No.

Q. That is the information you need to know where you stand? A. Yes.

Q. As a matter of fact, does not the John Hancock pay larger surrender values than the Prudential? A. I am not aware of the fact that it pays larger. It may pay slightly larger, not enough larger to make that tremendous difference, I will say that.

Q. Is it not under the law of Massachusetts compelled to give larger surrender values on industrial policies than you give? A. It gives larger surrender values under that law, as I remember it, on endowment, but I did not know that they were considerably larger on the others. I cannot tell you that absolutely.

Q. What is the average benefit of an industrial insurance policyholder in your company, that is, what is the average amount of insurance per policy? A. About $120.

Q. What proportion of your industrial business is on the adult table? A. About two-thirds of our policies.

Q. And is about one-third of your policies on the infantile table? A. Yes.

Q. Under the infantile table of rates the premium is limited to ten cents? A. Yes.

Q. What is the rate of lapse in child insurance as compared with the adult table? A. There is very little difference.

Q. The adult table begins with age ten? A. Yes.

Q. Taking adult ages, whether the insurance is on the adult table or the infantile table, how does the rate of lapse compare with those for minors? A. Why, it is about the same.

Q. There is not any striking difference then in the amount of lapse in the case of insurance on those under twenty-one. A. No.

Q. Have you recently increased the amount payable by your company in surrender values? A. Somewhat.

Q. Could you not properly pay to policy holders who lapse within—or say after—five years, some surrender value in cash? A. It would not seem to us that it would be properly paid, Mr. Hughes.

Q. Why not? A. Because we believe that to work out the object of insurance business we should give paid-up insurance, because there are temporary reasons which arise which would often make the industrial policyholder surrender for a very small amount of cash—even if it would be a very large percentage of their reserve it is a small amount of cash. The whole insurance—it has always seemed to be better for the welfare of the policyholders that we should not give surrender values until they had the need for insurance which had perhaps passed away.

Q. But that amount of insurance which persists for five years is fairly persistent after that time. Would not the motive to surrender for surrender value be lost practically after the policy had lasted for five years? A. It does not seem to us that it would if it was an actual cash value. That is a matter of judgment.

Q. Giving a cash surrender value after a policy has been in force for twenty years means a very small amount, considering the amount of your insurance? A. Yes.

Q. Last year, for example, $75,000, the entire amount paid in cash surrender values. A. Of course we have very few policies on our books that were twenty years or more old. We issued twenty years ago very few policies as compared with now.

Q. You think they will increase as you go on? A. Well, you can see how it has increased the last year.

Q. What have you done in the Prudential within the last five years, during which time your surplus—well, we will say in the last four years—during which time your surplus has practically doubled, to liberalize rates to industrial policyholders or the benefits received, rather, for in that case your rates are fixed so much a week; but what have you done to increase the benefits to policyholders since the beginning of 1901? A. We have not made any change in our industrial policies in that time except, perhaps, in the way of surrender values. We have made a practice of giving higher surrender values in the form of paid-up insurance than we did before that time.

Q. Have you made any enlargement of benefits in the ordinary department? A. Within the last four years?

Q. Yes. A. No, I think not. Mr. Hughes, may I add to my last answer?

Q. Yes. A. I refer now to the industrial. We have made one change in our paid-up policies during the last four years. Any policyholder who has been with us ten years or more and reaches age 80, by an annual vote of the Board of Directors receives a paid-up policy. Of course the policy was a whole life policy, but that is one addition I wish to add there, that we now make them paid-up policies at age 80.

Q. How long has that been in operation? A. I think two or three years.

Q. The point is that your paid-up policy in the industrial insurance is now in effect a term policy? A. No, it is a whole life policy.

Q. What happens if he reaches age 80? A. At the present time his premium stops, although the contract would call for premiums until death.

Q. I am talking of the paid-up policy. There are no premiums on the paid-up policy? A. We give the insured a paid-up policy at age 80.

Q. Then any policyholder who for ten years has been paying premiums and who arrives at age 80 can have a paid-up policy? A. For the whole face amount of his policy.

Q. For the face amount of his policy? A. Yes.

Q. Now just translate that into figures. Suppose a person is insured at age 70; he pays ten cents a week? A. Yes.

Q. Or $5.20 a year? A. Yes.

Q. And he keeps that insurance for ten years? A. Yes.

Q. Thus paying $52.00? A. Yes.

Q. Then you will give him a paid-up policy for how much? A. $26.

Q. Well, suppose he insured at age 60, at ten cents a week; he has got to carry that for twenty years before he gets that paid-up policy? A. Yes.

Q. And carrying it for twenty years and paying $104 in the twenty years, he will then have a paid-up policy of how much? A. $44. But of course, you understand, Mr. Hughes, that in both those cases the great majority would have died and would have received the face of the policy before that time.

Q. Yes, but we are talking about the additional benefit or change. A. Yes. Formerly it was a whole life policy, and now it becomes a paid-up policy.

Q. Formerly he would have a whole life policy and would not get any paid-up policy unless he lapsed, and then for a certain proportion? A. Yes.

Q. Now the distinction is that when he gets to age 80 he can get a paid-up policy for the face of his policy? A. Yes.

MR. LINDABURY: If he lives to 85. Formerly he had to pay five years more than he does now, if he lives to 85.

Q. As I understand it, under the form of policy, if it is lapsed after three years there will be a paid-up policy given upon the basis to which testimony was given yesterday. A. Yes.

Q. Now, has that been changed in any way, that is, your present scheme? A. Yes.

Q. What is it precisely that has been changed in the last few years with regard to paid-up policies? You give a policy at age 80 to a man who has been ten years a policyholder which previously you did not give? A. Yes, we give a paid-up policy for the face amount of his insurance.

Q. Well, what did you give before? A. Something less than that.

Q. Something less than the face amount of the insurance? A. Yes.

MR. HUGHES: That is the point, is it not? I do not understand that he has in either case to pay until he is 85 unless he wants to, although he could only get a paid-up policy before.

MR. LINDABURY: At 80 years he is entitled to a paid-up policy for the full amount, and saves the payments for the rest of his life, whatever they may be. If he lives to be 100 he saves twenty annual premiums.

MR. HUGHES: In other words, if he quits at 80 he gets a paid-up policy for the face of his policy?

MR. LINDABURY: Yes.

Q. I started a moment ago to ask you about sub-standard risks. In what department are they? A. In the ordinary department.

Q. Just state briefly what classes you do not take in your industrial department. It is there, is it not (handing book)? A. This is the ordinary.

Q. Can you tell me, without going into too many details, what classes you do not insure in your industrial department? A. We practically insure all classes in the industrial department. I believe saloonkeepers are rated up to a higher age, but we practically insure all classes in that department, providing they pass the medical examination or inspection.

Q. So that with the exception of saloonkeepers the Industrial Department is open to all? Does that include glassblowers, and people in hazardous business? A. Yes, I think so.

Q. Is it a fact that the rate is so high in the Industrial Department that it is not at all necessary for you to discriminate as to classes? A. We try to include—our rates are supposed to be high enough for the industrial classes generally.

Q. Generally without discrimination; gasmakers and stokers—are they allowed to come in? A. Yes.

Q. Without an increase—that is, without putting them at a higher age? A. Yes, I believe so.

Q. Annealers, iron and steelworkers? A. Yes.

Q. But in the Ordinary Department you make a distinction, do you not? A. Yes.

Q. Now, what classes are not allowed to be insured in the Ordinary Department on ordinary terms? A. That would require a list——

Q. Read those that you absolutely decline, the class that you absolutely decline in ordinary insurance? A. These are arranged alphabetically; actresses, aeronauts, asbestos makers, blasters, bleachery workers, circus employees, colormakers and mixers, dry process. Flint mill workers, under the head of the glass industry, handlers of material, mixers. Under the head of hatmaking industry, fur cutters, makers and sizers, hide-salters; horse-trainers—horse-trainers a separate heading, jockeys, leadworkers, liquor merchants and their employees, including saloons, distilleries, breweries, bottling works, match factory employees, and in the pottery industry, dippers, flint mill workers, ground layers, mixers, scourers and sweepers; raftsmen. Under the head of railroad employees, ashpitmen, tin-dippers and finishers, trench and well-diggers and excavators, construction workers, Turkish bath employees, white lead makers, zinc and lead workers.

Q. All these can be insured in the Industrial classes without extra charge? A. I think so.

Q. Now, what class of people do you put in an intermediate department? Those that you have just mentioned, I understand, you do not insure at all in the Ordinary Department? A. No.

Q. You won't take them on any terms? A. No.

Q. Do you put them in in the Intermediate Department? A. No.

Q. You do not take them at all except as industrials? A. No.

Q. And than what you do for other classes that are extra hazardous or sub-standard, you take in an Intermediate Department? A. Yes.

Q. With special rates? A. Special rates.

Q. Now, what are those, please? A. Well, as a general rule, our Intermediate policyholders are all those who wish a five-hundred-dollar policy. We found that the expense of handling a five-hundred-dollar policy is as great as that of handling a ten-thousand-dollar policy in all the office requirements, and to get it out; we found we were losing money on our five-hundred-dollar policies at the old rate; so we issued an intermediate policy; and we do take in the first place all those, and issue a five-hundred-dollar policy on each class as an average.

Our experience shows a somewhat higher death rate than on our ordinary regular policy. We also take certain industries, like members of the pottery industry, and glass industry, and hatting industry—I could not name just the details; that is the general classification.

Q. Do you take sub-standard risks that are sub-standard not with reference to occupation but to physical conditions, or histories? A. No, I think not. Physical history—I beg pardon, Mr. Hughes, we do in certain cases, where there is a family history of certain diseases we add a lien to the policy.

Q. How do you determine that lien? A. We have set rules for it.

Q. Can you state them briefly? A. Well, as a rule, the lien is for three hundred dollars per one thousand dollars, passing off either in ten years or fifteen years, according to the nature of the case. If it passes off in ten years it goes off at the rate of thirty dollars a year; if in fifteen years, at the rate of twenty dollars a year.

Q. Who determines the amount of the lien and when it shall pass off? A. We have rules according to certain cases of family history, I could not state those now.

Q. This is not based upon the medical examination of the individual? A. Not at all.

Q. Not at all on that? A. The individual must pass a first-class medical examination.

Q. So that it is not an effort upon the part of the physician and the actuary to gauge the individual chances with reference to his own condition? A. Not at all; in the sense of the word, as it is commonly used to-day, the Prudential does not issue policies on sub-standard lives, that is, lives in themselves that would not pass the doctor.

Q. Suppose you had a man whose great uncle had died of consumption, how would you determine the amount of the lien to put on his policy, assuming him to be physically sound? A. In that particular case, if he passed the examination, there would be no lien, but if you bring this further down——

Q. Yes, instead of grand uncle, he has an uncle? A. I was going down—if you bring this further down I cannot tell you all the details of that.

Q. It would make a difference if he had an uncle who died of consumption, or two grandaunts? A. That probably would make no difference. If a man's mother, we will say—I simply give this as one illustration—if the applicant's mother or father had died of consumption, at some early age, say twenty-five, and the applicant had lived beyond that age, I think there might be a lien there.

Q. How would you determine the lien? A. The amount of it would be $300.

Q. Suppose an applicant had lived one year beyond the age, would the lien be greater than if he had lived five years? A. No; the doctors would probably use their own judgment somewhat.

Q. As a matter of fact, there is not any way to determine just what lien there should be? A. No, there is no absolute way of determining the lien any more than we can determine the expectation—the expected life of any one applicant that comes to us. They use their judgment.

Q. In this case you have not any of the details to guard you? A. We have a great mass of data which we have arranged and studied and tabulated. We have a special statistical department which furnished that completely all over the world. We have the experience of other companies, notably one or two English companies, and our decisions are based upon those.

Q. You have data, of course, which will show to a practical certainty how many men out of a hundred thousand will live fifty years, at the end of fifty years? A. Yes.

Q. Have you any data which will enable you to say how long a man will live who is age 25, whose mother died of consumption at age 20, as compared with the man age 30 whose mother died of consumption at age 23? A. Not absolutely, but we do have data somewhat like that. There is one company in England that has taken cases of the history of consumption in the family at various ages of entry, and they have found in those cases the expectation of life we will say is less by six years than in the normal case in their experience.

Q. You do the best you can? A. We do the best we can to treat each one fairly there.

Q. Do you have a uniform lien of $300? A. I am not sure; there are two-hundred-dollar liens.

Q. There are $200 and $300 liens—are those all? A. Those are all.

Q. Well, then, there is a practical uniformity in the lien? A. Yes.

Q. Not in the physical history? A. No. Mr. Hughes, may I add just one statement?

Q. Yes, certainly. A. I have this note. The increase in the Prudential surplus has been at a little more rapid rate the last two or three years, perhaps four, than we can expect in one way. The mortality rate seems to vary over periods of years, and we have had a more favorable mortality rate than we really expect, we will say for the next four years. However, that does not affect it very much, but it is a fact we have noticed this slight improvement, which in our experience perhaps will not be maintained at this low rate.

Q. Isn't there a pretty steady improvement in the mortality rate of the industrial classes in this country? A. Not quite as rapid. We expected it to be somewhat higher.

JOHN F. DRYDEN, resumed:

BY MR. HUGHES:

Q. Senator, I desire to have you explain a little more fully than you did yesterday your agency system? A. Yes, sir.

Before you pass to that will you allow me to make two minor corrections in my testimony of yesterday. In stating the members of the Finance and Executive Committees I omitted from the Finance Committee the name of Edward Kanouse, who is a member of that committee, and from the Executive Committee the name of Forrest F. Dryden, who is a member of that committee. The other correction, I think, possibly grew out of a misunderstanding of your question as to my having studied the system of industrial insurance from a foreign standpoint. My understanding yesterday was that your question related to my having studied it in this country from the experience of foreign country companies here. The fact is that I went to Europe, to England, in

1876 at the instance of the Board of Directors of the Prudential Insurance Company, and studied the system there and obtained a vast amount of data and very important blank forms, and knowledge as to the system of accounts and conducting the business and so forth. To that extent I studied it from a foreign standpoint.

Q. Have you kept up your interest in foreign industrial methods? A. In a general way.

Q. Has your attention been directed to the industrial experience or operations of the Australian Provident Life Insurance Company? A. Not totally. I have from time to time learned something about it. I think they have sent us their literature.

Q. Are you able to state whether their benefits are larger than yours? A. I am not, but Mr. Hoffman—can you state that, Mr. Hoffman? Mr. Hoffman is the statistician of the company.

MR. HOFFMAN: They have just started about a year ago.

BY MR. HUGHES:

Q. I was informed after a very careful study of industrial matters they had decided to give and were giving larger benefits than your company. I wanted to know whether you had any information upon that? A. That has been tried in this country, Mr. Hughes, by companies which have not been fortunate in their experience.

Q. Can you give us some illustrations of those? A. Well, I think most of the companies are out of existence that have attempted that—some smaller companies—I think no important companies.

Q. As we have started on this line, Senator, you might explain at this point whether you do not think that the growth of your surplus would indicate that you could justly increase the benefits to the insured in your Industrial Department? A. I should not like to do that at the present time. I want to say this, however, that we are giving this business at our office the closest possible study that can be devoted to any business whatever. Every week there are meetings of the heads of departments and of divisions in the office of the Third Vice-President, at which often some higher officer is present, to consider and examine with the greatest minuteness every detail of the business relating to the expenses of it, relating to the lapsed rate, relating to the cost of getting the business; in fact, every feature of the business is gone into and reports are made by these young gentlemen at those meetings, covering these matters. Now, there is not a single phase of this business that escapes our investigation and our careful consideration, and it will be the policy of the company so long as my voice prevails there to continue investigations of that kind and to liberalize our dealings with our policyholders from time to time as fast and as far as is in our judgment safe for us to do; but, above all, we must keep this in mind, that the one great essential is security.

Q. And that has been in your mind during the entire period? A. Yes.

Q. Now, one matter which has elicited our attention here, upon which we should be very glad to know your views, is the apparent wastefulness of industrial insurance judged from the standpoint of the policyholder, in view of the large percentage of those who do not continue their policies. I understand perfectly the loss to your company through lapses, but what is your judgment with regard to the public policy of a system of insurance which takes from the very poor such large amounts of money for which they have no return? A. I understand now your question is directed to the economic feature from a public standpoint?

Q. Yes. A. I am very glad to speak on that, Mr. Hughes. This system of industrial insurance is in my mind the greatest educator of thrift that has ever been introduced to the American public, and is continually operating in the direction of uplifting the laboring and working, industrial people as we call them, and inculcating in them a higher degree of self-respect. We insure a child to-day who is one year of age. From its cradle, therefore, that child is taught as soon as he can comprehend anything to think of the value of insurance; he is taught to value insurance as a protection to the family; he is taught to look on it as something for which he should save; and as he grows older and becomes a boy and a young man he takes out additional insurance; and as he gets, perhaps, into a more fortunate position in life he takes the ordinary insurance; and it develops that habit of thrift, that self-respect, that inclination to lift himself up to a higher plane, such as I believe no single other force is exerting in America to-day.

If we look into the statistics we find it in every direction. Take the question of pauper burials; they have very greatly decreased since industrial insurance has been introduced into this country, and if there is anything that is abhorrent to these poor people it is the idea that their dead shall be taken to a pauper's grave; they will make any sacrifice, and they will do anything that is honest and honorable to make provision against that fate, and if it is possible for you, Mr. Hughes, to go with our agent and see how they view that and other things, you, I am sure, would need no further confirmation of my statement. Now, the agent becomes the adviser of these people; it is surprising how much these people come to rely upon the agent for counsel. It is the truth that often the agent is the company to those people. It happens, I am sure, frequently, that if one of these people was asked offhand whether he is insured in the Metropolitan or the Prudential he could not say, but he would know that John Smith was his agent. Now these agents are constantly in their weekly visits, teaching to these people the benefit of this system of thrift and protection, and I think there can be one opinion of any system of business that uplifts a whole people, makes them more self-respecting, cultivates habits of thrift, encourages them to protect themselves against a pauper's burial—all that I think it must be admitted that from a public standpoint it is a great beneficial economic force.

Q. In speaking of thrift, you have in mind, of course, the habit of saving? A. Yes, sir.

Q. And of course the importance of saving depends upon the returns to the one who saves. There is not much use in putting money into a place from which you cannot get it? A. I think, Mr. Hughes, that that should be—that that explanation of yours should be qualified or explained. It should be borne in mind that a very small percentage of those people would ever save the money which they pay for these industrial premiums at all, if they were not induced by the agents to insure, and thus save the money in that way. How would the money go? The money would go—we know from experience—every man knows from experience it would go for small things which would be of no permanent or ultimate benefit to these people, but putting their money into these policies teaches them to save, their minds are directed to the advantages of life insurance, and the man who takes out upon his life a hundred dollar industrial policy to-day, in five years has perhaps been induced to take an ordinary policy of a thousand dollars; and so this work goes on all the time, and as I have said we see the effects of it in the result upon the public.

Q. Of course, your reference is to that portion of your policies who continue such? A. Largely so, but as was explained to you yesterday, these people come in and go out. Perhaps the first time a man insures he will insure because some friend of his has taken an agency in the company; he don't care for it particularly, but he has done it to be a good fellow toward his friend. Perhaps the agent may leave or be transferred to another district, or for one reason or other he drops his policy, maybe after having paid five or six premiums. Now, later on in the year that man may take another policy or renew the old one perhaps, and go on, and perhaps he may drop his policy two or three times, possibly four times in the course of a year or two, but that man's mind is different in its contemplation of insurance after having done this thing, than it was before he did it, and the ultimate result and effect is that he by and by takes a policy, holds it, and continues the payment of the premiums and continues his insurance.

Q. That is largely conjecture, isn't it, Senator? You don't know that he does that? A. I have the testimony of our agents who are working in the field, and who tell me this. I have talked with agents thousands of times about the different phases of the business, because I wanted to know how it was among the people, not simply how it was in our office, and they tell me these things, Mr. Hughes, and I believe them.

Q. Of course, what started me on this line of inquiry was the fact that taking the number of instances or choices on the part of your industrial policyholders it appeared that in about two-thirds of the chances, so to speak, there was no return. A. That would seem so from superficial observation.

Q. Now, that is practically double the number that we find in ordinary life insurance; so the element of speculation is present to a much larger degree, and that raises the question as to the economic value of the system. A. That is very regrettable. I regret to say, unavoidable. But, with all that, bearing that all in mind, I still maintain my previous statement that in my opinion this is the greatest economic force for the poor people of America that exists in the country to-day.

Q. You speak of the decline in pauper burials. Does the Prudential pay undertakers? A. We pay very rarely and under very restricted conditions. This thing happens sometimes that a man is insured and dies; his friends are removed, there is no one who will take enough interest in the case to look after it, and the undertaker buries him, and after a most thorough examination we sometimes pay small amounts to the undertaker. I have some figures.

Q. Do you ever pay the undertaker before the funeral? A. No, sir; I don't think so.

Q. Is there an arrangement between your company and the undertaker that he will be paid? A. No, sir.

Q. Stories have reached us that sometimes the funeral does not go on until the undertaker has heard from the company that the insurance is all right? A. There is this foundation for that statement. Since the industrial insurance has become so extensive in this country the undertaker has ceased to be satisfied to look to the shopmates of the deceased who will pass the hat around among his associates to collect the funds to bury the dead. One of the first questions which the undertaker naturally asks for his own protection is is there an industrial policy upon this man's life? Is he insured?—in order that he may be paid for his funeral expenses. He naturally inquires into that. I am told that if the family show a premium receipt in any well established industrial company with the premiums written up to date, that the undertaker asks no further questions, causes no further delay, goes on and performs the burial offices. Now, with reference to the payment of undertakers I find that from the 1st of January to the 18th of November of this year, forty-six weeks, we paid 73,023 industrial claims, amounting to $7,673,147. This was an average of $105.08 per claim. During that period we paid to undertakers 177 claims amounting to $15,587.46, being an average of $88.06 per claim; so that out of $7,673,147, $15,587.46 only went to undertakers, and the average claim was $88.06 paid to undertakers, as compared with $105.08 paid to the ordinary claimant. In other words, the claims paid to undertakers are limited always to small amounts and under very restricted conditions, and after a careful examination—investigation.

Q. What are your rates of compensation to industrial agents? A. We pay our agents 15 per cent. for collecting the weekly premiums and fifteen times upon the net increase in the weekly debit.

Q. Is your system the same as that of the Metropolitan? A. Substantially, I think.

Q. Are your policyholders encouraged to make payments in advance? A. I think our agents try to keep them up, and possibly a week or two in advance if they can to prevent their lapsing. The agents do everything to prevent lapsing because they have the strongest interest to do so.

Q. In effect does the agent pay one week's premium himself? A. If he does it is a violation of our rule.

Q. I mean the first week? A. It is a violation of our rule if he does it.

Q. Doesn't he have to do it because you do not issue the policy until the next week after the application is taken? A. No, sir; not because of that. If he does it at all he does it in violation of our rule, and our rule is that the applicant shall be required to pay one week's premium as an evidence of good faith—one week's premium when the application is taken.

Q. Yes, and as a matter of fact do you know whether the agents themselves pay that? A. Well, we don't know it, but where thousands of agents are employed I presume they do sometimes do it, but if so, contrary to our rule and our wishes; we try to prevent it; we do not want the agent to do it.

Q. You think that they should be able to collect from the policyholders before the policy is issued? A. Precisely, because when the policyholder begins to have a money interest in his policy it is more of a hold upon as an inducement for him to continue his insurance, which we do everything to accomplish.

Q. How many agents have you in the Industrial Department? A. 8,500, I think. I have some data here. The Secretary says we have 8,500.

Q. What responsibility has an agent in case of a lapse? A. Let me explain that the term agent as included in that number is a technical term; it does not mean our agency force, which includes superintendents.

Q. You mean solicitors? A. It means simply the solicitors.

Q. You have agency superintendents? A. And assistant superintendents and inspectors.

Q. Your total agency force would amount to how many? A. We have by this statement, which covers ten months of 1905, 8,582 agents, 1,751 assistant superintendents and 223 superintendents.

Q. Now, what is the responsibility of an agent in case of a lapse? A. The responsibility upon him is to replace with another application a premium equal in amount to the one lapsed before he can get what we call the special salary, which is fifteen times upon his increase. In other words, if I may illustrate it, supposing an agent has what is called a collectible debit technically—that is an amount of weekly premiums amounting, we will say, to $20 a week; now let us say that he writes new applications this week upon which the weekly premium, the aggregate weekly premium is 50 cents; but let us say that 20 cents in weekly premiums of old business previously written lapses. Now, his net increase in weekly premiums would be 30 cents; he gets for that increase fifteen times the 30 cents and not fifteen times the 50 cents, the whole amount that he has written.

Q. Suppose an agent has written a policy which remains in force for five years and then lapses, would he be charged with that lapse? A. I believe that is our present practise, isn't it?

MR. GRAY: He would not be charged in that case because the policyholder would apply for paid-up insurance, and in order to insure receiving the paid-up policy we hold the agent until that time, and then the agent is released.

Q. You hold the agent until the time that the paid-up policy is applied for and issued? A. Yes, sir.

Q. Now what do you hold the agent for? A. For what purpose?

Q. No, to what amount? A. The amount?

Q. Yes. A. Whatever the amount of lapsed premium is. Supposing an agent has a decrease in his debit, as happens sometimes —let us take the case supposed before. His debit is twenty dollars. Suppose he has the same lapse. Twenty cents in weekly premiums, and writes no new business, now his debit is $19.80. He will get no more special salary until he writes enough business to cover this lapse, and has made an increase on the original twenty dollars a week.

Q. So until a paid-up policy is issued the agent is charged with the lapses to the extent that the premium on the policy lapsed is deducted from the amount upon which his compensation is calculated? A. Yes, sir. In other words, he must make a net increase in his weekly collectible premiums. And you will see the purpose of all this scheme is to bring to bear upon the agency force the strongest pressure to look after these policyholders and prevent these practices. The company does everything in its power to keep these lapses down.

BY MR. COX:

Q. Is there not likelihood that that may lead to misrepresentation on the part of the agents to hold those policies? A. You mean to mean to misrepresent to the policyholders?

Q. Yes, sir. A. Well, I do not know. He naturally uses his persuasive powers to keep his policies in, but I would not say that it would lead to any misrepresentation. You must bear in mind this agent has to meet these people every week.

Q. Of course. On the other hand, he is dealing with an ignorant class in many cases who are not able to read or think for themselves, and understand what the policy is. A. We are very careful in the selection of our agents, and are able to be so now much more than we were in the early days of the business. At that time the business was so much doubted by many people that it was difficult to get just the class of men to represent us that the company wanted. But we have raised that standard from year to year, that we now have a waiting list in many of our districts, and specially to promotions to the office of assistant superintendent, or of superintendent. We appoint all our superintendents and assistant superintendents from the agency force who have worked their way up and showed by their meritorious conduct and ability that they are competent to fill those positions. Now, there is held out before these agents constantly the inducement to serve the company and the people faithfully and to be as efficient and valuable as they can be.

Q. Is it not possible for the agent to make some advances or practically pay the premiums himself to his own advantage, at least temporarily, in view of the contract that he has? A. Of course, that is possible to a limited extent, but it could not go very far, for the reason that one of the important duties of the assistant superintendent is to go among the insured and examine the policyholders on every agent's book, to question them as to their treatment by the agent, to compare their premium receipt books with the agent's book to see that they agree; and to state to these people how far, and to what point the agent's collection book shows their policies to be paid up; and he asks these people, "Your policy is paid up to such a date; is that your understanding? Have you paid this policy to such a date?" Now, while this deceit to which you have alluded might exist to a very limited extent for a week or two, perhaps, it could not go very far, because the assistant superintendent is right on the track of the agent, and brings him face to face with the people. He does not go alone necessarily unless he suspects something, but he goes with the agent, and there the agent and policyholder meet face to face.

Q. How many agents are under the assistant superintendent? A. Every agent—we have no agent who is not ——

Q. No —— A. Oh, under each superintendent?

Q. Yes. A. Well, probably five or six on an average.

BY MR. HUGHES.

Q. You mentioned, I believe, 1,974 superintendents and assistant superintendents in all for 8,500 agents? A. 8.482 agents, 1,751 assistant superintendents and 223 superintendents.

Q. Well, that would be about one assistant superintendent to five agents? A. Yes, sir.

Q. That is a very large supervisory force, is it not? What is the occasion for that? A. To do just what I explained; to protect these people, these insured against misrepresentation and wrong; to see that the agent performs his duty; that he visits these people regularly, and does not let their policies fall into arrears; that he does not misrepresent the facts to them; in other words, the assistant superintendent is there in the employ of the company to protect the policyholders.

Q. And what does the assistant superintendent get, does he have a salary or commissions? A. A salary, yes, sir. The assistant superintendents—this shows that the average earnings for the ten months of this year for the assistant superintendents are $24.24 a week, made up as follows:

His income from the industrial branch is $21.12 per week and from the ordinary branch $3.12 per week. That is the average I am giving now. The superintendents, assistant superintendents and the agents are allowed to write ordinary business as well as industrial business. We find that that has a very beneficial effect in several directions. In the first place it keeps our agents in our own company. Before we organized our ordinary branch we found that our industrial agents were constantly coming in contact with people who wanted ordinary insurance. They had to take it to other companies. The result of that was that many of our best agents were seduced away from our employ that under the present operation of permitting them to write for both branches, we keep them in our employ, which is desirable for everybody, the company and the policyholders.

The second advantage, and an important one, is that it assists these employes in their income; their income is larger by reason of being able to write ordinary insurance, and, consequently, we can get and hold a better class of men than we could if their income was smaller.

Q. What is the average income of an agent? A. The average income of an agent for the ten months of this year referred to is $14.61.

Q. A week? A. A week; yes, sir.

Q. And although your agent gets such a small amount per week the entire cost to the company of your commissions and bonuses to agents on all kinds of insurance last year amounted to $7,812.-000? A. That includes, I take it, both branches.

Q. Yes. A. Both branches of insurance.

Q. Now, you are, of course, aware that the agents regarded as a great hardship that they should be charged with lapses. That is constantly before you, I suppose? A. Oh, yes, Mr. Hughes.

Q. It has been brought to the attention of the Committee in a great many ways. A. We have heard that from the beginning.

Q. Do you make an agent who is substituted for an agent who leaves your company responsible for the business written by the latter? A. I suppose the present rule is—it certainly was when

I was more in the details of the business—he is allowed a certain time within which to examine his debit and see that the business in force on his books is real and bonafide and is paid up. Is that the present rule?

MR. GRAY: Yes.

THE WITNESS: Yes, that is the present rule, and after that is ascertained he is then held for any lapses that occur. In other words, we do not pay on new business nor do we deduct for lapses direct. We pay on increase. Now, there must be an increase or we do not pay any special salary. He gets his fifteen per cent. for collecting, but we do not pay any salary unless there is an increase on his debit.

Q. So that the business which comes in within a given year in the Industrial Department, and in the same year goes off the books, does not cost your company anything except so far as it may represent a net increase for that year over the year before? A. Oh, it costs us ——

Q. I mean for commissions for obtaining it? A. It costs us a great deal for that, for the reason that many agents leave our employ, and lapses follow that, and they are made good by the successor on the rule I have just stated, and consequently get nothing for that.

Q. Take a concrete example. Suppose you have two hundred million dollars of industrial insurance written in the year 1901, and suppose you have for net increase in industrial business in the year 1904 nothing. That is at the end of the year you stand just where you did. Now, we will say that 37 per cent. of this two hundred millions of business would lapse during the calendar year. On that 37 per cent. that had lapsed, you in effect pay nothing? A. No.

Q. In the way of commissions? A. Oh, we pay a great deal. If you will allow me to show you how?

Q. Yes. A. The 37 per cent. which lapses has lapsed in the hands of only a fraction of our agency force. Another very large fraction of our agency force has continued to write business and to make increases, and upon that large fraction of our agency force which has so made increases we have to pay the fifteen times. The 37 per cent. which has lapsed has been lapsed by agents who have gone out of the service of the company and upon whom we have no claim and from whom we can obtain no redress, therefore it becomes a loss to the company.

Q. But if my illustration fitted the facts, and the aggregate business for the year showed no increase in the outstanding insurance at the end of the year as compared with the year before, then in the aggregate you would have paid no commissions for an increase during the year? A. I am afraid I did not make my explanation clear to you. Of the agency force through which that lapse has taken place, a very large percentage which was formerly in the employ of the company has gone out of the employ of the company and we have no redress from them; we cannot reclaim from them the special salary which we have paid to them to get this large amount of business which has lapsed. Now, if we should follow the illustration which you have made, we would find upon investigation that the amount of lapsed business which went out of the company through these agents who had left the service of the company was very much more than the 37 per cent. which you have supposed. It would be perhaps 50 per cent. or even more than that. But a large contingent of the agency force has remained in the company and has continued to make increases from week to week and they have at least partially overcome this large lapse which was created by the default of the agents who have gone out of the company. Now, upon the increase which has been made by those who have persisted in the service of the company we have to pay the special commissions.

Q. And then if an agent takes the place of one of the agents who has left your employ he will be charged with the lapses, but he will be allowed to get any commission on an increase of business? A. After he has had an opportunity to examine the debit, as we call it, and have taken out of that debit any policies which are not in force and which under the rule——

Q. Do you allow him to take out of his debit when he goes in? A. We do, yes, sir, until he examines that business. Having done that, and it then having become his debit officially, we hold him then for any lapse. The compensation to him, the advantage to him which compensates him for being held for that debit is that he at once gets an established foundation for an agency which has been created by the work of his predecessors. He therefore has all the benefit which comes from the establishment of that debit which has cost a great deal of time and hard work, and through that debit he is introduced to his constituents and their friends and in that way he is able to go through avenues through which he can get new business. Now that is the compensation to him. From the company's standpoint the great object is, as I have tried to make clear and I want to make it as clear as possible, the great object is to protect the policyholders against neglect, so that their premiums will be looked after.

Q. If you let the new man start afresh and take over only the business which is currently paying and make that the basis of his collectible debit and charge him only for the lapses which subsequently occur while he is in charge, that is one thing? A. Yes.

Q. But if he has to take over the business as it existed in the hands of his predecessor and in the same plight as his predecessor with regard to an increase, if it must be a net increase after a charge of lapses, that is a different thing. Which case is it? A. It is the former case, after a debit has been tested by him.

THE CHAIRMAN: The Committee will take a recess until 2:30 o'clock sharp this afternoon.

AFTER RECESS.

JOHN K. GORE, resumed:

BY MR. HUGHES:

Q. I understand you desire to make some corrections in your testimony? A. The first correction is to state more accurately our practice concerning saloonkeepers, bartenders, and persons engaged in the public sale of intoxicants. Our rule is that they will not be insured for more than two hundred and fifty dollars, or thereabouts, and in all cases the age shall be rated up five years. Our instructions there say:

"The company does not wish any particular efforts made to get business of this class, but if applicants are taken, five years must be added to the actual age, and the amount of benefit for the higher age must be quoted."

The other point refers to the amount of lien. I said this morning I thought it was three hundred dollars and two hundred dollars. Instead of that it should be three hundred and a hundred and fifty dollars. That is all.

JOHN F. DRYDEN, resumed:

MR. LINDABURY: There are two errors in the official report of Senator Dryden's testimony that ought to be corrected. They are typographical errors, I think. Shall I point them out?

MR. HUGHES: In yesterday's hearing?

MR. LINDABURY: Yes. The first is page 8,733. The question was, "what dividends are paid upon the capital stock annually." The answer was, "ten million dollars annually." It should be ten per cent. annually.

On page 8,778, this was an error of the Senator's, I think. He wishes to correct it. The question is, "in how many do you do industrial business," referring to the States, his answer was, "We do industrial in all the Eastern, Middle and Western States, and in the Border States along the South, but not in the Southern States." He wished to change that a little.

THE WITNESS: Instead of saying in all the Western States, I would like to say in the Middle Western States.

Mr. Hughes, this morning you asked me with reference to the Australian Provident Life Insurance Company and as to its table of rates, calling attention to the fact that they were larger than the industrial company here.

Q. You mean the benefit? A. Yes. Since then the statistician of the company, Mr. Hoffman, has informed me that that is on account of the more favorable mortality of the population at large in Australia, as well, as shown by the experience of the life insurance companies of that country, that a long series of investigation has demonstrated that fact.

Q. At the close of the morning session you were testifying with regard to the transactions with the agents of your company. A. Yes.

Q. Now, I have a letter here as follows:

"We are not opposed to being charged with lapses on business written by ourselves, covering a period of twenty weeks, but when we are charged with lapses written by other agents, on business that is older than twenty weeks, we consider it a gross imposition, and we would like very much if you would have the matter thoroughly investigated. For instance, Agent John Smith insures John Doe, premium ten cents per week. John Doe carries said insurance for a period of five years. John Smith, agent, has left company's employ. James Johnson, present agent, collects the John Doe insurance. John Doe decided to discontinue to his insurance. He has paid into the company in this time twenty-six dollars. Then Johnson, agent, is charged with the loss of John Doe's business and is compelled to go out and write ten cents new business, on which he receives no commission whatever to cover the lapse of John Doe's insurance. Company is the gainer by John Doe's twenty-six dollars insurance, plus agent's one dollar and fifty cents commission which amounts to $27.50, less commission paid to agent John Smith, which is $1.50 and 15 per cent. commission paid to agent for collecting the same. Thus you see that these lapses, which frequently occur work to the detriment of the agent in the field, and to the benefit of the company at all times."

Now, that is a sample of the letters received by the Committee from agents, and without giving you the name of the agent who wrote this, I would be glad to have you state so we may all be informed just what the answer of the company is to the criticism? A. That is an old question, Mr. Hughes, which has been before the industrial companies of this country ever since they were organized. Our system for paying agents was essentially taken from that of the old Prudential of London which was the first company in the world ever to make permanent and decided success in industrial insurance; conducted by men of the highest ability in this line of business, they evolved after a good deal of experience and labor the system upon which they have built up their business and which we have in substance adopted in this country. We have had the questions before us thousands of times, but we have found no solution of it. We have found no way of relieving the agents other than they are now relieved by the rules of the company in justice to the policyholders and with safety to the company itself. In my testimony this morning I endeavored to show that this system was devised primarily to protect the policyholders themselves, and certainly to evolve a plan under which the companies could successfully carry on the business. Now it will be evident at a glance that if the industrial companies were to attempt to put into operation the commission plan adopted by the ordinary companies, either the agents would starve to death in trying to get it established or the companies would utterly fail to get any business at all. Supposing it were possible—or rather supposing the industrial companies should adopt a scheme of paying the agents even 100 per cent. upon the first premium paid in, the agent could not possibly clothe himself from the money that he got out of it; therefore the companies are forced to adopt some plan which shall be at once safe, safe for the policyholders and remunerative to the agents; and this plan of virtually advancing to the agent a sum of money based upon the amount of business he does contains the summation of all the wisdom that has been concentrated in the industrial companies.

Q. If you have an assistant superintendent put over five agents can you not through that supervision ascertain whether the lapses are the fault of the agent? A. We could ascertain that probably to some extent, but I do not think that we could keep up the energy and interest of the agent to the extent that we now do under our present system and under any other system it would be but a very short time when we would not have agents to keep up the business.

Q. What amount of money would you have to expend in addition to what you expend now if you did not charge the agents with lapses except those that had occurred, say, within twenty weeks of the date of the policy? A. I do not think we could do business at all. In the first place would come the great neglect of the policyholders, which is a matter of the first importance. You will readily see, Mr. Hughes, that if the agent is to be relieved in case of a lapse after twenty weeks, that from that point on the agent has very little if any interest in inducing that policyholder to continue. What would be to the agent's pecuniary interest would be to let that policy lapse, to induce that policy to lapse, by neglect to cause that policy to lapse, and after a short time to go around and write it again and get a new commission on it.

Q. Because on the new business he would get more than on the fifteen per cent. renewal? A. Yes.

Q. But when a revival takes place do you pay the agent anything? A. It affects his income just the same as though it were a new policy. We pay on the increase. Now, a revival contributes to the increase just as if it were a new policy.

MR. LINDABURY: I don't know whether you noticed that the agent had this policy lapse during his own agency and not in the case of a predecessor.

MR. HUGHES: He put the case as originating in the case of a former agent, and then lapsing while he had it.

MR. LINDABURY: So it was his own fault if it was anybody's fault.

Q. I suppose the ideal arrangement would be so far as the agent is concerned to charge him when he is at fault, but it is practically difficult for you to ascertain in that event? A. Yes.

Q. And you also have the question of the amount of money you can afford to pay? A. Yes.

Q. On the latter question I was asking if you could estimate the additional amount you would have to pay for your agents if they were charged with lapses, save in the case of lapse within twenty-weeks? A. I have not any data on which I can estimate that, but I will state from my general information and belief that it would be such an enormous sum of money we could not afford to do the business.

Q. What amount of money does your superintendents get on the average? A. Quoting from the paper from which I read this morning, I would say that the average income of the superintendents of our company for the ten months in 1905 was $95.55 per week, involving his income both from the industrial and ordinary branches.

Q. What is the largest amount which any superintendent receives? A. We have one very old superintendent who has been with us nearly 30 years, over 25 years I think, certainly, who has now a weekly income of $531.24. He has the largest income of any man in our service, and his contract is an old one, which we put in operation when the company was first started, and which we abandoned long ago. But we have adopted the principle and the policy in our business of never cancelling the contract of an employee so long as he is faithful to his duty and does his work properly. And if a man was fortunate enough twenty-five years ago to secure a liberal contract with us, when it was very difficult to write any business at all, and has continued in our service, we continue that contract with him as a matter of good faith.

Q. Who is this agent? A. Peter Egenolf.

Q. What is his district? A. His present district is in New York, one of the New York agents. He started with us as an agent in Elizabeth, New Jersey, afterwards appointed superintendent of the Elizabeth district, and some years ago was transferred to New York. When he first started with us as a superintendent at Elizabeth his guaranteed salary was $11.54 a week, and in addition to that he received two times on the net increase in the debit in his district.

Q. How many agents or superintendents have you getting ten thousand dollars a year or over? A. I have a list here of all of our superintendents—but not many. Running over this list, and without having made an accurate calculation I find not over eight—possibly not over six; some of them would come pretty close —which would make it not over eight.

Q. Is this compensation of Mr. Egenolf gross or net? A. Gross.

Q. That is his gross income? A. He has to pay rent and clerk hire and other expenses.

Q. Have you separate agents in the ordinary department? A. Yes.

Q. What do they receive? A. I think they are paid in every instance, but six or seven, a commission, and their income depends upon the amount of business that they write. There were, I think, six or seven who received in addition to their compensation a small guarantee, all but one of the number that I have mentioned, receiving a guarantee of thirty dollars per week in addition to their commissions, one of them receiving a guarantee of twenty-five dollars a week in addition to his commissions. The reason that they received that guarantee, and in that respect are treated as the usual ordinary agent, is that they were transferred from our industrial department to the ordinary branch, and it being so transferred, they made a surrender of their interest in the industrial business, and we allowed them this small guarantee as a compensation for that.

Q. A line of examination has been suggested which may show to what extent you benefit by the new insurance. According to the blue book last year in the industrial department there were written about a million and a half of new policies. Those policies, in fact, were written by 8,500 agents? A. Yes.

Q. Which would mean an average of about 176 policies per agent? A. Yes, sir.

Q. With this average in payment ten cents a week, and $5.20 in the year, assuming that they lasted through the year, that would mean if that new business went through the year the company would receive about $915 from the new business for each agent on the average? A. Yes, sir.

Q. Now, you have to support the agent, you have to provide for the supervision of the agent through what might be called his pro rata share, of the assistant superintendent, and the superintendent, and also lay something aside to meet the demands of the insurance. The net result is that in this industrial business, to get the business so that you have any net increase or hold your own during the year, you have to keep the agents down? A. Yes.

Q. That is the actual result, isn't it? A. Oh, yes, we must have results from the agent, but we think that we pay a fair remuneration, all that the business will justify, if that is the point of your inquiry.

Q. The point of my inquiry is that the amount that you get in on the average from your 8,500 agents is such that it is absolutely necessary for you to keep the agents down to a low compensation? A. We have not been usually charged with paying too low a compensation for agents. That is one of the expenses which was sometimes criticised.

Q. And which comes in the aggregate to a very heavy amount, per agent, he getting fifteen dollars a week? A. Fourteen dollars and some cents, including what he makes out of the ordinary business.

Q. But it is inseparable from the industrial business that the person insured should pay very high rates, and the person that writes the business get very low incomes? A. Unfortunately, that is so in our business. The same principle obtains, as I think prevails in every kind of business, a man who can go to the railroad station and buy a fifty-trip ticket gets his ticket for less money than the man who has only enough to buy a single ticket one way; it costs him more in every phase of life, unfortunately, but how can it be prevented?

MR. COX: The question is raised as to whether the business is worth doing if such a large percentage of it has to be consumed in getting it and doing it.

MR. HUGHES: And so many, if I may add, through their lapses, get nothing from it.

THE WITNESS: Well, looking at it from a theoretical standpoint, I am well aware that it has been criticised, and that there are very excellent persons who have raised that question, and I suppose will continue to raise it, but look at it from the standpoint of the workingman himself. That is the point of view, Mr. Hughes, that we should consider it from. Isn't it worth something to him that the facilities for getting this insurance, even at the cost involved, to him are laid before him at his very door? Isn't it of some consequence to the public that we can offer this insurance to these people, and inculcate in them, as I said this morning, a feeling of self respect, and enable them to protect themselves from a pauper's grave? That is the public's point of view, from which I think we should look at this question.

BY MR. COX:

Q. But such a small percentage of them are protected in that way? A. Through the lapses?

Q. The records show that the most of them do lapse? A. Many of them do lapse. The lapses are large; that is unfortunate, but we avail ourselves of every agency that we can conceive of to keep down the lapses, and I am glad to say that the lapses are steadily decreasing in percentage from year to year. I believe the time will come when our country becomes somewhat older and settled, when the people of our country understand more fully the nature of this industrial insurance, when the percentage of lapses will be very materially decreased. They have had the same experience on the other side. The Prudential of London was the first company that was ever able to get upon a permanent and sound foundation in the establishment of this business. Hundreds of its predecessors have gone to the wall; but the Prudential of London, through its consummate ability, through its persistence, established that great company, now in size the greatest institution in the world—life insurance institution; and they are finding that their lapses are growing less and less year by year, the persistency of the business is becoming greater and greater, we are demonstrating that in this country, yet this business is comparatively new; while we have been doing business here for thirty years, the great bulk of this business has been done certainly within the last ten years, and perhaps it is not too much to say within the last five years. Our own company for four years after it was organized confined its business entirely to the State of New Jersey, and doing business in a very limited way, trying to be sure of its foundations. Now, we believe that we have arrived at a point where we are getting pretty safely on a strong and permanent foundation, and we think that in the lapse of time these lapses will decrease in volume, and the policyholders will become more persistent, and what seems so startling to gentlemen making an original investigation on this subject, what seems so startling to them will grow less and less, and the people will be, of course, correspondingly benefited.

BY MR. HUGHES:

Q. Do you know what the rate of lapses is with the English Prudential?

THE WITNESS: Mr. Hoffman, do you know what this is? I have not looked at those figures lately—the rate of lapses of the English Prudential.

The Secretary of the company informs me that in the last ten years the persistency of the business of the Prudential of London has increased from six years to ten years.

Q. How do their rates compare with yours? A. I think their rates are somewhat higher than ours—is that so, Mr. Fiske?

MR. FISKE: I think their rates are somewhat higher.

Q. Mr. Lindabury wants me to ask you how many of the people that went down in the Slocum were insured in your company?

MR. LINDABURY: Not in his company—how many held industrial policies?

A. I have forgotten; the percentage was very large; I have forgotten the exact number.

MR. LINDABURY: Sixty per cent. were with live and not lapsed policies.

MR. HOFFMAN: We paid insurance on two hundred and twelve persons whose lives were lost in the Slocum, who were insured in three hundred and thirty-six policies, for the sum of $8,330.56, and who had paid us net premiums, $38,146.73.

BY THE CHAIRMAN:

Q. Mr. Dryden, if an agent started out in your territory with no business in that territory, if he should write ten policies in the first week, his premium collections would be a dollar and his commissions upon that business fifteen dollars, wouldn't it? A. Yes.

Q. If the second week he added twenty more policies, two dollars of premiums, he would, of course, double his compensation and get thirty dollars of commissions the next week, in addition to the fifteen per cent. for collection? A. Yes.

Q. If the third week he increased it by another ten, so that he wrote thirty policies, three dollars premiums, he would get forty-five dollars commissions? A. Perhaps, I don't understand you.

Q. If this business all persisted so that it represented gain in each instance, ten policies the first week, twenty the second and thirty the third? A. Do I understand you to mean twenty new policies the second week, and thirty new ones the third week?

Q. Yes. A. Yes, sir, then your assumption is correct.

Q. Now, then, the only difficulty the agent would experience in obtaining these results would be from lapses of business obtained? A. Yes, sir.

Q. And the premiums on those policies being so small, isn't that a constant inducement to agents to themselves pay the weekly premiums for the sake of reaping the commissions with all new business when, in fact, it is concealed lapse business? A. It would be.

Q. Well, isn't it? A. In some instances I presume it is done, but we guard ourselves as much as possible against that, as I think I have already explained, by having the Assistant Superintendent go with the agent around among the policyholders, examine their premium receipt books and compare the payments with the agents' collecting books and thus check the matter, bringing the agent and the policyholder face to face.

Q. Do you impose any punishment when you discover that condition of things? A. We generally dismiss the man; yes, sir.

Q. Just dismissal? A. Yes, sir.

MR. HUGHES: I understand that the figures with regard to the Slocum were incorrect.

MR. HOFFMAN: I want to say that the amount paid in claims upon the loss of the Slocum was $38,146.73, and the premiums paid upon those claims by the insured was $8,330.56.

THE CHAIRMAN: Now, which one does he want to stick by?

MR. HUGHES: Is that right, that last statement?

MR. COX: I suppose you have no statistics of premiums paid by people who went down on the Slocum whose policies had lapsed?

MR. HUGHES: I suppose people were going on other excursions at that time whose policies had lapsed.

MR. COX: It is a great compliment to the efficiency of the New York man who gets the compensation of over five hundred dollars a week.

MR. LINDABURY: They were not all in this company—the three companies, John Hancock and the Metropolitan.

BY MR. HUGHES:

Q. If your solicitor averages about fourteen dollars a week, including the ordinary business which he may take, it wouid seem to follow from the average premium paid to the company upon the business that the first year's cost practically absorbs the first year's premiums. A. It is very high.

Q. Is that true? A. I think so.

Q. You were asked with regard to what punishment, if any, would be inflicted upon the agent in case a lapse was not reported and he was paying the amount himself. Now, when do you insist upon a report of a lapse? A. We allow policies to be in arrears four weeks before it must be lapsed.

Q. And what is the consequence of the failure to report in case the arrears exceed four weeks? A. If we put no other penalty upon him, we compel an agent to pay these arrears himself in excess of four weeks, or we may discharge him if the circumstances justify it.

Q. And if he does report the lapse at the end of four weeks, then the consequence is, as you have already stated, being a charge against his collectible debits. A. He is relieved; he receives a credit for the amount of those four weeks' premiums.

Q. I have received from the Prudential the following statement with regard to the first policy year expenses, which I will put upon the record.

(The paper is marked Exhibit No. 692.)

Q. This statement, I understand, includes all your business and is not separated with reference to industrial and ordinary? A. Yes, sir, I so understand it.

Q. Does that include renewal commissions, or only commissions—original commissions? A. This is a statement prepared by the actuary. I think this includes—Mr. Gore?

MR. GORE: That includes the first commissions and the first year collection commissions in the industrial.

MR. HUGHES: (Reading) Total loading on first three year policy premiums received in 1903, $6,410,444. In 1904, $7,418,-396.

Loading on first policy year's premiums in 1903, $2,642,383. In 1904, $2,820,579.

Total first policy year's expenses, showing in 1903 a total of $6,481,920; in 1904, $6,916,848.

Total expected losses on policies less than one year old in 1903, $1,147,975.

Total actual losses on policies less than one year old in 1903, $1,119,465.

Total expected losses on policies less than one year old in 1904, $1,224,080.

Total actual losses on policies less than one year old, $953,301.

Q. Now, can you answer that so that the amount can be compared with the first policy year's expenses, the premiums received in 1903 and 1904 on the first year's business?

MR. GORE: For the year 1903, $7,869,452.62. For the year 1904, $8,475,757.39.

Q. What was the amount of the loading on the premiums received on new business in 1903?

MR. GORE: You have read that.

MR. HUGHES: That is the item that appears in the statement, as follows: In 1903, $2,642,383, and in 1904, $2,820,579.

I have also received a statement showing the amount of insurance in force December 31, 1904.

Q. This is complete? A. Yes, sir. This is also prepared by the actuary.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 693 and read in evidence by Mr. Hughes.)

Q. Have you an agent by the name of James Perry. A. Yes, sir.

Q. What is his district? A. New Jersey.

Q. Newark? A. Yes, sir.

Q. What is his compensation? A. Well, I don't recollect.

Q. Or his rate of compensation? A. I don't recollect what his contract calls for; I have not the particulars here.

Q. Do you know what amount he received from the business that he writes for the company? A. I don't know what he receives. I know he writes a very large amount of business.

Q. Is he a relative of any officer of the company. A. He is a distant relative, I think, of the vice-president and of the second vice-president.

Q. Has he any better rates of commission than other agents? A. I do not so understand it.

Q. You don't know that he has any preference? A. No, sir, not to my knowledge.

Q. Does he have any advantage in the turning to him of insurance from advertising? A. No, not at all; that is carried on on a regular system, and the invariable rule is to send insurance under advertisements to the nearest and most available agent, whoever he may be or wherever he may be located.

Q. Does your company own any real estate other than the office building that it occupies? A. In Newark?

Q. Yes. A. We have some surrounding property that we bought for the ultimate purpose of home office building.

Q. Your real estate is stated in your annual report to the New York Department at a book value of $12,494,957.86. How much of that represents your office building? A. My impression is, something like eight millions. I thought I had a statement showing that, Mr. Hughes, but I do not find it. The cost of the Prudential building as of December 31st, 1904, $8,378,-125.50.

Q. And is it carried at net cost on the books? A. Yes, sir, it is carried at that cost on the books.

Q. What is the income of the company from that building? A. The rate of interest earned on cost of building based on gross receipts less expenses and taxes, 3.113 per cent.—a little over 3.11 per cent.

Q. What charge is made to the Prudential Company for the premises it occupies. A. We charge the Prudential Company the same rate that we charge our tenants—just the gross amount I have not here, but it is figured on the same basis.

Q. What rent does the Fidelity Trust Company pay? A. The Fidelity Trust Company has a twenty-year lease upon that property; for the first five years their rental is twenty-five thousand dollars per annum; for the second five years, forty-two thousand five hundred dollars per annum; for the third five years fifty-two thousand five hundred dollars per annum, and for the fourth five years, sixty thousand dollars per annum.

Q. What is the present rental value of the premises the Fidelity Trust Company occupies? A. Well, I think we are getting a fair rental value for it now, perhaps two and one-half to three per cent.—three per cent.; I do not know that I can answer that accurately. I anticipated in making that lease with the Fidelity the future increase in the value of the property. I think they are paying fair rental for it now.

Q. Who were the contractors that built the Prudential Building? A. E. J. Haddon & Son.

Q. Did you meet them through your relation with the Metropolitan? A. No, sir.

Q. Has any officer in your company any interest in that firm, or received any payments or interest in connection with contracts for construction? A. No, sir.

MR. HUGHES: I will read upon the record, subject to correction, what I understand is a complete list of the Directors of the Prudential Insurance Company. If I am wrong you will correct me.

DIRECTORS PRUDENTIAL INSURANCE COMPANY

OF AMERICA, NEWARK, N. J.

John F. Dryden,
Leslie D. Ward,
Edgar B. Ward,
Theo. C. E. Blanchard,
Seth A. Kenney,
Fred C. Blanchard,
Edward Kanouse,
Forrest F. Dryden,
Jerome Taylor,
William T. Carter,
Jacob E. Ward,
Anthony R. Kuser,
Uzal H. McCarter
Wilbur S. Johnson,
Thomas N. McCarter,

MR. LINDABURY: That is right. Are they fifteen in number? The correct number is fifteen.

MR. HUGHES: I will read upon the record, subject to correction, the following is a complete list of the Directors of the Fidelity Trust Company:

DIRECTORS FIDELITY TRUST CO., NEWARK, N. J.

John F. Dryden,
James W. Alexander——

THE WITNESS: Mr. Alexander has resigned.

MR. HUGHES:

James H. Hyde,
Leslie D. Ward,
Thomas N. McCarter,
Edgar B. Ward,
William Scheerer,
Schuyler B. Jackson,
Uzal H. McCarter,
Jerome Taylor,
William N. Coler, Jr.,
William H. Staake——,

THE WITNESS: Mr. Staake has resigned.

MR. HUGHES:

Forrest F. Dryden,
Henry S. Redmond,
Charles A. Freick,
Bernard Strauss,
John C. Eisele,

William H. McIntyre,
Anthony R. Kuser,
Henry Rogers Winthrop,
Mark T. Cox,
Henry M. Doremus,
Otto H. Kahn,
Jacob E. Ward,
Robert H. McCarter.

THE WITNESS: I think that is correct.

Q. Has anyone been elected to take the place of Mr. Alexander? A. No.

Q. Or of Mr. Staake? A. No, sir.

MR. HUGHES: I will read upon the record the list of directors of the Public Service Corporation——

MR. LINDABURY: This gentleman says that there has been an election to take the place of Mr. Staake, Mr. Wilbur Johnson.

THE WITNESS: I beg pardon, that is true.

MR. HUGHES:

DIRECTORS PUBLIC SERVICE CORPORATION.

David Baird——,

THE WITNESS: David Baird has resigned.

MR. HUGHES:

Thomas C. Barr,
Samuel T. Bodine,

John J. Burleigh,
A. B. Carlton,
Walton Clark,
Mark T. Cox,
Thomas Dolan,
John F. Dryden,
George R. Gray,
Hugh H. Hamill,
W. C. Heppenheimer,
A. R. Kuser,
Lewis Lillie,
Thomas N. McCarter,
U. H. McCarter,
Randal Morgan,
F. W. Roebling,
John F. Shanley,
Charles A. Sterling,
P. F. Wanser,
Leslie D. Ward,
John I. Waterbury,
E. F. C. Young.

Q. Has anyone been elected in the place of Mr. Baird? A. No, sir, not to my knowledge.

Q. Has the Prudential Company ever placed on deposit with the Fidelity Company moneys to enable the latter to assist in the acquisition of securities? A. No, sir.

Q. Take for example the acquisition by the Prudential of five hundred thousand dollars of the Newark Consolidated Gas Company bonds, can you recall why it was that the Prudential took those from the Fidelity? A. Only that the Fidelity had them for sale.

Q. Did not the Fidelity acquire a large amount of the bonds on the understanding that the Prudential would take part of them? A. No, sir, not to my knowledge.

Q. Was there not an issue of stock so that certain shares of stock or one share of stock went with each bond? A. The Newark Gas Company?

Q. Yes. The Newark Consolidated Gas Company. A. Not to my knowledge, no. I know nothing of that kind.

Q. Did not the officers or certain of them of the Prudential receive certain of the stock of the Newark Consolidated Gas Company which went with the bonds that were issued? A. No, sir, I do not know anything about that, not to my knowledge.

Q. You did not receive any of the stock of the Newark Consolidated Gas Company? A. Not with any bonds that I bought.

Q. What is that? A. No, sir, not with any bonds that I bought.

Q. No, but what I am getting at is this, did not the Prudential buy bonds, which if it had taken direct it would have received together with stock? A. No, sir.

Q. And were not the bonds bought through the Fidelity, and did not certain officers of the Prudential acquire the stock which would otherwise have gone with the bonds? A. There is no connection whatever in the transaction of our buying those bonds with any other transaction. We have never been connected in any instance with any transaction connected with any enterprise in which stock was involved, and which went for a part of the consideration. Our purchase of bonds has been distinct and clear and separate from any transaction of that kind or any other transaction similar.

Q. In other words, no officer of the Prudential had ever received any stock as bonus? A. No, sir.

Q. Stock for which the officers did not themselves pay? A. No, sir.

Q. In connection with a subscription for bonds made either directly or through the Fidelity Trust Company? A. I have no knowledge of any such.

Q. No knowledge of anything of that kind? A. No, sir.

Q. Do you know whether the Fidelity took a large block of the bonds I have mentioned of the Newark Consolidated Gas Company at about 90 and then sold to the Prudential? A. I think they took a large block of the bonds.

Q. About three million dollars? A. I could not recall that.

Q. Did not the Fidelity obtain a bonus of stock in connection with those bonds? A. Very likely it did, but that was an operation of the Fidelity Company——

Q. But the Prudential—— A. Entirely distinct and separate from the Prudential.

Q. But the Prudential, that paid five hundred thousand dollars for some of these bonds, did not get any of the stock? A. No, and we had no connection with any transaction involving the stock.

Q. But that was because you bought the bonds simply from the Fidelity? A. Precisely, as——

Q. Paying the Fidelity the same price as the Fidelity paid? A. I don't recollect what we paid. I do not remember, but we bought the bonds as a clear-cut, separate transaction.

Q. But as a result of the transaction the Fidelity got stock with the bonds, and the Prudential did not? A. And the Fidelity did things, probably, which the Prudential did not do. That is to say, it would not undertake to finance anything of that kind. We have never gone into transactions of that kind. Our purchases have all been independent, separate and distinct from any transaction involving stock whatever. I want to make that as emphatic as I can, because we have kept absolutely clear from anything of that kind.

Q. When bonds have been issued, and offered to public subscription in connection with which stock has also been offered as a bonus, is it not a fact that the Prudential has through the Fidelity taken bonds, and the Fidelity has obtained all the stock bonuses or officers of the Fidelity or Prudential have had some of the stock bonuses? A. It is probably true that we have bought bonds from the Fidelity, and from others when originally those bonds may have been sold the company putting them out together with stock; but it has been our invariable policy to keep entirely clear from any transactions of that nature.

Q. But the result has been to give to the Fidelity the profit in stock which on a pro rata basis the Prudential would have shared? A. The Prudential would have shared if we had permitted the Prudential to share in enterprises of that kind.

Q. That is to make a direct subscription for the bonds? A. Yes. I may say that in the decision of the Vice-Chancellor of New Jersey in the Roebottom case the Vice-Chancellor held that under our power—under the power of our law we had no right to subscribe for stock.

Q. Or to take stock as a bonus in case you subscribed for bonds? A. He held we had no right to subscribe for bonds.

Q. To subscribe for bonds? A. Yes, sir, and that our only way of getting bonds was to buy them in the market after they had been sold by the company putting out the bonds. We have since obtained an amendment to that law. We thought it was bad policy to be in that position, but still that was his decision.

Q. And the result of that would be that if, for example, in such a case as I have put, five hundred thousand dollars in stock would go with five hundred thousand in bonds, the Prudential would pay for the bonds and not get the stock? A. The Prudential, in the first place in the case you have cited, never had the opportunity.

Q. Could it not have had it? A. It never had the opportunity to subscribe for those bonds or stocks. We were—they were not offered to the Prudential. If they had been offered to the Prudential, the Prudential would not have taken them, because we do not engage in transactions of that kind.

Q. But why should not the Fidelity have given the Prudential the same advantage which it enjoyed pro rata in the stock which went with the bonds?

MR. LINDABURY: The Prudential underwrote that transaction.

Q. I would be glad to have that brought out. That is the explanation? A. Yes, sir.

Q. Then the Fidelity got the stock for the underwriting of it? A. Yes, sir.

Q. Then the Prudential does not engage in underwriting? A. No.

Q. And hence did not share in the profits of the underwriting; that is the point? A. Yes.

Q. At last we have got——

MR. LINDABURY: The Fidelity sold the Prudential the same as it did the public generally.

Q. Then the Prudential appears on the scene as a purchaser from the Fidelity. A. Precisely.

Q. In entering into its underwriting engagements, the Fidelity is aided by the moneys which the Prudential keeps with it? A. Of course the moneys that we keep with the Fidelity undoubtedly aid, as the other moneys that are deposited with it by other people.

Q. Do you not keep such deposits with the Fidelity as will enable it to transact such business as the Directors of the Fidelity deem profitable? A. If you mean by that for the purpose of enabling it to do so, I say no. If you mean as a fact that the Fidelity avails itself of whatever moneys we have deposited with it, together with whatever moneys other people may have deposited with it, that of course is a fact, and that is the way a trust company does business.

Q. If a transaction comes up which looks attractive and it is convenient for the Fidelity to have a couple of millions of dollars to go into that, there is no trouble about the Prudential keeping that amount on deposit with the Fidelity? A. Well, there would be a great deal of trouble for them to get it.

Q. They would not be allowed to have it for that purpose? A. No, they would not.

MR. LINDABURY: Will not you bring out the fact that millions of these bonds were sold to the public at the same price they were sold to the Prudential?

Q. Reference is made by Mr. Lindabury to other sales made by the Fidelity. Did the Fidelity enter into a syndicate and take a large part of the bonds on its subscription? A. Yes.

Q. And then it marketed the bonds? A. Yes.

Q. And the Prudential bought the bonds? A. We bought a certain proportion of the bonds. In the statement we filed with you it says what percentage out of the total issue of those bonds the Prudential owned and the investing public owned the balance.

MR. LINDABURY: Do you remember what the percentage was in that case?

THE WITNESS: I do not remember in that particular case. There were sixteen companies referred to in the list.

MR. LINDABURY: It is very small?

THE WITNESS: It is very small.

Q. So whatever syndicate operations or underwriting agreements are made in which the individuals interested in the Prudential may be interested, they are made through the Fidelity company and the Prudential acts as a purchaser in buying such as it may care to buy from the Fidelity. A. We buy securities from any responsible party who may offer them to us on terms that are satisfactory to us. We have to be sure of two things, first, that securities that we buy come from responsible houses; second, that they are sold at the right prices. Being satisfied of those two things, if the bonds are of such a kind that we think they are proper, they constitute a proper investment for the Prudential, we buy them without reference to who may bring them to us.

Q. But you keep the Prudential in the position of a simple purchaser in the market? A. Absolutely.

Q. And the Fidelity is in the position of a trust company making such money as it can through its connection with enterprises that are deemed profitable? A. Yes, sir.

Q. And the officers of the Prudential, who are also officers of the Fidelity, if they are interested in the matters, become interested in them through their connection with the Fidelity, keeping the Prudential apart from them? A. Yes, sir.

Q. The result of that is that any profits upon underwriting schemes on the one hand are not shared by the Prudential and any risks that are engaged in on the other hand are not entered into or are not taken by the Prudential? A. That is it, sir.

Q. But of course, as you say, whatever amount you keep on deposit with the Fidelity is used by it like other money on deposit with the Fidelity for such purposes as it may deem proper? A. Yes.

THE WITNESS: I think, Mr. Hughes, it occurs to me in justice to the 2d Vice-president, I think I ought to say that Mr. James Perry who was referred to a while ago is not a relative of the 2d Vice-president but is a relative through his wife of the 1st Vice-president. I think I stated he was a relative of both officers.

Q. Did the Fidelity Trust Company underwrite the formation of the Public Service Corporation? A. No.

Q. It was not interested in that? A. No, except as a stockholder.

MR. HUGHES: I will note upon the record from the Bank Report of New Jersey for 1905 that the Fidelity Trust Company is the owner of the following securities:

Public Service Corporation of New Jersey, interest bearing certificates cost $760,743.23; par value $1,100,210; market value $808,654.35.

Public Service Corporation of New Jersey stock cost $2,189,078.59; par value, $2,189,200; market value, $3,064,880.

Union National Bank stock, cost $618,800.28; par value, $150,500; market value, $662,200.

Prudential Insurance Company stock, cost $5,997,900; par value, $999,650; market value, $5,997,900.

Also the following statement from the same report of the Fidelity Trust Company's liabilities:

Capital stock paid in in cash $2,000,000.

Surplus fund $6,500,000.

Undivided profits, net amount, $2,179,873.77.

Time deposits $1,607,546.76.

Demand deposits, $9,886,683.48.

Due to banks and bankers and trust companies, $4,513,119.22.

Q. Who acts on the part of the Fidelity Trust Company in making sales of securities to the Prudential, what committee or officers? A. Usually they are sold by the officers, the President or the Secretary and Treasurer.

Q. Is the sale passed on by a Finance Committee? A. Yes.

Q. Who are on that Finance Committee? A. I am a member of it, the Vice-president, Dr. Ward, Mr. Mark T. Cox, Mr. Jerome Taylor, Mr. Henry Rogers Winthrop, Mr. Thomas N. McCarter, Mr. Uzal H. McCarter. I think that is all.

Q. Who are on the Finance Committee of the Prudential, who would pass upon the purchases made from the Fidelity Trust Company? A. Mr. Edgar B. Ward, Mr. U. H. McCarter, Mr. Edward Kanouse, and Mr. A. R. Kuser, and myself. And I wish to say with respect to the practice of the Finance Committee of the Prudential, that never from the foundation of the company, down to the present time, so far as I know, has there ever been a loan passed or approved by that Committee when there was a single objection to it, by any member of the Finance Committee. That is a fixed rule in our company.

Q. Do the same individuals act on both committees in relation to the transactions between the Fidelity Trust Company and the Prudential? A. Some of them, but not all.

Q. You have answered a question, Senator Dryden, to the effect that the officers of the Prudential are not interested in any syndicate where the Prudential buys securities from the syndicate managers. A. Yes, sir.

Q. That is because the Prudential never buys securities from the syndicate managers, is it not? A. I do not know that that is the cause, but that is the fact.

Q. Well, that is the fact? A. Yes, sir, that is the fact.

Q. So that in the nature of things there would be no opportunity to share in any such profits because it is the policy of the company not to buy from syndicate managers? A. Yes, sir.

Q. But the officers of the Prudential are interested, are they not, in syndicates where the Fidelity buys from the syndicate managers and resells to the Prudential? A. That, I think is so in some instances.

Q. And when the Fidelity enters to underwritings of that description it knows what it can place with the Prudential? A. No, sir.

Q. What securities it will take? A. By no means. The Fidelity goes of its own motion at its own risk, and in pursuance of its own policy.

Q. But of course, it is a comfortable thing to know that the Fidelity has a purchaser for its securities? A. They do not know in advance that they have any purchaser with us. I want to say that in any purchase that we have ever made from the Fidelity Trust Company we have pursued absolutely and completely the same policy that we would pursue in purchasing them from any other party whatever.

Q. You have held yourself so independent that you could give an absolutely unbiased judgment as to the propriety of the purchase from the Fidelity, notwithstanding your interest in the Fidelity? A. We have. I cannot make that point too emphatic.

BY MR. COX:

Q. Do you recall how much time intervened in that particular case referred to by Mr. Hughes, between the purchase by the Fidelity and the sales to the Prudential? A. I do not recall the time. I have really no recollection upon that matter.

BY MR. HUGHES:

Q. Mr. Mark T. Cox has been mentioned as a Director of the Fidelity Trust Company. He is also a director of the Public Service Corporation. He is also a member of the firm of Rogers, Winthrop & Company, is he not? A. Yes, sir.

Q. Through whom your company does most of its bond business? A. Yes, sir.

Q. Mr. Lindabury suggested that I ask how many syndicates the Fidelity Company has been in? A. Well, very few.

Q. He says only two, is that correct? A. I think probably that is correct, very few syndicates.

Q. What were those two? A. I suppose one was this Newark Gas Company or the Essex and Hudson——

MR. LINDABURY: And the other was the South Jersey Traction.

THE WITNESS: And the other was the South Jersey Traction, yes.

MR. HUGHES: Was it the South Jersey Traction?

THE WITNESS: No, it was not in the South Jersey Traction.

MR. LINDABURY: The Gas Company and the Public Service Corporation?

THE WITNESS: Yes.

Q. Senator, you have given considerable attention to the question of the desirability of Federal supervision of corporations. What are your views upon that question? That is, rather upon the limitation of the efficiency of State supervision? A. My attention has been directed more to the effect of Federal supervision upon insurance corporations rather than upon corporations in general.

Q. Just amend my question and make it insurance corporations. We have enough to deal with without going into corporations in general.

MR. LINDABURY: The Senator had better begin over again.

MR. HUGHES: Yes, I did not intend it so broadly.

THE WITNESS: I have felt for a good while that if it were possible to have a Federal Department established which could supervise all the interests of the companies doing interstate insurance, it would be of great advantage to the policyholders of the country in particular and to the companies themselves. In November, 1904, before any of the present insurance troubles arose, I made an address before the Boston Life Underwriters Association in which I spoke at about half an hour or forty minutes' length on that theme, then advocating it; my treatise of it being rather historical and from the practical standpoint than otherwise. I think that those who are for and those who are against Federal control will be found in general to be divided by two well-defined lines of policy. One will be that which divides upon the constitutional phase of the question. And I find that there are great lawyers upon each side of that question. I therefore assume that the power of Congress under the commerce clause to regulate this subject is a debatable question. I am quite aware of the decisions which have been rendered by the Supreme Court in which they have held that insurance between the States is not commerce. Beginning with the decision of Justice Field in the case of Paul vs. Virginia and coming down to the present time, there have been a number of such decisions; every one of those decisions has been based upon State legislation. There never has yet been a Federal statute which has raised that issue and upon which it has carried to the Supreme Court. As a layman I am inclined to the belief that if a distinct law was passed by Congress defining interstate insurance, not as an incident but as an instrumentality of commerce, and that issue thus made was carried to the Supreme Court, it might possibly take a view, and I should hope it would take a view, favorable to the power of Congress so to legislate.

In Hamilton's great Letter to Washington on the power of the government to create government banks he says, as a part of his opinion that 'As one of the derived powers—one of the resulting powers, is the word he used—one of the resulting powers of the commerce clause is among other things to regulate policies of insurance.' Now for a layman at any rate it is difficult to understand why, if the sending of a message over a telegraph wire is interstate commerce, or why, if the taking of a lottery ticket from one State and carrying it into another and selling that ticket is interstate commerce—I say it is difficult, it seems to me, for a layman to understand why the transactions of insurance are not interstate commerce. But I ought not to talk to lawyers on constitutional questions.

Now, if we come to the practical side of the matter, it seems to me there are three very important advantages which become at once important, if the Federal Government can constitutionally establish a department. Let me name first the protection of American companies doing business in foreign countries. Everyone understands that the arm of the State, the arm of no State in the Union is long enough to reach out its protecting care over a company doing business in a foreign country, and the only way to remedy injustice and wrong and ill-treatment on the part of a foreign government towards an American company doing business in that foreign country is to seek the good offices of the State Department at Washington, who can simply respectfully lay the subject for consideration before that government; but it is powerless, I think, to enforce equity and fair treatment in matters of that kind.

Now another class of cases in which I think the Federal Government would be greatly benefited is in the case of many fraudulent insurance companies. Not in life insurance companies much, we are not greatly afflicted with that evil, there is very little; but I am told that the fire insurance companies—not here in the East, but in the West and in the South, to a large extent are afflicted by the evil of competition of irresponsible, reckless and unworthy insurance companies. So great did this trouble become that several years ago at the convention of Insurance Commissioners of the various States they appointed a committee composed, I think, of five members of that body to devise ways and means by which the public would be protected from the preying upon them by these worthless concerns. A year ago last winter, that committee having worked out a proposition, came to Washington and asked me to introduce in the Senate a bill which should prohibit the use of the mails to such corporations. At the request of that committee I introduced the bill and it was referred to the Committee on Postoffices and Post Roads. A day of hearing was set and the fire insurance men came in large numbers, important men in business, to protest against the passage of that bill; because while the design of it was to protect the public against the wrongs perpetrated upon them by the class of companies to which I have alluded, it was feared that it could not be put into operation without the honest and responsible companies suffering at the same time. And the result of it was that the Postoffice Committee took no action whatever, or at any rate failed to report it.

Now, if we had a national department it could cross imaginary State lines; it could pursue these companies wherever they go to. I was told by the insurance men and Commissioners that it is the practice of some of these worthless companies to incorporate in one State, but never to issue a policy in the State of its incorporation, so that they cannot be reached there on account of any actual transaction, but go into another State. and when they are overtaken, they take up their effects and move to another State; and so on, and on and on. Now one benefit could be that the National Government could reach those corporations anywhere that they might operate outside of the State of their own incorporation.

But perhaps—at any rate it seems to me—that one of the greatest advantages to come from a national department would be the establishment of a code of insurance laws, the passage of a code of insurance laws which would be uniform, well-devised and persistent. One of the great evils of the business to-day is the multiplicity of insurance codes, which we have in the different States. I do not, by implication in any remark I may make upon this subject, mean to reflect upon the honesty of any legislatures or upon any insurance departments. I am not speaking from that point of view. But we get a multiplicity of laws; Massachusetts has one set; New York has another set; New Jersey has a different set; California has still another set, and Louisiana a different one from any of them; and the result of it is that the companies do not know and cannot know from time to time what requirements are expected of them, or with what rules and regulations and laws they must comply. We have had in a very recent date noted litigation in one of our States upon the interpretation of a statute which had been in force I think for twenty-five years, certainly for a long time, and upon which a certain interpretation had been given and followed. But a new commissioner comes into office;

he reads that law differently, and he puts a new interpretation upon that law, and he requires the company to comply with his interpretation. The result of it is the companies, at great expense and trouble, must go to the Courts for the interpretation of a law which has been upon the Statute books for many years. Now, the difficulties which have been recited before this Committee from time to time, it seems, to me, largely grow out of this very condition of affairs. It has been proposed, and is now proposed by some gentlemen interested in this subject, to try to get uniformity of legislation among the several States. How long has the effort been made to get uniformity of legislation upon the question of divorce, for instance! Some years ago the insurance commissioners at their convention appointed a committee to bring about this very condition of things—uniformity of legislation. Nothing ever came of it. We are, with respect to insurance, in almost the same condition that we were with respect to commerce under the old Confederation, and the evils of which, more than any other influence, contributed to the adoption of our present Constitution.

Now, these things, as I understand the case, cannot, from a practical standpoint, be cured so long as we are dependent upon the different laws of fifty different legislative bodies. Men's minds look at this question differently; what one man may think is a good law, another man thinks is a bad law, and so it goes on. And it seems to me that it is hopeless ever to expect to accomplish anything that will bring about uniformity and persistency so that the companies may know what they have to comply with until and unless the General Government can establish a Federal code.

Q. At present the insurance companies are somewhat at a disadvantage because of the power resident in insurance commissioners of different States to revoke their license, are they not? A. Yes, sir.

Q. How general is it that the insurance commissioners have the power to revoke the license of a corporation? Is it in most of the States? A. I think so, at any rate I think it is a power that is claimed.

A. Claimed to exist? A. Yes, sir.

Q. The insurance companies would be glad to get rid of that power, would they not? A. Undoubtedly they would, although let me say that with regard to a Federal Department, the insurance companies are by no means unanimous in their views upon that subject.

Q. Of course, the insurance companies would remain subject to visitation on the part of the State creating them respectively? A. Undoubtedly.

Q. And the power of visitation on the part of States where they may do business, but in which they have not been organized or chartered, is regarded as something of a nuisance? A. Yes, sir.

Q. And Federal supervision would, Senator, so place transactions outside of the State of incorporation on your theory of the power of Congress to provide for such supervision, in one bureau or department? A. Yes, sir.

Q. All the visitations? A. And I would confer on that department absolute power or sufficient power to investigate with the utmost thoroughness and to give the utmost publicity to the affairs of any company doing interstate insurance.

Q. Do you think that would tend to minimize the inquisition to which insurance companies are subject? A. I think it would tend to put a far more effective supervision; in many of the States where they have none or perhaps very few insurance companies—they do not, I suppose, feel justified in going to the expense of maintaining a department thoroughly equipped for examination; the burden upon the State would be such that it probably would not be tolerated. Now, with a general department under the government, a department thoroughly equipped with experts and trained men, could be maintained, and I can see no advantage in seeing fifty different departments, if you please, travel over the same road which may be gained more thoroughly and better by one department thoroughly organized and equipped for the purpose.

Q. Isn't the main motive, Senator, the fact that you want, for example, to do business in New York or Wisconsin without any power on the part of New York or Wisconsin to say you nay? A. I should leave with the Federal Government the power to say whether we were entitled to do business in any of the States outside of the State in which we were incorporated.

Q. All that is, of course, entirely apart from the legal question which you first mentioned? A. Yes, sir.

Q. Now, so far as the matter of uniformity in legislation is concerned, the difficulties of which you speak are not confined to insurance; the embarrassments sometimes occasioned by contrariety of legislation is felt in a good many departments of life—you recognize that? A. That is undoubtedly true, Mr. Hughes, but insurance in its very nature is different from that of the ordinary corporation. An ordinary corporation, not a commercial enterprise, its affairs may be brought to an end speedily, and without long delay, but a life insurance corporation in particular makes contracts which extend far into the future; therefore, it becomes necessary to supervise carefully and thoroughly the business of a life insurance company, to protect the public. Our American public have been educated up to such supervision by our State departments, and I am satisfied they would never be content with anything else. Now, in Great Britain there hardly is any supervision. All that is required under the Act of Parliament is that the companies shall file certain schedules with the Board of Trade of London, and they may value their policies, as I understand it, upon any basis that the company chooses to adopt, but the basis must be stated.

Q. Provided that the public may know what it is? A. So that the public may know. I do not think our American public would be satisfied with that, and we must have supervision.

Q. But, of course, the State is in a position to effectively supervise if it chooses the corporations doing business within its borders? A. Yes, but why should we have fifty different States going over and doing the same work, provided every one of them does its work properly and thoroughly?

Q. You think there is an excess of supervision now required? A. Yes.

Q. You have stated your views very fully; I am much obliged to you. Does the Prudential do business in foreign countries? A. No, sir, we do no business outside of the jurisdiction of the United States.

Q. In your judgment is it of advantage to American companies to do business abroad? A. Well, an expression of opinion might be construed as a reflection upon other companies which have pursued that policy. I would rather confine my statement to the fact that we have never adopted it; we do not do business anywhere outside.

Q. You speak of the importance of the protection of such companies as do business abroad. If you have an opinion on the subject that you care to express, why we should be glad to have it? A. We have not thought it wise for our company to extend its operations beyond the jurisdiction of the United States, but some companies have done so, and I speak only of the protection that might be afforded to such companies.

Q. Have you an opinion upon the question of the extent to which insurance companies should be permitted to add to their business? A. I have given some thought to that subject, and it is not entirely free from difficulty. Supposing a law was to be passed, limiting the amount of insurance, for instance, that might be carried by any one company to two billions of dollars. Now, I take it the object of such a law would be to prevent the aggregation and accumulation of a very large amount of money in the hands of a few men in order to prevent an improper use of their influence through the control of that money. Now, supposing the case of a company that reached the limit; it has an organization which has cost that company many millions of dollars to create. Is it reasonable to suppose that if the company reached its limit under such a law they would allow such a valuable organization which is an asset of the company to be disintegrated and destroyed?

True, they could not write any more business under the charter of that company. What is to prevent from organizing a new company and using that same organization and force?

Q. Well, do you think it is of an advantage to have a distribution of units, or do you think it is of an advantage to go on indefinitely piling up accumulations in one treasury? A. I have grave doubts upon the wisdom of going on indefinitely. I only speak of the possible outcomes. Personally I do not think I would object to a reasonable limitation. I would not like to see a limitation which would be unfair in the treatment of the various companies in this respect, that some of them have gotten now away ahead of the other companies, and that the companies who have not reached that limit should be cut off with what they have now, while the other companies should be allowed to retain what they have.

BY MR. COX:

Q. There have been three distinct limitations suggested, one being a territorial limit which might confine companies, for instance, to the United States; another to the annual amount of business which they might be permitted to write; and third, the gross amount of business which they might attain. Have you any suggestions to make with reference to those three methods, or any others? A. I would hardly like to do that, Mr. Cox. I have not given the matter sufficient consideration.

MR. HUGHES: I will offer in evidence Exhibit 681 for identification containing the rates of industrial policies.

(Paper marked Exhibit 681.)

MR. HUGHES: I will mark for identification the schedule of legal expenses furnished by the Prudential.

(Paper marked Exhibit 694 for identification.)

MR. HUGHES: I will mark for identification the record for monthly balances in banks and trust companies furnished by the Prudential.

(Statement marked Exhibit 695 for identification.)

HALEY FISKE resumed.

BY MR. HUGHES:

Q. Evidence has been submitted here, Mr. Fiske, that the Prudential placed in the hands of the Metropolitan a certain amount as a contribution to expenses in connection with legislation, and also that the John Hancock contributed a certain amount, I understand, the conrtibutions being two-fifths from the Prudential, one-fifth from the John Hancock, which, together with two-fifths from the Metropolitan, made up the fund for use in that matter? A. That is not quite accurate.

Q. State what was done with the moneys? A. That is not the way it was done at all. At the end of the year I make up a statement of what I have expended for legal expenses in which those companies are interested, excluding the State of New York, as to which we never received a contribution from either of the other companies, and the actual expenses incurred were divided in the proportion that you have named, and the amounts paid by each of those companies to me.

Q. When you were on the stand before, you stated, if I recall correctly, what the Metropolitan had disbursed? A. Yes.

Q. What was done with the moneys placed in the possession of the Metropolitan by the John Hancock and Prudential? A. Why, if you add the three together you will get the total amount of legal expenses paid on behalf of all three companies, in the legislative matters to which you directed my attention.

Q. Then payments were made in connection with the same matters that you refer to? A. Exactly the same matters.

Q. And to the same persons? A. And to the same persons.

Q. And do the statements that you have given account for two-fifths of the total paid? A. That would be entirely accurate, because, as I say, in that we are not shared at all. As to all payments in New York the total amount paid by the Metropolitan was the total amount paid by all the companies. Then take the Dominion of Canada. The amounts we paid in Canada, for instance, were not contributed to by either of the other companies. I think there may have been one or two other States in which I did not ask any contributions from either of the other companies, so that it would not be accurate to say that the amounts given to you were two-fifths of the total; they would be more than two-fifths of the total.

Q. Did you make any payments to any other persons or in connection with any other matter of legislation out of the moneys received from the Prudential or the John Hancock than those persons and those matters you testified to in connection with the Metropolitan? A. Not at all. I took a lawyer's bill, for instance, and divided it into five parts, and two parts were paid by the Metropolitan, two by the Prudential and one by the Hancock.

Q. Did you mention the effort to prevent legislation in Pennsylvania against child insurance when you were on the stand before? A. I don't remember that I did.

Q. Did you have anything to do with it? A. I did, indeed. I had full charge of it.

Q. When was that? A. 1897.

Q. What was the nature of the threatened legislation? A. There was a bill to prevent child insurance under a certain age, the amount of which I have forgotten, but I fought that bill successfully.

Q. And who represented you in that matter? A. I don't know that I can say that anybody did. I was there personally.

Q. What amounts of money were expended? A. Well, I have given you the amount of expenses in 1897 which would cover it, except that they might not and probably do not cover my own hotel bills and traveling expenses and that of some of my clerks, but all compensation paid to anybody was included in the amount that I gave to you.

Q. Do you remember what would cover the amount of your disbursements in Pennsylvania? A. You mean including traveling expenses and all that?

Q. Yes. A. I could not; it was not a very great sum.

Q. What would be the maximum? A. Have you got the amount given to you?

Q. Not at hand. A. Well, I would be surprised should it exceed $5,000, and yet it may have. It was quite a long fight. I was in Philadelphia altogether perhaps a month or so. I remember that I did employ Mr. W. K. Jennings our regular counsel in Pittsburg to interest himself about it. I am under the impression that I consulted Mr. Dickson, of Philadelphia, who was our regular counsel there. I am not so clear about Mr. Dickson until a later stage of the performance when there was a legislative investigation, and I know Mr. Dickson represented us on that, so I am not entirely clear.

Q. That was the same year? A. That was concerning this same fight.

Q. In regard to which you had the disbursements you have mentioned? A. No. The disbursements that I mentioned then that would include Mr. Dickson's bill.

Q. Did any part of it go to any legislator? A. Not at all.

Q. Or to any lobbyist? A. No, certainly not.

Q. I find in the schedule of purchase an item under date of February 27, 1905, of $333,300 in par value of Lake Shore and Michigan Southern Railway Company stock bought from C. P. Butler & Brother at 350, or for $1,166,550, and on February 9, two days later, $5,000 in par value of the same stock bought from Vermilye & Company at 300 for $15,006.25. Do you recall those transactions? A. I only recall them because they have been brought to my attention within a week or so. I did not know anything about them at the time, but I have been informed about it within a week or two weeks.

Q. Do you know what the explanation is of the purchase from C. P. Butler & Brother at 350 and then two days later at 300 from Vermilye? A. The explanation given to me is that that stock could not be bought in the open market except in very moderate quantities at varying prices; that it was a good stock to purchase for investment and holding; that there was a considerable block of the stock which represents the purchase made from Butler & Company in the hands of one firm, that that could probably be got and that they had refused 325, and it was not known how much more would be asked by them. The matter was brought before the Finance Committee, whose minutes I have looked at within a week or two, and I find there a minute that Mr. William A. Read appeared before the committee and told about this stock, advised its purchase, and that the committee resolved that Mr. Read be given authority to purchase—well—several thousand shares—I have forgotten the number—is it there?

Q. Yes. A. At a price not exceeding three hundred and fifty. Isn't it over four thousand shares? That would be three thousand three hundred and eighty shares.

Q. Three thousand three hundred and thirty-three shares. A. I had a notion it was about four thousand shares.

Q. Didn't Vermilye & Co. buy five hundred shares of the stock at 320, and the same date sell George P. Butler & Brother, at 340, and on the same day, did George P. Butler & Brother sell the shares I have mentioned to the Metropolitan at 350? A. I don't know that to be the fact, and this is the first I have heard of it. I have understood on making inquiry that the old firm of Vermilye & Co. had held that stock for a long while; that on the dissolution of the firm it was divided into two parts, Mr. Read taking his and his late partner keeping the rest; that Mr. Read refused to sell his stock at any price; that he still has it, and has increased his holdings, but that Mackey and his partners were willing to sell at some price the stock which belonged to them in the distribution; that Mr. Read effected a purchase through George P. Butler & Co., and that the bill was sent to us for 350, and we paid it without any knowledge at all of what George P. Butler paid for it.

Q. Or that George P. Butler had bought the same day from Vermilye & Co. at 340? A. Not at all; we did not know what he paid for it; but we assume from the terms of the resolution of authority given to Mr. Read that he would have got it as cheap as he could, we authorizing him to buy it at not exceeding 350, and we supposed he had to pay 350 for it, less any usual commission.

Q. Do you know whether Mr. Read got any from George P. Butler & Co. as the result of that transaction? A. Well, I did not know it until within a week or two, nor did anybody connected with the Metropolitan know it, but this story having got around, came to us, and we made inquiry and we now find, or are informed, that Mr. Butler bought it at 340, and the difference between 340 and 350 was divided between him and Mr. Read; and we have called Mr. Read's attention to the fact, but he justifies it and says he will be very glad to explain it.

Q. Was it Mr. Read who brought to the Metropolitan the proposition to buy from Butler? A. No, not from Butler—buy the stock which Vermilye—belonged to Vermilye & Co., and which was held at the dissolution by Mr. Read's former partners.

Q. This was in February, 1905? A. Yes, but the dissolution had been agreed upon, and the divisions of the assets was being made, and Mr. Read kept his share of that stock and his partners kept their share, and it was their share only that his purchase was made, Mr. Read keeping his.

Q. In other words, the share was 3,333 shares? A. Yes, sir, that is as I understand it.

Q. And it was through Mr. Read that the purchase of that amount by the Metropolitan from Butler & Brother was negotiated? A. It turns out now to be so.

Q. At 350? A. Yes, sir.

Q. And the firm of Vermilye & Co. had sold a total of five hundred shares? A. No, total three thousand three hundred shares.

Q. Well, 3,333 shares to Butler for 340 the same day? A. We find it out now, but we didn't know it then.

Q. That is a fact? A. Found that out within two weeks.

Q. Now, the market value at that time was not 350 or 340, was it? A. We think it was, sir, for a large block.

Q. The quotation shows it to be considerable less? A. Yes, but for small amounts at odd times; it was not a stock dealt in.

Q. There were no quotations in excess of 320? A. I am not certain that is so, I think I did hear of sales above that. I understand that it is now at 400.

Q. I am informed of a quotation on February 6th of five hundred shares at 320. A. I have heard of that quotation, but I am told that it is not the stock that could be got ordinarily, except by going after it, and negotiating for each block of the stock; and I am also informed that four hundred has recently been offered for all of that holding, and we have declined to part with it at that price. I want to make it perfectly clear that we did not know of the profit made by Butler & Read. We have told Mr. Read that we do not think that five dollars a share belongs to him.

Q. Do you think it belongs to the Metropolitan? A. I do, less a proper commission for his services in making the purchase. He, however, does not agree with me.

Q. He has the money? A. He has the money.

Q. With whom did the transaction take place, that is, with whom did Mr. Read deal? A. He says he dealt with Butler.

Q. I mean on the Metropolitan side? A. The Finance Committee. He met the whole committee.

Q. He met the whole committee in that transaction? A. Yes, sir, and they passed the resolution that I have told you about.

Q. We have had under consideration, Mr. Fiske, the question of lapses in industrial insurance. It has been pretty clearly brought out, and is sufficiently obvious that it would be a great deal better for a company if the policyholders continue to pay premiums at the rate at which they are established; but as it stands, there is considerable received by the company for which it gives no return by reason of the lapses. Now, what ratio of lapses has the Metropolitan? Have you further information on that than you had when your company was under examination here? A. Well, I have prepared a very brief statement on lapses, which covers that point, and I think I can save time if I read an answer to that question.

From the numbers and ratios of cancellations which have been put in evidence under the name of lapses I fear the impression will prevail that the company is making large profits out of the lapses. The exact contrary is the fact, lapses are great a great source of loss to the company. If there were no lapses we could increase our benefit for the same premium probably 25 per cent.; for the expense of the business would be extremely low, and the mortality would also drop down, inasmuch as we undoubtedly have the selection made against us in the matter of lapses.

Q. You mean by that that the lapses are of better lives? A. Yes, sir, more apt to be. In brief, the lapses are a very considerable source of expense. For instance our contract with our agents is to pay for increase a special salary of 15 times the weekly premium. As a matter of fact increase costs us 30 times. The reason is very largely because of lapses, which operates this way: A new agent comes in, takes a debit and begins to write business. He may write his friends and neighbors first and they having given him a start as they say, stop paying. Or he finds that the friends of his predecessor agent on the debit refuse to continue with him, and they lapse. Or he finds that he lacks canvassing ability and is unable to write enough business to cover his normal lapses. He gets, as it is said, "below claiming." That means that he gets no special salary, but only ordinary salary or collection fees. It means more to the company, namely, that there is still a sum of money represented by lapses which will have to be made up by writing business before special salary is to be paid; the agent gets discouraged and leaves; a new agent is put on; under his contract he is not obliged to make up the amount which puts his predecessor below claiming, and so the special salary which the company pays on that lapsed business is lost to it forever. It goes to increase the expense account.

Q. Now, pardon me, that increase of expense is taken into consideration by you in adjusting your rates and the benefits you give in consideration of certain payments. If you get out despite your expenses and despite the great mass of lapses with a continually increasing surplus——. A. I do not think our surplus increases any faster than proper business judgment compels us to increase it. Mr. Hegeman testified that we have kept our surplus down to 10 per cent. of our assets. I think that was simply a safe margin. You even find where we scarcely added anything to surplus.

Q. You say that the business is lost and you are put to a certain expense. The point I am making is this, that while, of course, you lose by not getting the money you would otherwise receive, the fact is you have discounted those expenses in making your rates, and that you are in dollars and cents a constant gainer on the lapsed policies? A. No, sir, no, sir, I think not. We have to pay twice for the same business by reason of the lapse.

Q. But you have got in a lot of money and you give no return? A. We have not got in as much money as we have paid out.

Q. If that were so the lapses would cause you, with reference to the policies, an actual money loss? A. They do, a million dollars in a year.

Q. You mean that the persons who lapse have cost you a million dollars more than the money that they have paid you? A. I mean that for the business that we put on in a year by reason of the heavy lapses we lose a million dollars.

Q. That is on your whole business? A. No, that is on the new business.

Q. Now, tell me so that we will not have mere conjecture, what amount of money you got in in 1904 from the new industrial business in that year? A. I don't know that I have that statement.

Q. Amounts to about $3,000,000 Mr. Craig says? A. Yes.

Q. Now, what amount of money did it cost you to put that business on the books? A. Well, I would have to find out; I don't know.

Q. Well, what data have you for reaching the conclusion that you have lost a million dollars by lapsing? A. Why, this data that on the business of 1904 when we have reached the end of the year and taken account of all the premiums we have received, we still are a million dollars short of the amount we ought to have on hand to cover our liabilities after having paid expenses.

Q. You got in last year fifty million of dollars all told, and you paid your policyholders sixteen millions, and you disbursed upwards of nineteen millions, a total of about thirty-six millions and a half. Now, then, what do you mean by saying that you found that you were a million dollars short of what you should have? A. I mean of the business of the issue of 1904.

Q. Then you must have the facts pertaining to the business available—segregated? A. I have a table in which I have followed through the experience for several years for five years thereafter.

Q. Is that before us here? A. Yes, sir; I was coming to that in a few minutes under the head of expenses, but it is there.

Q. Can you give us that? A. I will go right on if you will allow me a moment or two, to explain just what I do mean—it comes under increased expense account. The business so lapsed is comparatively new business, and has never paid premiums enough to make up the reserve which the company cancels; most of it has not paid long enough to cover the initial expense, and has never paid anything whatever toward the reserve. Yet the company has, from its general funds, made up reserve—that is, has advanced or loaned it. The loan is paid only by the release of liability.

Q. Now, excuse me a minute. Now, on your first years' industrial business, business written in 1904, what reserve did you have to put up? A. My recollection is—I will come right to that—I will give you the amount later.

Q. Go ahead—all right. A. Never having been received in cash the amount never can be a profit. The loss comes from the expense incurred in putting on the books of lapsed policies. If they remained in force long enough to pay these expenses and make up the reserve in whole or in part the reserve so cancelled would be a profit if not returned in some way to the insured. But this is not the case. The policies lapsed the year of issue do not contribute anything to the reserve. They do not contribute enough to pay the expense of placing them.

We are requested, if possible, to state the amount of premiums received from industrial policies less than one year in force. We find it would be rather a difficult matter to make a computation on all policies less than one year in force, because the amounts are kept by calendar years rather than by policy years.

We find in 1904, there were 575,392 industrial policies lapsed of the issue of the year 1904, and the total amount of premiums received on these policies amounted to $417,735.

The average premium per cancelled policy was 12.004 cents, and the average time for which premiums were paid on cancelled policies was 6.05 weeks. This gives an average of 72.6 cents paid per policy. The average initial cost of new business during the year 1904, on industrial policies, was $2.07 per policy, so that while the loss per policy, from a policyholder's point of view who counts as his loss the total premiums paid without taking into account the value of the insurance he has received, averaged 72.6 cents, the actual loss to the company averaged $1.344, or a total of $773,326.84; and this without taking account of the cost to the company of carrying the insurance during the time it was in force, which amounted to the average sum of 51.6 cents. So that the net loss to the policyholder by the breach of his contract was only 21 cents, while the loss to the company was $1.344 plus .516 cents, or a total loss of $1.86 per policy—in all $1,070,329.

Lapses in industrial insurance are entirely a different thing from lapses in ordinary insurance. In the latter case the policyholder pays at least a quarter's permium—thirteen weeks. In industrial insurance he need pay but one when he lapses—indeed, may pay none at all. The agent secures an application, but he seldom collects a premuim upon it. He pays it to the company from his own pocket. When he comes to deliver the policy the applicant refuses to accept it. The agent holds it during the grace period of four weeks hoping to place it. He fails.

This appears on our books as a lapsed policy. An experienced field man tells me the policies reported for lapse up to the seventh month of issue are so nearly all policies of this description that it is safe to count them all "not taken" policies and not lapsed policies.

Q. Pardon me, but the companies had the money although it is not paid the assured. A. The company has had the money, has had the one premium of ten cents, but it has paid out a great deal more to the agent for getting that. Making a liberal allowance for policies on which the policyholders really paid a premium, it is safe to say that over 20 per cent. of the lapses reported to the Insurance Committee are of this character, and are in the same class as those reported by the ordinary companies as "not taken."

Q. Is not that inaccurate because of the fact that in every case the policyholder in the industrial plan—I mean to say the company on every policy in the industrial plan, at least receives one payment? A. The company has received payment, but not from the policyholders.

Q. Well, yes. A. Therefore as between the policyholder and us, I think it should be taken not as a lapsed policy, but as a not taken policy.

Q. But we might apply the old clause to the policy, and say that for that purpose the agents shall be deemed the agents of the insured? A. Yes, but by paying the ten cents to us he gets much more from us. He gets fifteen times on it.

THE WITNESS: A typical illustration was the affair in the Massachusetts Investigation of a witness for the bill when there were fifteen lapsed policies which the counsel scattered over the room as the woman took the stand. Here,he intimated, was a sample of the company's robbery. It was, indeed. I cross-examined the witness and proved that these policies were taken out and lapsed within one year, in three separate groups of five policies each on different members of the family. That each time, only a few weeks' premiums were paid. That some of the premiums were loaned to her by the agent. That she had four weeks' grace on each policy, which multiplied by fifteen, made a total of sixty weeks, or over a year; and that consequently she had got her insurance exceedingly cheap; that the company had lost the expense of placing the business three times, and that, if a death had occurred among any of the five persons insured, the company would have been heavily mulcted. The total amount of premiums paid on all those three sets was $1.90. The woman got insurance for nineteen weeks on each of five different lives.

The lapses in industrial insurance, while they cause a heavy loss to the company, do not usually represent an inferior clause to the insured. Payments are weekly, and the policies are carried free for four weeks after lapse; and they are re-issued upon payment of a single week's premuim. The loss, therefore, is not like that of those who pay annually. On the infantile table—

Q. Do you mean that after four weeks of arrears a policy is re-issued or revived on payment of a single week's premium? A. I mean in many cases they do not revive them, but take a new policy, and then pay one week, and the others stand as a lapse, and that is what Senator Dryden meant, I think, by his saying that they come in and go out. The same man will take several policies of insurance and will save money by not paying the arrears. He has had four weeks of grace, and takes another policy.

Q. Which do you encourage, the re-issue or revival? A. Revival, because the new issue costs so much.

Q. But you will knowingly take a man who had lapsed after a few weeks as a new risk? A. The home office would not if it knew it. The home office, I think, would insist, lest under peculiar circumstances, that the man should pay his arrears.

BY THE CHAIRMAN:

Q. Your argument is that a designing person by timing his taking out of his policy appropriately and the payment of ten separate weekly premiums could get a year's insurance? A. Yes, this woman in Massachusetts did just this thing. On the infantile table the policy, if re-issued is for the same amount as the policy lapsed would have called for at the age of re-issue—

BY MR. HUGHES:

Q. Would she not have to change her residence and move out happen in one district under your system of inspection? A. It of.the district that was so thoroughly infected? How could that could only happen by the collusion of the agent or change of agents.

Q. The assistant superintendent would have to collude, would he not? A. No, he would not know it until later, or might never know it. We cannot know it here. We issue thirty thousand policies a week, and it is quite impossible for us to keep any record so that we can go back and examine each application with reference to previous insurance.

On the Infantile Table, the policy, if re-issued, is for the same amount as the policy lapsed would have called for at the age of re-issue, because up to age ten the amount of death benefit increases each year; so that the only loss is from the partial benefit rule for the initial year. On the adult table the policy lapsing during the first year in force can be revived at any time without any loss to the insured; after a policy has been in force a year it may be revived within a year after lapse at the original amount in full benefit.

Here, also, is no loss to the insured. If the policy has been in force two years and lapses, the premiums will, within two years thereafter, be loaned by the company if the applicant wishes to revive, and is unable to pay the arrears. Here, therefore, there is no loss to him. If not revived——

Q. That is assuming he revived? A. Yes.

Q. But if he does not revive there is a loss to him? A. Well, we take it for granted that he will look after his own interests. He may revive and not pay us any money.

Q. As a matter of fact only a small percentage of those that lapse do revive? A. I think that is true, I think the percentages given to you are true.

Q. Sixteen per cent., as I remember it? A. Yes, sir. My belief is that the remainder of them take new insurance.

Q. Well, that is an unverifiable belief, is it not? A. No, it is founded on information received from the field force and general course of the business. Take, for instance, the City of Newark, Mr. Hughes, where there are as many policies in force as amount to the entire population of the city; and yet each year the Prudential and Metropolitan go on writing just as much business as they did any other year. Now, you have, in the reason of things, to know that the same people issue insurance and let it lapse, or they would not go around.

Q. Or cross examine the statistician. A. Well—if not revived and new insurance is taken the amount of insurance at each advancing year is very little less than the preceding year. If the policy kept in force until it is entitled to be surrendered for paid up insurance, the holder may have paid up insurance; or he has the alternative privilige of extended insurance, by which the full reserve is applied to the payment of premiums upon a new policy issued at the attained age. We always send a notice to the policyholder, who is entitled to paid up insurance, telling him of his rights. For a long time we have been issuing about 900 paid up policies a week, which nearly covers the number of notices sent. It is possible that nearly every one who is entitled to a paid up policy gets it or accepts the alternative concession. I believe, as a matter of fact, it more than covers the notices sent out.

Q. That is after three years? A. Yes, five years.

Q. And that only applies to about twenty-eight or thirty per cent. of the policy? A. Yes, sir; while we are issuing, the figures show here, $900 a week of the paid-up. It is probable that nearly every one who is entitled to a paid-up policy gets it or accepts the alternative concession. If he elects to take the extended insurance, he can begin paying again when the period of extension lapses and thereby lose nothing by his original lapse, except the reduction in the amount of the policy, owing to his increased age at the date of the new policy. It goes without saying that in all these cases lapses are a source neither of substantial loss to the insured nor of any great gain to the company. There can be no doubt that the lapses in industrial policies are very largely by those who subsequently take new insurance suffering no loss at all in case of revival, and otherwise suffering only the small loss arising from partial benefits during the first year and the small decrease of benefits by reason of advanced age. In times of strikes and lock-outs, the policies lapse by the thousand, and come back again after the trouble is over. In cases of prolonged strikes, the company pays pay death claims on policies as if in force, and revive with full immediate benefit when work is resumed. The fact is, there are many who insure and lapse and re-insure, according to their disposition of mind and their resources, with no loss to the holders, but large loss to the company, which is put to the expense of commission for placing the business and the large expense of caring for it. After three years the business is quite persistent, so that the average persistence of industrial business as a whole compares very favorably with annual premium business. The average duration——

Q. How can you say that in the face of such facts as were read, that $864,000,000 of new business had been written in the last four or five years by the Prudential, and only $285,000,000 had remained, whereas on the ordinary side $450,000,000 had been written and $267,000,000 had remained. A. You asked for the last five years, and I had the curiosity to look up that, and I find that our figures are almost precisely the same as the Equitable figures.

Q. Then that is merely a special instance in the Prudential case?

THE CHAIRMAN: I think you misunderstand. I understand Mr. Fiske to say that after this great lapse rate is over the business then persists.

MR. HUGHES: Yes, he does say that but then he goes on to say that the business as a whole compares favorably and that it was that last remark to which I addressed my criticism, as a whole, because it was as a whole we made this examination or took this comparison.

THE WITNESS: I say it does. As a matter of fact I find that the figures for the last five years of the Equitable and Metropolitan were almost precisely the same as to the amount of insurance issued and the amount of insurance in force.

Q. Which do you take, ordinary or industrial or both? A. Industrial Metropolitan.

BY THE CHAIRMAN:

Q. Don't you know there was a very abnormal rate of lapse in the Equitable in the last four or five years, amounting to sixty per cent., and that was higher than any other company in the field? A. This was prior to this year.

Q. This was prior to this year? A. Prior to the trouble.

Q. For the whole past five years?

MR. HUGHES: Before 1905.

THE WITNESS: The five years ended in 1904. Then I think I took into consideration there were, so long as I have been in the business, there is a tradition that the average length of time of policies in force in the ordinary company is about seven years. I think ours are six and two-tenth years.

Q. You were just about ready to state that. It is in the next paragraph. A. The average duration of the largest English companies is ten and three-fourth years, and that of our policies, we have been in business only about half as many years, over six and one-half years.

Q. My point is you could not say if you take the Prudential experience as a type, that the persistence of industrial policies compared favorable with ordinary business, for there it appears to be about half as favorable. A. I think you took the Mutual Benefit.

Q. No, that is another case. I took the Prudential without comparing it with anything but its own record. A. Oh, with its own ordinary business?

Q. Yes.

Mr. Craig states that it is his impression it is on a paid for business.

MR. HUGHES: That is what I supposed. Just like the Industrial.

THE WITNESS: Then, Mr. Hughes, my belief is that you do not make a proper allowance in industrial business, because I think I have already shown that about twenty per cent. of ours ought to be taken as not-taken policies, and that would modify the figures very much.

We do all we can to prevent lapses. Our agency compensation is based upon increase of debit, so that the agents shall have a pecuniary interest to prevent lapses. (The agent is exempted from a charge for lapse in case of death, surrender for paid-up, and surrender for an ordinary policy for a minimum of $1,000. Our bonuses are based on increase. We have given prizes based on saving lapses. Realizing that the persistence of agents reduces lapses we increase an agent's compensation according to his length of continuous service rising from two to ten years and base the extra compensation upon increase. We urge the saving of lapsing in our instruction book (see pp. 10, 11 and 12). We urge it upon the agents in the bulletins and by addresses; we urge it upon the policyholders in our issue of the Metropolitan (of which we print over four million copies bi-monthly in three languages besides 300.-

000 tri-monthly in seven other languages) and in the premium receipt book one of our rules for assistant superintendents reads as follows:

"It is the duty of the assistant superintendent to visit the holder of every policy entered by the agent on a lapsed schedule and try to save the business." We offered prizes to superintendents based upon persistence of business.

The lapsed ratio is decreasing. In 1898 of the business issued on a given date 38 per cent. lapsed in three months; sixty per cent. in a year. The percentage is shown in our letter to the Committee of November 7th of 34.4 for three months as against 38 per cent., 51.46 in a year as against 60. In 1898 60 per cent. lapsed in a year after issue; now that amount only lapses in three years. Our efforts with the agents, our dividends on old policies, our increase of benefits under the increasing life and endowment table, our gain in length of service of agents, all we believe have contributed to this.

To provide surrender values at an early period would be unjust to the company and the persistent policyholders. Referring to the 51 per cent. lapse in the first policy year the Committee asks if the lapsed policyholders received anything. Of course they do not receive cash surrender values. Most of them reinsure with trifling loss. No ordinary company has ever paid surrender values during the first two years. To pay surrender values during this period would be to take the money of the persistent policyholders and pay it to the lapsed policyholders who have made no contributions to the fund. This would put a premium on lapsing. A policy contract has two parties, and the man who stops paying breaks it. He ought not to benefit by it. He should receive only what belongs to him. Elizur Wright long ago laid down the principle that a retiring policyholder should contribute to the expense of replacing him with a new risk. He ought not to receive, either in surrender value or paid up insurance his reserve until he had paid premiums long enough to cover the reserve. Any law requiring the issue of paid-up policies in industrial insurance after three years would be most unjust. The following figures made up from the experience of the Metropolitan show that five years is as early a period for granting paid-ups as is just.

INDUSTRIAL EXPERIENCE. ISSUE OF 1898.

The industrial experience of the issue of 1898, on December 31st, 1898, the fund accumulated was a minus quantity of $931,827.

MR. CRAIG: That is of the issue of 1898?

THE WITNESS: That is of the issue of 1898. That means that we had not accumulated any funds, but were that amount short of a fund.

THE CHAIRMAN: I guess we had better postpone the joy of hearing your paper until to-morrow morning, Mr. Fiske. It is past our usual time for adjournment. The Committee will hold meeting immediately after the adjournment.

Adjourned to December 14th, 1905, at 10:30 A. M.

ALDERMANIC CHAMBER,

CITY HALL, NEW YORK CITY.

December 14, 1905.

The Committee met pursuant to adjournment, Senator Armstrong in the chair.

HALEY FISKE, resumed.

BY MR. HUGHES:

Q. At the close of the session yesterday you were about to give a table of the industrial experience of your company? A. Yes, sir.

Q. Will you present those facts? A. Yes, sir; I start there first with the issue of 1898, and on the 31st of December in that year the fund accumulated shows a minus quantity above $931,-827, a liability of $246,920, making a deficiency on the issue of that year, during that year, of $1,178,747.

Q. Now, will you explain what you meant by the fund accumulated showing a minus quantity? A. I mean that so far from acumulating any fund towards the liability we were short of any fund in that sum.

Q. And that means that for the issue of 1898 you had received in moneys $931,827 less than the liability as calculated upon the policies issued? A. No, sir, $1,178,747 less.

Q. Yes, making a deficit in the accumulation of $931,827? A. Yes, sir. Well, not quite that. It means that we had a liability of $246,920; we had not on hand any part of that liability; we had $931,827 less than any fund on hand. Now the next year, the same issue, our fund accumulated amounted to $54,009. Our liabilities were $951,816, which made our net deficiency $896,907.

Q. I do not think it is entirely clear yet, Mr. Fiske, what you mean by saying that for the year you had less than any fund on hand by the sum of $931,827. How do you arrive at those figures? A. We had spent that much more money than we received.

Q. That is, expended in getting the business? A. Yes, sir.

Q. In getting the business for that year? A. Yes, sir; of course, getting and carrying the business and paying claims.

Q. Claims arising on the policies of that year? A. That is it —I mean the issue of that year. Following that, during 1900 we find at the end of the year we had accumulated a fund of $983,332; that our liabilities were $1,920,151, leaving a net deficiency of $936,819. The following year, 1901, at the end of the year our fund had grown to $1,859,744, our liabilities were $2,632,738, leaving a net deficiency of $772,994. The next year, 1902, at the end of the year the fund had arisen to $2,856,191; our liabilities were $3,387,211; our deficiency was $531,020. In 1903, the same issue, our fund had accumulated to $3,568,010; our liabilities were $3,939,974, leaving a net deficiency of $371,-964. The next year, 1904, at the end of the year our fund had reached $4,418,433; our liabilities were $4,412,440, and we had a surplus then of $5,993. Take the issue of 1899: at the end of 1899 we were short of a fund $1,115,223; our liabilities were $326,095, and our deficiency the sum of those two items, $1,-441,318.

Q. Without giving the items for the next few years in detail, you might state the results, as I shall put this table on the record? A. Very well, then. The table shows at the end of 1904 we still had a deficiency of $348,001. Take the issue of 1900; at the end of 1904 we still had a deficiency of $67,323.

MR. HUGHES: I will offer the table of the witness in evidence.

(Table marked Exhibit No. 696.)

THE WITNESS: These tables take the issues of the last three years upon which we have five years' experience, viz.: 1898, 1899 and 1900. The first column shows the fund we had accumulated from the premiums toward making up the legal reserve. In the year of issue this fund is a minus quantity representing the excess of cost and expense in the first year over the aggregate premiums received, as above explained; and this excess has to be made up before the fund is started. In the second year a small fund is accumulated which increases year by year. The second column represents the liability of the company in the year named at the side of the table at the issue of the year named in the caption of the table. This liability is made up of a legal reserve and the outstanding unpaid death claim of the issue of the year named in the caption. The third column represents deficiency which has been made up from the capital and general funds of the company.

It will be seen that the reserve liability of the company on the issue of 1898 was only made up last year—1904—six years after the year of issue. The reserve liability on the issue of 1899 and 1900 were not made up last year.

These figures we think correct the mistaken impression that cancelled reserves in the gain and loss exhibit put in evidence from the Wisconsin report represent profits.

And it follows from these facts that to compel the company to apply the legal reserve to the granting of surrender value or the purchase of paid-up insurance in industrial insurance in less than five years would be to require the payment of money contributed by and belonging to the persistent policyholder to policyholders who have persisted and have not paid premiums enough to make up statutory reserve on their policies. The three-year statute for paid-up in New York was passed before industrial insurance began, and had reference only to ordinary insurance, and was based upon experience of ordinary companies, which experience was that they made up their reserve in three years.

Q. Before we leave that subject of lapses, you have stated that the lapses do not represent any serious loss to the insured and that statement is based, as I understand it, upon the assumption that a large proportion of the lapses policies are revived or that they are new policies taken by the insured? A. In part based upon that and in part upon the fact that a large part of the lapses occur after payments of very small amount of premiums. It appears from the issue of 1904, for instance, that the average premium on cancelled policies was twelve and a fraction cents per week and that the average number of weeks paid was six and a fraction weeks, so that on the average the policies issued in 1904 which lapsed in the year paid but 72 cents to the company, and they had for that insurance for at least ten and perhaps twelve weeks.

Q. Taking the first part of your statement have you any data to show to what extent lapsed policies are revived? A. The percentage of the revivals, I think, has been put in evidence.

Q. Senator Dryden gave some testimony on that as to the experience of his company. Have you any experience?

MR. CRAIG: It must be essentially the same.

Q. Why must it be essentially the same? A. Because the experience of the two companies run along on large masses of policies about the same.

Q. Have you any figures which you can give? A. I have not here. You can get them.

Q. Your company has kept records which will enable it to give definite information on that point? A. That is entirely so.

Q. Now have you records which will show to what extent the policyholders take out new insurance where they have once lapsed? A. We have no data; it will be impossible to get that and if we knew accurately I think in the case of people who repeatedly came in and went out and came back we should refuse to issue new policies.

Q. But that is a matter where the basis of your statement is unverifiable at present? A. It is unverifiable by any data at the home office. It is verified by talks with superintendents in the field who tell me that is their experience, and in the one city where there are two districts where the lapsed ratio is perhaps lower we find it results from the greater care exercised by the superintendent and the assistant to prevent the forwarding to the home office of applications on what they call repeaters, namely, those who come in and go out.

Q. You say that the average premium per cancelled policy was 12.004 and the average time for which premiums were paid on cancelled policies was 6.05 weeks, giving an average of 72.6 paid per policy? A. That is 1904.

Q. Yes; so that the average period for which the insurance was carried, as I understand it, was six weeks? A. It was, as matter of fact, from ten to twelve weeks, owing to the grace period and the practice of the company.

Q. You allow a grace of four weeks? A. We allow a grace of four weeks by the policies and in actual practice the lapses are not reported and not cancelled officially under six weeks.

Q. Suppose that a person died after he has been in arrears for five weeks. Do you pay the claim? A. We often do.

Q. Are you obligated to pay it? A. We are not obligated to pay it after four weeks.

Q. Suppose he dies after he has failed to meet his premiums but within the period of four weeks from the time when he should have met them. Are you obligated to pay it? A. We are obligated and we always do pay the policy.

Q. So that if the average time for which premiums were paid on cancelled policies is 6.05 weeks, your legal obligation was in duration about 10 weeks? A. Ten weeks, and in actual practice the lapse was not officially entered until about 12 weeks.

Q. Now what was the benefit or the amount of insurance represented by these policies, the average payment on which was 12.004 cents a week, and which had only been in force an average of ten weeks? A. Well, it is a rough calculation; I should think about $50.00 on the average. Mr. Craig can tell that better than I.

Q. Is that taking into consideration the renewed benefit in case of death during the first three months? A. That is what I take into consideration.

Q. About $50.00? A. I should think that would be fair; it might be a little less.

Q. What would be the term rate of insurance for ten weeks in the amount of $50.00? A. Well, I think it would be very small; there is no such policy ever issued.

Q. There is no such policy, but if you were to take the proportion in term rate for a larger amount as to which there are quotations, what would it be? A. I do not know any quotations for industrial insurance on term rates, but it would be a mere guess, Mr. Hughes.

Q. Well, give me your best guess? A. I would rather Mr. Craig would give his guess, because you want information.

Q. It will be a very small amount? A. It would be a very small sum.

Q. You have said here that the cost to the company of carrying the insurance during the time it was in force amounted to 51.6 cents. You did not mean that that would be the fair estimate of term insurance for ten weeks, on an amount of fifty dollars? A. That is an accurate figure; that 51.6 cents is our experience on the cost of carrying those policies; the cost of putting them on the books, Mr. Hughes, was $2.07 per policy that year.

Q. Well, that is very different from 51.6 cents, so that you were not taking into consideration the expense of putting it on the books? A. Oh, that is a part of it. I can tell you——

Q. Yes, but $2.07 per policy—— A. I can tell you how the 51 cents is made up, if that is what you want.

Q. Yes, that is exactly what I want. A. The first constituent of that sum is 9.1 cents, which was the ordinary salary; that is fifteen per cent. on the collection after the first week, fifteen per cent. of 60.6 cents. The first week has appeared in the initial cost, and therefore on the rest, seventy-two cents was paid, and twelve cents was taken into consideration as the initial cost, the balance of sixty cents, fifteen per cent. on that is 9.1 cents; that is the first constituent. Then the next loss to the company was $1.86 per policy, and we take the interest on that loss to the company on that debt for twelve weeks, which amounts to 1.8 cents.

Q. You are giving now the constituents of fifteen cents? A. Yes.

Q. But you arrived at the $1.86 by adding the fifty-one cents to the $1.34, so that you are going in a circle, are you not? A. No, we arrive at it in the other way; we arrive absolutely at the figure $1.86.

Q. Tell me how you arrive at that? A. We arrive at the $1.86 by a division of the loss on the policies among the number of cancelled policies, or the total loss. The total loss I have testified already on these, from lapses during that year, was $1,070,229.

Q. How do you arrive at that, according to your statement, you would derive that from the $1.86 per policy? A. Well, you can arrive at it either way. Let me complete my answer and then I will explain it to you.

Q. Certainly. The total loss by lapses during 1904 was $1,-070,229. Dividing that by the number of cancelled policies, 575,392, produces $1.86. The calculation to get the $1,070,229 is an actuarial calculation, which I do not presume to be able to explain in full. Mr. Craig can do it.

Q. Well, your $1.86 per policy is based on your estimate of total loss upon cancelled policies of $1,070,229. A. I think that the calculation can be made either way, Mr. Hughes, by the Actuary. They are——

Q. Well, you may make it either way you please, if you will just tell me how you arrive at the figures? A. I have already said I make it in this way, by dividing the total loss by the number of cancelled policies.

Q. That implies you have your total loss first, and then you reach your $1.86 per policy. A. Yes, sir.

Q. Then you have that made up of $1.34 plus 51.6 cents? A. Yes.

Q. Now, I want to get at the fundamental figure with which you start and from which you derive the others to see how you make it up? A. I think the fundamental figure is $1,070,229.

Q. And you would prefer to have Mr. Craig state how that is arrived at? A. I think he would be clearer than I could be.

Q. But according to your impression you have arrived at the total losses, and you divide that by the number of cancelled policies, and in that way ascertain a total loss of $1.86 per policy, and you find that $1.86 per policy is made up of $1.34, the difference between the amount paid to the insured and the average cost of new business and 51.6 cents, the cost of carrying the insurance during the time it was in force? A. Yes, sir; but I put in the $1.34 for the sake of clearness rather than as the result of the actuarial computation; initial cost of policy being $2.07, and the amount received being seventy-two cents it would be perfectly evident to everybody that the first loss is the difference between those two figures, and I put that in for the sake of clearness.

Q. Having obtained that you deducted that from the total of $1.86 and said the cost of carry the policy was fifty-one and six-tenths cents? A. Yes, that is one way of doing it.

Q. From that it would seem that you estimated the cost of putting the insurance on the books over the amount received at $1.34, and the cost of carrying the insurance at 51 cents? A. No, I do not think it is an estimate at all, Mr. Hughes. It is the actual cost to us of $2.07 per policy, that is the first——

Q. You put that amount as the expense of putting the cancelled business on the books, and then the fifty-one cents is the cost of carrying that cancelled business during the time it was in force? A. Yes.

Q. And the two make up the $1.86 per policy which you arrive at by taking the total losses, and dividing it by the number of cancelled policies? A. Yes, sir.

Q. So that what we really need to know is how you made up the $1,070,229 which represents the total loss? A. Yes. May I complete the constituents of the fifty-one cents for the sake of clearness?

Q. How can you. That is a mere difference between $1.86, which you have arrived at one way, and $1.34, which you have arrived at in another way. A. Yes, but we can tell how the fifty-one cents is made up in that item. And I have told you two items.

Q. Go on. A. The third item is the proportion of the claims, which was 6.4 cents; and the fourth item is 34.3 cents, the share of these cancelled policies in the miscellaneous expenses and superintendents' and assistants' salaries.

Q. Where do you get the figure $2.10 as the average initial cost of new business? A. We divide the total expense by the number of policies issued.

Q. What do you take as the total expense. A. We take the total expense of the year and we charge to the year's issue of those expenses for the year that proportion which the number of policies issued bears to the number of policies in force at the beginning of the year. We think that is fair.

Q. Taking that in actual figures, your total expenses last year were $19,874,752. Is that the amount you take? A. I have it here divided into various kinds of expenses. I have no doubt the total is as you say.

Q. This is the total of all your expenses. You say you take the total expense? A. No, I mean the expenses for superintendents' and assistant superintendents' salary, special salary, medical fees, extra compensation and commissions, the miscellaneous expenses.

Q. Have you got a statement of them? A. I have no statement of the total amounts. Have you, Mr. Craig? The question, Mr. Craig, is whether you take the total of nineteen millions of expenses in order to arrive as a basis for beginning a calculation as to the initial cost?

MR. CRAIG: That proportion of nineteen millions which belongs to us.

THE WITNESS. I have explained that it was that proportion.

MR. HUGHES: Would you mind withdrawing for a moment and letting Mr. Craig take the stand.

JAMES CRAIG resumed.

BY MR. HUGHES:

Q. Before we take up the matter as to which you were just asked, that is, the expense of new business, I would like to have you answer this question. It appears that you have figured the total in 1904 on cancelled policies to amount to $1,070,229. Will you please state how you arrived at that figure? A. We take the total receipts derived from the business in 1904 and from—Oh, I beg your pardon. I started off on the wrong basis. We find that the total initial expense of placing an industrial policy is $2.07, taking one policy against another. And we find that that average of $2.07 has decreased to $1.86 at the average date of lapsing. There were 575,392 policies lapsed, which multiplied by $1.86 produces the aggregate loss of $1,070,229.

Q. That is the way you arrived at that amount? A. Yes, sir.

Q. Now, how did you get the $1.86? A. We know at the end of the year by actual computation what the total deficit is on the business during the year. It is not stated here, but my recollection is that the average was $1.21 per policy, and the sum of $1.86 was arrived at by proportion. That is, for the intermediate period between the average issue of the policies and the 31st day of December, 1904. I know of no other way of arriving at that, because the 31st day of December is the only time that an accounting is made of the assets and liabilities, and, of course, at that time the amount is determined definitely. But for any intermediate period of time, when no accounting is made, the only fair and equitable way that I know of would be a proportion.

Q. What are the figures that enter into your determination of the deficit for 1904? A. The total amount of premiums received——

Q. Give me the exact figures. I want to see what your calculation is. You made up this calculation, did you not? A. I supervised its preparation.

Q. Who actually made it? Who is responsible for the accuracy of these calculations? A. Mr. Carpenter.

Q. Is he here? A. No, sir.

Q. Do you know what he did to arrive at the figures exactly? Because we have not much time and I want to get at this and it will only take a few minutes if we have the man who knows. A. If you want Mr. Carpenter here we can have him here in half an hour.

MR. FISKE: If you knew how he made up the calculation, that is enough, and it will save time.

Q. I do not want a long explanation, I want to know just what he took as representing what. A. We primarily take the premiums received on the business issued during the year and from the premiums thus received we charge all the expenses properly belonging to the year's issue.

Q. What did you take at the premiums for the year to start with? A. The exact amount I have not with me, but something over $3,000,000.

Q. Let us have Mr. Carpenter down here and find out just what the calculation is. There is no use in talking in general terms about it. That is all, Mr. Craig. Ask him to bring down his figures.

HALEY FISKE, resumed:

BY MR. HUGHES:

Q. Now Mr. Fiske, you have said that lapses are expensive to your company because while you pay nominally fifteen times the first payment by the policyholder to the solicitor— A. Increase.

Q. On the net increase? A. Yes.

Q. That in effect you pay thirty times? A. In fact.

Q. On account of lapses? A. Yes, sir.

Q. Now is it not a fact that because you pay only on the net collectible debit of the solicitor you do not in the aggregate pay during the year a commission except on the net increase of the year's business? A. Oh, no, sir; it is not the fact. We know the exact figures that we pay for special salaries, and when you divide that by the amount of increase, we know the exact figures that come in the collectible debit. We find that we have paid thirty times instead of fifteen.

Q. You mean you know the amount you have paid in special salary for the year? A. Yes, sir; and we know the increase we have made.

Q. And you know the increase you have made. And when you say you find you have paid thirty you mean you find you have paid thirty times the first premium on the increase? A. We have paid thirty times the increase on special salary.

Q. What do you mean by the increase, you mean the increase in the first payment? A. The increase on net collectible debit.

Q. How do you account for that? A. We account for that by the fact that agents go out when the policies lapse and that we cannot make up from the new agent the money that the old agent has been paid and which we cannot get back from him.

Q. Of course, if the agents remained the same that would not be the case? A. No.

Q. It could not be the case? A. It could not be the case.

Q. Then you would only pay on the net increase? A. Yes.

Q. So it must be due to the fluctuation of the agents? A. Yes, sir; and that is due to the lapses.

Q. To the discouragement of the agent caused by the lapses and the reduction of his net collectible debit to below claiming, as you put it? A. Yes, sir.

Q. Can you tell me to what extent your agents did change in the year 1904? A. I can. The number of agents who left our service in 1904 was 16,933.

Q. And the number of agents that you had at any one time in your employ was how many? A. At the end of the year we had 12,028.

Q. And how many at the beginning of the year? A. 11,909.

MR. MILBURN: That means the same agency changes several times?

THE WITNESS: Yes, it means that the agent comes in, tries the business, does not succeed and goes out. We have to make experiments before we get a permanent agent.

MR. COX: What was the first figure?

THE WITNESS: 16,973.

Q. Do you include in the amount of the cost of getting the new business as indicated by the special salary the moneys that you have lost through the failures of agents to account? A. Oh, no, sir. The special salary is a definite sum paid as special salary.

Q. Have you the figures here which will show what you paid for special salary in 1904? A. I have not here but——

Q. You can get those? A. Yes, sir.

Q. I should like to get those and see just how you arrive at this thirty times which you say the new business has cost you.

MR. MILBURN: Let me see that sheet that you have. Mr. Craig thinks it is there

THE WITNESS: I do not see it there.

MR. MILBURN: What is that item (indicating)?

THE WITNESS: Mr. Craig believes that item is $1,460,066.

Q. Which you paid in special salaries? A. Yes.
Q. On your industrial business in 1904? A. Yes, sir.
Q. And in 1904 you wrote in new business on the industrial plan 178,312 policies? A. I think so, but the special salary is not based on the amount written, it is based on the increase.
Q. I understand that, but I am trying to get at what these new policies cost you? A. Yes.
Q. The total amount of special salary you paid was how much? A. $1,460,066.
Q. Now, you wrote in that year 178,312 new policies on the industrial plan? A. Oh, a great many more than that.
Q. Well, wait a moment. You are quite right, I was referring to the ordinary plan. A. Yes.
Q. I intended to read the figure for the industrial plan. You wrote in the year 1904 on the industrial plan 1,829,559 new policies? A. If that is the figure there?
Q. Yes. A. That is about right, I should think.
Q. And you paid in special salaries $1,460,066? A. Yes, sir; but these figures have no relation to one another.

Q. Why not? A. Because the special salary is based on the increase of collectible debit.

Q. I know, that is the way you figure it out— A. That is the way we pay it.

Q. That is the way you pay it, but the fact is that you paid for new business a certain amount of money and you wrote a certain number of policies, and if you really want to know what those policies cost you each, you can easily find out in that way, can you not? A. No, you can only find the amount of special salary per policy. You can find that.

Q. What else do you pay in getting the new policies on your books beside the special salary? A. We pay superintendents' and assistants' salaries and home office expenses, Mr. Lanier's expenses, and all those things.

Q. Is this amount you have given me of special salaries, the special salaries simply of the solicitor? A. Yes, sir.

Q. But we can put that aside as the total item of that expense for that year? A. Mr. Craig tells me so, yes, sir.

Q. What other items of expense have you for that year, which enter into the cost of getting new business? A. The superintendents' and assistants' salaries.

Q. Give me the figures if you will, please. In other words, to save time, if you will just read upon the record a statement of the various amounts which go to make the total of the expense of the new business in 1904 on the industrial plan. A. I have not the—I was explaining a moment ago how we charge—the proportion of Mr. Lanier's expenses of the company we charge—and said that we took the number of policies issued during the year, and made a proportion between that and the number in force at the beginning of the year, and in that way arrived at the proportion of the miscellaneous expenses, which should be apportioned to the first year of insurance, and then we take one-half of that sum as the initial cost of new business arising out of these miscellaneous expenses——

Q. Well, you can show how you distributed the miscellaneous expenses? A. And that sum we charge on the miscellaneous expenses is $448,714.

Q. What class of expenses are included under that head of miscellaneous expenses? A. That is everything except superintendents' and assistants' salaries, special salary, medical fees, extra compensation, ordinary commissions. That is all.

Q. Give me the amounts of those that are not included in the miscellaneous expenses? A. The proportion of superintendents' and assistants' salaries that we thought fair to charge the new business in this way; taking the unit of premiums written during the year and the proportion which they bore to the units of premiums in force at the beginning of the year, and applying that proportion to the superintendents' and assistants' salaries, we arrive at a figure, and we take one-half of that as properly applicable to the initial cost of new business.

Q. How much does that amount to? A. Three hundred and forty-eight thousand five hundred and eighty dollars.

Q. What else is there? A. Then the special salary which I have given you.

Q. Now, do these three sums—— A. Then the medical fees.

Q. How much is that? A. Five hundred and forty-six thousand two hundred and seventy-five dollars.

Q. Anything else? A. The extra compensation; that means money that we pay over and above special salaries for getting the business.

Q. What is that? A. Five hundred and seventy thousand four hundred and ninety-eight dollars.

Q. Yes. A. And then the ordinary commission for one week, $28,027.

Q. How do you arrive at that? A. Well, that is the actual commission we pay on the collection of the first week's premiums. We are getting at the initial cost, so that first week's premium ought to have its commission deducted. The sum of those items is $3,402,160. Dividing that by the number of policies issued brings out $2.07.

Q. The number of policies issued is 1,829,559, is it not? A. One million six hundred thirty-nine thousand eight hundred and sixty-three. I believe these figures of mine to be accurate, sir.

MR. CRAIG: Those figures must be business assumed from other companies.

THE WITNESS: Yes.

Q. On what basis did you distribute the miscellaneous expenses, what were the proportions? A. We took the number of policies issued during the year applied to the number of policies in force, at the beginning of the year, and charged to the year that proportion of the actual miscellaneous expenses which the proportion brought out, and then took one-half of that sum as a proper charge on the initial cost of new business.

Q. What was the proportion you took in the superintendents and assistants? A. We based it there on units of premiums, because their salaries are based rather on premiums than on salaries. I do not think there is very much difference in the calculation. I do not think there is much difference in the calculation, but the actuaries thought it would be fair.

Q. Did you take the entire amount of medical expenses? A. Yes, because the medical expenses are only on the examination of new applications. That is the way the $2.07 is made up.

Q. Now, you get your $2.07 by taking the total of these expenses that you have mentioned and dividing the total by the number of policies issued? A. Yes, sir.

Q. In that calculation with reference to the cancelled policies you make no reference to the time it has been in force, for you are dealing with the initial cost? A. No, not the initial cost, that is placing it on the books.

Q. I say you are dealing with the initial cost? A. Only.

Q. Only, hence you do not take into consideration there the time it has been on the books? A. No, sir.

Q. Then you figure out that $2.07 being the average initial cost of the new business, if 575,392 industrial policies lapse, those policies have cost the company $2.07 a piece? A. Yes.

Q. Was it not by multiplying that 575,392 by $2.07 that you got your $1,070,229? A. I said that in the beginning.

Q. There seems to have been a great deal of difficulty in having that elucidated. A. I thought so, too, but I was trying to explain it to you.

Q. Why did you not make it clear to my benighted mind? A. I was beginning the explanation I have made now when you excused me and asked Mr. Craig to take the stand. I am sorry, but I was starting to do that very thing.

Q. It seems simple enough? A. It is.

Q. Now, having that cost of $2.07 for each one of the cancelled policies, you then figure the amount you have received from the policyholders of 72.6 cents? A. Yes.

Q. And figure an actual loss to the company of $1.344 cents, by taking the difference between the initial cost of $2.07 and the amount the policyholders whose policy has lapsed has paid on the average of 72.6 cents? A. Yes, sir.

Q. That you make a total of $773,326.84. Now, how is that made good to the company? A. Why, in a sense it is never made good. That is to say we have spent the money out of the capital of the company. We do get it back on the receipt of premiums from persistent policyholders.

Q. Then you make your premiums sufficiently high to cover that loss and provide you in ordinary calculations with a surplus? A. The premiums are sufficiently high to produce a surplus at the end, as I have shown, at the end of the sixth or seventh year. I think it is a mistake to say that we made the premiums high on that account, because the premiums were made before we had the experience.

Q. You found them high enough to protect you? A. Yes.

Q. Now, the fact is that your total cost of putting the cancelled policies upon the books in 1904 was $1,070,229? A. Yes, sir.

Q. And the total amount you had received upon those policies was $417,734? A. I should think that was correct.

Q. And the difference, or $653,000 approximately, was the actual amount you were out upon those cancelled policies? A. Yes, sir; plus those other sums of loss there which I explained.

Q. Now, then, having that as the actual loss on comparing the amount of premiums received with the cost of putting the business on the books, you then figure out an additional loss through the carrying of the insurance? A. Yes.

Q. Now, what does that represent? A. That represents, as I think I did explain, Mr. Hughes, the first item is the ordinary salary being fifteen per cent. on 60.6 cents, that is the premiums received after the first week amounting to 9.1 cents.

Q. Yes. A. The interest on the death of one dollar and eighty cents for twelve weeks amounted to 1.8, the proportion of claims which should be borne by these policyholders being 6.4 cents and the proportion of miscellaneous expenses, superintendents' and assistants' salaries amounting to 34.3.

Q. That 34.3 is charged against cancelled policies in addition to what has been charged as applicable to the cost of writing the business? A. Yes, we charge one-half of the initial cost, and the other half belongs to the year.

Q. So you charge first the cost of putting the business on and next taking care of it? A. Yes.

Q. The cost of taking care of it and paying their pro rata share of the disbursements of the company you figure out to be 51 cents and a fraction. A. Six-tenths.

Q. Six-tenths of a cent upon each one of those cancelled policies? A. Yes, sir.

Q. And that taken with the amount of net loss to the company on the cost of writing the business makes your aggregate of 1.86? A. Yes, sir.

Q. Which is the complete loss? A. Yes.

Q. And that is made good to the company by the premiums of the persistent policyholders? A. In subsequent years, yes, sir.

Q. So your point is on the whole statement that the lapses are a loss to the company and that your gains are always out of the premiums of the fellows who stay in? A. Exactly.

Q. And interest on your investments? A. That is the same thing.

Q. And the interest on the moneys accumulated through the premiums of those who persist? A. It is the same thing.

Q. Now, we have referred once or twice to the fact that it appears in the gain and loss exhibit that certain reserves are released by surrender and lapse, and that comparing those with the surrender and lapsed values allowed, you show last year a gain of some three millions of dollars. Now your point as I understand it is that it is not fair to take that gain as the result of your new business or lapsed business in the first year? A. The correction that should be made is that of that three millions, only $2,009,424.70 belongs to the industrial department.

Q. Let us take that figure $2,009,000 belongs to the industrial department. Now you say that amount is not gained from the policies that lapsed in the earlier years because you do not accumulate anything in the early years? A. Yes, sir.

Q. That two million dollars is gained by the release of the reserves that are applicable to the entire industrial business? A. Yes, sir.

Q. And it is to be treated as a gain upon the entire industrial business, but it is a gain in that sense upon the lapses? A. Not quite a gain, sir; it is a release of statutory reserves that we have never received.

Q. And which you have as a liability? A. Which we have taken out of the capital.

Q. Hardly out of the capital, because your capital is not big enough to stand it; you have taken it out of the assets? A. Yes.

Q. Taken out of the assets? A. Capital and surplus, I mean, of course—it does not make any difference.

Q. You have for example a certain liability because of the insurance you are carrying? A. Yes.

Q. A valuation of your risks at a given date. Now when a policy lapses there is a certain liability that is released? A. Yes.

Q. And taking your entire liabilities upon your industrial policies at a given date you find that through lapses upon a comparison with the money you have paid the surrender of the lapsed policies, that there is a gain in the industrial branch of about $2,000,000? A. I don't think you can call it a gain inasmuch as it is a release of liability as money we have never received.

Q. It is a gain in the sense that your liability—— A. It is a credit.

Q. It is a gain in the sense that your liability has diminished through the lapse—— A. Precisely that.

Q. To an extent of some two millions of dollars or more? A. That is it precisely.

Q. Then the money you have to pay out? A. Yes.

Q. And in figuring up your gain and loss exhibit for that year that is really a substantial factor in your net result? A. Oh, yes, sir, it is a release of liabilities to the extent of $2,000,000.

Q. In other words if you had had to pay on your industrial business the amount which you valued your liability at the time your policy lapsed you would not have had any gain in surplus at the end of last year? A. Yes, sir. On the contrary we would have paid out of assets or the capital and surplus two millions of dollars.

Q. Now, Mr. Fiske, you desired to make a statement with regard to the large expenses of doing the industrial business. A. Yes, sir, if you please. The expense of industrial insurance is undoubtedly high, but unavoidable. In considering it we must look at the alternative. Down in 1867 in England 14,000 out of 38,000 burial clubs established by or for working men had collapsed and a large majority of the existing remainder were insolvent. When our company began business in Pittsburg our superintendent found 50 "graveyard" local concerns which melted away as his work progressed. In 1864 Great Britain began to work industrial insurance through the Post Office. In the first 18 years 7,000 policies were issued for less than $3,000,000. Then the number of Post Office insurance stations was increased from 2,000 to 8,800 and in the next 10 years less than 7,000 policies for $1,500,000 were issued. Meanwhile the Prudential of London was issuing each year more than the total Government business for 29 years. In New Zealand the Government started the business in 1875, but quickly discontinued it; revived it in 1881 and abandoned it in 1887. That industrial insurance on sound actuarial principles meets a want is proved by the existence of 15,000,000 of policies in the United States after 25 years of operation.

Q. You could apply that argument to the lottery business could you not? A. I don't think so.

Q. In other words, if you merely take into consideration the demand, if you think that is a legitimate argument? A. I do not quite agree with you, Mr. Hughes. We have now 25 years' experience and we have fifteen millions of policies among the working classes, policies of insurance. We have cities in which the number of policies equals the entire population. We increase every year millions of policies in force; we pay out millions of death claims. I believe, judging from the history, judging from these other facts, that I have stated, that this insurance meets a definite and distinct want which has got to be met in some way that if it were not for the establishment and operation of solvent, well-managed, sound principled insurance companies, these men would become the prey of insolvent, insecure co-operative and assessment companies. They are bound to have the insurance; they are just as much entitled to it as the rich man; they need it; they demand it; and the alternative question to me is shall it on the one hand be done by a company based on actuarial principles with capital and surplus or shall these poor people be left to the kind of insurance which experience has shown is insecure and does not do them any good. That is the argument.

Q. In the Government experiments that have been made do you know the rates charged? A. I do not sir.

Q. Was the failure due to the insufficiency of rates? A. The failure was due to the fact that no agent presented the case. Now, this is true, I think, in life insurance generally in this country, that people will not insure unless they are asked to insure. They will be asked to insure; they will get together and combine in clubs, and those clubs will appoint agents and the agents will ask them to insure in some way or other; they are going to be insured in my judgment, but it will not be successful unless there is an agency force to present the case to them. That is true of old line insurance and equally true in industrial insurance; but to say that these people should be left without industrial insurance, is really to argue that people are to be left without any insurance, with agency establishments throughout the country, and that nobody should be insured who does not go to the home office and ask for it—in other words, there is a real analogy between our business and ordinary life insurance, and the business has got to be conducted with relation to the mortality of the classes insured, and the expense of placing the business.

Q. The point is that in ordinary insurance the ratio of returns is so great that the element of speculation is considerably reduced, whereas despite the fact of the great loss to your company through the non-persistence of the industrial business, it appears that from the standpoint of the policyholder a very large percentage of those that insure get no returns, and the element of speculation is increased. A. I should not call it speculation at all, Mr. Hughes.. I have already explained that my belief is that the number of lapses reported is extremely misleading as effecting the individual, that the number of people who actually lose money is very small comparatively, and that the amount of money that they lose is very small indeed.

Q. That is really the important inquiry, and in regard to that it is difficult to obtain any satisfactory data? A. Yes, sir.

Q. For example, you will appreciate the fact that if seventy-five per cent. of the poor pay money into a concern upon which they get no return, that it might be a serious matter even though the twenty-five per cent. did get returns. A. That would be a serious matter and that I am sure is not true of industrial insurance.

Q. The seriousness of it depends upon the number who do put money in without getting a return. For example if you find ten, fifteen or twenty per cent. and the remainder, eighty, eighty-five or ninety get returns upon their life insurance, in the ordinary course it would be very valuable to the large majority? A. Yes, sir.

Q. So that my inquiries have been directed to this question because of the very large percentage of those who go in—about two-thirds as I understood the testimony, and get nothing out of it. You have explained that your company does not profit, that it is a great loss to your company, but on the other hand, looking at it from the point of view of the policyholder the question is, is it not, to the poor, taken as a whole, a cause of wastefulness? A. That goes to the assumption that those who lapse got nothing out of it. That assumption, I think, is not borne out by the fact. There are numbers of people who hold three and four policies each; they are frequently led to take additional insurance; they lapse it, but they still have insurance. Then, as to other people, while they lapse it they go right in again and take it, in other words, the people who lapse are also the people who are insured and get the money; they do not lose.

Q. Of course, we have to consider that particular policy? A. You have in this investigation to consider the particular policy. You have not got to take it for granted in view of the facts I have stated that the people who lapse are the people who get nothing. I think they are, upon the whole, the people who do get the insurance finally. In other words, a man when his claim matures, is very likely to have been found in his lifetime the possessor of ten, or a dozen of policies which have lapsed, but he has got the last one, he has paid.

Q. You think the amount he has paid on the ten or a dozen would not be an improper consideration on the one he has finally paid? A. I think it was improvident for him to have lapsed them, but I also think that is characteristic of these people, and that they are insured and they do improvidently lapse, but it seems to me no reason for forbidding them to insure. In other words, they have the right of contract, it seems to me, equally with the rich man, and the fact that they equally with the rich man do not persist, is no reason for saying they shall not insure at all. It is to the interest of the company and its management to keep them in and we do all we can to keep them in; we are succeeding in it, and I hope the time will come when the lapsed ratio of industrials will not be any greater than ordinary insurance.

Q. The fact that people are improvident and do lapse not only reduces the number that are benefited, but imposes a more heavy rate of cost on them? A. That is true; the fact that a man will come in and take a policy and lapse it and then come in and take another policy and lapse it, and then take a policy and keep it, has imposed on himself very largely the additional expense.

Q. Going on with what you were about saying—— A. Now, I think if you take a city like Newark, and I think Cohoes, New York, is the same sort of a city, where the number of policies in force is equal to the entire population, and that has been going on a number of years. It does not seem that a system like that can be interfered with without a very grave disturbance of what you might call political and economical arrangements; it is an institution which has grounded itself well with the general population. Fifteen millions is a very large number of policies to be in force, considering there are very large parts of the country, where we do not do any business at all. Take in New York State, I think we have four millions of policies in force, and in the city about 2,000,000. I do not see how it can be said that that number can remain insured and still it be a bad thing for them. They must know better than you or I what is good for them and what pays them.

Q. You think the advantages to the provident and those who remain persistent outweigh the disadvantages to those who are improvident? A. I think the improvident people are the very same people.

Q. That is the point we cannot get any satisfactory evidence upon. Now, if you will take up further the matter of expense, how much of your gross premiums go to reserve? A. About 25 per cent. now under an increasing life endowment policy.

Q. How many companies are there that are able to keep up under the reserve laws in New York? A. There are only four industrial companies.

Q. And those are yours, the Prudential, the John Hancock, and what other? The Colonial.

Q. Do the laws of New York operate to keep out others? A. In my judgment they do.

Q. In what way? A. Because of the severity of the reserve laws. There is a very large company in Ohio, and a very large company in Virginia, and I am very confident that if they undertook to enter the State of New York and State of Massachusetts, they would not let them in because, calculated to the laws of New York, I do not believe they have got assets enough to keep up the reserve. I do not say this in criticism of the other companies at all, but that I believe to be the fact.

Q. What reserve have you put up on the infantile policies? A. We have put up $6,299,364 reserve on infantile endowment in excess of the reserve that would have been required under the whole life table. These endowments have had a great influence in defeating anti-child insurance legislation and people interested in charities highly approve of them. I remember very well in Ohio, in an address before the Legislative Committee, one of the leading workers of charity came in and opposed the whole system of industrial insurance. An old gentleman I did not know heard me state what policies were issued to children, and with great frankness and decency, as I thought, he came in and withdrew his objection made to the committee.

Q. Now, what was done to reduce expenses. You have explained the increased expenses, due to the lapses, the system of collecting weekly payments of these installment expenses; what can be done to reduce expenses? A. The president was asked about attempts to reduce expenses. These efforts are constant in the various details of the business; labor-saving machines, simplifying and unifying forms to save clerical work, competitive bids on supplies; we have just completed a printing office, which has been in partial operation in rented quarters, and which is saving us thousands of dollars annually; we have taken over the home office rentals from outside real estate agents to save expense. But to bring down the expense ratio the matter must be looked at on broad lines.

Beginning at the top, take the officers' salaries. They are less this year in proportion to income than they have ever been. If they were all abolished and the officers worked for nothing, it would make a difference of one-half of one per cent. of the income; or, to put it another way, about nine one hundredths of one cent per week per policy, or less than five cents a year. The only comparatively low salaried industrial company which has succeeded at all shows a higher expense ratio than the Metropolitan.

Q. To which company do you refer? A. I refer to the John Hancock. I say comparatively low salaries. I think the salaries in Boston are high, but, as compared with ours, they are low. I think if you compare the expense to income, we will be found low. Take the home office force. Of the clerical force we start women at $6.00 per week, men at $8.00, and give them an increase each year to a maximum of $12 and $20. The heads of departments are not over-paid. Each superintendent of agency has charge of about 1,500 field men and 800,000 policies, with a premium income of say $5,000,000 a year—a good-sized company in itself. They are in the field most of the time, and receive about $5,000 a year.

If we go into the field the compensation paid out of the Industrial Department is not such that it can be cut. Superintendents in the Industrial Department average $43 a week; assistants, $20; agents, $12. We have tried experiments on agents' compensation with the result of finding the present scale the most economical. Some time ago we began concentrating and increasing the size of debits given to the agents, so as to make their collection commission higher and tempt them to persist. We are having good results. We tried to hire assistants at $15 per week, but could not get the best agents to accept promotion. Salaries, commissions, rents, supplies—these we have studied to effect savings.

But the fact is that the saving in expense must come from the retention of agents and the saving of lapses. Loss in either of these respects means loss in the other. The resignation of any agent brings about a lapse of a certain amount of business; the early lapsing of business written brings out resignation of agents. The study of the whole executive force is concentrated to hold the agents and to save the lapses. I have spoken of what we do to save lapses and of our success. As to the agents, we started up the active prosecution of the ordinary business, in order to attract better men and get them to be more persistent by putting them in the way of getting better incomes. Nearly all of our ordinary —95 per cent. of it last year—is written by the industrial agents. They were paid the first year's commission, and the renewals were given to the superintendent and assistants as the best means of saving lapses. Last year we began the system of allowing the renewals to the agents, in order to encourage persistence, giving the superintendent also a small interest. This is an effort to hold the men and the business, the result of which it will take a few years to determine. Realizing that the canvass for ordinary by industrial agents must, at least in the beginning, be among the industrial risks, we have not expected to make any money out of the ordinary business. We are satisfied to come out even, if we can use the business to attract better men, to hold them better, help them in the canvass of the better housed and paid working classes, and so raise the persistence of the industrial business and reduce the expense ratio. This is the line on which we are working, and working hard.

Q. Does that mean that premiums in the Industrial Department are sufficiently high to enable you to do the ordinary business at cost? A. No, sir; it means that we have got a plant which we have got to maintain anyway, the plant being the men, the superintendents, the assistants, the officers, and we do not increase that expense by reason of the ordinary business, except as charge the increase expense of the ordinary business.

Q. But you say you have not expected to make anything out of the ordinary business? A. No, sir, and we come out about even. That means, our ordinary business is all on a stock basis.

Q. That means that all your profits are made out of industrial premiums. A. Oh yes, sir.

Q. That is what it really means? A. Oh yes, sir; and all profits paid to policyholders are out of industrial premiums; in other words, our ordinary business is a stock business, loading only from 10 to 17½ per cent.

Q. If you did merely an ordinary business at your present rate, you would either have to shut up or be regarded as a philanthropic institution? A. No; the first thing we would do then would be to establish general agencies for the working of ordinary department alone, and I think then we would probably come out ahead on that alone; but we are now doing it through industrial agents, and we really started the ordinary business to help out the industrial agents, and for them only, and we have not started a system of general agencies, for instance, as the Prudential testified they had.

Q. Your accumulation of profits may be traced exclusively to your industrial business? A. Yes.

Q. Go on. A. Except so far as the intermediate we have accumulated out of the mortality profits, and which we pay out of those profits, and which I will explain later on. We have realized the expensiveness of industrial insurance, and it was with the purpose of meeting the objection that we devised the intermediate policy. We resolved to try the experiment of offering to our industrial classes a policy which calls for annual, semi-annual, or quarterly payments. If successful, we ought to hold our agents better and to save the industrial business better and so reduce expenses. In other words, we had a double purpose—to offer a cheaper policy to the working man if he would pay his premiums quarterly, instead of weekly; and to improve the quality and persistence of our industrial agents and industrial policy-holders.

The idea was a novel one, and there was no experience of companies to draw upon, which would enable us to accurately estimate the results. The company did not desire to enter upon what is known as mutual insurance, based upon a loading so large as to theoretically pay the expense and leave a margin for payment back of so-called dividends. The equitable method of meeting the problem was felt to be the construction of tables, or rates, based upon the mortality experience of the company in the industrial department; and to add to the net premium ascertained from these tables the same loading which the company has used in the ordinary policy—that is, stock loading, so-called—a loading designed to cover the expenses, but not to provide for dividends on the policies. It was thought quite possible, however, that, as the better paid portion of the working classes would be canvassed, a better mortality would be experienced than that in the industrial department. The policies were issued, therefore, with the provision, substantially, that if profits should be made dividends would be paid.

It is obvious that these dividends must come from savings from mortality.

The company's experience has been very favorable and the dividends paid have been very handsome returns, but the company forbids its agents to make any prediction or promise as to the amount or rate of dividend in the future.

And we have insured thousands of our industrial policyholders on the ordinary and intermediate plan. We encourage the agents to get them to change by exempting the agents from the lapse of an industrial policy if changed for our ordinary policy in a minimum of $1,000.

The issue of these policies has really effected great changes in the agency work of our company, and a class of people which formerly was not canvassed at all is now canvassed industriously by the agents of the old line companies. We claim that by the issue of this class of policies we have perfected the system of industrial insurance and have performed our full duty to the wage-earners by furnishing insurance adapted to the condition, means, habits of life and requirements of all; weekly premiums for those who can afford no better and for those of an age unsuitable for large policies, annual premiums for small policies, with dividends, if earned, as to which past experience has brought the cost down to nearly that of what is known as ordinary insurance.

Q. It would seem, from your statement, that there can be no real reduction in the expense of industrial insurance except as lapses decrease? A. Except as lapses decrease, not any great reduction.

Q. What would be the extent of the saving if you could write the same amount of business that you do now and have no agents? A. No agents?

Q. Yes. A. The figures that I have given you approximately —we will save special salaries, of course.

Q. Of about a million and a half a year? A. Million and a half; we would save superintendents' salaries of $384,000; save the extra compensation.

Q. About two millions and a half? A. I think pretty nearly that.

Q. About two millions and a half out of the total expenditure last year of some nineteen millions? A. Well, two millions and a half is that portion of the expense charged for the initial cost of new business.

Q. It would make your total expense, then, so much less Could you write the amount of business, which you write now in your opinion, if you had branch offices established, to which the poor could resort and obtain insurance on application, in the same manner as they go to savings banks and make their deposits? A. No, sir; I have no idea that we could any more than ordinary life companies—they would not write like anything like the business they do. Many savings banks in the West and in the East, too, have agents.

Q. To what extent do you think your business would fall off if you did it on that basis, and open offices where those who wanted insurance could go and get it? A. It is a pure guess; I could not guess at all. I think there would be a riot if we stopped on account of the existing policies.

Q. That is another story, but the point is this: What is there in your argument that there is any such great demand among the poorer classes? Is the demand so great that they would be willing to go to branch offices and get their insurance, make their payments, and the company be saved this immense expense, on account of drumming them up? A. No, sir; I think what would happen would be the formation of assessment companies and burial clubs, which would have agents, and which would get them in insecure and incompetent companies, rather than our own. I think that would be the result.

Q. Wouldn't it be the consequence that the real thrifty who wanted insurance would go and get it, and the company would be saved a great expense of going to that class and the introduction of the improvident and thriftless? A. I don't think so. *I think* the provident and thrifty have agents as much as the improvident and unthrifty.

Q. Have you made any calculation upon any such basis? A. Oh, there is no calculation based on that. In other words, I do not see any difference at all between the agency system of industrial, and of the ordinary company.

Q. Well, of course, the difference is very conspicuous in the expenses. In the one case you have an army in the field who are soliciting business and making weekly collections, you have a very careful system of visitation entailing a very enormous outlay? A. That difference in expense is a difference which the people who are benefited are entirely willing to bear.

Q. Well, are they so willing to bear it? A. If they were not, they would not take it.

Q. They cannot get it in any other way? A. Yes, they could form burial clubs, or go to assessment societies; they do that to some extent in some parts of the country, and experience shows that what they need is a solvent well-managed company to insure them.

Q. Of course you cannot change your rates of five cents, ten cents, and fifteen cents a week; the age would have to come in the benefits given? A. Certainly.

Q. Now, has there been any experiment side of establishing branch offices, or places where industrial insurance could be obtained and the expense of solicitation avoided? A. I don't know of any.

Q. In Australia has there been anything of that sort done? A. I don't know the particulars of the system by which the Government carried on its insurance. It was a failure.

Q. What does the Prudential of London do? A. They have an enormous body of agents.

Q. They do about the same as you? A. Yes, sir, precisely the same.

Q. I am informed they have about one-third of the entire population of Great Britain insured? A. I think their policies equal about one-half the population, now, sir.

Q. Is that so? Has the British Government there, through its post office an industrial insurance department at the present time? A. They have.

Q. Do you know to what extent they do business? A. Only the figures which I have given you to-day. The Prudential does every year what the Government has done in twenty-nine years.

Q. Do you know whether there is any difference in the rate? A. I don't know.

Q. Do you know whether it is a source of profit to the Government? A. I don't know about it at all.

Q. You say that in New Zealand the Government started it and quickly discontinued it? What was the occasion of that? A. I think it was a failure.

Q. Why? A. I don't think insurance can be successfully prosecuted unless there are active agents to canvass, and unless somebody has an active interest in getting the business. The post office has not the least interest.

Q. And is New Zealand continuing it at the present time? A. I understand that they have abandoned it finally.

MR. DAWSON: They are continuing it with agents? A. (Continued) Our information from Australia is they have absolutely abandoned it. That was in a paper read before some society by an authority down there.

Q. But the fact that you cannot maintain the business in the way, shows that at least there is not as great a demand for it as there is for example, a demand for an institution of savings. You have to stimulate the demand? A. I don't know whether we would have—at least we would not have as much business as savings banks. Perhaps we would.

Q. That would be enough to protect you. Put you on a sound basis? A. We are on a sound basis now.

Q. I did not mean to imply you were not, but I mean you would be in the other event. A. I still think that the existence of those companies and the number of policies they issue year by year, and the number they have in force, proves the public want. I still think that poor people are no different from rich people in the necessity of having insurance presented them by the agent. Many a man knows he needs something, but he won't get it unless he is asked. You might abolish churches on the ground that every man might have his own personal religion, and unless it is dinged at him once a week; if a man wants fire insurance he goes after it, and he knows he wants it. Whereas life insurance he does not—why it is I do not know: I do not see any reason on earth for refusing the working classes the same freedom of contract that is afforded the rich people, and the same facilities for getting insurance. You see the agent goes to the man; he takes his application; he goes to the man and collects, and the working classes have nothing to do, they do not have to cross the street to get their insurance and keep it; everything is done for him.

Q. The question is whether their opportunities can be enlarged and whether they can have the benefit of insurance at a decreased cost, or whether for the same payments they can get increased benefits. A. In Fall River there is a concern as a philanthropic burial association. Well, its fundamental principles may be judged from the fact that it went to the Legislature and got an act passed which relieved it from all supervision of the State Department. That has been in business for many years, and we are along side of it, and we do twice or three times the business that concern does, although they do it at a cheaper rate. People want absolute stability and they wanted to be waited on; and they want to be, but they do not want to go and inquire for their insurance. They want the agent to come and collect and pay death claims, it meets a real want.

Q. You have been asked with regard to the matter of child insurance. What have you found to be the attitude of charitable associations with reference to this insurance? A. They differ in different places, Mr. Hughes. In Philadelphia they are extremely friendly, in Boston some were friendly and some were not. In New York some are friendly and some are not.

Q. You had a hearing in Massachusetts in 1895 upon that question? A. Yes, sir.

Q. What was the result of that? A. The result was that the matter came to a vote in the lower House, and the bill was defeated by a vote of 149 to 23.

Q. Have you any legislative inquiry into the subject of child insurance anywhere else? A. We had to some extent in Missouri, Ohio, Pennsylvania. I have a list somewhere, I think, of just what States have.

Q. Will you state what attempts have been made to legislate against child insurance and what investigations have been had? A. Attempts to legislate against child insurance have more than once failed in England, after Parliamentary investigation. The

Parliament of the Dominion of Canada, refused, in 1895, to prohibit or even restrict it. In this country bills were defeated after hearing in Pennsylvania in 1889 and 1897; in New York in 1890; in Massachusetts and Tennessee in 1895; in Ohio in 1900; in Missouri in 1901; in New Hampshire and California in 1903. In all of these States bills have been introduced and abandoned in other years; and Connecticut, Illinois, Michigan, Georgia, Delaware, Indiana, Utah, North Carolina and Wisconsin—in the last State after a newspaper discussion in which the Bishop of Fond du Lac, unsolicited defended and supported the business—have refused to enact prohibitory bills. Province of Ontario has a law similar to Section 55 of New York Code; the Code Commissioner of Ohio in 1895 and Commissioners of Wisconsin and Illinois have recommended the same.

The prohibitory bill in Colorado was passed after refusing the Prudential (the only industrial company doing business there) a hearing. Its business there was very small and the law was not urged on the ground of experience of evil but alleged anticipation of danger. The Insurance Commissioners have recommended the repeal of the law.

During the current year the Commonwealth of Australia has enacted a law similar to Section 55 of our Code.

In all these countries and States (except Colorado), the number of children insured is very large. In England there are millions, and the business is fifty years old. The number of policies in force upon children between one and ten years of age in the three largest companies at the end of 1904 was in the United States, 2,956,207—over twenty per cent. of the entire population of the United States at these ages; in Canada there were seventy thousand three hundred and eighteen; in New York, about 800,000; Pennsylvania, 400,000; Ohio, 200,000; New Jersey, 250,000; Massachusetts, 200,000; Connecticut, 75,-

000; Rhode Island, 50,000; Missouri, 150,000; in Illinois, 150,000; in Indiana, 70,000.

The fact is, industrial insurance is family insurance. All ages are taken from over one year to twenty. And the number of policies in force closely follow the population in the relative proportion of each age. This is strikingly shown by the proportion of population, according to the census of 1900, in various groups of ages, and a proportion of the Metropolitan policies in force at the same age:

Ages.	Percentage of Population.	Percentage of policies in force, 1904.
1 to 4 inclusive	9.57	9.57
1 to 9	21.28	22.47
1 to 14	31.94	34.86
1 to 19	41.91	45.35
15 to 17	28.42	31.65
20 to 29	18.29	17.68
30 to 39	13.88	12.83
40 to 49	10.16	9.96
50 to 59	6.80	8.06
60 to 69	4.08	4.86
1 to 69	95.12	98.74

BY THE CHAIRMAN:

Q. What are those respective columns? A. The first is the percentage of population at the respective ages named; the second is the proportion of policies in force in the Metropolitan at the same ages.

BY MR. HUGHES:

Q. Does that table mean in fact that the percentage of persons of a given age of the entire population is substantially the same as the percentage of policies of the same ages of the entire number insured in your company? A. Yes, sir.

Q. What is the deduction to be drawn from that? A. It has been often charged that industrial insurance makes a specialty of child insurance.

It has been called all sorts of names; it has been said we insure the aged, infirm and absolutely young. It is absolutely family insurance and it runs through the entire family and cannot interfere with any ages without interfering with the whole system.

BY MR. HUGHES:

Q. It is a microcosm, your company is as compared with the entire population? A. I think so.

Q. Go on. A. We have not only very strong negative evidence that children are not injured by insurance which is afforded by there not having been any cases of death caused for insurance money in all these years with so many millions insured, but we have the positive evidence of statistics, both in England and America, shown by the following table:

Q. I think that table is upon the record, isn't it? A. Not the whole of it. I brought down the experience to 1904.

Q. You have shown the experience of the Prudential and general in the United States? A. And the old experience of Metropolitan. Now, I have put in some new figures here.

MR. HUGHES: I will offer the table in evidence.

(Table marked Exhibit No. 697.)

Q. If you will state the purport of it. A. Comparing the census of thirty-one cities in 1880 with the census of 1900 generally, the round figures are: Age 2, 87.4 and 46.6, 32.7; at age three, 36.7, 20.5, 22.0.

BY THE CHAIRMAN:

Q. What is 36.7 and what is 20.5? A. Those are the deaths per thousand in thirty-one specified cities in the United States of 1880.

Q. The first being the census death? A. The census of 31 cities is 36.7, our own experience is 20.0, to show that our own experience is less than those of the population. Age four and three figures up 24.7, 13.2, 12.8.

BY MR. HUGHES:

Q. Where did you get those figures? A. I get the figures from the census reports and our own experience I get from actual calculations made by the actuary. Age five, 17.9, 9.4 and 8.8; and the ages fixed to ten figure up 8.2, 8.9, 5.2 and 5.1. And I state, the figures for 31 cities have not appeared in the census since 1880. It is with the cities that comparison should fairly be made of the mortality of the population and of the company's risks, for of the total business of the Metropolitan 49 per cent. is located in them, though their population is only 16 per cent. of the population of the United States. The company had at the end of 1904 1,654,287 policies in force upon children at those ages.

BY MR. HUGHES:

Q. What is meant by Farr's table? A. Farr's table is the

English table of general population. We have none in this country.

Q. And that is the percentage of the entire population? A. It is the number of deaths per thousand at the respective ages in the entire population.

Q. Then this means that at age two the deaths per thousand in Great Britain are 65.6 per cent., according to Farr's table? A. Yes, sir.

Q. That at the same age, according to the census of 1900, in the United States, the deaths per thousand are 46.6? A. Yes, sir.

Q. That at the same age according to the experience of the Metropolitan the deaths per thousand are 32.77? A. Yes.

Q. And at the same age according to the experience of the Prudential Insurance Company of London, the deaths per thousand are 63.2 per cent.? A. Yes, sir.

Q. At age five the deaths per thousand in Great Britain are 17.9 per cent., and in the United States, according to the census of 1900, 9.4? A. Yes, sir.

Q. And in the Metropolitan experience in 1904, 8.8 per cent.? A. Yes, sir.

Q. Now, what does the insurance upon children really amount to—what are the average benefits? A The schedule of insurance as in evidence showing that it may vary on each child from a maximum of $16 under three months in force at age 2, to $240 at age 10; thereafter increasing each year after age 12 by a guaranteed dividend. This is total insurance under age 10, for if insurance is taken in more than one company the excess insurance is not paid, but the premiums are returned on the excess. But the question is best answered as to the actual insurance by stating the average amount of death-claims paid. In 1904 the average amount on ages under 10 was $32.56; under age 15, $48.90. At the tender ages the amounts are small. At age 2 the average was $13.33; age 3, $19.10; age 4, $23.46; age 5, $27.70.

BY MR. PRENTICE:

Q. Is there a maximum limit for each age of the insurance that may be taken out? A. Yes. We don't take insurance for more than ten cents and we provide that if other companies insure as well as ourselves, we will not pay the insurance, but only excess premiums back—we will return the premiums paid.

Q. Is there a maximum amount as to each age which has to be paid as a death claim? A. Yes, sir.

Q. Have you in that statement a list of these maximum amounts? A. Yes, sir, they are in evidence in the table of rates. Age 10, as I recollect, is $240.

Q. You have given the average amount of death claims paid there? A. Yes.

Q. In some cases, I take it, the maximum amount is paid? A. Yes, there would have to be a maximum amount.

Q. Have you any idea in what proportion in a general way? A. It is quite evident they are in a small proportion from the fact that the average amount paid is so much less.

Q. You have no idea in a general way, in what proportion of cases the maximum amount is paid? A. No, sir. I suppose I can find that out, but it cannot be so very large.

BY MR. HUGHES:

Q. Do you find that there is any difference in the rate of lapses in connection with child insurance from that which you find in connection with adult insurance? A. The persistence is better, Mr. Craig says, and that was my own notion.

Q. You were asked with regard to the inspection of children, what are your instructions to physicians with reference to inspection? A. All children are medically inspected; but the instructions to the physicians on infantile applications were not put in evidence, they are as follows: Rule 28, of the Manual of Instruction to Medical Examiners, page 20.

"28. It is very important that you advise the company in any case where your good judgment dictates that the result is not a desirable one because of the pecuniary circumstances, the hygienic surroundings, the mode of life, and the morals of the life proposed. Would *you* care to insure the life yourself? must be the guiding rule of your advice to the company. The company does not desire to insure *the very poor;* to place insurance which is not likely to be kept up; to write a policy upon a life which, by reason of unhealthy surroundings, immoral habits, or irregular ways of living, has not an equal chance with others to persist and survive; or to get business from people already insured who cannot afford the increased premiums. In the case of insurance of children, the question must present itself to you: Has the child an average chance of surviving; is it likely to be well taken care of; to be properly clothed, housed and fed, according to the best judgment and ability of the parent or guardian; is the parent or guardian a moral person; is the home one of industry and thrift; is the insurance a bona fide provision against the chances of death which are common to humanity? If you find the parents drunken or shiftless, or extremely poor, or living in an unhealthy locality or house, reject the application on the life of a child—not because of fear of foul play, for this, in our experience, does not exist in this country, where poverty seems to gather the children closer to the mother's breast. But because such insurance by its low average of persistence and high average of mortality, cannot be a paying business for the company and can only result in the payment by the average policyholders of claims, on the lives of the under average."

Q. How long has that rule been in your manual? A. Oh, a good many years, sir.

BY MR. PRENTICE:

Q. In regard to the table just put in evidence, the lives of children which you insure are selected lives, of course? A. All of them.

Q. And therefore it would be perfectly natural to suppose that the percentage of death among those would be less than the percentage of death among the lives of children in the thirty-one cities? A. Yes, sir; and it is true that they are, and that is one argument in our judgment against the theory that the children are abused, because if insured children were abused I think it would be found that statistics would show how mortality was in excess of that of population instead of under it.

Q. Has a case ever been brought to your attention under which there was suspicious circumstances? A. There have been charges in the newspapers of such cases. We have always investigated them and never have found a single case.

Q. Have you contested the payment of any death claim because of suspicious circumstances in connection with the death of the insured? A. Not on the lives of children we have not.

Q. I mean as to a child? A. Not on the lives of children.

BY MR. HUGHES:

Q. You were asked in regard to the table of increasing life and endowment policy. Will you state what the origin of that table is and what has been your experience in reference to it? A. The origin of the table upon which over 58 per cent. of our business is now written (over 21 per cent. more are upon plain 20-year endowment tables) was the discovery made when we constructed mortality tables from our own experience. Previously the benefits had been determined by English examples without knowledge of the real mortality at each age. We found that we were losing money on certain ages and making money disproportionately at other ages. This table was based upon actual experience of mortality with a nearly uniform loading. Its adoption marked the beginning of the use of really scientific tables of benefits in industrial insurance on this side of the water. Taking the infantile and adult tables together and comparing them with the tables in use before January 1, 1896, it will be found that there are many changes. The younger ages show large increases in benefits; the older ages decreases. This was not done to save money.

Q. As matter of fact it did save money, didn't it? A. No, sir, as I go on to show.

Q. Go on. A. It was done in order to treat each age according to our experience of mortality and treat all alike. The ratio of claims paid to premium income has indeed decreased a few points; but this has been the experience of the Prudential of Newark, which retained the whole life adult table. The mortality of the country has decreased. The influence of medical inspection has been toward the reduction of the ratio. But the ratio of death claims to premium income in the Metropolitan has always been and still is higher than in the Prudential of Newark with the old table. It was higher than in the John Hancock, which retained the whole life policies until that company some years ago adopted full immediate benefits on large policies—a plan it has been compelled to modify. If at the same ages, therefore, our benefits are less it is because with the mortality experience these ages earn less. As a matter of fact, we do not save money. The net amount of increased reserve which we have put up on these adult policies down to December 31, 1904, after deducting the savings on death claims comparing both the reserve and the death claims with the whole life table, is $1,692,969.

The endowment at age 80 is the same variety of whole life as that years ago adopted by the New England Life Insurance Company. Whole life tables are really endowments at age 95. We shorten this to 80 because many do live to be 80, and we have made our whole policies payable at 80. In the cases of those who have paid for fifteen years we adopted the cash dividend system for whole life policies; we guarantee a reversionary dividend in the increasing life endowment policies. This reversionary dividend is much larger than a cash dividend on whole life policies. The latter is paid quinquennially. The reversionary dividends are yearly after the third year. We believed that this guaranteed increase would encourage persistence. We believed that old age endowment would meet a demand which was arising, especially in England, the influence of which we believed would extend in this country. The paid-up provisions are simple and prevent any misrepresentation as to amount which was sometimes made under the whole somewhat complicated table; and the endowment period also fixed a terminal date for paid-up policies, which saves a dissatisfaction sometimes arising from the expectation of life paid-up policies. In short, the design of the table was to save money, but to be fair to every age by a table constructed on the same principle as ordinary policies, where a certain loss at some age and undue profits at other ages would be criticised and intolerable, and to prevent any possible misrepresentation.

Now, compare this table in its results with the whole life table. In apparent criticism of its relative benefits to policyholders we were asked what would be the maximum amount payable at the age 80 for a ten cent premium under an increasing life and endowment policy issued at age 10, and the answer was $297. To the question as to what amount would have been paid in premiums the answer was $364. As this table was being contrasted with the whole life it is only fair to state what the position of a man who took the whole life would be.

The amount of premiums paid would be the same, $364, but the death benefit would be but $240.

Under the increased life and endowment policy he would receive in cash from the company at age 80 $297, but under the whole life contract he would not only receive nothing, but be obliged to continue to pay ten cents a week, and should he survive until age 90 his gross payment of premiums would be $416 for which a death benefit of $240 would be paid.

Now, take the case of inability to continue the insurance. What are the respective benefits to the policyholder? Suppose he had paid for twenty years and had applied for a paid-up policy. Under the increasing life and endowment table he would get a paid-up policy for $85, payable as an endowment of age 80. Under the whole life table he would get a paid-up policy for only $77, and this would be good for thirty-four years and 157 days. Take the man in each case when he reaches age 65. If insured under increasing life and endowment table he would have a policy on which he would be paying no premium, good for $85 at death or age 80. If insured under the whole life table he would have no insurance at all—it would have expired; or if the company should grant him a whole life paid-up policy it would be for only $65. These illustrations we think sustain and justify the increasing life endowment table.

Q. What age did you take the insurance at, in illustration, as to the paid-up policy of $85. A. Don't I state there?

Q. Is it age 10, to which you referred a little further back? A. Age 10, yes, sir.

Q. And under that table the person insured at age 10 is supposed to pay ten cents a week? A. Howard, have you got my red book, the table of rates?

(Book produced.)

Q. Well, that is your illustration, ten years?. A. Yes, sir; I thought you were going to ask as to some other ages, and I wanted to be ready.

Q. Take age 10, that would be on the basis of ten cents a week, or $5.20 a year? A. Yes, sir.

Q. And in twenty years he would have paid in how much, $104? A. Yes, sir.

Q. Now, you give him at that time, being thirty years of age, a policy paid up for eighty-five dollars, payable at the expiration of fifty years? A. That is right, sir.

MR. CRAIG: Or death.

THE WITNESS: Or prior death.

Q. Or on prior death? A. Or on prior death. Under the whole life table he would only get seventy-seven dollars, only good for thirty-four years and a hundred and fifty seven days.

Q. And age thirty, under the combined experience table, the expectation of life is thirty-four years. That is, for which you would give the paid-up policy? A. Thirty-four years and a hundred and fifty-seven days, under the whole life system.

Q. Under the whole life system how much would be given in case of death on the paid-up policy age thirty? A. If he died prior to that time, seventy-seven dollars.

Q. And under the increasing life and endowment, if he died, it would be how much? A. Eighty-five dollars, but if he died a year after he would in the one case get eighty-five dollars, and in the other nothing.

Q. Well, that would be a criticism which would attach more to the paid-up policy for seventy-seven dollars on the term. A. That is true, but if he were getting a whole life on the other policy, it would be sixty dollars, as against eighty-five dollars.

Q. But age thirty, and before the issue of the paid-up policy under the whole life plan, how much would the man receive, say if he died at age twenty-five? A. If he died at age twenty-five——

Q. Insured at ten years at ten cents a week on the whole life plan. A. That is fifteen years, is it not?

Q. Yes. A. Two hundred and forty-two dollars, I think.

Q. No, we are talking of the whole life plan, if he died at age twenty-five. A. I misunderstood you.

Q. Insured at age ten, at ten cents a week? A. He would get two hundred and forty dollars.

Q. And under the other plan? A. He would get two hundred and forty-two dollars.

Q. Is there anything further in your testimony that you desire to explain, Mr. Fiske? A. There is just one thing, Mr. Hughes, that I felt a little sensitive about, and that was the Bulletin. Mr. Hughes asked about Bulletin 449. I want to say that I wrote Bulletin 449, in which occurs the sentence, "The Metropolitan is practically a mutual company, and it is managed in the interest of the policyholders alone," about which Mr. Hegeman was asked, whether our men are instructed to represent the company to the people as a mutual company. That sentence was a reminder to the men of the institution by speech and pen repeatedly given to them, and they well understand the reference concerning the company's real attitude toward the policyholders, namely: That while it is a stock company its dividends are limited to seven per cent.; that nearly five per cent. is made out of the investment of capital; that the stockholders, therefore, make two per cent. out of the business; that the capital will never be increased out of surplus; that the policyholders can outvote the stockholders for members of the board of directors; that millions of dollars have been paid in dividends to Industrial policyholders beyond any provisions of their contract; that annually about $600,000 has long been paid for industrial dividends, against $140,000 to stockholders; that the surplus is kept down by these payments to policyholders; that the officers can have and do have no other ambition than to manage the company in the interest of policyholders; and that, therefore, it is particularly a mutual company. I never authorized any representation that the company is in form a mutual company, for all our financial statements and advertisements show the capital and surplus, and in all of these addresses I have mentioned the stock dividends to show how little the stockholders make out of the business.

Q. And what did you say was the extent of your non-participating business? A. In the ordinary department?

Q. Yes. A. I think it is practically all.

Q. All non-participating? A. Yes.

Q. And in the industrial department? A. It is all non-participating.

Q. Except these amounts which are shown to be paid from year to year as a concession to the policyholders? A. Yes.

Q. So that practically, the profits are accumulated for the stockholders? A. Except as they are distributed to the policyholders.

Q. Except as you give a certain amount. The non-particpiating means that the policyholder has not any right to share in the profits? A. It means he has no right to share in the profits, but we also say we have the settled policy to keep down our surplus to ten per cent. of our assets, and we do distribute it as a matter of fact.

Q. Well, that is a settled policy which you can unsettle? A. It is a settled policy referred to in this bulletin.

Q. That is what you had in mind? A. That is what the men had in mind when they heard it, and that coupled with the fact that the company had put the right to vote in the hands of policyholders, make it very proper, I think, to say to our men that we are practically mutual, so far as the fact that we are managing the company in the interest of the policyholders and nothing else.

Q. I suppose all companies would claim to be mutual to that extent? A. No, stock companies who are in it to make money, whose dividends were not limited, could not make that claim. Our point is that we can only make two per cent. out of the business.

Q. You have a legal right to take all the profits for the stockholders, save to the extent that your business is participating, and that is a very small fraction? A. We have no right to take it at all under the charter. It is held for the security of the policyholders.

Q. You mean it cannot be distributed to anybody? A. To anybody except policyholders.

BY THE CHAIRMAN:

Q. You have stated that your management is constantly engaged in endeavoring to cheapen the administrative expenses of your company? A. Yes.

Q. Is there any affirmative legislative action that will assist you to do that, that you can suggest? A. I do not think legislation is needed at all, sir, in the industrial business. I think if left alone we will work out these problems better than any legislature can. We are in the business and we are studying it, and we have not any other work to do in the world than to work it out, and we will do it if we are left alone.

Q. There is no power that you need in addition to those now possessed by you? A. I think not. I think perhaps the reserve laws may be said to be a little severe, but we do not complain of them.

BY MR. HUGHES:

Q. You have, from time to time, gone to the legislature to get power to distribute your surplus in stock dividends? A. In the earlier years, yes.

Q. But not for many years? A. No, not since I have had any connection with the company.

Q. You said yesterday that Lake Shore & Michigan Southern stock was now worth four hundred dollars, according to your information. A. No, I said I understood our company had been offered four hundred dollars and declined it for a large block.

Q. Your testimony as reported is as follows: "Q. There were no quotations in excess of 320? A. I am not certain that is so. I think I did hear of sales above that. I understand that it is now at four hundred." A. What I am quite sure I stated is that we have been offered four hundred for our large block of stock and declined it, and my statement yesterday was that a large block of this particular stock is worth a great deal more than a small amount. If you will recollect, the stock of this company is held almost entirely by the New York Central, and there is very little out that is not in the hands of two or three people.

Q. I notice the quotations in this morning's paper; sale of 430 shares at 340. A. Well, I can quite well realize if there is any desire to buy the large blocks of stock it would be easier to make a small market to tempt people to buy. I still think we could get 400.

Q. My inquiry was directed to the quotation. I understood your testimony was to that effect. A. I did not intend to so testify. Perhaps I ought to say on that whole subject, I do not know whether I made it entirely clear, the fact that Mr. Read bought this stock for the Metropolitan without charging the Metropolitan any commission, and that his claim is that he bought it from Butler at 350, and that Butler divided the difference with him as commission. And that he claims that he is right about it. I do not want to do any injustice to Mr. Read. He is quite certain that his transaction was entirely justified by the rules of the Street and of right dealing.

Q. If he was dealing with the Metropolitan without obtaining a commission, that put the Finance Committee upon inquiry, did it not? A. The Finance Committee passed a resolution authorizing him to buy at not exceeding 350, and nothing was said at that time about commissions.

Q. And he did not charge any commission upon the sale? A. There was no charge for commission when the bill came in.

Q. Then did not the committee understand that he was making a profit in some way? A. I think the Finance Committee understood that he had made a commission. The amount of it they had no idea of until a week or so ago.

Q. In your company because of the large industrial business that you have, there is a great deal of expense in regard to advertising and printing, stationery and postage, is there not? A. We think as to advertising it is very low indeed as compared with other companies. We advertise very little and very seldom.

Q. So far as your stationery, postage and printing are concerned? A. It must be large.

Q. And large as compared with other companies? A. I don't know as to that.

Q. Well, I notice that in the Metropolitan statement of last December the advertising, printing, stationery and printing is put at $635,822.54 and in the Mutual the same items, advertising, printing and stationery and postage is put at $1,134,833.76. How does your stationery compare with the Mutual, I mean in extent? A. Why, I do not want to be put in the attitude of criticizing the Mutual——

Q. Well, we will not say anything about the Mutual, but in comparison with an old line company you have perhaps larger demands for stationery and postage, have you not, on the same volume of business? A. We have very large demands indeed, and we print our newspaper, as I said yesterday, 4,000,000 every other month, and our form supplies are very numerous indeed.

EDWARD W. SCOTT resumed.

BY MR. HUGHES:

Q. Mr. Scott, I referred in your examination the other day to the test case which had been brought by your company to determine the construction of the tax upon gross amount of premiums. I will ask you whether the law to which you referred was Section 187 of the tax laws, laws of 1896, Chapter 908, as amended by the laws of 1901, Chapter 118, authorizing an annual tax upon the gross amount of premiums received during the preceding calendar year by every domestic insurance company for the privilege of exercising corporate franchises and of carrying on business in the State. That law provided that the taxes to be paid over before the first day of June in each year? A. Yes, that is correct, Mr. Hughes.

Q. And the question for decision was whether the tax was retroactive and whether the law imposed a tax upon premiums derived from contracts made prior to the time the statute took effect? A. Yes.

Q. And the decision of the court was that as the statute did not go into effect until October 1, 1901, that the provision in the law that the tax should be based upon the amount of premiums received during the preceding calendar year must refer to the calendar year commencing January 1 thereafter, since if the year commencing with the preceding year was intended, the law would be retroactive, the tax reacting during nine months when no law authorizing it was in existence? A. Yes, sir.

Q. That being the decision of the Court of Appeals, as reported in the 179th New York, page 227? A. Yes, sir.

Q. There was no testimony required in the case, was there? It was a simple matter of statutory construction? A. Yes.

Q. And the record was a very brief one? A. Yes, sir.

Q. Mr. Andrew Hamilton appeared for you in the Court of Appeals? A. In the Court of Appeals.

MR. GILBERT: I think he appeared before the Appellate Division.

Q. And also in the Appellate Division? A. I think not.

Q. Who appeared in the Appellate Division? A. Mr. E. E. McCall—I think I am correct about that.

Q. And who tried the case at Special Term for your company? A. There was no Special Term.

Q. It was a certiorari proceeding? A. Yes, sir.

Q. Who argued it? A. Mr. McCall, as I remember it. I think he had it before the Appellate Court.

Q. Who handled the matter before the commissioner in the first instance, before the comptroller? A. In the first instance?

Q. Yes. A. Mr. McCall.

Q. In what other matters have you retained Mr. Andrew Hamilton beside the tax case just mentioned and the preliminary term matter? A. In no other that I recall.

Q. Have you ever retained Mr. Andrew Hamilton in connection with any matters of legislation? A. No, never, sir.

Q. Who has represented you in regard to such matters? A. I think we have employed counsel on two or three occasions to appear before committees.

Q. Do you know on what occasions? A. In Massachusetts, twice, I think.

Q. In connection with what proceedings or legislation? A. In connection with some bill that was pending; I cannot recall now what it was. It was some time ago.

Q. Who is William H. Buckley? A. Mr. William H. Buckley is a resident of Albany.

Q. An attorney at law? A. Yes.

Q. How long have you had him under retainer? A. Different occasions during the past four or five years, perhaps.

Q. When did you first employ him? A. Well, that I cannot say definitely.

Q. I find on October 26, 1901, William H. Buckley, five hundred dollars, general services, what were his services? A. He kept us advised of legislation in different States.

Q. Including New York State? A. Including New York State.

Q. I find on December 24, 1904, an item of William H. Buckley, five hundred dollars. What was that for? A. Well he was paid—he was not paid a regular retainer, he was paid small amounts at different times.

Q. I find on March 6, 1903, William H. Buckley, five hundred dollars. What was he paid the amount previously mentioned in 1902 for, and what was the five hundred dollars in 1903 for? A. Well, for the same services, I presume, that I stated.

Q. All together in connection with legislation, was it not? A. Well, not in the sense of influencing legislation.

Q. February, 1904, five hundred dollars and June 23, 1905, five hundred dollars—the fact is that he has had five hundred dollars a year for several years? A. Well, I do not know just how that foots up. I should think it would average that.

Q. Well, it appears as I have read it, five hundred dollars for several years. What was he paid it for? A. That is correct. For the services I have stated.

Q. Well, I do not recall your stating much on the point. A. He kept us advised with reference to legislation in the different States, or anything that occurred that would be of interest to us.

Q. Have you any statement from him with regard to legislation pending? A. No, sir.

Q. What kind of bills did you interest yourself in? A. None in particular.

Q. Well, can you recall, take this year for example, what he has advised you in relation to? A. Really I cannot say offhand.

Q. Anything? Did he really advise you as to anything? A. I presume he gave us information.

Q. Do you know that he did? A. Quite sure of it, sir.

Q. Can you recall any matter as to which he gave you information? A. No, I think not.

Q. Was he not under retainer so you could have his services in case you required them? A. In case we required them, yes.

Q. What was the real object of this five hundred dollar payment, to have him under retainer? A. Yes.

Q. He did not render any special services? A. No, not that I recollect.

Q. You do not recall anything that he did? A. Not in detail.

Q. Or any bills to which he gave attention before any committee? A. No.

Q. When did you first become acquainted with Mr. Buckley? A. I have known Mr. Buckley six or seven years.

Q. Was he at one time connected with the Insurance Department? A. I think he was, yes, sir.

Q. Was he at one time the private secretary of James F. Pierce when he was Superintendent of Insurance? A. That I do not know.

Q. Was he subsequently one of the assistants in the Insurance Department? A. He was employed in the Insurance Department.

Q. Was he employed under Superintendent Payn? A. I think he was back as far as that.

Q. Has he a brother in the department now? A. No, sir, not that I know of.

Q. When did he leave the department? A. I do not think he has been there since 1892, perhaps 1891.

Q. Have you retained him in connection with matters with the Department? A. No, I never retained him when he was connected with the department.

Q. I mean in relation to matters that came up with the department? A. Not specially.

Q. Has he represented you at any time with regard to matters which came up with the department? A. I think not.

Q. Was he recommended to you by the New York Life? A. No, sir, I do not recall that he was.

Q. Did you know that he was employed by the New York Life? A. I did.

Q. Did you know in what capacity? A. No, sir.

Q. Does Mr. Buckley attend to regular legal business, such as matters of litigation, giving them legal opinion and advice as to ordinary questions? A. Well, I presume that he does in due course of business.

Q. Has he ever dealt with you in regard to such matters? A. Not that I recollect.

THE CHAIRMAN: The Committee will appreciate it if the representatives of the press will wait a moment after we take our recess. The Committee will stand in recess until 2.30 o'clock this afternoon.

AFTER RECESS.

THE CHAIRMAN: The Committee is waiting for Mr. Scott. If there is any one in the room who will communicate with him.

EDWARD W. SCOTT resumed.

BY MR HUGHES:

Q. Did you first become acquainted with Mr. Buckley at the time when it appears that he received his first payment of five hundred dollars? A. No, I think not—prior.

Q. Had you known him for some time? A. For some time, yes, sir.

Q. Was there any payment made to him of twenty-five thousand dollars in the summer of 1897, which went to make up the difference between the amount of money borrowed from the New York Security and Trust Company and the purchase price of the stock bought by you at the auction sale? A. W. H. Buckley?

Q. Yes. A. No, sir.

Q. Or any part of it? A. No, sir.

Q. Was there a payment made to Boswell for that purpose? A. There was a payment to Boswell in the summer of 1897.

Q. What was that payment? A. They were agents of the company, Boswell and Buckley, and they desired to have an interest in the capital stock to the extent of 100 shares, and the loan was made at that time.

Q. Was it a loan? A. It was a loan, yes, sir.

Q. On collateral—— A. Charged to their account.

Q. On collateral? A. Well, their account was perfectly good for the loan. Not on collateral, no, sir.

Q. It was a loan to Boswell? A. It was an advance to Boswell alone? A. Boswell and Buckley.

Q. What Buckley was that? A. That was a Buckley of Cincinnati.

Q. What was his first name? A. He was a partner of Mr. Boswell.

Q. When was that advance made? A. I think in July, 1897.

Q. And the $25,000 which was paid in cash by you on the purchase of the stock was from the proceeds of that loan? A. Not altogether.

Q. How much of it? A. Well, possibly twenty thousand dollars.

Q. And what interest in the stock did Boswell and Buckley take? A. They were to have one hundred shares, I believe.

Q. Did they get the one hundred shares? A. They did not.

Q. Why not? A. They surrendered their claim to it.

Q. To whom? A. To me, and I assumed the obligation.

Q. And in what form did you assume the obligation? A. They were to have the stock when it was released.

Q. How did you make good the twenty-five thousand dollars? A. I gave the comptroller of the company a statement, who was familiar with the circumstances, when the stock was released that it should be turned into the treasury.

Q. Has it ever been released? A. It has not.

Q. Has the twenty-five thousand dollars ever been paid back to the company? A. No, sir, but the interest on it has.

Q. Who has paid the interest? A. The interest on the stock

Q. You mean the dividends? A. The dividends and the difference between the dividends, no, the dividends paid the interest.

Q. What has the company received? A. It received the full interest.

Q. At what rate? A. Five per cent.

Q. At twenty-five thousand dollars? A. Whatever the amount was, I think——

Q. Or twenty thousand dollars? A. Twenty thousand dollars.

Q. From whom has it received that interest? A. I have paid that.

Q. You paid it yourself? A. Yes, sir.

Q. And the stock has not been released because it is all still held by the New York Security and Trust Company? A. Yes, sir.

Q. But the difference between the $180,000 loans by the New York Security and Trust Company upon the stock in the summer of 1897 and the amount you paid for the stock at the auction sale was raised by an advance by the Provident Savings Company? A. To Boswell and Buckley.

Q. Yes, but the company paid the money, paid that difference. A. They paid the $25,000.

Q. That is what I mean. A. To Boswell and Buckley.

Q. And made good this money to Boswell and Buckley to put up on the purchase price? A. They turned it over to me, yes, sir.

Q. And what agreement has the company that the company will be entitled to one hundred shares of stock? A. They have an agreement to that effect.

Q. Is that a written agreement? A. Yes, sir.

Q. Is that on your files? A. Yes, sir.

Q. I would like to have it produced. Can you send for that?

MR. GILBERT: We will send for it.

Q. So that in effect operated as a purchase by the company of one hundred shares of its own stock? A. No, it operated as a purchase by Boswell and Buckley.

Q. But Boswell and Buckley surrendered their interest to you? A. Some time subsequent.

Q. So it should be stated it operated in effect as a purchase by you of the entire amount and a loan by the company of the

$25,000? A. Well, I would like to state that Boswell and Buckley were large agents of the company, had a very large field, several States, and they were very anxious of obtaining an interest and we thought that it might be desirable to give them an interest, but subsequent events satisfied us that it was not desirable to have them interested in any way in the company, and later on Mr. Buckley retired, and later on severed all connection with his partner, Mr. Boswell.

Q. How long was it after the purchase by you at the auction sale that their interest in the purchase was turned over to you? A. I should think a year and a half or two years.

Q. Is that the subject of any written agreement? A. Between them and myself?

Q. Yes, have you any written paper showing the transfer? A. I do not recollect that I have.

Q. Did they have any document or instrument showing that they were entitled to any part of the stock by reason of their turning over to you the twenty-five thousand dollars obtained from the company? A. I think it is quite likely, but I do not recall definitely.

Q. Did you give it to the company? A. No, sir.

Q. You executed an agreement? A. Yes, sir.

Q. And just what was the purport of that? A. That on the stock being released the one hundred shares should be turned into the treasury of the company.

Q. Then in effect did it operate as a purchase by the company of one hundred shares? A. Subsequently, it did.

Q. Yes, that is the status of it now. A. That view might be taken of it.

Q. In other words, you were paying interest on the twenty-five thousand dollars pursuant to an agreement that when the stock is released from the pledge with the New York Security and Trust Company the one hundred shares of that stock shall become the property of the company and be held in its treasury. Who is receiving the dividends on the stock? A. I have.

Q. And dividends at ten per cent? A. No, sir.

Q. What per cent? A. Seven per cent.

Q. And what became of the difference between the five per cent. interest you pay on the twenty-five thousand dollars and the seven per cent., or is there any difference? A. No, I think the interest is correctly calculated.

Q. What is the amount of the dividends that you received on the one hundred shares? A. Seven per cent.

Q. You mentioned the other day that E. A. Dunham was connected with the transaction which led to the purchase of the stock by Hadley. Did he become connected with your company? A. He did not.

Q. Did your company pay him any money? A. I think they did.

Q. What amount? A. During the control of Mr. Hadley.

Q. And that was for how long? A. But not subsequent.

Q. And that was for how long that he received that amount? A. Well, some three or four months.

Q. And what was the amount that he received? A. I could not say, Mr. Hughes.

Q. One thousand dollars a month? A. Really, I do not recall.

Q. What was the total amount received by Mr. Dunham. A. That I could not say.

Q. What was the consideration for paying him anything? A. He was in the employ of Mr. Hadley.

Q. Well, what was the consideration for the payment to Mr. Dunham by the company, by the Provident Savings? A. Well, he did very little work, if anything, for the company.

Q. So that it was in effect a gift by the company of whatever amount he received? A. Well, it was on Mr. Hadley's orders that he received it; whether it was charged to Mr. Hadley or not, I cannot now say.

Q. But the company has never had the money back? A. It never has, no, sir.

Q. Did you vote for the payment of the money? A. No, sir.

Q. Who did? A. I do not think it was a matter by the Finance Committee.

Q. Who signed the checks? A. That I cannot recollect. Possibly I did.

Q. Was Mr. Hadley an officer of the company at the time? A. No, sir, he was the director and owner of the majority stock.

Q. Was subsequently an amount paid by Mr. Dunham in settlement? A. Subsequently?

Q. Yes. A. Yes.

Q. What amount? A. I do not recall just now.

Q. Approximately?

MR. GILBERT: Paid by whom, Mr. Hughes?

MR. HUGHES: By the company.

THE WITNESS: I do not think anything was paid by the company. I know I paid him some money.

Q. Individually? A. Yes, sir.

Q. What was that for? A. Well, that was for an alleged claim that he had.

Q. Against you individually? A. I think so, yes.

Q. I thought you had nothing to do with this matter by which the stock was obtained or purchased? A. Originally?

Q. Yes. A. Well, I did not, as I testified the other day.

Q. How could Mr. Dunham have a claim against you? A.

Well, there are a great many claims, you know, that are instituted——

Q. I understood—— A. I did not settle with Mr. Dunham. I think our counsel can explain that to you more fully than I can, the nature of his claim. In fact, I did not see him.

Q. Did his claim grow out of the transaction of the purchase by Hadley? A. As he claimed, yes, sir.

Q. Was it a commission? A. No.

Q. What was it for? A. Well, I do not recall now the nature of it.

Q. Did you obtain the moneys that were paid in settlement from the company either directly or indirectly? A. No, sir.

Q. The company did not advance or loan any money to enable that claim to be settled? A. No, sir, not to me or anybody else that I know of.

Q. So that you individually settled it? A. Yes, sir.

Q. Has the company made any demand upon Mr. Dunham for the amount of moneys which were paid him upon Mr. Hadley's order? A. No, sir.

Q. Why not? A. Well, I suppose it was considered as a useless undertaking to do so.

Q. Did one William Miller bring suit against the company or yourself in connection with this transaction of Mr. Hadley's purchase? A. One William Miller brought suit against myself, against me.

Q. What became of that? A. It is still pending.

Q. Has any money been paid to Mr. Miller? A. Not a dollar.

Q. Was any money paid in connection with this purchase to any one other than to Mr. Dunham? A. No, sir.

Q. Who has paid interest upon the loan in the New York Security & Trust Company? A. I have.

Q. Have you obtained any of the moneys for that purpose from the company? A. No, sir.

Q. Who paid the interest on the original loan to Hadley that was in the Continental Trust Company? A. That was calculated in the claim of the trust company and was included in the amount—whatever the amount was, I cannot say just the amount now—$205,000, I think.

Q. The purchase price on their sale? A. The purchase price.

Q. In other words the stock was bid in at the auction sale for the amount of their debts and interest? A. Yes, sir, plus expenses.

Q. Did you put up any cash yourself on that purchase? A. Yes, sir, I did.

Q. What amount? A. I think about $10,000.

Q. Well, the difference between $205,000 and $180,000 is only $25,000, and I understand you had obtained $25,000 from Boswell & Butler, who obtained it from the company? A. No, I think it was $20,000.

Q. And that would leave $5,000? A. I can say here I could have had $250,000 from the trust company if I had desired it.

Q. So it was not necessary to put up any cash? A. No, sir, it was not necessary.

Q. Had you prior to the time of that sale entered into an agreement with any one to buy that stock? A. No, sir.

Q. Do you know whether Mr. Hadley transferred his interest in the stock to Mr. Charles E. Brownell? A. He did, by assignment.

Q. To whom did Mr. Brownell transfer it? A. To Mr. Dunham.

Q. To whom did Mr. Dunham transfer it? A. He transferred it subsequently to me.

Q. What did you agree to pay for it? A. Not a dollar.

Q. Did you agree to take up the loans Mr. Hadley had made? A. No, the assignment was subject to the loan.

Q. Subject to the loan? A. Yes, sir.

Q. Was it coupled with an assumption of the loan? A. No, subject to the loan.

Q. Was that a matter of litigation between you and Mr. Hadley's estate? A. I think not.

Q. Did Mr. Hadley's estate claim any equity in the stock? A. They did claim to have, yes, sir; but there was no action taken by them.

Q. I infer from what you have said that no suit was brought by them? A. No suit was brought that I recall.

Q. They had an attorney who presented a demand? A. Yes, sir.

Q. And you met that by showing the papers under which you claimed? A. I met that by an absolute refusal to acknowledge any claim on the part of Hadley or anybody else.

Q. The claim was that you had agreed to hold Hadley harmless from the loans? A. Subsequent to the purchase or prior?

Q. Subsequent to his purchase, prior to yours. A. No, sir; there was no agreement——

Q. I say that was the claim that Hadley's estate made? A. No, sir; their claim was, I think, to an interest in the equity.

Q. Was the agreement on your part to take the stock from Dunham in writing? A. Only by the assignment that he gave me.

Q. And that was a mere bill of sale? A. No, I think it was a regular assignment.

Q. Have you that assignment? A. I have not; no, sir.

Q. Who has it? A. I think my counsel has it.

Q. I should like to have it produced. At the time that you were connected with the Equitable were you the manager in Australia? A. I had charge of the Australian business for a time.

Q. What was the state of your account with the Equitable when you left that company? A. It was settled, sir.

Q. In what way was it settled? A. I do not recall the adjustment of it, but it was settled.

Q. Was there a debit balance against you? A. Not a dolla

Q. What was there to settle? A. The account, whatever it was.

Q. Then there is no truth in the statement that at the time you left the Equitable there was a balance against you—— A. Not one cent.

Q. Which you did not pay? A. Not one dollar, sir.

Q. You have said that you have reduced the amount of the loan to the New York Security & Trust Company from $180,000 to fifty thousand dollars? A. Yes, sir.

Q. Have you received from the Provident Savings directly or indirectly any portion of the moneys which have been used to reduce that loan? A. No, sir.

Q. How has it been reduced? A. I have reduced it from my own funds.

Q. Through your connection with the company?? A. Not altogether, sir.

Q. In any part? A. Possibly I have used a considerable portion of my salary.

Q. Have you a statement of the salaries paid by your company for a series of years. I think I did not have that the other day. A. I have it here, sir. (Producing paper).

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit No. 698).

Q. I am informed that in the minutes there are some statements with regard to salary that are not in entire accord with this table. If you desire to correct your testimony to make it conform to this statement now offered? Mr. Gilbert suggests you might have fallen into some inaccuracy. A. Either in that or in the transcript of the notes there are two or three inaccuracies.

THE WITNESS: What I gave you the other day was entirely from memory.

Q. And you intend that this table, Exhibit No. 698 should be regarded as a complete and accurate statement? A. Accurate statement.

Statement read in evidence by Mr. Hughes.

Q. I have now received the paper to which you referred with regard to the one hundred shares transferred to you by Boswell and Buckley—that is the original? A. Yes.

MR. HUGHES: I offer that in evidence.

Paper marked Exhibit No. 699, and read in evidence by Mr. Hughes.

Q. That is the only agreement that you have with regard to those shares? A. The only agreement.

Q. Now, I am informed that at or shortly before you left the Equitable there was a debit balance against you of about a hundred thousand dollars—isn't that so? A. No, sir.

Q. Wasn't there at any time such a debit against you? A. No, sir.

Q. Did you have some arrangement with Mr. Henry B. Hyde for disposing of that? A. No, sir.

Q. Did you make any payment to the Equitable? A. No, sir; the Equitable has no claim upon me whatever.

Q. I don't want to press the matter unduly, but if there is anything at all in the suggestion that there was some claim against you, which in some way was settled or disposed of, I would like to know the facts? A. Well, there was no claim against me, whatsoever. My account was entirely adjusted, and I am perfectly responsible to-day for any claim the Equitable Society has against me. I will make a statement on that point a little later on, if you will permit me.

Q. You can make it now. A. I would rather reserve for a few moments when I have covered more ground.

Q. What is that? A. I will reserve it if you will permit me.

Q. When you please. I think you have testified as to the interest upon the loan carried at the New York Security & Trust Company? A. Yes, sir.

Q. And that was five per cent.? A. Originally, and reduced to four and a half, and I believe it now stands at four.

Q. What was the date of the first payment you made to the New York Security & Trust Company? A. I cannot say except from recollection.

Q. Approximately? A. I should say in December.

Q. Of what year? A. 1897.

Q. Of what amount. A. That I cannot tell you.

Q. Approximately? A. I don't recollect.

Q. I should like to have a statement of that account. I notice in your collateral loans, a loan of sixteen thousand dollars, made on December 6, 1899, to Stewart Brown. Who was Stewart Brown? A. Stewart Brown was connected with the—was a broker at that time, I think.

Q. Was he connected with the New York Life at that time? A. No, I think not.

Q. Do you know when he severed his connection with it? A. I do not recall, but I think it was prior to that.

Q. Was the loan made to Stewart Brown made for the benefit of any other person? A. No, sir, not that I know of.

Q. Well, I understand your testimony to be that you have paid since you became connected with the Provident Savings, out of your own means, a hundred and thirty thousand dollars, to the New York Security & Trust Company, in addition to whatever interest was payable upon that loan? A. Yes, sir.

Q. And that you have not obtained anything from the Provident Savings, save as you have received your salary? A. Precisely.

Q. Was your salary originally thirty-six thousand dollars? A. No, sir, originally eighteen thousand dollars. I think I testified to that the other day.

Q. I have asked you for a statement of all contributions made to political campaign funds for ten years last past by the Provident Savings. Is this statement you have handed the Committee a complete statement? A. That is a complete statement. I see here an item of $2,000 and $1,000, which is entered as a fee for some attorney. There were two contributions that I can recall so far as contributions was concerned.

Q. That is what I mean. A. That is correct.

Q. This statement happens to include also certain items in connection with legislation? A. Yes, sir.

Q. And is the statement complete, with reference to all contributions for political purposes, either in connection with State, national or local campaigns, and also with reference to all payments in connection with legislation in any State? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

Paper marked Exhibit No. 700 and read in evidence by Mr. Hughes.

Q. When was your company first examined by the Insurance Department? A. July, 1897.

Q. And this is a copy of their report? (showing witness paper). A. Since I became president.

Q. This is a copy of the report? A. I presume so, I never saw it in just that form before.

Q. This comes from the files of the department. This was an examination, which was brought about because of the public attention that was attracted to the matter after Mr. Hadley's death? A. Yes, sir.

Q. Is it not a fact, according to your information, that that was the first examination that had ever been made by the department of New York of the Provident Savings? A. I think that is so, yes, sir.

Q. I notice in this statement in the department report: "The corporation holds certain securities that were hypothecated to it as collateral to loans amounting to $162,500. The par value of those securities is $202,900. At the time the loans were made by the former administration the collaterals referred to were quoted at values sufficient to amply secure the loan. I am unable at the present time to ascertain the value of these securities, except in two instances, and therefore have reduced the assets of the company on this account to the extent of $149,500." It is said that "At the time the loans were made by a former administration the collaterals were quoted at" etc. In fact, the loans had been made by the same administration that was in force at the time that report was made—is not that so? A. No, sir; not altogether.

Q. In what respect had the administration changed? A. There had been a change in the administration of officers.

Q. In what respect were officers different? A. A change in the ownership, of course.

Q. There had been a change in the control of the stock? A. Control of the stock.

Q. So far as the responsible administrative officers were concerned, had there been any change? A. Not in the presidency or secretaryship.

Q. In the membership of the Finance Committee? A. There had been one or two secretaries put in there by Mr. Hadley, and these had been eliminated.

Q. Had there been any change in the Finance Committee? A. Yes, sir.

Q. What change? A. The Finance Committee was reorganized at the time of the Hadley trouble.

Q. And how was it reorganized? A. By substituting others for those in the place that had been selected.

Q. Well, state if you will who the persons were—who came after his death and for whom they were substituted? A. Stephen A. Brownell was retired and Mr. Ashley, whose first name I do not recall; two Brownells I think. I could readily give you the names if I had a list with me, but I do not think I have.

MR. GILBERT: Here is a list of the directors in 1897, that might help you.

Q. What was the number of the Finance Committee at the time those loans were made? A. Five, if I remember.

Q. Who went off after the Hadley trouble? A. Stephen A. Brownell, Mr. Ashley—what was Mr. Ashley's name?

MR. GILBERT: Stephen B. Ashley.

MR. HUGHES: Stephen B. Ashley.

THE WITNESS: Another Brownell. His name is not here. Mr. Thomas H. Borden.

Q. Who took their places? A. E. C. Lounsbury, Abraham M. Hyatt, C. E. Tillinghurst, I think.

Q. Then the statement in the Insurance Department report is to the fact that the loans to Hadley had been made by a prior administration, had reference to the Finance Committee? A. Very largely, yes, sir.

Q. Now, from 1897 to the present time, has your company ever been examined by the New York Insurance Department? A. Not by the New York Insurance Department, no, sir.

Q. And has your company been examined by the Insurance Department of any other State? A. Yes, sir.

Q. What department? A. Tennessee and Texas.

Q. When was the examination by the Tennessee department? A. 1901.

Q. By whom was that department represented? A. By Walter C. Wright.

Q. Of Boston? A. Of Boston.

Q. Was Mr. Walter C. Wright at that time an applicant for the position of consulting actuary in your company A. No, sir; he was not.

Q. Did he subsequently, after the examination, apply for that appointment? A. I do not think so.

Q. Was he appointed? A. As consulting actuary, no, sir.

Q. As actuary? A. No, sir.

Q. In what capacity was he employed by your company? A. He was employed for special work.

Q. At what time? A. I think in 1902.

Q. For how long was he employed? A. How long?

Q. Yes. A. I think he is still doing work for us.

Q. He was not connected with the Tennessee Department, was he—he was simply retained by them? A. He was retained by the Tennessee department.

Q. He was an actuary during the business of consulting actuary? A. Yes.

Q. And he was retained by them and made an examination? A. Yes, sir.

Q. And from time to time you have retained him? A. Yes, sir.

Q. Your company has? A. Yes, sir.

Q. Now, what amounts have you paid him? A. Possibly $2.500 or $3,000.

Q. When were you examined by the Texas department? A. At the same time.

Q. 1901? A. Yes, sir.

Q. And with the exception of those two examinations you have not been examined since the examination of 1897 by the New York department? A. No, sir.

Q. Is this a complete statement of the real estate owned by your company (showing witness paper). A. Yes, sir.

MR. HUGHES: I offer it in evidence.

Statement marked Exhibit 701, and put in evidence by Mr. Hughes.

Q. This statement shows on the left the year of acquisition and then the statement of the property and then of its book value? A. Yes, sir.

Q. The first property mentioned is Provident Building, Waco, Texas, a six-story brick and stone office building, plot 82½ by 150, book value $207,657.25, acquired in 1889. What did that cost the company? A. That cost the company, as I remember, one hundred and fifty odd thousand dollars. There was contributed in stone in its erection, as I am informed—of course that was put up before my administration—to the value of $50,000, to which no charge was made. They were developing a new quarry, and the stone was contributed, as I understand, without any charge. Had they paid for it the cost of the building would have been approximately $200,000.

Q. That was an original investment for the purpose of supplying your company with an office building? A. Yes, sir.

Q. That was long before your administration? A. Yes, sir.

Q. The next property is 330 West 18th street, acquired in 1901, five-story and basement brick and stone apartment house, lot 25 by 92, book value $15,098.50. What did that cost the company? A. That cost the company what is stated there, the book value.

Q. This is a statement of cost? A. Yes, sir.

Q. And it has not been reduced or increased? A. I think not.

Q. Was that acquired through foreclosure? A. No, sir.

Q. For what purpose was that acquired? A. That was taken for a debt.

Q. It was a property upon which there had been no loan previously in favor of the company? A. No.

Q. Was it in equity? A. It was in equity, yes, sir.

Q. And it is subject to a mortgage? A. Yes, sir, it is.

Q. At the present time? A. Yes, sir.

Q. Whose indebtedness was cancelled by the transfer? A. I cannot give you the name.

MR. GILBERT: Robinson.

A. Robinson.

Q. What Robinson? A. I have not the name.

Q. Any one connected with the company? A. No, sir.

Q. How did the indebtedness arise? A. He had negotiated for an annuity and could not complete the matter, and that was taken in part, as I remember it, in settlement.

Q. You mean as part of the consideration for the annuity? A. Yes, sir.

Q. It was in lieu of so much money paid the company? A. Precisely.

Q. The next property is No. 530 to 538 Broadway, acquired 1902 to 1904, three eleven and ten-story basement fireproof brick, stone and steel buildings at the northeast corner of Spring street, plot 125 by 125, book value $960,779.65. For what purpose was that property acquired? A. For what purpose?

Q. Yes. A. That was taken in exchange. For out of town property and some property in the city.

Q. With whom did the company deal? A. I cannot give you the names offhand.

Q. Who was the broker? A. Just in a moment, I think it was James L. Libbey.

MR. GILBERT: Libbey and Vandewater.

A. (Continued) Vandewater was one and Charles E. Schuyler, I think, sir.

BY MR. HUGHES:

Q. It is stated it was acquired from 1902 to 1904. What is the explanation of that? A. At different times; we first acquired 532 and 534 and then we had an opportunity of making an exchange for the corner, which would be 530, and we effected that; then we thought it desirable, we had an opportunity of exchanging for 536 and 538.

Q. All the properties were acquired through exchanges? A. Yes, sir.

Q. How was the book value of $960,779.65 arrived at? A. I shall have to refer you to my bookkeeper for that, I think.

Q. Is that more than the cost of the properties which were delivered in exchange? A. Possibly.

Q. Your real estate will show that precisely? A. Yes, sir.

MR. HUGHES: You have these data here, have you now, so we will get at that presently?

MR. GILBERT: Yes.

Q. The next property is No. 80 to 82 Wooster street, acquired in 1902, seven-story and basement brick, stone and steel building, book value $70,969.41. How was that acquired? A. That was acquired from Robinson, the same party that the Eighteenth street property was acquired from.

Q. On what consideration? A. The same transaction.

Q. In part payment of an annuity? A. I think I am right there, am I not?

Q. The one is 1901 and the other 1902. A. The Eighteenth street was taken in 1901 and the Wooster street in 1902, according to this schedule.

MR. GILBERT: That came with 532 and 534 Broadway, not Robinson.

THE WITNESS: I am wrong about that, Mr. Hughes, I believe.

Q. Upon what basis was the book value arrived at in this case of the Wooster street property—was that part of the same transaction? A. No, not with Robinson.

Q. I mean the same transaction as the exchange in the case of the Broadway property? A. 530 and 532, I think.

Q. Will you have a statement here showing the way that is made up? A. Yes, sir.

Q. The next property is 511 to 515 West 112th street, 1903, six-story and basement brick and stone, new law elevator apartment house, $77,400. How was that acquired? A. That was acquired in the same manner or the same way that the Eighteenth street property was.

Q. This was in 1903? A. Yes, but not from the same party.

Q. You mean for an annuity? A. Yes.

Q. With whom did you deal? A. Mr. Tulley.

Q. What Mr. Tulley? A. I cannot give you his first name.

Q. Michael Tulley? A. Michael Tulley.

Q. Is this an equity? A. That was an equity, yes, sir.

Q. What is the amount of the encumbrance? A. That I cannot tell you; that will appear.

Q. How is the book value arrived at? A. Cost.

Q. You mean cost on the basis of what ought to be paid for an annuity? A. Yes.

Q. Have you the particulars here of these annuities? A. I presume so.

MR. HUGHES: I would like to have those, if you please.

Q. The next property is 933 and 935 Amsterdam avenue, and 160 West 106th street, 1903, six-story and basement brick and stone apartment house, book value $94,901.70. How was that acquired? A. That was acquired from Mr. Kirk, if I remember, in the same way that the Robinson property was acquired.

Q. That was for annuities? A. Yes, sir.

Q. Do you make a specialty of taking properties for annuities? A. No, sir; I wish we could.

Q. How did it happen that you got these? A. Well, that was a negotiation that I did not conduct myself. In fact, I had nothing to do with it. The property was talked over and proposed, and it was entirely satisfactory.

Q. Was that an equity? A. That was an equity; yes, sir.

Q. Is that carried at the market value or what it would cost to give the annuity on the ordinary insurance basis? A. Carried—taken over, do you mean?

Q. There is a book value of $94,000. How do you get at that figure? A. Well, that would be the cost plus any additions or permanent improvements.

Q. Well, the initial cost? A. That I cannot tell.

Q. As a consideration for the annuity which was granted in accordance with your tables, is that it? A. Yes, sir.

Q. No. 3 East Seventeenth street, acquired in 1905, fireproof store and office building, nine and one-half stories, $123,232. How was that acquired? A. In exchange for other property.

Q. For what other property? A. Property in 113th street, I think.

Q. Which you had obtained through foreclosure? A. No, sir; which we had taken in exchange for some country property.

Q. How was the original property which you first obtained acquired, through foreclosure? A. Some of it, yes, sir.

Q. And the rest of it? A. The rest of it was purchased. I think the company had it when I took control of the company.

Q. The last item is No. 35 Nassau street and 54-58 Liberty street, acquired in 1905, fireproof office building, fifteen stories and basement, southeast corner of Nassau and Liberty streets, 9,615 square feet $1,993,068.30. How was that acquired? A. That was acquired in exchange.

Q. For what property? A. Properties in the city.

MR. HUGHES: Have you the report for 1903?

MR. GILBERT: You have it there in the schedule, I think.

Q. With whom was that transaction? A. I beg pardon?

Q. With whom was this transaction, in relation to 35 Nassau street and 54 and 58 liberty street, carried through; who was the other party to the deal? A. The brokers, or owners?

Q. The owner. A. The Metropolitan Life.

Q. How is this figure of $1,993,068.30 arrived at? A. That is arrived at by the value of the property transferred in exchange.

Q. Through what broker did you deal? A. McClay, or McClay & Davies, and Charles E. Smith——

Q. Frank E. Smith, wasn't it? A. Frank E. Smith, yes, sir.

Q. Did you pay a commission to Frank E. Smith? A. No, sir, we did not.

Q. Is any officer of your company interested in any of these properties? A. No, sir.

Q. Or in any of the properties in New York in exchange for which these properties were acquired? A. No.

Q. Did any officer of your company receive any commissions in connection with any of these real estate transactions? A. No, sir.

Q. Neither directly or indirectly? A. No.

Q. When properties are taken for annuities, is a commission paid to the agent? A. I think not.

Q. I do not mean a commission upon the purchase or acquisition of the property as a real estate transaction—— A. On the annuity?

Q. But upon the annuity as an insurance transaction? A. Well, whether there was any paid in those transactions or not I cannot say. I do not think there was.

Q. That is a matter which you can verify? A. Yes, sir.

Q. Do you mean that these properties were taken for a paid-up annuity? A. Yes, sir.

Q. In other words, if A comes to you and wants to buy an annuity of one thousand dollars a year, you will figure up his probable expectation of life, and what he put in your hands as a gross sum to enable you to pay that annuity? A. Yes, sir.

Q. Now, in the cases you have mentioned, the owners of these equities have placed the equities in your hands at a certain valuation in consideration of your paying a certain annuity during their lives? A. Yes, sir.

BY THE CHAIRMAN:

Q. Have there been other instances where that has been done than these two that have been spoken of? A. No, sir.

BY MR. HUGHES:

Q. You have mentioned three, have you not? A. Three, yes, sir.

Q. These are the only cases? A. All that I can recall, yes, sir.

Q. Can you, by taking the report for 1904, showing your real estate holdings at the end of last December, identify the properties which you exchanged in consideration for this 35 Nassau street building? A. The two first on the list—shall I mark them?

Q. No, you had better read them. Dictate what they are. A. I can check them off with a pencil in just a minute, Mr. Hughes. This is the list, Mr. Hughes, those checked. (Handing paper.)

Q. Then the properties given in exchange for 35 Nassau street were four lots and building thereon, on West Twenty-seventh street, near Broadway, being Nos. 49, 51, 53 West Twenty-seventh street, three five-story brick and stone buildings, Nos. 203, 205, 207 West 160th street, and two seven-story and basement brick and stone and steel buildings, Nos. 151 to 169 inclusive, West 140th street? A. Yes, sir.

MR. GILBERT: There is another, a lot on Twenty-eighth street. I guess that is included in the others.

THE WITNESS: That is in the first.

Q. There was also included a brick and stone building, No. 50 West Twenty-eighth street? A. Yes.

Q. Now, the premises in West Twenty-seventh street and the premises 50 West Twenty-eighth street together showed a book value of $615,555.28? A. Yes, sir.

Q. And the three buildings on 106th street a book value of $167,838? A. Yes.

Q. And the two buildings on West 140th street $351,472. Is that right? A. Yes.

Q. And you took those together in arriving at your book value of 35 Nassau street? A. No, I think we took the market value there, Mr. Hughes, in the other column. I think they were taken over at that figure.

Q. The market values that you put the West Twenty-seventh street and the West Twenty-eighth street properties in your last report to the Insurance Department were $670,000 and the 106th street property $185,000, and the West 140th street property $365,000? A. Yes.

Q. Making a total of $1,120,000? A. Yes.

Q. And the book value of the—— A. Wait one moment. You will add twenty thousand dollars to the Twenty-eighth street property. A mortgage which was paid off prior.

Q. That makes twenty thousand dollars more? A. That makes twenty thousand dollars more.

Q. That would be $1,140,000? A. Yes, sir.

Q. And the 35 Nassau street property is carried at a book value of $1,193,000? A. $1,193,000. I think there was some cash paid—twenty-five thousand dollars.

Q. Can you give me the whole transaction?

MR. GILBERT: There was twenty-five thousand dollars paid as commission of the Title Guarantee Company for examining the title.

THE WITNESS: That was quite an item.

Q. What was the amount paid by way of commissions? A. Eighteen thousand dollars, I think.

MR. GILBERT: One per cent. of value.

Q. To whom was that paid? A. To Maclay & Davies.

Q. And taking the cash payment, the cash payment was made to the Metropolitan? A. Yes, sir. The Title Guarantee Company——

Q. Taking the cash payment, the mortgage discharged and the valuation of the premises exchanged according to your last report and expenses and commission, you figured up the total cost of the 35 Nassau street property at $1,193,000? A. Yes, sir.

Q. I notice by your last report, that is of December 31, 1904, that all of the real estate carried by you is carried at a valuation somewhat in excess, or is put at a valuation somewhat in excess of the book valuation? A. That is usual I think in all —that is the form submitted by the departments.

Q. Well, it is usual to state book value? A. Yes, it is usual to state book value.

Q. What I wanted to get at is whether this statement of the values of your real estate as contrasted with the book values was the result of an appraisement? A. Yes, sir, all of our properties are appraised.

Q. Who appraised those properties to give you these values? A. I cannot tell. We have the appraisals.

Q. Have you a regular appraiser? A. No, independent, outsider, sir.

Q. Did you have an appraisement made before this last report was put in? A. Some time before, yes, sir. I should be very pleased to furnish you with the appraisals in each case.

Q. I want to get at the practice of your company in that respect. It is a fact that you do mark up the properties above the cost to you, do you not? A. Not in all instances.

Q. Well, you have done it in all the instances of property owned by you at the time of the last report? A. We mark up the property to correspond somewhat to the appraised or market value.

Q. I want to get at what you had to base that action on. In the form of an appraisement? A. In the form of an appraisement, yes, sir.

Q. You have regular appraisals? A. Yes, sir.

Q. Are those made by the same persons or different persons? A. Different persons.

Q. When were these made to get the values stated in your last report? A. Well, I should say last year or the year before.

Q. They must have been shortly before December 31st, 1904, were they not, were you not stating the values—— A. Well, during that year or the year previous. I think all those valuations are made——

MR. HUGHES: Let me see the report for 1903, please. (Paper produced.)

Q. Now for example, on December 31st, 1903, the property on West Twenty-seventh street, Nos. 49, 51, 53 and 55 and No. 50 West Twenty-eighth street, taken together, were put at a book value of $531,115.30. At the end of 1904 they are put at book value of $615,555.28? A. Yes, sir.

Q. An increase of about $85,000 in the cost? A. Well, sir, there was a mortgage paid off in 1903 on that same property.

Q. Increasing the cost in that way? A. Yes, sir.

Q. Of what amount, what was the amount of the mortgage? A. I think it was $100,000.

Q. One hundred thousand dollars? A. I think so.

Q. And you put up your valuation according? A. Yes, sir.

Q. Well, the increase in valuation was only about $85,000. A. Well——

Q. Had the cost been reduced by income or did you carry the income in your income account? A. That I do not know. I remember it was that year that the mortgage was paid off on that property.

Q. Was the mortgage paid off on properties on West 140th street? A. No, sir, I think not.

Q. The book value of that property Nos. 151 to 169 inclusive, West 140th street, is stated in your report at the close of 1903 at $321,550.94, and on December 31st, 1904, at $351,-472.34, an increase in book value of about $30,000. What was the occasion for that? A. Well, I presume that that was owing to improvements.

Q. Were you improving the property? A. I knew there was new machinery put in that property.

Q. What machinery? A. Some engines.

Q. Well, did you improve it to the extent of $30,000? A. Well, that I don't know. I know that the improvements amounted to quite considerable.

Q. The market value of that property is stated in your report at the end of 1903 at $330,000, and at the end of 1904 at $365,000. Did you have that appraised in 1904? A. I think so.

Q. You did? A. I think so.

Q. By whom? A. I don't remember.

MR. HUGHES: Is that accurate?

MR. GILBERT: I do not remember.

Q. I find by reference to the report of 1902 that the book value of the premises on West Twenty-seventh street and No. 50 West Twenty-eighth street is put at $430,750, and at the end of 1903 that is increased to $531,000, or by $100,000. What was the occasion of that? A. Well, perhaps that accounts for the payment of the $100,000.

Q. The $100,000 of mortgage. If that is so, what accounts for the increase of $85,000 from December, 1903 to 1904? A. It must have been marked up.

Q. The book value marked up? A. Yes.

Q. How could you mark up the book value without actually expending money? I am not speaking of market value, but book value. That represents cost, does it not? A. Yes, sir, it might have been an enhancement.

Q. No, not an enhancement—well that is a point I would like to get at. Do you mark up the book value to represent enhancement? A. Well, possibly that was done.

Q. Do you know whether it was done or not? A. No, I do not.

MR. HUGHES: Let me have the report for 1901.

(Paper produced.)

Q. Now, I will read upon the record the valuations of the property consisting of eleven story fireproof brick, stone and steel building with four lots on West Twenty-seventh street, near Broadway——

THE WITNESS: Does that include the Twenty-eighth street property?

MR. HUGHES: I am looking for that now.

THE WITNESS: I think that $85,000 is accounted for by the acquisition of the property bought in the year.

Q. Apparently the property in Twenty-eighth street is not included in your report of 1901. Do you remember when that was acquired? A. No, I do not.

Q. Well, we will start with 1902, and I will read upon the record of eleven-story fireproof brick, stone and steel building 100 feet by 98 feet 9 inches, comprising four lots on West Twenty-seventh street and the basement brick and stone building No. 50 West Twenty-eighth street on lot 25 feet by 98 feet 9 inches, report of December 31st, 1902, less mortgage not matured, book value $430,750.92. Valuation of premises $505,000. Rentals, $36,966.87. Expenses, including three-year fire insurance premiums, $10,649.71. The same property is stated in the report of December 31st, 1903, to be less mortgage not matured, book value $531,115.30, valuation of premises $605,000. The same property stated to be less mortgage not matured in report of December 31st, 1904, book value $615,555.28, valuation of property $670,000. Now, was there a mortgage paid off during the period of these valuations? A. Yes, sir.

Q. Then were there two mortgages upon the premises? A. There were two, yes, sir.

Q. What were the two? A. The amount paid on the Twenty-seventh street property was $100,000, and the amount on the Twenty-eighth street property was $20,000.

Q. What was the mortgage not matured which is mentioned in your last report? A. Well, that was the $100,000 on account of the Twenty-seventh street property. The Twenty-seventh street property was a payment then due which had been—the property had been taken subject to that mortgage.

Q. Then the $100,000 had not been paid prior to December 31st, 1904. I understood you to say it had been paid? A. It had been paid, yes, sir.

Q. So that this valuation was not less than mortgage? A. No.

Q. But there was a mortgage of $20,000 which was not paid *until* the exchange for 35 Nassau street in this year? A. Precisely.

Q. And which existed at the time of the last report? A. Yes, sir.

Q. What else is there to account for the variations in the book value? A. Well, the enhancement, whatever it is there. There were, I may say, some permanent improvements on that Twenty-seventh street property. What they amounted to I cannot tell you.

Q. Then the result would be that the book value increased by $100,000 from 1902 to 1903 through the payment of this mortgage? A. I should say that was it, yes, sir.

Q. But what increased the book value from $531,000 at the end of 1903, to $615,000 at the end of 1904 you do not know? A. No, I do not know.

Q. Did you have an appraisal which gave the value of that property or the premises at the end of 1903 at $605,000? A. I think so, yes, sir.

Q. Did you have an appraisal which gave the value of property at the end of 1904 at $670,000? A. I will say this, Mr. Hughes, that there is no property in these reports from first to last but what have been properly appraised by competent appraisers and by the Insurance Department of the State of New York.

Q. Well, I wanted to get at just what the appraisal was? A. Well, I will be glad to furnish those.

Q. Very good. As a matter of fact, your gains have largely consisted of your gains on properties, your gains in surplus during the year? A. To some extent.

Q. That is a matter we shall examine into a little later. I would like to have the appraisals which show how you put up the property.

MR. GILBERT: I have sent for them.

Q. Now, did you have an appraisal of 35 Nassau street at the time we took it over? A. We had, yes, sir.

Q. You are aware that the Metropolitan Insurance Company thought they were making a very good bargain in getting rid of it? A. I heard them state to you on the stand, yes, sir.

Q. And you thought you were getting an equally good bargain in getting it? A. Yes, sir.

Q. Have you any loans from your company on mortgage? A. Yes, sir.

Q. On what property? A. I cannot specify them from memory.

Q. Well, what property in the city have you loans from your company upon? A. I can point them out to you.

Q. Take the report of 1904 (handing paper.) (Witness marks on paper handed him).

Q. You have marked upon this schedule B of the report of December 31st, 1904, the following properties which I understand are properties owned by you upon which the company has made the loans stated? A. Yes, sir, those are the checks.

MR. HUGHES: 1887, due 1890, New York, $7,000, value of lands mortgaged, $5,500; value of buildings, $13,500; amount of insurance held by the company on the buildings, $10,000; property, house and lot 128 East 129th street, New York, N. Y.

1892, due 1897, New York, $14,000, value of land mortgaged, $14,000: value of buildings, $12,000; amount of insurance held by the company on the buildings, $14,000; house and lot 105 East Sixtieth street, New York, N. Y.

1899, New York, loan, $25,000; value of land mortgage, $20,-000; value of buildings, $30,000; amount of insurance held by the company on the building, $12,500; house and lot 519 Madison avenue, New York.

1898, loans, $50,000; value of lands mortgaged, $40,000; value of building, $35,000; amount of insurance held by the company on the building, $25,000; house and lot 137 West Seventy-second street, New York, N. Y.

1899, loan, $20,000; value of land mortgage, $16,000; value of buildings, $15,500; insurance——

MR. GILBERT: I do not think he understood your question. Those are not houses owned by him.

MR. HUGHES: That is what I asked him.

MR. GILBERT: He wants to know what houses are owned by you on which the company holds a mortgage.

Q. What did you think you were giving me? A. I thought you wanted the New York properties.

Q. No, have that clear upon the record. You have been giving me the New York properties on which the company has made loans. I wanted the properties owned by you individually on which the company made loans. A. The company has made no loans to me in any shape, form or manner from the time that I took the presidency of it to date, not one cent.

Q. Has the company no loans upon property which you now own? A. Yes, assigned, which I took subject to.

Q. Which you took subject to the mortgage? A. Yes.

Q. And that property is the one checked here? A. Yes, sir.

Q. To wit: 1898, loan of $60,000, value of lands mortgaged $65,000; value of building, $60,000; amount of insurance held by the company on the building, $30,000; house and lot 105 Riverside Drive, New York. Are you interested in No. 146 Riverside Drive? A. No, sir, I am not.

MR. GILBERT: I think Mr. Scott is again confining his answer to New York.

Q. Are there any other properties owned by you on which the company holds loans? A. The question was in New York, as I understood it.

Q. Well, that was your answer, anyway, whatever the question calls for? A. That is all.

Q. Now, with reference to out of town property owned by you on which the company has a loan, you have 1900 loan $14,500; value of land, $25,000; value of building, $40,000; insurance, $12,000; house and grounds at Allenhurst, New Jersey. Is there any other officer of the company who owns property on which the company has a loan? A. No, sir.

Q. You say that these loans were upon the property prior to your purchase? A. Yes, sir.

Q. How long prior? A. Some years.

Q. Have you a statement showing the amount of business written by your company since 1897 and the net increases, rate of lapses and so forth, that I asked for the other day? A. I think I have. This is for ten years, Mr. Hughes. I think it was five years the statement you asked for.

Q. Well, it is very convenient to have it in this form. The statement you now hand me is the sums insured, issued and terminating from 1895 to 1904 inclusive? A. Yes, sir.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 702.)

(Exhibit 702 will be found in the book of Exhibits.)

Q. It is suggested to me that you have fallen into an error with regard to the mortgages held by the company upon properties owned by Mr. Hubbard upon which the company has a mortgage made in 1893 and 1894? A. Well, possibly. I was under the impression when I answered you that that had been paid, but possibly it has not.

Q. I would like to ask you whether the mortgages upon the —well, take the Riverside Drive property, owned by you, whether the mortgage upon that property was overdue at the time you bought the property? A. No, sir.

Q. Did you take the property at the time when the company was about to begin foreclosure proceedings or anything of that sort? A. No, sir.

Q. It was a purchase—— A. I took it subject to the mortgage.

Q. Subject to the mortgage? A. Yes, sir.

Q. The loan is stated here to be 1898. When did you acquire the property? A. I think it was made that year.

Q. Then the mortgage was not made some years before you got the property? A. It was never made by me upon the property.

Q. Then the Provident Savings acquired the mortgage? A. Acquired the mortgage, yes, sir.

Q. When did the Provident Savings acquire the mortgage, in 1898, or was that originally? A. Subsequently.

Q. When did the Provident Savings take the mortgage? A. I cannot tell you.

Q. After you had bought the property? A. After I had bought the property, yes, sir.

Q. What did the Provident Savings pay for the mortgage, the full amount? A. The full amount.

Q. What rate of interest does the mortgage carry? A. Four and one-half per cent.

Q. Is that the same rate at which it was before the Provident Savings took it? A. I think so.

Q. The rate had not been reduced? A. I think not.

Q. And when did the Provident Savings take it over? A. It took it over at maturity or shortly afterward.

Q. When the loan became due? A. Yes, sir.

Q. So that in effect, instead of renewing the mortgage with the mortgage, you had an assignment made of it to the Provident Savings? A. Yes, sir.

Q. And it operated in effect as a loan by the Provident Savings upon the property? A. Substantially the same so far as the question of security was concerned.

Q. Were you on the bond? A. No, sir, I never made the mortgage.

Q. And the same is true of the Allenhurst property? A. Yes, sir, precisely.

Q. Who was the mortgagee originally? A. The mortgagee?

Q. Yes. A. I do not remember.

Q. When did you acquire the property? A. I think I acquired it in 1900, I think so.

Q. And the mortgage was made in that year, and when did the Provident Savings take it over? A. It was made in that year.

Q. The mortgage was? A. Then it was subsequently that I acquired it.

Q. But the mortgage became due in 1903. When did the Provident Savings take it over? A. About the time of maturity or at maturity.

Q. Now, referring to Exhibit 702, statement of sums assured, issued and terminated 1895 to 1904, the first column shows the year and the next column the amount of the policies issued in that year? A. Yes, sir.

Q. And the next column the amount of policies revived in that year? A. Yes.

Q. And the next column under the head of increase shows what the net increase as compared with the year before? A. Well, really I do not quite understand that column.

Q. That, I think, must mean the amount of increased insurance.

MR. GILBERT: That is what it means.

MR. HUGHES: Then you have in the next column the total amount of new business of the year, including new issues, revivals and increases of insurance.

MR. GILBERT: Yes.

MR. HUGHES: Then you have a statement of transfers, change of kind of insurance, which do not affect the totals for the year.

MR. GILBERT: Either way, they are the same.

Q. Then you have the amount expired and lapsed during the year and the amount not taken? A. Yes.

Q. And the deaths, surrenders, reductions, and extras? A. Yes.

Q. Showing the total of terminations? A. Yes.

Q. Now, it appears from this that in the year 1904 the total amount of new business including new issues, revivals and increases amounted to $28,114,662; that the lapses of that year amounted to $22,820,660; and that there were not taken $6,085,883? A. Yes—what year are you reading?

Q. 1904. A. Yes, sir.

Q. So that the first total given of new business includes policies not taken? A. Yes, sir.

Q. That is business written, but not taken? A. Yes, sir.

Q. And if we deduct from the total of new business the amount of business not taken, we have about $22,000,000 of business that was put in force? A. Yes, sir.

Q. And there expired and lapsed in the same year $22,820,000? A. I would state that the expirees were about five million dollars and over.

Q. What is the difference between expirees and lapses? A. Policies matured.

Q. You have a separate column for matured? What does that mean, you mean policies completing the term? A. Completing the term.

Q. Where it is a case of term insurance? A. Yes, sir.

Q. So that they simply come to the end of the insurance period? A. Yes, sir.

Q. And not come to the end in the sense that a payment is required? A. No.

Q. You say the amount of expirees on such term is about five million dollars? A. Yes, sir.

Q. So that the amount of lapses are about seventeen million dollars? A. Yes, sir.

Q. And then after including the deaths, that is, those terminated by death, about $1,462,000, and the surrenders of $906,000 and reductions of $780,000 and the extras of $7,000, you have a total terminations for the year of $32,000,000, so that your net insurance was about four million dollars less at the end of the year than it had been at the beginning? A. Yes, sir.

Q. But this table shows that the lapses in the year, normal lapses apart from mere expiration of insurance, was about seventeen millions? A. Yes, about seventeen millions.

Q. Have you a table which will show what amounts of the business stated to have expired and lapsed in the earlier years was business expiring, as distinguished from lapsing? A. No, I have not, Mr. Hughes.

Q. Would the percentage indicated by the expirations in 1904 hold good for the rest of the period, approximately, a little less than one quarter of the total? A. I have it here for five years, Mr. Hughes, perhaps that will be of interest to you. That will cover the period you speak of.

MR. HUGHES: I will offer this statement in evidence.

(Paper marked Exhibit 703.)

Mr. Hughes read Exhibit No. 703.

Q. Was there a heavy mortality in 1904? A. Yes, sir, heavier than it was in 1903. I think the general mortality was heavier with all companies; that is the experience of our companies.

Q. You have handed me a statement, as follows, which I will read upon the record: "The heavy mortality during 1904 seems to have been entirely accidental. It is the heaviest we have had for five years, and was largely of the old yearly renewable term business. During the present year the claims have been about $130,000 less than they were last year to the same date. This is about ten per cent. reduction." Those are the facts, as you understand them? A. Those are the facts.

Q. You have also handed me a statement of premiums and payments to policyholders during the last ten years? A. Yes, sir.

Q. With a statement of the extent to which your assets have increased in the same time? A. Yes, sir.

MR. HUGHES: That I will offer in evidence.

Statement marked Exhibit 704 and read in evidence by Mr. Hughes.

Q. Before we go further with that line of inquiry, I have here now certain correspondence between you and the vice-president of the Equitable, with regard to your account. I would like to ask you if you received a letter, of which this is a copy, and whether this is your reply.

(Handing letter to witness.)

A. I have read that.

Q. Is that your correspondence? A. That is the correspondence. I submit, Mr. Hughes, that I repeat my former testimony, and that this is an entirely personal matter, foreign to the inquiry of this committee. It is an attack upon my personal character, lugged in here, at this time, for the purpose of revenge. I have been pursued by enemies for the last five or six years, and nothing has been left undone to injure me and the business of my company, notwithstanding which it has gone ahead. In the Fall of 1900 the records of our company were taken out by a man who engaged with the Equitable Society, evidence of which I have, for the purpose of preying upon the business of my company. He was arrested, the plunder was found in his room; he was indicted, and upon a personal plea to me, on behalf of his mother, he was not prosecuted. Following upon the heels of that was a traitorous bookkeeper, who was discharged for gambling, and whose confession I have in writing, who falsified our books. He was in league with this other party, who stole our records, all of which is susceptible of proof.

It is through these channels that this matter has been dug up, and I am ready to give proof of that. This man went to the Equitable, who made an arrangement with him, to which he was to carry his plunder to prey upon the business of my company; and, I submit, Mr. Chairman, that that is a matter for which I stand responsible, for which I am responsible, morally and pecuniarily, and should not be brought here to my injury, to the injury of my family, and to the injury of thousands of policy-holders insured in my company.

I submit, Mr. Chairman, that this is a matter entirely foreign to the matter of this inquiry, and I beg you to rule to that effect.

THE CHAIRMAN: Without knowing what it is, Mr. Scott, the committee cannot pass upon it.

Q. Mr. Scott, be quiet a moment. The point is as to whether you owe the Equitable some money? A. I have testified that I do not, and I am perfectly willing to meet the Equitable in open court.

Q. Now, what I want to get at is whether you have not been—— A. May I say a word there?

Q. Certainly, say anything you please. A. I have been quite responsible for anything I may have owed the company. Why has not a claim been made upon me during the past five or six, or seven, or eight, or nine years; why has not a claim been brought against me if I owe the Equitable Society money.

MR. HUGHES: I offer the correspondence in evidence.

Correspondence marked Exhibits 705, 705A and 706.

THE WITNESS: There is no admission.

THE CHAIRMAN: Have you read the correspondence?

MR. HUGHES: Yes, I will submit it to the Committee.

THE CHAIRMAN: The committee has no desire, of course, Mr. Scott, to do anything more than it is its duty to do.

Q. Now, my reason for referring to this, Mr. Scott, is because of your testimony as to your relations with the Equitable Life, and what I want to know is whether, looking at this correspondence and the statements therein contained, you do not recall the fact that there was an account with a balance, of which payment was demanded? A. Which was refused.

Q. My first question is whether there was such an account? A. According to that statement, yes, sir.

Q. Now, in your letter you do not refuse or deny the correctness of the account, do you? A. Not directly, no.

Q. Did you otherwise than in this letter? A. Yes, verbally.

Q. You did, to whom? A. To Mr. Alexander.

Q. And to anyone else? A. I do not recall. I think the matter was entirely between him and myself.

Q. And, as a matter of fact, the account has never been adjusted? A. Never has been adjusted, the matter in dispute.

Q. Now, did you see him after this letter of the 13th? A. 1897, yes, sir.

Q. And did you then receive the correspondence, the letter which I now show you? A. There is no admission there.

Q. No, but that is the correspondence? A. Yes, that is the correspondence.

Papers marked Exhibits Nos. 707 and 708, respectively.

Q. Now, we have no desire to give currency to any statement to prejudice you made by any person who may be inimical to you, but you have testified here that you are not indebted to the Equitable Life, and that your account with them was settled, as I understood your testimony. A. That account—you refer to the Australian account——

Q. There were two accounts. A. That account has always been open.

Q. To what account do you refer as always open? A. This one that has been in dispute.

Q. This one called the "Old City Account"? A. Whatever it is.

Q. The Old City or Current City Account? A. Whatever it is.

Q. Then what you meant in your testimony, and a while ago, by the account that had been settled was the Australian account? A. Yes.

Q. And was settled by a transfer of your renewal interest? A. Yes.

Q. To the company? A. Yes, sir.

Q. And did those renewal interests equal the amount of your debit balance? A. Entirely so, and the company paid me money on my return home.

Q. So that the renewal commissions to which you were entitled were sufficient to liquidate that account? A. Yes, sir.

Q. And was that agreed upon as liquidation? A. I think so.

Q. With whom? A. With the representative of the company at that time.

Q. Mr. Henry B. Hyde? A. Well, whether he transacted it or not, I cannot say.

Q. Now, then, there was this other account which you say has not been settled that has been a matter of dispute? A. That has been a matter of dispute.

Q. Now, the statement is made here by Mr. Alexander in one of these letters, that the statements of account that had been handed you had been accepted as correct? A. By me?

Q. Yes. A. I have no recollection.

Q. You don't recall that? Now, since the time of this correspondence has any demand been made upon you for this? A. Since that correspondence—no, sir.

Q. Has any suit been brought against you? A. No, sir.

Q. Has the matter been brought to your attention in any way? A. No, sir.

Q. Did you refuse to pay this account? A. I did, sir.

Q. Did you refuse upon the ground that you were not under any legal obligation to pay it? A. Entirely so.

Q. And the matter was dropped? A. I have heard nothing from it since.

Q. You did receive statements of account according to the letter? A. I did, yes, and seven years, eight years has elapsed.

Q. And you asked for a conference? A. Not one word——

Q. You asked for a conference? A. I did, I think so, yes.

Q. And did you have it? A. That I cannot recall.

Q. So that that matter stands just as it was left by those letters? A. Just as it was left by those letters.

Q. Now, you stated a few minutes ago that you desire to make an explanation—or a little while back you said you may have something to say in connection with this—was it something in explanation of this matter? A. No, sir, nothing at all.

Q. Have you said all you wish to say in explanation of it? A. Of this?

Q. Yes. A. At this time, yes, sir.

Q. We do not wish to come back to it. A. Nothing further. I think I have covered the ground.

Q. You have covered the whole ground? A. I think so.

Q. Now, from the report of 1901, we find the following:

Gross divisible surplus....................$451,837.42

1902.

Unassigned fund surplus.................. 608,276.56

1903.

Unassigned fund surplus.................. 633,085.53

1904.

Unassigned fund to provide for all other contingencies 651,767.11

Now, those items are the items of surplus in each year? A. Yes, sir.

Q. Then in each case we have the amount of surplus after deducting the amount of capital stock? A. If it is the net.

Q. Now, have you got your gain and loss exhibits for those years which will enable us to see through what the gains have been derived? A. I think that is it. (producing papers).

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 709).

Q. This is really in the form of an answer to a question and you had better give it as an answer to my question: calling for the insurance history of your company for the last ten years. Just start in and read it. A. You asked me for a statement of the gains and losses in the Provident Savings for a period of ten years. It has been impossible to prepare a new statement of the kind, but the following contains the figures as published in the gain and loss statements from year to year, that is as returned to the department. In regard to this I would direct special attention to the years, 1897, 1898 and 1899. Our present Actuary states that he cannot in any way reconcile the figures for those years with the mortality records of the society.

MR. HUGHES: Then follow the table of net profits as per published gain and loss exhibit figures. You say as per published gain and loss exhibit figures—where are those published?

THE WITNESS: They are published in the Wisconsin reports and in Connecticut.

MR. HUGHES: In Connecticut and Wisconsin. I will read this in evidence as Exhibit 709.

Q. Now in your first column you say surplus interest, etc. What is covered by etc.—profits on sales as securities and profits on sales of real estate? A. Yes.

Q. Did the gains that come in by marking up the values of real estate entries in that column—I mean the book values, I do not mean market values—I mean—— A. Possibly, to some extent.

Q. And in this statement of surplus interest, etc., have you included all profits on sales of real estate? A. Yes, sir.

Q. And on sales of securities? A. Yes, sir.

Q. Have you taken a profit on the enhancement of values of real estate? A. I cannot say as to those years, Mr. Hughes, but I have a statement here.

Q. That is, the enhancement in value has appeared in an enlargement of book value?

MR. GILBERT: Yes.

MR. HUGHES: Why it has not appeared in enlargement of book value, you have not taken it in this column.

MR. GILBERT: We were not taking any enhanced value.

Q. Now in the year 1904, it appears that your gain on surplus interest, etc., was $357,792. How much of that was profits on sales? A. $135,000.

Q. Was that a profit on sales of securities? A. Partly.

Q. To what extent? A. $31,403.66.

Q. That is exclusive of interest earned? A. Yes, sir.

Q. To what extent was it a profit on sales of real estate? A. $98,012.

Q. And you have a gain on mortality of $32,131, and losses on your loadings and surrenders, as stated? A. Yes, sir.

Q. So that your gain of $116,567 was attributable, made possible solely by your profits on sales.

Q. In 1903 it appears that the gains on mortality were $193,000, and $173,000 in 1902, and $55,000 in 1901. A. Yes, sir, fluctuations.

Q. And then $64,000 in 1900, and $329,000 in 1899, and $39,000 in 1898. A. Those are the figures, Mr. Hughes.

Q. What is the reason for that extraordinary fluctuation? A. Those are the figures that our actuary cannot reconcile with the records of the company.

Q. Where does he get them? A. He found them there.

MR. GILBERT: From the gain and loss exhibits.

Q. You get them from the published statement. What do the records of your company show? If you were to substitute for these the records of your company, what would the records show?

MR. GILBERT: The loss in mortality——

Q. How is it accounted for that the published gain and loss exhibits do not correspond with the record of the company? A. I do not know, unless the error was made by Mr. Moir's predecessor.

Q. Who was he? A. M. L. Mortimer.

Q. Was he employed by your company in 1898 and 1899? A. Yes, sir, up to December, 1900.

Q. It appears in 1898 that the gain on mortality is stated to be $339,662. What do the books of the company show to be the loss on mortality in that year ?

MR. HUGHES: The statement made by Actuary Moir is that he has not figured it for the calendar year, but that, taking it according to the rate there should have been a loss on mortality that year instead of a gain. So instead of there being a surplus of $408,905 net that year, there should have been a loss that year.

THE WITNESS: The profit must have been somewhere else.

Q. Yes, there was not any other place for it, was there? A. I mean on the loadings.

MR. HUGHES: You mean the loadings are not according to your books there?

MR. MOIR: I have not been able to verify that, either.

MR. HUGHES: I think it would be well for the company to submit a gain and loss exhibit comparable to this, which would be according to its book. Is that possible?

MR. MOIR: It is not possible to have that done.

HENRY MOIR, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. You are actuary of the Provident Savings Life Insurance Society? A. I am.

Q. How long have you been actuary? A. Four and one-half years.

Q. Since 1900? A. Since 1901.

Q. What time of 1901? A. From the first of June.

Q. Did you make up the gain and loss exhibits from the year 1901 to the year 1904, inclusive, for the Massachusetts and Connecticut Department? A. The Massachusetts——

Q. I mean the Connecticut and Wisconsin Departments? A. I did.

Q. Are they correct according to your books? A. Yes, sir.

Q. Have you made an examination to ascertain the correctness of these exhibits for earlier years? A. I have had cause to examine the mortality very carefully in those earlier years.

Q. What years? A. 1897, 1898 and 1899.

Q. What do you find to be the result? A. I verified actually from the books the mortality of one year, and found that the statements in the records of the company were correct.

Q. What year was that? A. The year 1899, I think; it might be 1898. I checked up all three, more or less, but I verified one completely.

Q. And you found—— A. I found that the records of the company were correct in the office of the company, but these records are quite at variance with the other records.

Q. You mean the records in the office were correct for the year you checked up? A. Yes.

Q. According to the mortality as you found it where? A. In the records of the company going down to the individual policies.

Q. You checked the individual policies? A. I began with the individual policies and checked up to the final statement of the mortality for one year.

Q. You compared that with what entries in your book? A. With the record that is given in the books of the mortality.

Q. And you found that to be correct? A. I found that to be correct.

Q. But not in accordance with the statements made to the Wisconsin and Connecticut Departments? A. That is correct.

Q. How wide was the variance? A. The variance was that in that year the mortality was over one hundred per cent., whereas it was shown in the Department of Wisconsin at about seventy-two, I think, or seventy-five per cent.

Q. What is the explanation of that discrepancy? A. I cannot give the explanation unless there was difficulty in making up the gain and loss exhibit and it was——

Q. Was not the rate of mortality and the record of your company for that year accessible? A. Not to outsiders.

Q. No, not to outsiders but to the insiders, the man that made up the exhibit? A. My impression is the exhibit was made up before the mortality records were completed for the year.

Q. What was it made up from, then? A. The gain and loss exhibit is called for about the middle of February, I think, and the mortality records probably were not completed at the time the exhibit was made.

Q. There are two years here with extraordinary gains for mortality, 1898, $399,662, and 1899, $329,755. According to your information both of those are inaccurate? A. Yes, as I understand it.

Q. Do you mean to say if you got the actual figures from your records in lieu of these that are given in your gain and loss exhibit that entire gain would be wiped out and a loss substituted? A. Yes.

Q. Because the mortality rate was one hundred per cent. of the expected in each of those years? A. Yes.

Q. And the other items in the gain and loss exhibit showing gains from surplus interest and from surrenders, lapses and annuities and the loss on loadings you believe to be correct? A. No, they cannot be correct, because the total gain is correct.

Q. The total gain is correct? A. Yes. That cannot be wrong because that has to agree with the assets of the company.

Q. Where do you understand that the gain which has to be dropped from the item of mortality will reappear? A. It must come in the loadings or profits from surrenders.

Q. The loadings have not exhibited such wide fluctuation? A. No, I cannot understand that.

Q. You do not really understand it? A. No.

Q. Can you make up a correct gain and loss exhibit from the records? In other words can you distribute the surplus so we can see how it is made up? A. I think not within anything like a reasonable time. The trouble is a great many of these policies have gone out and it would be very difficult to get the loadings with anything like accuracy. As far as I can find there is no record in the company showing how that statement was made up.

Q. What advantage was it to have that gain on mortality stated as so much? A. I can see no advantage; it was rather the other way, it is a disadvantage.

Q. You think it was merely a stupid blunder? A. I have no means of knowing. I never personally met the former actuary who made up that statement.

Q. Perhaps you could judge it better by looking at the work than as a matter of personal acquaintance. A. There is no record showing how they are made up. I have been unable to find such a record.

Q. You were not the actuary in 1900? A. No.

Q. Your predecessor, the same one who made the exhibit for 1898 or 1899 was the actuary in 1900? A. No.

Q. Some one else? A. No, he did not make up that statement.

Q. He did not make up that statement? A. No.

Q. And the 1900 statement is correct? A. I have never verified it. I cannot say.

Q. Well, it shows a very large gain from the mortality? A. more nearly correct than the other.

Q. I am informed it was made up by consulting actuaries at that time. Is that in accordance with your information? A. Yes.

Q. Who did make it up? A. I understand it was Mr. S. Herbert Wolf.

Q. For 1900? A. Yes.

THE CHAIRMAN: The Committee will now take an adjournment until 10.30 to-morrow morning. All witnesses who have been subpœnaed and requested to be here this afternoon will be present promptly at that hour.

Adjourned to December 15, 1905, at 10.30 A. M.

ALDERMANIC CHAMBER,

CITY HALL, NEW YORK CITY.

December 15, 1905.

The Committee met pursuant to adjournment, Senator Armstrong in the chair.

EDWARD H. HARRIMAN resumed.

BY MR. HUGHES:

Q. Mr. Harriman, when did you first learn of the purchase by Mr. Ryan of Mr. Hyde's stock? A. On my way from the Erie Ferry to my office on the morning of the day that the sale was consummated.

Q. That was Friday? A. I think that was Friday.

Q. The day that Mr. Morton became chairman of the Board? A. Yes, sir.

Q. When did you first have any communication with Mr. Ryan about the matter? A. On my arrival at the office I telephoned to Mr. Ryan and told him I had heard the rumor and asked him if it was so.

Q. What did he say? A. That it was conditionally so, and that he desired very much to talk to me about it and wanted my help and co-operation in carrying it through.

Q. Did he say what he wanted to carry through? A. He said he wanted to see and talk to me about it.

Q. He did not at that time give any particulars? A. He asked me to see him.

Q. He said nothing further than what you have said? A. Over the telephone, no.

Q. And did you say anything more to him? A. I told him that I would be very glad to see him.

Q. Did you at that time speak unfavorably of his plan? A. My impression is that I criticised it and wanted to know what it meant.

Q. Upon what ground did you criticise it—I mean so far as your statement to him at the time was concerned? A. Well, it was rather staggering to anybody that Ryan wanted to control the Equitable or should have control of it.

Q. Did you tell him that? A. Practically that.

Q. In substance that? A. In substance that.

Q. Is this what you have stated all that was said over the telephone? A. As I remember it, yes, sir.

Q. When did you next have any communication? A. About ten or fifteen minutes after that, at his invitation, I went to his office.

Q. The same day? A. Fifteen minutes afterwards.

Q. And who did you meet there? A. Mr. Ryan.

Q. What took place? A. He then went into a statement of why he had engaged to buy the stock and stated to me that he had made up his mind that now was the time for him to do something to make a name for himself.

Q. Did he say what he had done in the direction of engaging himself? A. Somewhat, yes, sir.

Q. Can you recall what he said in substance? A. Practically.

Q. What was it? A. That he had engaged to purchase Mr. Hyde's stock provided he could get control of the—I could not state—provided he could get his nominee elected chairman of the board and that the consummation of the purchase was predicated upon that.

Q. That involved the placing in the hands of his nominee the resignations of those who were then in executive offices? A. That what he stated.

Q. So that his nominee would have free hand in reorganizing? A. Yes.

Q. What did he say about his desire to make a name for himself? A. That he had plenty of money, that he never had done anything conspicuous and that now he thought there was an opportunity for him to do something. That is in substance. I rather questioned the motives.

Q. Did you tell him so? A. Practically, yes, sir.

Q. What did you say to him in substance? A. Let me go back a minute. When I went in there he told me that he wanted my help, he wanted me to co-operate with him in solving the Equitable difficulty. If I go back a minute more, too, he did say over the telephone that I was the only man in New York whom he desired to co-operate with and help him in that matter.

Q. Did he say why that was? A. No, sir.

Q. Did he tell you what sort of help or co-operation he desired? A. Not specially, except that in the first instance he wanted my aid in getting his nominee elected that day chairman of the board.

Q. Were you at that time a director of the society? A. No, sir.

Q. How could you aid him in that respect? A. By influencing the help of some of those who were directors.

Q. Through your relations with them? A. Yes, sir.

Q. Now coming down, if you are through with what you desire to go back to, to the time of your interview at his office on the same day did anything further take place than you have stated—What did you say to him with reference to his motives? A. That if I was satisfied that he was acting from pure motives, from an absolutely unselfish motive and as he had said in the interest of the Equitable and the general situation, that I would heartily co-operate with and help him. He told me how he wanted me to help him that day in getting his nominee elected. Before I left the room I told him that I was not satisfied, but that I would think it over.

Q. Did you tell him at that time that you wanted to share in the purchase? A. No, sir.

Q. Did you tell him that you desired any part of the stock? A. No, sir.

Q. Did you have any conversation at that time with reference to your having any part of the stock? A. No, sir.

Q. Did you have any conversation with him at that time with regard to the stock being put in the hands of trustees? A. No, sir.

Q. What was your next interview? A. On I think the Monday following.

Q. Before we go to that, did you assist him in having his nominee elected? A. Yes, sir.

Q. Did you see members of the board in relation to that? A. I communicated with one of them.

Q. To the end that Mr. Ryan's wishes should be carried out? A. Yes.

Q. Why did you do that if you were not satisfied of the purity of his motives? A. I had told him I would think it over, and on my way to the office I concluded that the man that he had named would be a proper man and that it was proper for me to notify the parties who were opposed that if I were in their place I would vote for him; and that is what I did.

Q. You understood that the election of Mr. Morton would fulfill the condition prescribed by Mr. Ryan and that Mr. Ryan would then take the Hyde stock? A. Well, somewhat that, too, yes, but I also thought that if Mr. Morton were chairman of the board and would start to unravel the affairs of the Equitable and if Mr. Ryan was sincere in his motives that a proper solution could finally be arrived at.

Q. Then you did think at that time that Mr. Ryan was sincere in his motives? A. I did not; I told him I was not satisfied.

Q. But after reflection you had changed your mind? A. I had a very sincere doubt in my mind.

Q. With that doubt how could you contribute your influence to the election of Mr. Morton, who was nominated by Mr. Ryan, and the election of whom would lead to Mr. Ryan's completion of his purchase? A. It was one of those steps that men often take thinking Mr. Ryan was sincere and he wanted me to help him, I could influence him to do what was right.

Q. Did you believe at that time that Mr. Ryan would share the purchase with you? A. No, sir.

Q. Did that operate with you at all as a motive in contributing to the election of Mr. Morton? A. No, sir.

Q. The next interview you say was held on Monday at Mr. Ryan's office? A. Yes; and there were things that preceded that.

BY THE CHAIRMAN:

Q. May I inquire when Mr. Harriman resigned from the Board of Trustees of the Equitable—was it before or after this? A. I resigned at the time that the Frick report was put in.

Q. That I know. A. And never attended a meeting after that.

Q. So that at the time you mentioned when you assisted in Mr. Morton's election you were not a member? A. My resignation was before the Board of Trustees.

BY MR. HUGHES:

Q. You had resigned, as I understand it, with the understanding that it should take effect at once? A. Absolutely.

Q. And that was at the meeting on June 2? A. Whatever day it was the Frick report came in.

BY THE CHAIRMAN:

Q. When the Frick report was put in? A. When the Frick report was put in.

Q. Did the resignation take effect at once? A. I never attended any other meeting; I presume it did; I don't know when they acted upon it.

BY MR. HUGHES:

Q. The minute of the society is as follows: "Mr. Harriman tendered his resignation as a director of the society." A further minute is as follows: "Mr. Harriman again tendered his resignation as director to take effect at once, and withdrew from the meeting." Those are from the minutes of June 2. Who were present at the interview on Monday at Mr. Ryan's office? A. I think you want to get this thing in order.

Q. Chronological order? A. Chronological order.

Q. Is there a step lacking? A. Several steps.

Q. Won't you go right along? A. I will answer your questions or make a statement.

Q. Either way that you will prefer. A. I will lead then up to the morning or afternoon of Monday. I telephoned Mr. Ryan what I had done in regard to influencing the election of Mr. Morton. He thanked me and told me he would like to communicate with me after the meeting of the board and would I be in my office. So I waited there—and it had been my habit to go out in the country where I live in the summer time. After the meeting of the Board of Trustees and the election of Mr. Morton, Mr. Ryan called me up and told me then that he appreciated my helping him in getting Mr. Morton in there; that he wanted me to continue and that he would do nothing further without conferring with me and getting my consent—that is a very strong statement—and wanted to know where he could reach me that evening. I told him that I would not go out of town, as I was accustomed, but would go to the Metropolitan Club and wait until I heard from him. I went there, waited until about eleven o'clock at night, when Mr. Cravath came up to see me and then told me that Mr. Ryan had sent him; that he was sorry that he had to act without letting me know; told me what he had done, and he wanted to inform me first. I resented such treatment, and told Mr. Cravath that I was not in the habit of being trifled with in that way, being deprived of going to my home and staying in town in such a way, and that I considered that an act of bad faith and an evidence of Mr. Ryan's intentions, and said nothing more. I believe I turned my back on Cravath and walked away. The next morning I had a telephone communication with Mr. Ryan—either I asked for an explanation or he called me up and told me he could explain it, and told me he wanted me to meet Mr. Root in his office. I, of course, told him I would be glad to do so, but I was going out in the country that day and would be back on Monday, and he asked me if I would come to his office on Monday afternoon. I told him I would. That leads up to the Monday.

Q. What did Mr. Cravath tell you had been done which he regretted the necessity of doing before you were conferred with? A. He told me what they had determined to do in the event of the appointment of these trustees; that Mr. Root had insisted upon its being done at once, and announced in the New York papers, the morning papers, and that there was no time to confer with me. Now, one minute. To which I dissented and told him that Mr. Ryan had a telephone on his desk and there was a telephone in the Metropolitan Club, and there would not have been five minutes lost by its announcement to me.

Q. When was that published in the papers, as to the selection of the trustees? A. I think it was the next morning.

BY MR. ROGERS:

Q. That was Saturday morning, the 10th? A. The 9th, I think it was.

MR. ROGERS: The 10th.

MR. HUGHES: Saturday was the 10th.

THE WITNESS: Yes.

Q. The interview with Mr. Cravath was then on Friday night? A. Friday night.

Q. Prior to that interview you had no intimation from Mr. Ryan that letters to trustees, inviting them to join, had been sent? A. No, sir. In fact, I want to say here that my mind has not been on life insurance; as you may imagine, I have only been having my mind on what I was trying to do, and I have been occupied with many other things. And I want you and this committee, and everybody else, to understand that I have something else to do besides devoting my time to life insurance. My recollection is I told Mr. Ryan so far as the Equitable was concerned and my personal interest that I did not care anything about it; that my affairs were much more important than the Equitable in magnitude and to me of much more, of greater importance; that all I—the interest I had in it was to see that this question was finally solved and the Equitable properly protected and properly safeguarded. Those may not have been my words, but those were in my mind. And when a man has some sixteen thousand miles of railroad and thirty-five or forty steamships—and with the daily questions coming up that do daily in those matters—he has not much time to think about life insurance, and I should not think Mr. Ryan would, either.

Q. Then up to eleven o'clock on Friday night there had been nothing said by you to Mr. Ryan as to any participation in his purchase? A. No, sir. Mr. Ryan was very mysterious at my first interview with him on Friday as to the price. I asked him what he paid for it, and he told me he was under promise not to say anything more than he had told me; and I did not know when I went to see him on Monday what he had paid for it, except the intimation was that it involved several millions of dollars.

Q. On Friday had you any interview with him as to whether it was an absolute sale? A. I think I said—he told me it was conditioned on his getting his nominee in control of the society.

Q. I mean apart from that, that the transaction between him and Mr. Hyde, and Mr. Hyde's trustees would amount to an absolute transfer of the ownership to Mr. Ryan. You understand that that was the situation, and that there was no arrangement by which it should be carried for Mr. Ryan in whole or in part? A. No, but that was suspected by everybody.

Q. Including yourself? A. Well, I think likely that was in my mind, as well as in everybody else's.

Q. Did you say anything to him on that subject. A. No.

Q. When was the next interview? A. That was on Monday afternoon.

Q. Yes, and who was present? A. Mr. Cravath and Mr. Root. I think Mr. Root was not there all the time, but he was there part of the time.

Q. That was at Mr. Ryan's office? A. At his request.

Q. What took place at that interview? A. I started right in on my own account without hearing what they had to say. Of course, I was incensed at the treatment I had received, which led me to further doubt the sincerity of Mr. Ryan's purpose, and I opened, I think, with a remark something like this: "You want my co-operation?" He said, "Yes." I said, "Well, I will tell you what I will do. I will take half your stock. I don't know what it cost and do not care—provided you will agree to the appointment of two additional trustees who will be absolutely independent." There was no discussion after that at all, except he said, "I won't do it, that is not what you agreed to." I said, "What do you mean I agreed to?" He said, "You agreed that if you were satisfied that I was acting from an unselfish motive in the interest of the general situation and the society, that you would help me, and co-operate with me." I said, "Yes, I did, and this is my way of satisfying myself." Now, that statement is clear in my mind. What these gentlemen have said I did say as to that, I am bound to concede, but I do not remember. What I was going to do myself, I had clear in my mind, and I had done it as I am in the habit of doing it. And after that, I think—I know there was some discussion and I may have said what they say, as to using my influence in every way. I don't know whether I said politically or not. I may have done so. But I did feel that unless Mr. Ryan was acting from a pure motive and not for his own selfish purposes, that the thing ought to be stopped, and every effort ought to be made by every respectable citizen to stop it, and that is what I intended to do. While Mr. Ryan said he would not do it, after the discussion we had subsequent to his statement, he said he would take it under consideration and let me know the next day.

Q. Did he tell you that he desired to have the voting power of the stock held independently by the trustees who had been named? A. I do not think we went into that discussion, Mr. Hughes. I knew nothing more about it than that he had agreed to appoint these trustees, and what was in the papers.

Q. Did he not outline to you his plan for stripping himself of any control over the stock? A. I do not remember that he did at that time.

Q. You were acquainted with the plan as announced in the papers? A. Yes, sir.

Q. And you knew the trustees that had been requested by him to act, you had seen their names? A. I had seen their names. I thought you meant if I knew them personally.

Q. No, I mean you knew who the nominees were? A. Yes.

Q. Under those circumstances why did you want or suggest a participation in his purchase? A. In order that there might be two additional trustees who would be independent of him.

Q. Those two trustees would have been in a minority? A. Well, a good healthy minority is a good thing to have.

Q. Did you object to the trustees that Mr. Ryan had selected? A. I did not.

Q. Did you have any reason to question their independence or sincerity? A. I think that any number of trustees who are appointed in the way that Mr. Ryan appointed them must be more or less under the influence of the man who appoints them.

Q. Would not the same—— A. Particularly as he had already obtained practical control of the society by having his own nominee, a man out of his own organization, put in control of its affairs as president.

Q. The same remark would apply in the case of the selection of two trustees by yourself? A. I did not say I wanted two trustees appointed by myself. I said if he would consent to the election of two trustees who would be absolutely independent.

Q. Who was to name these two? A. We had not got that far. If he would have agreed to that, then we would have gone into the question how they were to be selected.

Q. It was that you were to co-operate on those two? A. It was that we were to agree on the method these two were to be selected.

Q. Did you have the idea that the acquisition of half the stock would be beneficial to you? A. No, sir, in fact I told him that if in the process of arriving at a selection, that if it was deemed advisable that the stock should be presented to the society without remuneration that I would agree so far as my part was concerned that it should be so done, and I make no claim to philanthropy in any way whatsoever; I had just as much interest in the general situation as Mr. Ryan or anybody else, and I could not see why, if Mr. Ryan's motives were pure, why he should not have been willing to have included one hundred or one thousand people in it. There is no sacrifice to a man—he makes no sacrifice to put up two or three millions of dollars with the prospect of getting it back again after he has got control of the society.

Q. And that was your idea at the time? A. I thought there was a probability of that, yes.

Q. Did you think the situation would be bettered by your participation in the purchase? A. I did, certainly.

Q. Operating as a check upon him? A. Yes, sir.

Q. You were not at that time interested in the Equitable in any way? A. I had been instrumental in trying to straighten out the tangled affairs of the Equitable, and in protecting it against the attempt on the part of one faction to obtain control of it over another, and had been instrumental in bringing about the Frick report; and I felt, as I think other trustees who had resigned from the Equitable felt, that they were somewhat responsible, and were willing to go a long way toward getting it finally and properly disposed of. Other than that I had no interest except that of one who had been inveigled into getting himself into a false position.

Q. Then it was because of your previous connection with the Equitable that you desired as far as possible to see its affairs righted? A. Yes, sir; and my familiarity with its conditions.

Q. Did you share in any apprehension that if the stock was taken out of Mr. Hyde's hands there might be a panic? A. No, sir, there was no possibility of a panic; there was nobody, I do not think, except Mr. Ryan, who had that in view, and I doubt whether he had.

Q. Did you suggest to Mr. Ryan any way by which he could further strip himself of control over the stock beyond what he had done, or beyond his sharing the purchase with you? A. No, sir, it had not gotten that far.

Q. When the matter of trusteeship first came up did you oppose it, did you oppose trusteeing the stock? A. Mr. Cravath was the first one that informed me about that. I do not think I even criticised it.

Q. Did you tell Mr. Ryan that if he did not give you a share of the purchase that you would oppose the carrying out of his plans? A. No, sir. Now let me explain. There is a wrong interpretation put upon whatever conversation took place after what I have already stated. Whatever I said to Mr. Ryan in regard to my opposing was not in relation to my having an interest in the stock, but it was in relation to my being satisfied that he was doing what he was—taking this action, from a pure motive and not from a selfish one, and it was so understood.

Q. But that would have been met if he divided the purchase with you? A. That would have been one step toward it, yes, sir.

Q. Did you tell him that you had given so much time to Equitable matters that you could not permit anybody to come into the situation and control the stock without your consent? A. I doubt whether I ever said that.

Q. Did you tell him that you did not propose to have anybody else own that stock without your participation? A. I have no recollection of saying anything of that kind.

Q. Will you say that you did not say that? A. Well, now——

Q. I mean according to your best recollection? A. To my best recollection I said nothing of the kind.

Q. But you are not in a position where you would care to make a positive denial? A. Well, I had no intention of saying anything of that kind, so whatever I may have said they can put an improper interpretation upon.

Q. When you referred to the taking of half of the stock just what language so far as you can recollect it, did you use? A. Well, have not I already stated that?

Q. Well, did you say that if he would give you half of the stock he would have your co-operation, or did you tell him you wanted one-half of the stock? A. Now, I will repeat what I said before. It is very clear on my mind. I told him that—I started in by saying: "You want my co-operation?" It may have been a wrong interpretation put upon that. It was a question to him. And he said, "Yes." That has apparently been interpreted as meaning that I stated that he must have my co-operation to succeed. He has already requested me to co-operate with him. Then I said, "I will tell you what I will do. I will take half of your purchase, I don't know what it cost, I do not care, provided you will agree to the appointment of two additional trustees who shall be absolutely independent. And in addition that if in the process of arriving at a solution it is deemed advisable to present that stock to the Equitable, so far as my interest is concerned, I will agree to it."

Q. You said that specifically at that interview? A. Yes, sir.

Q. The point then, as I understand, is that you do not wish to have what you said construed as a demand for the stock? A. It was absolutely no demand for the stock, it was a demand that he should satisfy me that his first assertion was correct, that he was acting from an unselfish motive.

Q. And that he could do by giving you half of the stock? A. By showing a disposition to have some other control than his own.

Q. Did you suggest any one control or participation in control other than his and yours? A. No, sir.

Q. Did you tell him that he would not be able to carry out his plan against your opposition? A. I do not think I did. I undoubtedly went into some discussion with him as to what attitude I would take if I was not satisfied that his motives were pure and that I would oppose him in every way.

Q. Well, you became satisfied of that as soon as he denied your request or suggestion? A. That seemed to me, following the fact that he had not kept faith with his statement that he wanted my co-operation and would act only in conferring with me, it seemed to me that in denying the participation to myself or anybody else that he was—that his motive was to center the control of the Equitable in himself or influencing the control in himself.

Q. You became satisfied of that at that interview after he had said he did not want anyone interested with him? A. That was practically what was on my mind.

Q. And then you told him your influence would be thrown against him? A. Unless I was satisfied——

Q. Well, I mean you were convinced? A. I do not want this twisted around, Mr. Hughes——

Q. Not at all, but I want to know whether you became satisfied at that interview? A. I became practically satisfied that his intentions were not what he stated they were.

Q. Was it after that that you told him your influence would be thrown against him? A. Yes.

Q. Now, just what did you say about that? A. That I cannot recollect just what was said. I know what was on my mind and that I would use every effort I could.

Q. Was it a strenuous interview? A. Not so very, not so very. It did not make that impression on my mind, and if it had been so strenuous and there was a great deal of feeling, Mr. Ryan would not have told me he would take it under consideration and let me know the next day.

Q. That was about the last of it? A. Yes, that is about all there was to it. And then I left. The whole thing did not last fifteen minutes.

Q. When you said something to the effect that your influence would be against him, what did you have in mind, what did you intend to do? A. Well, I have been against some people, and I don't know what—I will use any effort I can to defeat an unworthy object.

Q. Did you refer in that interview to legislative action? A. No, sir.

Q. Was anything said about the legislature? A. Not to my recollection.

Q. Are you in a position to deny positively that or are you merely giving what you recollect? A. I have no recollection of saying any such thing.

Q. Was there any discussion about the Equitable's affairs being in such a condition that there might be some legislative action? A. Not to my recollection.

Q. Was there anything said by you as to your doing anything to induce legislative action? A. Not to my recollection.

Q. Or any official action? A. Not to my recollection.

Q. As to all those matters where you say not to your recollection, are we to understand that you do not deny positively that some things of that sort were said? A. I cannot deny positively, because it was in a conversation, and I do not know that it would have been very improper if I had. Everybody knew that there had to be some legislative action in connection with the Equitable, and whether it was referred to at that interview or not I do not know. I doubt whether it was at any interview, but it may have been, and if it had, I would not——. If it had been referred to at that time I would have no reason to state that I did not recollect it, or that I did not state it. If I had the slightest notion that I had, I would be perfectly willing to acknowledge it.

Q. Have you stated now all that was said at that interview as far as you recollect it? A. As far as I recollect down to the time he said he would let me know the next day.

Q. And the next day did he let you know about it? A. In the afternoon I called him up and told him I was going to my train and that I could not wait any longer to hear from him; had he anything to say. He said he had one more man to see and that he would let me know later. So I told him I would wait over another train; and in about an hour or less he called me up and told me he had seen the other man, as he expressed it, and that they had decided that they would not do anything different from what they had proposed.

Q. After you became convinced that Mr. Ryan would not meet your suggestion, what did you do in regard to the matter? A. Nothing.

Q. Did you take any steps to thwart his plans? A. Not yet.

Q. You mean not down to the present time? A. Not down to the present time.

Q. Did you have any consultation with members of the Legislature? A. No, sir.

Q. In regard to insurance matters? A. No, sir.

Q. With any member of the Legislature? A. No, sir.

Q. Or with any public officer? A. No, sir.

Q. Did you have any interview with any one in politics relating to the matter? A. Not that I recollect—I may have, I have talked with many people about it, and whether they were in politics or out of politics I do not know, but it had no relation to politics.

Q. Did you talk with Mr. Odell about the advisability of legislative investigation? A. No, sir.

Q. At any time? A. No, sir.

Q. Did you talk with him in regard to the advisability of legislative action of any kind? A. No, sir.

Q. Or of action by the Governor? A. No, sir.

Q. Or of any political action which would in any way affect Mr. Ryan or the Equitable situation? A. No, sir.

Q. At any time? A. No, sir.

Q. So that so far as this investigation is concerned, you did and said nothing directly or indirectly to bring it about? A. This one right here?

Q. Yes. A. I did not know anything about it, sir.

Q. Did you in your telephone conversation with Mr. Ryan, when he announced that he would not change his decision in the matter, then tell him that you would throw your influence against him? A. Repeat that question.

Q. I understand there was a final telephone interview in which he said he would not change his plans and meet your suggestion. At that time did you say anything as to what action you would take? A. No, sir.

Q. You have said all that took place at that time? A. Yes, sir.

Q. If you mentioned political influence in your conversation at Mr. Ryan's office, what did you refer to? You say it is possible it was mentioned. Were you in politics? A. No, sir.

Q. Did you have any political influence? A. I think I have.

Q. Did you directly or indirectly convey to him the idea that it would be exercised against him? A. I do not know that I did. If I had been in his place, whether I did or not, I would have taken it for granted that I would use every effort that I had in my power, whether it was political or otherwise. If I had said it, I would not deny it, and I would not be ashamed of it if I had said it.

Q. You said a little while ago something about the impropriety of a suggestion. Did you mean to refer to that? You said "It would have been improper if I had said something." A. I do not remember what your question was in reference to.

Q. Well, if you do not recall it we need not go back to it. A. I am perfectly willing to go back and take it up if you have anything on your mind.

Q. I have not on my mind other than the subject matter at that time. And you left Mr. Ryan with the deliberate intention of using whatever influence you had against him, but up to date you have not exercised it? A. I had the deliberate intention of using my influence against him providing I saw any indications of improper influence in connection with the Equitable or any of its subsidiary companies.

Q. Have you seen anything of that kind? A. I have not had time to think about it.

Q. And that is the reason why you have not up to date exercised any influence against him? A. If anything had come to my attention I should have started in.

Q. And nothing has? A. Not yet.

Q. You have said that you have political influence. To what did you refer, Mr. Harriman? A. I referred to the influence that any man of prominence may have, who has never asked anybody to do an improper thing.

Q. You mean your influence as a man of position in the community? A. Yes, sir. I have a great interest in the State of New York and in the country particularly, and I am somewhat consulted at times, and I believe what I favored would influence some people.

Q. And you refer to whom? A. No one specially.

Q. Are you consulted with regard to matters of legislation? A. No, sir.

Q. What do you mean by saying you are consulted from time to time? A. Well——

Q. With regard to public questions? A. I said I live in the country, and there are many matters that come up in relation to the management of country affairs as every citizen does who takes any interest in his neighbors.

Q. Oh, you mean in the district where you live? A. Yes, sir.

Q. How about matters pertaining to the State at large? A. We are interested there in the State at large just the same as any other community is.

Q. We are interested here in insurance conditions. Have you had anything to do at any time with any legislation affecting insurance companies? A. I had to do with the prevention of bills being introduced in the Legislature last Spring, when an attempt was made by one faction of the Equitable to get control of its affairs, by getting an act introduced into the Legislature which might enable them to do it.

Q. How did you accomplish that? A. In various ways; by seeing people that were influential in guiding such matters.

Q. Party leaders and others? A. I do not know that you would call them party leaders, but they were people who were influential in legislative matters.

Q. Well, it has been openly charged that through your relations with Mr. Odell you have political influence. What would you say to that? A. Well, I should think that Mr. Odell had political influence because of his relations to me.

MR. HUGHES: That is all.

THE WITNESS: Mr. Chairman, I would like, if you will allow me, I would like to get through with this so I will have no possibility of being called again, and if I can encroach on your time a little I would like to do so, to clear up a few things.

It has been charged in the papers that there is some discrepancy between my testimony at the former—my former testimony, and the statement of Mr. Ryan as to my so-called attempt to purchase an interest in his stock. I should like to state that there was nothing at that time, at the time I was being questioned by Mr. Hughes, that bore on this subject at all to my mind. And if there was I would like to correct that testimony. We were talking of a time precedent to the time of the presentation of the Frick report, and which Mr. Hyde, as I remember it, said that he had been approached by many parties to purchase *his* stock, and it was desired to know if I had been interested in any of those offers, so I understood it. Is that right, Mr. Hughes?

Q. Your testimony is as follows, and I am glad you have called attention to the subject, for I had forgotten to mention it, and so you may have the exact language I will read it. A. Mr. Hughes, before you begin on that, I may forget it. You have spoken of Mr. Odell and my having political influence because of my alliance or affiliation with him. I would like to say that all last Spring, during the controversy, the Equitable controversy between its inside factions, that Governor Odell was not here, nor was he communicated with about it, so he had no hand in it whatever.

Q. And during that period were you in consultation with members of the Legislature? A. Not specially.

Q. Well, in regard to insurance matters? A. I had the matter watched at Albany to see what attempts were being made to use legislation improperly.

Q. With reference to mutualizing the society? A. So that one faction could get in there and get control of the company by obtaining the proxies of the policyholders through the agents, as they said, like the other big life companies.

Q. And when you referred to the possession of political influence through relations to you, you meant because of the many important matters in which you are interested, and for which you stand? A. Yes, sir, and in many ways.

Q. Bringing you into a prominent position with regard to a great many subjects that come before the Legislature? A. No, sir, I have no special interest in many matters that come before the Legislature.

Q. Well, I was referring to matters affecting railroads, banks, trust companies. A. I have never had any hand in it.

Q. I did not understand just what you meant by political influence through relation to you. A. Any prominent citizen has some political influence, and if anybody in politics can get the friendship and backing of people who have no political end to serve, why it gives them more or less standing. Now, Governor Odell might resent such a statement as that, I do not know whether he would or not, but I think that if I were in politics I would try to get as many men of prominence as possible as friends of mine.

Q. The testimony that you have referred to, that is your testimony when you were on the stand before is as follows: "Q. Were you concerned with any offer to Mr. Hyde for the purchase of his stock," to which you answered "No, sir." A. Well, then I was not. I ask you, don't you think I answered that question properly?

Q. Yes, I think you had in mind at that time offers to Mr. Hyde. A. Yes. Hadn't you that in mind?

Q. Yes, I had, for I did not know anything about this Ryan matter. A. I had not this matter of Ryan in mind there. I was concentrating my mind on the thing you wanted to find out.

Q. You were following the line of my questions as to further offers, and you did not have in mind the fact you had suggested to Mr. Ryan to take a part of the stock? A. Yes, in order to safeguard, as I thought, the situation.

Q. Then another question was asked, as follows: "Then you at no time made any offer to acquire Mr. Hyde's stock? A. No, sir." What is the explanation of that answer. A. Was not that precedent to the time that I afterward say that we came down to the time of the Frick report.

Q. I think it should be read with its context as follows: "Q. It has been stated here there was an offer; Mr. Hyde has said there was an offer to Mr. Frick? A. That I don't know of, but Mr. Hyde had told me himself that he had received several offers for the purchase of his stock, and I asked him what he was going to do and he said he would not sell it under any consideration, and I encouraged him in that, and Mr. Frick came to me and told me that he had heard also; then I said to him that I think you ought to tell Mr. Hyde not to sell that stock to anybody, and if he does he should not sell it without letting you know, and I understood from Mr. Frick that that was what he said. Q. Then you at no time made any effort to acquire Mr. Hyde's stock? A. No, sir. Q. And down to the time of the report of the Frick committee you encouraged Mr. Hyde in his retention of his stock? A. Yes, sir." A. Well, it seems to me that that all bears out properly.

Q. Of course, the point is as to what you intended to say and what you had in mind. At that time did you have in mind the Ryan interview? A. Had not any thought of it at all, and I did not suppose that you had any reference to the time that Mr.——

Q. Of course I knew nothing about Ryan interviews at that time, and I was asking a blanket question, and you had in mind the course of the examination. A. That is left all right.

Q. I would like to have you state, Mr. Harriman, what steps you took to prevent legislation last winter in the direction of mutualizing the Equitable—what sort of influences or suggestions was there emanating from you which prevented the passage of a bill to that effect, prevented the introduction of a bill to that effect, was it introduction or passage—was it introduced?

THE CHAIRMAN: Introduction.

A. There was threatened introduction of bills from time to time by what you might term the Alexander faction or the so-called protective committee, and I had several communications with some of the men at Albany—men with no interest in this situation whatever, and unless it is particularly desired I would a little rather not say it. If it bears on this situation at all——

Q. It bears on this situation to this extent, that one of the subjects of inquiry is the extent to which legislative action is affected or not affected by persons interested directly or indirectly in insurance companies, and I think it will be better for you to state fully just what was done in regard to that, inasmuch as the matter has been mentioned. A. Well, as I can recollect it now—I have got to be a little careful about statements of this kind——

Q. Certainly. A. And you have to give me a little time about it.

Q. Certainly, take your time, Mr. Harriman. A. The Equitable Board of Directors had several meetings during the Alexander-Hyde controversy, and I had been on one of the sub-committees and finally the second committee had been appointed, the committee on which I was appointed—by the way, I would like to say at that time Mr. Hyde offered to trustee his stock so far as he could and put it out of his power to vote on it, just the same as Mr. Ryan has, for five years, subject to the control of the Board of Trustees—he made that the sub-committee. I think that is a matter of record.

Q. Yes. A. And finally the second sub-committee had made a recommendation for mutualization and whatever the proper method of carrying out such a plan is, I don't remember, and I don't know just what it is, but some action had to be taken at Albany, and it was put in the hands of some of the lawyers to carry out, and after agreeing—that is, the Alexander faction —after agreeing to forward such action, I think it is by the State Superintendent of Insurance and the Attorney General, is it not? Apparently some of the people, I think some of the lawyers who were interested on the Alexander side went to Albany to try and prevent it, and Mr. Platt, representing the protective committee, went up there with a lot of affidavits, and tried to stop the thing which had been agreed upon between the two factions in the board. I was not with either faction; I was independent, and I think Mr. Root was there at that time at many conferences, and with other people at which he was present, in trying to protect the situation against what we considered the aggressions of what we call the Alexander faction. I had the reports from Albany telephoned to me, and followed the course which the matter was pursuing, and had communication with men in a position to know, and asked them to inform me if any action would be taken that would further the attempts of what I call the Alexander faction.

I was telephoned to several times in confidence, and I do not think I ought to be called upon to state who they were.

Q. Well, was any legislation introduced? A. I will tell you privately, if you want me to.

Q. It is of no interest to me personally. A. Then you can see yourself.

Q. It is a matter of official action here. A. Whether I ought to state or not—I do not want to make sensational headlines for newspapers.

Q. Was there any bill introduced? A. No, sir.

Q. Relating to the Equitable? A. I was informed that there were several attempts to have bills introduced, sir.

Q. Did you request any one not to introduce a bill? A. No, sir.

Q. Did you deal with any person who so far as you knew intended to introduce a bill? A. No, sir.

Q. Did you deal with members of the Legislature? A. How do you mean, deal with them? I did not deal with anybody.

Q. Did you take steps with members of the Legislature to see that a bill should not be introduced? A. I took steps with some members of the Legislature to let me know in case a bill should be—an attempt should be made to introduce a bill.

BY THE CHAIRMAN:

Q. Your inquiries, Mr. Harriman, as I understand you, were directed toward obtaining information and being apprised of what was going on? A. Yes, sir.

BY MR. HUGHES:

Q. Mr. Harriman, did you get any information that any bill had been introduced? A. No, sir.

Q. Or was to be introduced? A. No, sir.

Q. In other words, did you take any steps through your communications with those persons to whom you have referred, to prevent the introduction of a measure? A. I did not know of any bill that was introduced, therefore I could not.

Q. It did not come to the point? A. It did not come to the point of preventing anything.

Q. Well, that is what I wanted to get at. Then your suggestions were wholly in the nature—or your interviews wholly in the nature of inquiries as to whether legislation had been suggested or bills introduced? A. If there should be any attempt made to introduce bills, so that I might take steps if I thought it desirable.

Q. But you heard of no such attempt? A. No, sir.

Q. So that you did not take any steps? A. I did not take any steps.

Q. It is thought that you should state with whom you had those interviews. A. Or communications?

Q. Yes. A. Well, I would rather communicate with the parties themselves first.

Q. Well, that would hardly affect the decision of the committee? A. I will tell you or I will tell the chairman, and if you think that I should do it I will do it, but I will not make sensational headlines, as I said before, just for the purpose of bringing new names into it.

BY THE CHAIRMAN:

Q. Neither Mr. Hughes nor the Chairman wants to assume any such responsibility. We are only seeking for facts. A. I do not think—if I thought it would bear on this situation in any way whatever, anything more than satisfying curiosity—I don't mean to impute curiosity on your part. But I would do it willingly, because I believe I could get the consent, and they would bear me out in it.

Q. We feel that in matters of this kind involving this much talked of subject, that the safer course is to have the utmost frankness and publicity. A. That is what I am trying to do.

Q. Without any kind of reservation, whether influences of the kind that the question suggested—but heretofore we have declined to be influenced by those considerations, and rather resolved in favor of the greatest frankness, than to adopt any other course. A. Then I will go so far as to say that I communicated with, perhaps, two or three men at Albany, some members of the Legislature and some not.

Q. We are conscious, Mr. Harriman, that such communications are of daily occurrence to every man in the Legislature? A. I dare say they are, but not from me.

Q. No, but we receive communications from our friends and from those whom we know, and from those whom we don't know, asking us about early information about legislation affecting interests in which they are affected; it attracts no attention and they are customarily replied to with gladness, of course, by members of the Legislature. A. My statement to them was that I feared an attempt would be made to have legislation passed to further the interests of the factions who were trying to get control of the Equitable, and that I wanted to be apprised of it. Now, I will not, this morning, go further than that. I would be very glad to do it if I—and I want personally to be relieved of having to come here again, if I can—I will go so far as to consult with Judge Lovett and Mr. Cravath, and if they think I should do it, I will.

THE CHAIRMAN: I think you had better, Mr. Harriman, because we want to clear this matter up this morning.

The committee will stand in recess until this is over.

(After recess the committee reconvened.)

THE WITNESS: What is the question?

BY MR. HUGHES:

Q. With whom you had these communications, or to whom you addressed those inquiries. A. To the Speaker of the Assembly and the Governor.

BY THE CHAIRMAN:

Q. You mean Governor Higgins? A. Yes, sir.

BY MR. HUGHES:

Q. And the late Speaker Nixon? A. Yes, sir.

Q. Did you suggest anything to them as to their attitude in the matter? A. No, sir.

Q. Or was it anything more than a mere inquiry for official information? A. That is all, that they should, if anything came to their notice, that they should let me know so that I could, if I thought desirable, have some—be heard in the matter; not me to be heard—that the people in the Equitable that were opposed to the Alexander faction, might have an opportunity to be heard.

Q. But, as I understand it, you did not suggest, or request, or intimate that either the Governor or the Speaker should take any position or commit himself with reference to the matter, one way or the other? A. No, sir.

Q. You simply wanted to be advised? A. I wanted to be advised.

Q. And you never were advised because nothing took place? A. Nothing took place.

Q. So that all that happened in effect was your request? A. My request that the situation should be so safeguarded that I might be informed in case any attempts were made.

Q. Now, have you ever had anything else to do with insurance legislation? A. No, sir.

Q. At any time? A. At no time. I will say this; I would like to say, Mr. Chairman, that I regret to have to bring in especially Mr. Nixon's name, as he is not—as we all know he died.

THE CHAIRMAN: Mr. Harriman, I think all of us appreciate what has actuated you; we are only sorry you manifested reluctance, because it gave it an air, perhaps, of mystery, that might have excited undue suspicion. Upon the committee is Assemblyman Rogers, who was the Republican Leader of the Assembly during Speaker Nixon's speakership, and he personally knows that such inquiries were of hourly occurrence during the session of the Legislature—has himself received inquiries, and knows that Speaker Nixon did get a great many such inquiries; they are perfectly regular and perfectly proper, and no undue importance attaches to them; and I know that every member of the Legislature—from my service there—is in constant receipt of those inquiries and that they attract no attention, and are in no way to be criticized. The committee sympathizes, of course, with your desire to not mention the name of a man who is dead, because it might attract some undue criticism.

MR. HARRIMAN: I only hope that my communications with them will not be put on the same category as the general communications they receive continually, because I was not in the habit, and am not in the habit, of communicating with the members of any legislative body to keep me informed. It is very unusual, and it was only in the situation I found myself at that time, that I appealed to what I considered the highest powers, without mixing up with any of the every-day matters that might come before the representatives there. And I would like now to ask the press to spare those men and not to bring their names into it; in their headlines, I mean

THE CHAIRMAN: I think that the gentlemen of the Press understand, as we do, that there is no reason for criticism with anything you have stated in any kind of way. We are very glad we understand it fully, and we think it better so.

MR. HARRIMAN: Well, you know that most of the people read headlines and do not read the testimony through, and they get their impressions through the headlines, and there are headline manufacturers in connection with the Press. May I be excused?

THE CHAIRMAN: Yes, sir.

MR. HARRIMAN: Thank you.

HENRY MOIR, resumed.

THE WITNESS: Before beginning, can I make one little statement?

BY MR. HUGHES:

Q. Certainly. A. You asked me yesterday if the gain and loss exhibits were correct for the last three years, and I answered that they were. That means reasonably correct.

Q. You are referring to the last three years? A. 1901, 1902, 1903 and 1904—four years. That means reasonably correct, not with mathematical precision.

Q. Why are they not correct with mathematical precision? A. Because it is practically impossible to make those statements correct in that way.

Q. Why is it impossible to make them up precisely? A. The elements that enter into the calculation are so varied and peculiar and there are changes take place—various changes take place during the year, and it makes it practically impossible to get absolute accuracy in that statement.

Q. You have had for a considerable time an excess of expenses over your loading. To what is that due? In fact, it appears from the statement, Exhibit 709, that you have a loss on loadings since 1895? A. Yes.

Q. What is your explanation of that? A. Largely owing to the commissions which will be payable and general charges.

Q. Commissions to agents? A. Yes, the writing of new business is an expensive matter.

Q. Why is it the expenses exceeded your loadings in 1904 by so much larger an expense than they did in 1903? A. Because the expenses for the year 1904 were heavier than they were in 1903.

Q. That is quite obvious, but why were they? A. I don't know.

Q. Was there any particular class of expenses that were heavier in 1904 than in 1903? A. I can't recollect any class.

Q. Are these papers that I now show you, giving the net loadings and the first year expenses, your calculations? A. Yes, sir.

Q. And they are complete and correct from the books of the company? A. They are complete and correct in that way.

MR. HUGHES: I will read in evidence first the statement of net loadings and first year's expenses.

Paper marked Exhibit No. 710 and read in evidence by Mr. Hughes.

Q. Have you any loadings on the first year's premiums received in those two years? A. I have.

Q. Will you be good enough to state them? A. Loading on first year's premiums received in 1903 were $543,704. Loadings on first year's premiums received in 1904 were $504,613.

Q. Are you consulted with regard to the amount of expenses that can be properly incurred by your company in writing insurance? A. I am consulted in regard to agency commissions.

Q. Why is it, then, that the commissions are not fixed at amounts which will enable you to keep within your loadings? A. I think the commissions are fixed at amounts which enable us to keep within our loadings.

Q. Then what causes the excess of expenses over your loadings? A. The statement you read contains a good many other items quite apart from commissions.

Q. Yes. A. It is largely shown in that statement.

Q. Yes, but your medical fees, your agency supervision and the other items to which you have referred are hardly capable of reduction, are they? A. Well, I am not personally familiar with the details of the amounts that go to make up those items I cannot say, therefore, whether they are capable of reduction.

Q. Do you include in the statement that you have given of first year's expenses advances, bonuses and any part of the home office expenses attributable to the first year's business? A. Of matters of that kind I know nothing. These statements are taken from our accounts.

Q. Yes, but what we wanted was a complete statement of the first year's expenses. Now, there are in addition to commissions bonuses paid to agents, are there not? A. I suppose so.

Q. There are advances made to agents? A. Yes.

Q. Of course, you would recognize, as an actuary, that advances made to agents are to be treated really as expenses of the business? A. Yes. With the details of the advances made to agents I am not familiar.

Q. Who is responsible for the completeness of the list of expenses—that is what I want to get at—so we can compare your expenses with the loadings? A. This expense statement was made up at the particular request of the Wisconsin department. They laid down certain lines on which we should go. The items are simply taken from our annual account and entered there. They told us the lines to adopt in making up that statement.

Q. So when you were asked for your first year's expenses, you took what you should to be reported to the Wisconsin department, in accordance with their regulations? A. Yes.

Q. As your first year's expenses? A. Yes.

Q. And, as a matter of fact, you have expenses properly applicable to first year's business, and in addition to those that are in this exhibit? A. That is true, and there are some figures in this exhibit which are not properly applicable to first year's business.

Q. What are they? A. Take the item advertising and stationery, the entire advertising and stationery bill has gone in there. There is no statement here for a proportion of home office expenses. Part of the home office expenses are caused by writing new business.

Q. You have said that you had something to do with fixing the rate of commission. Is it a fact that in addition to the commissions paid, large amounts are paid to agencies in the way of bonuses and special payments and advances, which go to swell the first year's expenses? A. I think that likely, but I am not familiar with the details of it.

Q. The point is, are the expenses kept within what the actuary informs the management is the proper limit, or do they exceed that limit? A. Well, I cannot say. I have been consulted to say exactly what I considered the extreme limit of first year's expense should be.

Q. Have you any judgment upon that point—do you know now what your company ought to spend to get new business—that is, can afford to spend? A. I have always made the statement that the endeavor should be made to bring the expenses under the loadings.

Q. Yes. Now what has been done in the direction of economy in order to bring the expense within the loading? A. Well, matters of that kind I am scarcely familiar with.

Q. The net result is that you have been consulted to the extent and have advised to the extent it would be better to keep within the loading, and further than that you have not gone? A. Yes, sir, that is all.

Q. What is the percentage of loading? A. Perhaps I should add I have also been asked to make a graded scale of commissions applicable to different classes of policies, and that I have done.

Q. Did you fix that graded scale of commissions, in consideration of other expenses of the company, on such a basis that the company could keep within its loading? A. I did.

Q. Then why has the company not kept within its loadings? A. That I cannot answer.

Q. Have they had in operation the scale of commissions which you advise? A. I think so.

Q. Then there must have been other expenses which you did not take into consideration which made the expenses excessive? A. Yes.

Q. What class of expenses? A. Well, as I have already said, I am not familiar with the details of expenses in that way.

Q. Are you familiar with the insurance history of the company sufficient to tell us what sort of policies were originally issued? A. Yes.

Q. What were they? A. Originally in the first year or two of the company there were a few industrial policies, I think, and also almost entirely yearly renewable term policies from that time until about 1896 or 1897.

Q. Yearly renewable term? A. Yes.

Q. You mean that in effect the company was upon a natural premium basis? A. Yes.

Q. With the increasing cost of the insurance as the age advanced? A. Yes.

Q. And that is increasing premiums paid by the insured? A. Yes.

Q. Was the company successful upon that basis? A. I would consider that it was not successful.

Q. What was the result at the end of this period to which you refer—I take it about 1896? A. Yes.

Q. What experience of the company had it made insurance gains? A. It had made insurance gains, but the mortality at the same time had been rising very steadily from I think about 1889 or 1890—about 1890 the mortality began to show signs of being unusually heavy.

Q. It had accumulated by 1894 as would appear here a surplus of $764,947, which had fallen by the end of 1896 to $492,340. Would the fact that it had accumulated a surplus to the end of 1894 of $764,947 indicate that it had been successful? A. That item alone would indicate success.

Q. Now what items or information have you which would indicate the contrary? A. The growing mortality and the necessity for increased premiums.

Q. Have you a statement on that subject so that you can testify precisely as to the growing mortality? A. I have.

Q. Will you give it please and the data—and the data you are about to give you have taken from the policy histories? A. From the records of the company. Shall I read off what I have?

Q. Yes. A. The ratio of actual to expected losses. What year shall I give?

Q. You have a complete table, have you? A. I have it from 1883-1884 to 1903-1904.

1895 to 1899—

Exposure	$20,732,460
Expected loss	344,896
Actual loss	375,500

Ratio, 0.089.

1900 to 1904—

Exposures	$79,369,240
Expected loss	1,097,871
Actual loss	929,220

Ratio, 0.846.

Old Yearly Renewable Term—

Exposures	$16,283,700
Expected loss	390,713
Actual loss	524,750

Ratio, 1.343.

Paid up, Terms Life and Endowment——

Exposures	$598,767
Expected loss	8,842
Actual loss	5,339

Ratio, 0.604.

Making the total of exposures	$96,251,207
Expected loss	1,497,426
Actual loss	1,459,310

Ratio, 0.975.

Same information by kinds:

Yearly renewable term exposure	$16,390,000
Expected loss	392,109
Actual loss	524,750

Ratio, 1.338.

Five, Ten and Fifteen Year Term—

Exposures	$4,920,100
Expected loss	129,187
Actual loss	156,000

Ratio, 1.208.

Twenty Year Term and Term to Age 70—

Exposures	$17,781,830
Expected loss	230,351
Actual loss	263,304

Ratio, 1.143.

Life Continued Payment—

Exposures	$10,873,600
Expected loss	183,621
Actual loss	175,802

Ratio, 0.957.

Q. I would give the whole table then. A. Eighteen hundred and eighty-three to 1884, 37.4 per cent.

1884-5	70.9 per cent.
1885-6	67.3 per cent.
1886-7	63.3 per cent.
1887-8	78.7 per cent.
1888-9	74.0 per cent.
1889-90	102.1 per cent.
1890-91	91.4 per cent.
1891-92	91.5 per cent.
1892-3	86.9 per cent.
1893-4	97.3 per cent.
1894-5	102.5 per cent.
1895-6	107.4 per cent.
1896-7	105.1 per cent.
1897-8	96.6 per cent.
1898-9	109.1 per cent.
1899-1900	96.8 per cent.
1900-1	90.0 per cent.
1901-2	88.8 per cent.
1902-3	90.6 per cent.
1903-4	94.1 per cent.

Q. You prepared this statement of the mortality record in 1904? (Showing witness paper.) A. I did.

Q. That is correct? A. That is correct.

MR. HUGHES: I offer it in evidence.

Paper marked Exhibit No. 711 and read in evidence by Mr. Hughes.

Q. Then was your ratio of actual to expected mortality for the year 1904 97.5 per cent? A. Yes, sir.

Q. Why did not you have a gain on mortality then? A. We did have a gain, a small gain.

Q. You are quite right. The gain was $20,331—— A. The gain was much less than it was the other year.

Q. Being $193,939 in 1903 and $173,608 in 1902? A. Yes.

Q. What is your explanation of the small gain in mortality in 1904? A. As far as I can see it was purely accidental fluctuation. There is no trace of the gain being so small during 1905.

Q. Have you a statement of the amount of insurance now in force and its character? A. You mean at the present date?

Q. Yes. A. I have not as to its character.

Q. Well, what statement have you? A. I have only a very general statement showing the amount in force to be about eighty-eight or eighty-nine million dollars.

Q. But you have not a statement which shows the distribution of that among various kinds of policies? A. No.

Q. Can you tell me what kinds of policies you have in force now? A. There are still some of the old yearly renewable term policies.

Q. How many of those approximately? A. At the end of last year some fifteen million dollars. It must be considerably reduced now.

Q. In dollars? A. Yes.

Q. Have you made transfers of those yearly renewable terms to other forms of insurance? A. Yes, frequently.

Q. Have you any particular sort of policy which you issue in exchange for the yearly renewable term? A. The one most commonly issued is a combination of term insurance with the separation of an endowment feature in it.

Q. You have that sort of policy? A Yes.

Q. Before we take that up, in your report of December 31, 1904, the policies in force at the end of that year are stated. Is that an accurate statement of the kinds of insurance outstanding? A. It is accurate but not very complete.

MR. HUGHES: I will read that upon the record.

Whole life policies number 15,626; amount $30,113,857.

Endowment policies number 2,904; amount $5,326,140.

All other policies, including return premium additions, number 26,287; amount $65,749,451.

Total policies in force at the end of the year, 44,817; amount $101,189,448.

Q. In what sense is that not complete? A. In two senses. The third item there of some $65,000,000 contains a large number of policies written with preliminary term feature and treated as one year term insurance the first year. They, therefore, go in as other classes for the first year and next year they will pass on as life, limited payment or endowment policies.

Q. Have you the form of policies here which you issued in exchange for yearly renewable term? A. I have.

(Producing paper.)

Q. When these old natural premium policies were transferred and these policies issued in exchange did you take a lien? A. In many cases, yes. In some cases we take them at the attained age, and let them pay the premium for the attained age without any lien.

Q. Well, here is a man, for example, insured in 1886, on a yearly renewable term basis, and he has carried that policy to the year 1900, and then he is paying the term rate at his then age. He wants to exchange. The policy is one thousand dollars, and he was insured at age 40. What would you give him? A. We give him either a policy of the nature I have shown you dated back not more than ten years from the present time or we give him a policy at his attained age, in any form he chooses.

Q. Suppose you gave him a policy dated back not more than ten years. What would be the face of the policy? A. The same face policy as his original policy.

Q. What lien would you put against the policy? A. Tenth year reserve.

Q. Suppose he took the policy at attained age? What would be the face value of it? A. The same face value.

Q. What lien would you put against it? A. None, sir.

Q. In the latter case what premium would he pay? A. The premium for his attained age.

Q. And in the former case? A. The premium for his age ten years ago.

Q. On a thousand dollar policy issued as I have said in 1885 or 1886 and carried until 1900 what would be the amount of the lien approximately in dollars without giving the exact sense, just give the idea of the amount of the lien. A. What age did you say?

Q. Issued at age 40? A. Dating back to the tenth year?

Q. Yes. A. For the form of policy I showed you, the lien would be about $300.

Q. The lien would be about $300? A. About $300.

THE WITNESS: Mr. Hughes, I should point out also that the form of policy I have shown you provides for additional payments over and above the face value, whereby the lien would be practically taken care of for the next ten years at least.

Q. What policies have you reserved the right to raise rates on? A. On all renewable term policies, as I understand it.

Q. Well, that rate is raised according to the increase in age? A. Yes, sir.

Q. There is not in that case a payment upon a level basis for a period of years, and then an increase? A. Well, there is on some of our older policies.

Q. Have you the form of an old policy which is not a natural premium policy, but which provides for an increase in rates? A. I have.

(Producing paper).

This is the clause.

Q. What kind of a policy do you show me? A. A yearly renewable term policy.

Q. Is this one of the old forms? A. That form was issued about 1891.

MR DAWSON: It is not one of the oldest forms.

THE WITNESS: The oldest forms provided for regularly increasing rates.

Q. Give me the form of the Owen policy? A. I have the Owen policy, a copy of it.

Q. I want the form of your old type of policy. Give me the Owen form if that is one. A. But that does not have the provision that you refer to whereby the premiums would not increase yearly.

Q. This form you now show me goes back to 1888, and it is a renewable term policy? A. Yes, sir.

MR. HUGHES: I will read the form upon the record.

The Provident Savings Life Assurance Society of New York.
No. 25,180. $2,000.
Copy E. & O. E.

In consideration of the application herefor and of the conditions and agreements on the back of this policy, all of which are a part of this contract, and in consideration also of the payment of $19.80, does hereby promise to pay to Christine Owen, wife of Nathan Owen, the beneficiary under this policy or to the legal representatives or assigns of such beneficiary at its office in the City of New York the sum of two thousand dollars within ninety days after acceptance of satisfactory proof at its office in the City of New York of the death of Nathan Owen, of St. Louis, State of Missouri, the insured under this policy, provided such death shall occur before twelve o'clock noon, the first day of May, 1888. And the said Society further agrees to renew and extend this insurance during each successive quarter year from date hereof, upon the payment on or before the 21st day of May, August, November and February in each successive year during the life of the insured of the premiums for the actual age attained in accordance with the schedule rates printed on the back of this policy on each one thousand dollars insurance, less the return premiums awarded hereon, subject to the stipulation regarding the payment of premiums and extra hazardous occupations, claim under this policy by death occurring two or more years after its date will be incontestable except for fraud in obtaining this policy.

In witness whereof, the Provident Savings Life Assurance

Society has caused this policy to be signed by its president and secretary in its office in the City of New York, on this, the 21st day of February, A. D. One thousand eight hundred and eighty-eight.

SHEPARD HOMANS,
President.
WILLIAM E. STEVENS,
Secretary.

On the second page appears the following conditions and agreements referred to in the body of the policy.

Section 1, as to the time that the policy goes into effect.

Section 2, as to the payment of premiums.

Section 3, is as follows:

"Seventy-five per cent. of the insurance portion of each renewal premium paid herein will be at once deposited in the Hanover National Bank of New York, or such other bank as may be designated by the directors, and shall constitute the death fund to be used solely in settlement of death claims. The residue, namely, twenty-five per cent. thereof, will be deposited with the Farmers' Loan and Trust Company, or such other depository as may be designated by the directors who invested in such securities as are authorized by law for the investment of trust companies as a guarantee fund. The surplus of amounts thus contributed by each policyholder, remaining in force at the expiration of ten years from its date of issue and at the end of each five years thereafter, will be applied to lessen future premiums, or will be repaid in cash should the assured at such time so elect."

Section 4, is as to the assignment of the policy.

Section 5, is as follows:

"This form of policy may be exchanged at any time after the insured attains the age of sixty years for one on the level or uniform premium plan, for the same amount at the unchanging rate for the then actual age attained, as printed below, level premiums to secure one thousand dollars at death, other amounts in the same proportion."

Then follows a table of amounts to be paid at age sixty to sixty-five, inclusive.

Then a table of the maxium rates of premiums to be reduced in each case by the surplus portion of preceding payments, not needed for the death fund, and the guarantee fund, as per contract to renew and extend the insurance of one thousand dollars, other amounts in the same proportion.

After the table the following statement is found. The expense portion of each premium included in the above rates is limited to four dollars per annum on each one thousand dollars insurance. The residue is the insurance portion of the premium.

The next page contains a copy of the application.

Q. Now, that policy was taken out in the Owen case on February 21, 1888, on the life of Nathan Owen, age fifty seven for the amount of two thousand dollars? A. Well, that is right.

Q. Did you on March 25, 1905, receive a letter from the attorneys of the owner of that policy? A. A letter dated March 25, received March 27.

Q. From Block, Sullivan & Erd? A. That is right.

MR. HUGHES: Inasmuch as the correspondence I am about to read deals with a class of policies in an illuminating way, it is deemed advisable to put it upon the record, and in that event time will be saved. I will read this letter, and offer it in evidence.

(Paper marked Exhibit No. 712).

Mr. Hughes then read Exhibit No. 712.

Q. This is the company's reply by you as actuary? A. It is.

MR. HUGHES: I offer the same in evidence.

(Paper marked Exhibit 713.)

Mr. Hughes then read Exhibit No. 713.

Q. To that you received an answer under date of April 19, 1905? A. Yes, sir.

MR. HUGHES: I offer the same in evidence.

Paper marked Exhibit No. 714 and read in evidence.

Q. To that you answered as follows? A. Yes.

MR. HUGHES: I offer the same in evidence.

(Paper marked Exhibit No. 715.)

Mr. Hughes then read Exhibit No. 715.

Q. Is that the letter in answer? A. Yes, sir.

MR. HUGHES: I offer the same in evidence.

(Paper marked Exhibit No. 716.)

Q. Before I continue with this letter, let me ask you have you had a good deal of trouble with policyholders holding this class of policies? A. We have had a good deal of correspondence.

Q. Have you had litigation? A. I think so.
Q. In a number of States?

MR. GILBERT: What kind of policies do you refer to, to that kind of form?

MR. HUGHES: This kind of policy providing for a guarantee fund.

MR. GILBERT: I do not remember any action resulting from that kind of policy.

MR. HUGHES: I understood that this was a typical case.

MR. GILBERT: It may be a typical case, but we have not had any litigation, I think.

MR. HUGHES: The point that I desire to bring out is this, so far as this relates to this twenty-five per cent. feature——

THE WITNESS: We have only a small number of policies on that feature.

Q. Outstanding? A. Yes.
Q. But you have had a great deal of difficulty with them, have you? A. I think not.

MR. HUGHES: I will read this letter.

Q. To which you replied under date of May 25, 1905, the concluding letter? A. Yes.

MR. HUGHES: I offer the same in evidence.

(Paper marked Exhibit No. 717).

Mr. Hughes then read Exhibit No. 717.

THE CHAIRMAN: We will take a recess until 2.30 o'clock sharp this afternoon.

AFTER RECESS.

HENRY MOIR, resumed.

THE WITNESS: Mr. Hughes, I should explain the mortality rates which you read on the record are not mortality rates applicable to individual policies used in calculating the share of death losses. The reason for that is all our policy contracts exclude the first year from the computation. You will observe it in reading the policy.

BY MR. HUGHES:

Q. In this correspondence with the attorneys for the owners of the Owen policy, you stated that the actual mortality exceeded the expected and therefore the death fund was not sufficient to meet the policy's share of the actual death losses experienced by the society. Now, that was not true so far as the general experience of the company was concerned, your actual mortality had not exceeded your expected mortality, taking the aggregate of your policies? A. It exceeded the expected mortality on which the premium charges were originally based, because Mr. Homans based those original charges, if my memory is right, on 80 per cent. of the American experience. He did not base it on the full mortality rates of the American mortality table, but on 80 per cent.

Q. My question was the actual mortality had exceeded the expected mortality on policies taken as a whole? A. On some years it did, on others not.

Q. So that when you referred to the excess of the actual mortality in this letter you are dealing with a given class of policies? A. Largely so.

Q. And the practice of your company was to set aside a certain class of policies and compute the mortality with reference to them? A. Well, from the year 1889 we have not separated them; but the custom has always been in accordance with the policy contract to throw out the first year's mortality. The first year's mortality is invariably light—the first year's experience of the policy and the throwing out of that makes it necessarily fall more heavy on the subsequent years.

Q. Did you not take the policies of which the Owen policy is a type and put them in a class by themselves in determining the mortality results? A. Not directly.

Q. How did you do it indirectly? A. The policies prior to 1889 are treated in a class practically by themselves.

Q. How are they treated in a class by themselves? A. For years.

Q. For how many years? A. Since ever I had to do with the calculation.

Q. And from your examination of prior calculations do you know whether they were so treated previously? A. I have tried to examine prior calculations, but can scarcely do so because the records are so incomplete. I should further add that the mortality records are the only complete records in our actuarial department that I have been able to use with the exception of the valuation book—the valuation book records and mortality records are almost the only complete records that I can find.

Q. But you drew on the guarantee fund mentioned in the Owen policy for the payment of death claims because you treated policies of that class by themselves and in that way arrived at the conclusion that the actual mortality exceeded the expected? A. Yes.

Q. Meanwhile these policyholders went on paying their premiums, assuming that at the end of the decade they would have a distribution of the 25 per cent? A. Yes.

Q. Now you have spoken of another form of policy where there was a clause providing for an increase of the rates. Now have you raised the rates on the policy of the type I now show you (showing witness policy)? A. Yes, I think in every instance.

MR. HUGHES: I will offer this in evidence.

Policy marked Exhibit 718 and read in evidence by Mr. Hughes.

Q. When was that policy, if you know, first issued? A. In 1893. I find on consulting the records here that increases were not made under that form for certain ages under forty, but they were always made for ages at entry forty and over.

Q. Explain exactly what you mean by that, the first statement is that increases were not made at ages under forty? A. Yes.

Q. You mean at ages under forty you charged the rate stated in the schedule? A. Charged the rate for the age of entry and the surplus under the policy has been sufficient to maintain that rate up to the present time.

Q. You then charged the premium recited on the first page—first premium for the first year? A. Yes, sir.

Q. And you have maintained that in cases of ages under forty to the present time? A. Yes.

Q. The accumulations being sufficient to make an increase unnecessary? A. That is so.

Q. Now, at ages of forty and over, what have you done? A. We had to increase the rates because the surplus at both ages was not enough.

Q. How did you increase the rates, I mean to what extent? A. Shall I read a typical example?

Q. Yes. Have you a record of policies before you? A. I have a record of each fifth age, similar to the schedule I submitted to you in the other evidence.

Q. Go on. A. Take the year of issue 1893, age of entry fifty, premiums charged in 1893, 1894, 1895 and 1896, were $22.64 per thousand. The next year, $26.70, the same the second year. The following year $31.14 for two years. The year following that $34.04, which is the rate up to date.

Q. How do those compare with the rates stated in the schedule? A. They are far within the schedule rates in every case.

Q. Now, I call your attention to a letter received from Mr. H. Clay Evans, formerly Counsel General at London, addressed to the Chairman of the Committee, in which he says, "I invite your attention to the Provident Savings Life Society, of New York, 29 Broadway. I insured here with their agent, taking policy No. 31,768, and paid $202.60 for ten years; was issued by their agent, E. J. Duffy, who is still resident here, that my policy was a straight life policy, no dividends, no assessments, and rate will be the same, no more, no less. I paid ten annual premiums of $202; then my rate was raised twenty-five per cent. per annum, and they claimed a right to raise it any time."

Now, what sort of a policy did Mr. Evans have? A. I can only assume that it was one of the form that you have read.

Q. Can you identify it in the record? A. I cannot identify the individual policy. If I had known the policy number I could have done so from the record.

Q. Have you raised the rates on any other policies than those of the form Exhibit No. 718? A. Yes, and similar forms representing the only forms on which premiums have been raised in that way.

Q. What do you mean by similar forms? A. Slight variations in the wording. For example, I observe in your reading there, you read, "the amount so retained on account of this policy will be used toward offsetting the increasing in premiums." The next form that was issued changed that clause a little, saying, "the amount so retained will be used toward offsetting the otherwise unavoidable increase."

Q. Have you that form? A. I am afraid not.

Q. The language was used to offset the otherwise unavoidable increase. There is a letter from a gentleman in Illinois, who says:

"In connection with the present investigation of life insurance companies, I respectfully submit the enclosed policy, taken out May 11th, 1886, and on which the premiums have increased from $7.94 per quarter to over $40.00 per quarter. This makes the premium rate absolutely prohibitive, and the company refuses to pay any surrender value for the policy. The company represented, through their agent, when the policy was returned that the rate of premium would not materially increase, but that the dividends would keep them down. The dividends have been absolutely ridiculous."

Now, what sort of a policy does that refer to? A. This is an older form, yearly renewable term, more nearly like the policy of Owen.

Q. Nearly like the Owen policy? A. I think it is different in several respects from that policy.

Q. Why have you found it impossible to keep the rates down in connection with policies at age 40 or over, under form Exhibit 718? A. Because the mortality presented affects older ages more than it does younger, and an increase therefore is more effective when the mortality rate is say twenty dollars per thousand than it is when the mortality rate is only ten per thousand.

Q. Did you—when I say you I do not refer to you personally. A. I understand.

Q. But did the company, in fixing the rate on this form of policy, use the American experience table? A. Yes.

Q. And if you had given the policyholders the benefits without dividing them into classes you would not have exceeded in your experience the table on which the rates were based? A. No, that is not used. All policies issued after 1889 are treated in one class.

Q. These policies were issued before 1889? A. Those policies were issued before 1889. The dividing line was 1889.

Q. Why was that dividing line first drawn in that year 1889? A. It was drawn—no, it was drawn largely on my recommendation on examining the classes of contracts that were issued, and seeing that in 1889 certain policies were issued stating that the mortality of the Society would be used in computing the premium.

Q. So that some time since 1901 that line was drawn? A. That is right.

Q. About what time? A. I think 1902. Since that date the difference has been made.

Q. Then down to 1902 you had dealt with all your policies on the basis that the policyholder was entitled to the benefit of the entire experience of the company? A. Yes, but I cannot speak for the method of calculation formerly used.

Q. Yes, but so far as you knew that was the case? A. As far as I know that was the case; yes, sir.

Q. And since 1902 you have adopted the same policy except as to policies issued prior to 1899? A. That is so.

Q. But as to policies issued prior to 1889, you have divided them into classes—— A. No, we have treated them all prior to 1889 as one class.

Q. Yes, you have made one class prior to 1889? A. Yes.

Q. Upon what language of the policy of the forms that have been shown here did you base that? A. I think you have not read one of the policies on which I did base that.

Q. Take the Owen policy, for example—upon what language in that policy did you base that right of segregation? A. This is January, 1887, I observe. Therefore it comes in the old series. The new series began with a policy of which I will read one of the clauses.

Q. I am calling attention to the old series, since it is the old series which you put in a class by themselves in 1889. What clause was there in the policy which justified that action; what right had you to pick out policies back of 1889 and say, we will treat them as a separate class, and treat them accordingly and raise the rates if the mortality exceeds the expected rate? A. The absence of anything in the policy and the provisions of a different clause in subsequent policies seem to draw a dividing line at that date.

Q. The subsequent clause was introduced when? A. 1889.

Q. There was nothing in the policies then prior to that time upon which you justified it, but it was because of the absence of what was subsequently included? A. Yes, sir.

Q. Tell me what was subsequently included? A. I am afraid I will have to do it from memory. (Referring to papers.) A clause in certain policies reading as follows:

"Provided the mortality in this Society shall be as favorable in the future as it has been in the past in the largest and best of the other companies (thus far it has been more favorable) this insurance will be extended and renewed during the whole expectation or probable lifetime of the insured at the rates of premium charged for the first year only of the policy."

Q. And this was put in force in 1889? A. Yes, sir.

Q. Was it a true statement that the mortality in the Society had been up to that time more favorable than in the largest and best of other companies. A. I think so, as far as I have seen, that is a true statement.

Q. And because that clause was put in the policies issued after 1889 you testified the setting aside of the earlier policies and treating their mortality upon an independent basis? A. Yes, that is so.

Q. Suppose you had left those policies as they were before, entitled to the benefit of the general experience of the company, would it have been necessary to raise the rates? A. The rates under these old policies are increased every year as a matter of course. It only affects the dividend or calculation at the end of a five year period.

Q. You have spoken of an increase in rates due to increased mortality. Would that have been necessary if you had left the policies to share in the general experience of the company instead of segregating them? A. Yes, it would have been.

Q. To the same extent? A. Exactly to the same extent. We have attained the same schedule of increases since the date of Shepard Homans.

Q. I do not think you understand me, because if that were so it would not have been necessary for you to make the segregation. I have asked you with reference to the increase of rates on policies put in a class by themselves issued prior to 1889, which you have said was due to the increased mortality under policies of that class. Now, if they have not been put in a class by themselves the increase would not have been as great? A. Excuse me. I do not think I said the increase in the rate was due to increased mortality in that class.

Q. To what was it due? A. The increase is due to the increase that has been every year by those policies.

Q. You have not increased them after age forty? A. You are speaking of another class. You read on the policy of 1893, on which the rates have not been increased under age forty, but this old form you are now speaking is a form where the rate has been increased every year, and the only effect of the change of the allocation of these policies is to change the dividend question, the surplus question.

Q. Now, Mr. Evans says he took a policy and paid $202 premium for ten years, and then his rate was raised 25 per cent. That is a case where the rate was raised 25 per cent. upon a policy issued before 1889. Why was it done? A. Was this policy issued prior to 1889?

Q. Well, if he paid premiums—well, I am not sure of that; no. A. I do not think it is possible.

Q. You do not think it was? A. No.

Q. Did you raise the rates on policies issued prior to 1889 because of an increased mortality? A. I can answer the question whether it was issued prior to 1889. (Referring to paper.) This policy was certainly issued after 1890, I know, by the policy number.

Q. Then you can answer the question whether you did raise the rates of policies issued before 1889 because of the increase in the mortality rate on those policies? A. We did not. Those premium rates increased naturally and every year in accordance with the schedule which has been in use for years in the society.

Q. Why did you put them in a class by themselves? A. For dividend distribution only.

Q. Then, instead of an increase in rates, there was a decrease in dividends? A. Yes.

Q. And as the dividends went against the premiums, in effect the insured had to pay more? A. That is so.

Q. What was the reason for doing that; why did you put those in a class by themselves for that purpose? A. Because they all along have proved so very expensive policies to carry.

Q. For what reason? A. The heavy mortality to which they were subject.

Q. There we are again. Then you did, as I understand, put those policies in a class by themselves because of the heavy mortality? A. Yes, sir.

Q. And if they had not been put in a class by themselves it would not have been necessary to reduce the dividends at least to the same extent? A. Not to the same extent, but many of these dividends were paid at the end of a ten year period and before this separation was made.

Q. Yes, but after the expiration of the ten year period? A. The dividends after the expiration only depends on the five years next succeeding.

Q. You had this heavy mortality when you treated these policies as a class, and you put them in a class in order that you could compute the mortality on the class taken by itself? A. Yes.

Q. And the result was to give the policyholder much less favorable results in dividends than he would have received than had he been entitled to the general experience of the company? A. Yes.

THE CHAIRMAN: I may be obtuse, but I do not understand how the witness' testimony and the statement of that 1889 policy can both stand. Do you?

MR. HUGHES: What statement do you refer to?

THE CHAIRMAN: The statement that provided the rate of mortality continues to be as favorable as it has, with a parenthetical statement that thus far it has been more favorable than in large companies.

MR. HUGHES: You mean you do not understand how that justified the separate class?

THE CHAIRMAN: The witness states that the segregation of these policies before 1889 was because of a higher mortality in that class; then in 1889 they issued a policy making a bald statement apparently that thus far their rate of mortality has been lower than in any other old line company.

MR. HUGHES: I think, Mr. Chairman, that one statement the witness made should be taken into consideration in that connection, that the line was drawn in 1902, the separation was made in 1902. And I understood him to say that the rate of mortality was then ascertained to have been greater, and for the purpose of division he took the existence of this class in policies existing in 1889 as a justification for the separation of policies into two classes, those issued before 1889 and those after.

THE CHAIRMAN: A statement was made in 1889, was it not?

MR. HUGHES: Yes.

THE CHAIRMAN: From the facts as apparent by the testimony of this witness, the statement was true or was not true.

Q. How is that? A. I think the statement was true. It was in 1889.

BY THE CHAIRMAN:

Q. How could it have been true in view of the answer to one of your questions, that the reason for segregating these policies was because of the high rate of mortality? A. Because the rate of mortality since 1889 has increased very rapidly, and specially on those old policies. Perhaps I should explain——

MR. HUGHES: I understand the witness' statement to be that looking in 1902 to the policies issued prior to 1889 he found a higher rate of mortality. Then, instead of treating those policies as they had been previously treated, as entitled to the benefit of the company's experience as a whole, he took occasion, by reason of this clause inserted in policies issued in the year 1889 and subsequently, to draw a line separating those policies from the policies issued later and thereby diminished the returns to the earlier policyholders.

THE CHAIRMAN: Do I understand that the high rate of mortality developed after 1889?

MR. HUGHES: That is what I understand the witness to say.

THE WITNESS: That is so; yes, sir.

THE CHAIRMAN: And prior to 1899 there was no excess in mortality?

THE WITNESS: That is right. Perhaps I should explain further that when I came to examine these contracts it seemed to me that the yearly renewable term policies should be treated in a class by themselves, when I came with the Provident Savings and examined the policy contract I found that could not be properly done because of this clause in several of the policies, and that is what put it into my mind that it was right to draw a dividing line in that way.

BY MR. HUGHES:

Q. The result of that was to benefit the present administration by showing better returns for later years? A. Not the present administration, because——

Q. Well, I mean the policies since 1889? A. Since 1889, yes.

Q. So that it comes to this point, as to whether these words included in this policy furnished any reasonable grounds for that discrimination. That is what it comes to? A. Yes.

Q. Those words are "provided the mortality in this society shall be as favorable in the future as it has been in the past in the largest and best of other companies (thus far it has been more favorable) this insurance will be extended and renewed during the whole expectation of probable lifetime of the insured at the rate of premium charged for the first year of the policy." What is there in that which justified your dealing with earlier policies on any different basis? A. There is the introduction of the clause for the first time, which makes it clear that these policies have to be treated with other policies of the society.

Q. These policies have? A. These policies have to be treated with other policies of the society.

Q. But you do not, you treat them only with those issued after 1889. You did not treat the policies issued in 1889 with others of the society, but only with those of the class which you have created? A. As a matter of fact, we treat them with those of the society. We take the whole class——

Q. And take these out of them? Now, that has led to a considerable confusion among your policyholders, has it not, that increase in rate? A. I think not, because this was the introduction of an entirely new kind of policy with the provision of allocation of surplus in an entirely different way. Under the old policies the premiums were increased annually, as a matter of course, as I explained before.

Q. Then, on the policies issued after 1889 you did not—when I say you, I mean, of course, your company, for you were not with the company before 1901—your company did not anticipate that increase would be required? It appears from Mr. Evans' letter, and the statement of the agent. A. I am afraid I do not understand the question altogether.

Q. It appears that the agent represented to Mr. Evans that there would be no increase. A. The policy states that the policy has to be used to maintain the premiums level as far as it possibly will go.

Q. And it was anticipated that that surplus would be sufficient to keep them level? A. It was anticipated that the surplus would be sufficient to keep them level during the expectation, but not thereafter.

Q. During what expectation? A. During the expectation of life. That is not for the whole duration of the policy.

Q. Yes, but here is a policy that is apparently within the expectation. A. I do not know the age of this policyholder.

Q. Can you find out? A. We can find out.

MR. GILBERT: I will send and find out. What is the number?

MR. HUGHES: No. 37,768.

Q. The point is, you put in your policies a clause that a surplus would be applied so as to offset an increase of premiums, at least so far as it was available? A. Yes.

Q. And your company encouraged the belief that would be sufficient to maintain premiums level during the expectation of life? A. I think that is the case, although I cannot speak much about it.

Q. And it was a very natural thing that agents anxious to get insurance should have represented very strongly what they might have believed, fully, that that would be the case? A. Yes.

Q. But when we come to the actual result we find there is a disappointment, that the surplus is not sufficient, and the result is considerable complaint on the part of policyholders? A. Yes.

Q. And by writing your policies on this score you have practically a stipulated premium basis, have you not? A. I scarcely think so. There is no assessment clause. The premiums are absolutely guaranteed.

Q. No, that is to say, you cannot go beyond certain maxima that are fixed? A. Yes.

Q. To that extent it differs from a stipulated premium? A. Perhaps I should add further that the policyholders in that clause have, as a matter of fact, had remarkably cheap insurance.

Q. Yes. A. That is a point that should not be forgotten.

Q. Yes, but they believed that their insurance should continue cheap. The whole point is that you were on an impossible basis, that is to say, you could not give the insurance at the rates which were promised in effect? A. Certainly not for the initial age of entry. That would be an utter impossibility.

Q. So it is another illustration of the gratuity of putting insurance upon a cheap basis with a provision for increasing premiums which are to be offset by dividends gained by a surplus, which in the absence of extraordinary fortune will never materialize? A. That is so. The natural premium plan invariably results in heavy mortality rates.

Q. Why is that? A. Because the policyholders come in, get their policies, and in the course of a year or two they can be too easily switched to another company, because they can get no cash value, no surrender value for their policies; they can only switch the healthy lives; the unhealthy cannot get other insurance and remain.

Q. Theoretically, it is a perfect system? A. It is a beautiful system.

Q. Because each man pays what the cost of his insurance is at a given age? A. Yes.

Q. And nothing but the cost if the company is properly managed? A. Yes, sir.

Q. But the difficulty is that as the rates increase the healthy men are inclined to get out, who can get insurance elsewhere? A. Yes.

Q. And the other impaired lives stay in and the rate of mortality increases, and there is general disappointment with the result? A. It increases; it is much more because the unhealthy stay in, and there is great difficulty in getting new members. There is a sort of double turn on that account.

Q. Suppose you put it right out plainly on your policy in flaring headlines, if you will, just what a man would get into if he went into an insurance plan of that sort, do you think you would write much insurance on that basis? A. I think not.

Q. Have you at present forms of policies in use which provide for increasing rates? A. Yearly renewable rates, no.

Q. When did you discontinue these yearly renewable term policies? A. Practically in 1897, but there have been one or two issues since, I think in 1901.

Q. What kind of policies have you issued since? A. Mostly—well, we have life, limited payment life, twenty-year term policies, and a good many policies of a form which is called combined term and renewal option policies.

Q. Well, that is a preliminary term? A. It is a five-year term with the option to renew. Then most of our policies in addition to that, most of our present policies contain a preliminary term feature.

Q. You have what is known as the preliminary term, too, preliminary term of one year? A. Yes.

Q. How much of your business do you write on the preliminary term basis? A. About 35 or 40 per cent., I believe.

Q. What is the difference between the valuation between those preliminary term policies under the rule of the Massachusetts Department and the valuation under the valuation of the New York

Insurance Department? A. The Massachusetts Department refuses to recognize the double part of the contract. They refuse to admit that it is a one-year term contract with renewal rate thereafter. The New York Department takes the contract as it is written, and construes it accordingly.

Q. What is the general difference in dollars and cents in the gain of your liabilities on December 31st, 1904, due to that difference in valuation? A. I can give you the difference between the New York and Massachusetts Department from the books.

(Books handed witness.)

The difference in valuation between the New York and Massachusetts Department is $606,000.

Q. Is there a difference between the rulings of the New York and Massachusetts Department with regard to the recognition of liens upon your policies as assets? A. There is no difference now.

Q. Was there at one time? A. There was.

Q. When? A. I think from 1901 to 1903.

Q. And did the Massachusetts Department change its ruling finally and come into accord with the New York and other departments? A. It changed its ruling as recommended by the Attorney-General of Massachusetts if I remember.

Q. What was the rule originally, and what is it now? A. The ruling originally was that the lien should be deducted from the face value of the policy and the difference treated as a new policy taken at the attained age. This was entirely unfair, especially under a limited payment policy. The ruling now is that the policies be treated as they were written for their face values dated back for the number of years to the date shown on the policy itself and that the lien be deducted as an asset on the other side of the account, the policy itself being charged as a corresponding liability.

Q. With regard to the continuation of preliminary term policies, what was done in Massachusetts? Was there a contest over your right to have the policies valued as they are in New York? A. There was.

Q. Was there a contest in the Courts? A. There was.

Q. Did it go to the Supreme Court of the State? A. Yes.

Q. What did the Supreme Court of Massachusetts hold? A. If I remember rightly the Supreme Court of Massachusetts did not decide on the contract at all. They merely stated that they did not review the decision of the Commissioner of Insurance.

Q. That that was a matter for him to determine. and in the absence of fraud or gross impropriety, of course the Courts would not interfere, is that the substance of it? A. Yes, I think so.

Q. Has the matter been before the Courts of New York so far as you remember? A. I think not. It has been before the Courts of Vermont on two occasions.

Q. Now, despite the agreement in certain of your policies which have been introduced in evidence for a 25 per cent. contract reserve, the Department, in fact, held you to that reserve as a contract liability? A. No, but is there a provision in our contract for a 25 per cent. reserve?

Q. Well, without going into a discussion of that point, but merely to elicit the facts, you have never been compelled by any department to treat that as a liability? A. No.

Q. Suppose you had been compelled to treat that as a liability, what would have been the consequence with reference to the maintenance of your rates or their increase? A. I think it would have had no effect whatever.

Q. You think you could have maintained the same rates? A. Maintained the same position we do now.

Q. Without increase? A. Yes.

Q. What is your judgment with regard to the propriety of preliminary term insurance? A. Preliminary term insurance has had a very useful effect, I think, in this country. It became absolutely necessary because of the impossibility of founding any new company to compete with the large companies with large surplusses.

Q. When did you introduce preliminary term? A. 1898.

Q. Then you did not go into it because you were a new company? A. No, but because of the necessity for putting up large reserves and writing a new class of policy to reduce the average mortality against the old policies.

Q. The whole point was you wanted more money to get new business? A. That is the whole device of preliminary term insurance.

Q. Certainly. In other words, you wanted to be free from the reserve law to enable you to compete with other companies in getting new business? A. Yes.

Q. And that is thought to be accomplished by the preliminary term arrangement which in effect frees you from the necessity of a reserve at the end of the first year? A. That is so.

Q. Do you write deferred dividend policies? A. We do.

Q. What portion of your business is deferred dividend business? A. I think I gave you a written statement to the effect that it was some 78 per cent. I have never investigated——

Q. (Handing paper) Is this the statement to which you refer? A. Yes, sir, that is it.

MR. HUGHES: I will read it: "The proportion of outstanding policies entitled to annual dividends is 78.2 per cent. of the total. The balance, 7.2 of the total, is non-participating business."

Q. Will you state the method by which you calculate the amount to be paid as deferred dividends? (Handing paper.) Is this a complete statement that you now hand me, an accurate description of your methods? A. That is an accurate description.

MR. HUGHES: That may be briefer than to elicit it in testimony. I will offer it in evidence.

(Paper admitted in evidence and marked Exhibit 719.)

Mr. Hughes then read Exhibit No. 719.

Q. Now, the first illustration card or sheet shows the allocation of the premiums and the growth of the surplus or deficiency, and that is the sheet now shown you? A. I believe so.

MR. HUGHES: I will have that marked for identification.

(Paper marked Exhibit 720 for identification.)

Q. Now, this table is made up with reference to the policies of a given year of issue? A. That is so.

Q. And with reference to a given age? A. Yes.

Q. At which the policy is issued in such year? A. Yes.

Q. And it shows the result of your calculation as to the premiums after the first year less annual expense charge of $4 per thousand, taking the year of issue for example, 1889, the cost of insurance over period, increased by mortality factor, the surplus or deficiency, the maximum premium under contract and the gross premium charge for subsequent years? A. Yes.

Q. The surplus or deficiency is ascertained by taking the difference between the premiums as to the first year less the annual expense charge of $4 per thousand and deducting from that the cost of insurance over a period increased by the mortality factor? A. That is right.

Q. The maximum premium under contract is taken from the contract itself? A. Yes, sir.

Q. The gross premium charge for the subsequent years is arrived at in what way? A. The surplus has to be applied to maintain the original premium level as far as it will go. No increase is made until the surplus is exhausted.

Q. It appears from this illustration you have, in the year of issue, 1889, taking age at issue 25, that the premium after the first year less annual expense charge of $4 was $9.75 per thousand? A. Yes.

Q. That means that the total premium was $13.75? A. That is so.

Q. Then you find that the cost of insurance over the period increased by the mortality factor was in 1890 $8.94? A. Yes.

Q. How do you get that? A. The mortality factor is shown at the left side there.

Q. Yes. A. And that is multiplied by the tabular experience for that age.

Q. As a result you have a surplus, comparing the $9.75 with the cost of $8.94, amounting to 81 cents.

Q. But you leave the premium for the next year the same, to wit, the full premium of $13.75. What do you do with the surplus? A. It is carried forward to the credit of the policy in accordance with the contract.

Q. And not applied against the dividend, because the dividends have not gone above the initial cost, the initial premium? A. No; the surplus has to be applied to maintain the premium level.

Q. That is what I say; and, therefore, you have——

MR. GILBERT: You use the word "dividend."

MR. HUGHES: I will correct that.

Q. Instead of crediting this surplus against the premium you credited it in the policyholder's account, because his premium remained at the amount of the first year's premium? A. Yes; that is right.

Q. Now, the next year you take the total premiums after deducting the $4 per thousand for each year? A. Yes.

Q. And, as before, calculate the surplus? A. Yes.

Q. But that surplus is carried into the policyholder's account as long as you are able to keep the premium at the amount stated the first year? A. That is right.

Q. The second exhibit, Exhibit B, shows the nature of the calculation in exchange cases, where there has been a loan? A. Yes, sir.

MR. HUGHES: I will have that marked for identification.

(Paper marked Exhibit 721 for identification.)

Q. And the third card, C, shows the way in which you calculate deferred dividends? A. Yes.

MR. HUGHES: I will have that marked for identification.

(Paper marked Exhibit 722 for identification.)

Q. And the fourth exhibit referred to shows the result of your mortality in 1904, and is the sheet already put in evidence as Exhibit 711? A. Yes.

Q. Now, taking this calculation of deferred dividends, do you make a calculation yearly of the amount to which the deferred dividend policyholder will be entitled at the end of his accumulation period, or do you wait until the end of the period and then make a calculation of the amount to be paid on the policies then matured? A. We wait until the end of the period up to the present time. During the last year I commenced an investigation of the other nature, but so far have not been able to complete it.

Q. Then your company assumes no obligation to a deferred dividend policyholder, prior to the apportionment made at the end of his deferred dividend period? A. No.

Q. And your company reserves the right to distribute whatever portion of the surplus it shall deem him, in its discretion, entitled to? A. I think that is right.

Q. Do you take the actual results of your gain in interest, and at the end of the deferred dividend period distribute them, or do you take an approximate result? A. I explained that in my memorandum, I think, Mr. Hughes. Up to the present time we have used more than—given credit for more than the usual interest rates. But a little less than the interest rates plus certain profits and investments.

Q. Why do you do that, why don't you take exactly what you make? A. The net interest rates?

Q. Yes. A. Because—in order to treat policyholders better than they would be treated if they got merely the net rate.

Q. Why do you treat them better than they should be treated? A. It is a question whether—it seems a fair thing to do.

Q. It is not fair to give them more than they are entitled to, so do you do it to make a better showing—— A. We do it partly to make a better showing. They are heavy mortality rates in any case, sir.

Q. Your idea is that you want to keep your results on the deferred dividend policies as high as you possibly can and make a good showing in competition with other companies? A. We wish to make them as high as possible, as we possibly can, for the benefit of the policyholders.

Q. Of course they get a benefit from it? A. We do not use our results in any competition whatever.

Q. You do not use what? A. We neither give estimates, nor do we tell our agents to use past results as promise of the future.

Q. Have you ever given any estimate? A. I have never given an estimate.

Q. Have your predecessors—the company, in other words? A. I think Mr. Shepard Homans certainly did in his time, but I can answer for myself and for the company since I became connected with it, it certainly has not.

Q. What do your agents do to persuade those they are soliciting to take insurance, that your company will give large returns? A. If they do as we tell them they show the guaranteed benefits, and mention the surplus as something to be had in addition. They canvass for the policy on the basis of the guarantee.

Q. You say you have not taken the actual interest. Do you take the actual gain from mortality in determining the amount to be distributed? A. We do, sir.

Q. Do you figure out an amount which represents exactly the amount awaiting for division, or do you estimate it? A. The card itself illustrates that, Mr. Hughes We take the tabular cost and then adjust it to the mortality.

Q. How do you get at the tabular cost? A. The tabular cost is the cost of insurance for the age of the policyholder by the American Experience Table.

Q. That is not necessarily the cost to your company? A. We adjust it to the cost of our own company.

Q. You take the theoretical cost, and you apply a mortality factor? A. That is so.

Q. To get at your cost? A. Yes.

Q. How will that get at the actual cost to your company? Suppose you spent ten per cent. more in getting business than is allowed for in the tabular statement of cost, can you get at the actual cost in your company by taking the tabular cost and multiplying it by a mortality factor? A. You say if we spent ten per cent. more or charged ten per cent. more to all policyholders? We get exactly what it would cost.

Q. Well, yes, but do you do that? A. That is what we do.

Q. Then you make up the statement on your actual outlays, cost, expenses? A. Actual cost, not expenses—cost of insurance—mortality cost.

Q. You are talking now wholly of mortality cost? A. I understood you were doing so.

Q. Well, that is entirely right. You are speaking now wholly of mortality cost? A. Wholly of mortality cost. The expense factor comes in on the other side of the account.

Q. So in the mortality cost you take the expected mortality, and correct it by your own experience, and get at that exactly? A. Yes, exactly.

Q. What do you do in determining the expense? A. That is explained in the memorandum. I assume first of all a division between the new and renewal premiums.

Q. Of 19.10 per cent.? A. A division between the new and the renewal, and then charge a fixed cost on premiums.

Q. Explain that a little more popularly, just what do you do to ascertain the amount of expenses to be charged? A. For example, if our premiums were a thousand dollars ——

Q. Your premium income? A. —— premium income were a thousand dollars. We charge one hundred of direct expense, and if our actual expense is $103, we would have a ten per cent. expense charged, and three dollars per thousand. Pardon me. There is an error in that. If the thousand dollars ——. If we had a thousand dollars of premiums and twenty thousand dollars was the sum insured. Our expense ten per cent. charged would give a hundred dollars. If the expense were actually $160, then we divide the balance by the sums assured outstanding, twenty thousand dollars, and find the expense charged three dollars per thousand.

Q. You justify that by what you have stated in the memorandum that has been read? A. Yes, sir.

Q. Well, having the expenses, the mortality cost or the cost of insurance arrived at in the manner you have stated, how do you complete your calculation of the amount to be apportioned to the deferred dividend policyholder? A. We put a credit on one side of the account showing the premiums he has paid less the expense charged. These are accumulated at the rate of interest indicated; and then on the other side of the account there is charged the cost of insurance; the mortality cost, and also the reserve value at the end of the accumulation period, and the difference between the debits and credits show the surplus.

Q. Now, is this card which you have given me, which has been marked Exhibit 722 for identification, an actual calculation? A. It is.

Q. That is an actual case? A. Actual case, the dividend on which has been paid.

Q. For a period ending February, 1904? A. Yes, sir.

MR. HUGHES: I will offer that in evidence.

(Paper marked Exhibit 722.)

Q. Is that a typical case? A. Yes.

Q. Now, this was a policy issued on February 15th, 1904, the insured was aged 49; the accumulation period ended at the expiration of ten years February 15th, 1904. The calculation is on the basis per one thousand dollars assured. The annual premium per one thousand dollars was $121.65, less expenses three dollars, arrived at in accordance with the methods you have stated, or ten per cent., $12.12, makes $15.12 that you deduct from the gross annual premium to give a net premium available of $106.03; that is accumulated for nine years at four and a half per cent. interest, amounting to $1,196.87. To that you add what? A. One-half of the first premium accumulated for ten years, sir.

Q. One-half of the first premium accumulated for ten years? $82.34. Why do you add one-half of the first premium? A. On the ground that this class of policy, which is subject to very high premium rates, did contribute something in its first year to the business of the company, and it was not absorbed entirely in expenses.

Q. That was an estimate? A. An estimate.

Q. And that gives you the total amount to be credited per one thousand dollars of insurance of $1,259.21. Now, on the other side of the account you take the cost of insurance on the basis of four per cent. American Table accumulated at 4 1-2 per cent. interest on the basis of ten-year term insurance? A. Yes.

Q. By taking the tabular cost and the accumulation factor you reach the conclusion that the total tabular cost per one thousand is $206.34, the tabular cost multiplied by the mortality factor is $235.64; and to that $235.64 you add a reserve for one thousand dollars at the end of accumulation period of a thousand dollars; that is the thousand dollars which you agreed to pay at the end of ten years? A. Endowment policy.

Q. This being an endowment policy; and that added to the $235,64 leaves a total debit of $1,235.65? A. Yes.

Q. And deducting that from the total credits of $1,279.21 gives you the surplus of $43.57 per thousand? A. That is right. I should perhaps explain one little thing about this policy which might appear strange to any one reading the testimony afterward, and that is it is a policy which provided not only for a thousand dollars payable in the event of death during the ten years, but for largely increasing sums assured for the whole ten years. The sum payable in the tenth year, for example, would have been two thousand dollars had the man died.

Q. It appears from this that the cost of the insurance according to the tabular table was $206.34, but according to your experience your higher mortality was $235.64? A. Yes.

Q. Translating this calculation into a more popular statement you find that in ten years the amounts paid in in premiums per one thousand dollars, taking the entire premium for nine years, and half the premium for ten years, less a certain amount which you take for expenses accumulated at four and a half per cent. interest, $1,279.21? A. That is right.

Q. And that the cost of carrying the insurance with the reserve for the ten years amounted to $1,235,64? A. That is right.

Q. So that on that calculation the assured had paid $43.57—I mean paid with the interest allowed upon his payments, $43.57 more than his share of the expenses of your company, and the cost of carrying his insurance? A. Yes, that is so.

Q. Of course, the thousand dollars is paid back to him—is paid to him? A. Paid to him in cash, yes.

Q. And on top of the thousand dollars the $43.57? A. Yes.

Q. So, according to that he had paid his pro rata share of the insurance, he has paid enough to give you the money to pay him his thousand dollars, and he has paid you enough to enable you to accumulate $43.57 to boot; that is the whole matter? A. That is the net result.

Q. Now, as a matter of fact, you have not earned four and a half per cent. interest? A. Not as interest, but we had earned more than four and a half per cent.

Q. As profits? A. As profits.

Q. And you put down here per thousand, $15.12 to be deducted for expense each year? A. Yes.

Q. How does that compare with the actual expenses of your company? A. It is almost exact.

Q. What do you do when you calculate that in order to test its exactness—do you make a statement of your expenses for ten years? A. I make a statement each year and take the period for which the calculation is to be made in allocating the constant factor and ten per cent., being the assumed factor, the constant three dollars being a variable factor according to the experience of the company.

Q. So it is by your variable factor you bring the calculation into correspondence? A. Yes, sir.

Q. You mentioned something a moment ago with reference to the rate charged upon this particular policy which has been used in illustration. What was the reason for the higher rate? A. The additional insurance benefits that the policyholder was entitled to during the ten years.

Q. What were those additional benefits? A. Increased sums payable in event of death, commencing at say one hundred dollars and increasing to a thousand dollars for the tenth year.

Q. So that if this insured had died during the ten years, or prior to the tenth year, he would not have had a thousand dollars? A. He would have had a great deal more than a thousand dollars.

Q. He would? A. Yes.

Q. Then he would have had a thousand dollars with the increased amount? A. With that increased amount. That is a policy which separates distinctly the investment feature from the insurance feature.

Q. If he lives to the expectation of the ten years does he get any more than the thousand dollars and his share of the surplus? A. No, that is all.

Q. Suppose the man had died in the ninth year, how much money would his beneficiary have received under the policy? A. In the ninth year about $1,850, or in the tenth year $2,000.

Q. But by living he gets $1,043.47 at the end of the ten years? A. That is so.

Q. Have you got that form of policy? A. I have got a similar one.

Q. By the way, how many forms of policies does your company issue? A. I have not counted them, but I should say twenty or thirty in general forms.

Q. In general forms; and are there variants of the different kinds of forms—when you say general forms, what do you mean? A. There are three or four kinds of term insurance.

Q. And you class them as one form? A. No; I call them three or four forms.

Q. Take life forms? A. Life forms we have only two.

Q. What are they? A. Continued payments and continued payments special investment, as we call it, where we separate the investment and insurance feature for the first twenty years.

Q. Are the twenty forms of policies all the different kinds of policies that you write? A. Yes, sir.

Q. Is your business virtually distributed through twenty forms, or are there some forms rarely used? A. There are some forms we rarely use.

Q. How many forms have you there in general use? A. I can give you the classes which we divide the policies into for general purposes.

Q. I would be glad if you would. A. I can give you the ratio of our last year's business which was written under different forms.

Q. State that. A. Continued payments under two policy forms, ratio about twelve and a half per cent. Continued payments investment forms, ratio of about two and a half per cent. Limited payment, ratio about ten per cent. Limited payment investment form, ratio about sixteen per cent. Endowment assurance—I have not them separated into ordinary and investment in this statement—ratio of about eight and a half per cent. Term policy running for twenty years, and to the age of seventy, ratio about seventeen per cent. Combined term, that is, term insurance for five years and then renewable at the end of that plan on life and endowment form, ratio about thirty per cent. And then various miscellaneous forms of small importance—that is a small ratio—one or two per cent.

Q. How many are there in the various miscellaneous forms of small importance? A. I have not analyzed them here, but I should think six or eight forms.

Q. Now, if you will let me see the form of policy to which this calculation, Exhibit No. 722 refers, I should be obliged. A. I find I have not got the exact form. This is a life form with the same investment feature, dividing into term insurance, with additional value in the event of death during twenty years, and a reduced premium for twenty years.

Q. These additional benefits that you give under that form of policy are in the case of the death of the man within a period well within his expectation of life? A. Usually, but not invariably.

Q. Now, how much more did this man who had the policy indicated in Exhibit No. 722, pay in premiums because of the advantage held out to him in case of death within the first ten years, over what he would have been compelled to pay if he had taken an ordinary ten-year endowment, for a straight thousand dollars? A. I will give you the difference between our present rates for the two forms of policies.

Q. That will do? A. At age 30 the difference is $10.12.

Q. Pardon me. Let us take the case we had—age 49? A. Age 49 the difference is $17.28 per thousand, I believe.

Q. What is the premium now, according to your rates, for a policy at age 49 of the sort referred to in Exhibit 722? A. $126.35.

Q. Instead of $126.35 annually for ten years what would he have had to pay for a straight one thousand dollar endowment without the additional benefits in case of death before the end of ten years? A. $109.07, according to our present rates.

Q. Now, if he had paid $109.07 for ten years, and lived to the expiration of the ten years, what approximately would he have had in surplus? A. He would have had something more than shown in this exhibit, because the mortality factor has less weight in an ordinary ten year endowment.

Q. How do you give mortality factor less weight on ordinary ten year endowment than you give in a case of a ten year endowment with additional benefits in case of deaths during ten years? A. Because the company has to pay more if he dies in the one case than if he dies in the other.

Q. So in the case of a larger payment you reduce the surplus by the increased mortality factor on account of the additional benefits you give in case of death during the ten years? A. Yes, that is so, but of course we credit him on the other side with the larger premiums.

Q. Undoubtedly, but the net result is that under this plan of insurance carrying additional benefits in case of death within ten years has at the end a less accumulation? A. Yes, but that is largely an accident of the heavy mortality we have had.

Q. Why should the heavy mortality count as much in the one case as in the other? A. In this case had it been light mortality he would have had a larger profit, because the mortality element has more weight under that policy than it has in the ordinary ten year endowment.

Q. He would have had a larger profit in amount but a smaller relative profit as compared with the man who did not have additional benefits in his policies? A. I don't understand that. He would have had a smaller profit had the mortality been light in the case of the ordinary ten year endowment. The more the mortality element enters in the heavy mortality gives a greater loss or the light mortality a greater profit.

Q. Have you a calculation in a case similar to this one of Exhibit 722? A. Not here.

Q. Taking the actual experience for the ten years 1894 to 1904 the man who pays $109 a year gets a larger return at the end of the ten years than the man who pays the $126 a year? A. Certainly, if he lives.

Q. I am assuming he has lived to the end of the ten years. A. Yes.

Q. That is because you figure on what you would have had to pay in additional benefits if he had died within ten years? A. Yes.

Q. What is the expectation of life of a sound man at age 45? A. By the American Experience Table, 21.06.

Q. This is substantially a wager by the man who takes this form of insurance as to his living ten years, and he pays you a much larger amount because you agree in the case of his death during the stipulated time to pay him a larger amount? A. Yes, if you call a life insurance policy a wager at all.

Q. In one aspect of it? A. Yes.

Q. But in this particular kind of insurance where you agree to give additional benefits to a sound man with the expectation of life such as you have stated, in case of his death within ten years, and he in consideration of those additional benefits agrees to pay a larger amount than he would otherwise have to pay, it comes down to a question of a wager for ten years? A. Yes, taking into account the probabilities of his life, and the probabilities of his dying.

Q. Who devised this policy? A. Fred Homans.

Q. And how many of this kind of policies have you outstanding, approximately—I do not care accurately? A. I can give it to you accurately. I think probably some seventeen million dollars or eighteen million dollars.

Q. Out of—— A. Out of one hundred millions——

Q. Now, do you find in that class of policies that the expected mortality is higher—I mean the actual mortality is higher than the expected mortality? A. Not so far; we have found that the mortality is favorable.

Q. Yes, and therefore as a rule the man doesn't die within the period set? A. We cannot say, as a rule. Many do die.

Q. I mean on the average, as the death is not contemplated within the expectation of life you find the results accordingly? A. Yes.

Q. So that it is a profitable form of contract to the company? A. It has been, yes.

RALPH K. HUBBARD, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Mr. Hubbard, it appears by the Statement 709 of the gains and losses for 1904 that there was a gain of surplus, interest, etc., of $357,792. If I remember the testimony correctly, $98,000 of that was on account of advances on real estate?

MR. GILBERT: Profits on sales. And $31,000 profits on securities, and $4,000 old bad debts collected.

Q. What was the real estate upon which the profit of ninety-eight thousand dollars was realized? A. Property that was sold during the year.

Q. Have you a statement of the property sold during the year? A. I have not it before me.

MR. HUGHES: You can get it, can't you? Haven't you got this data here?

MR. GILBERT: I thought you had it.

THE WITNESS: I have not it with me here.

Q. What properties were sold during the year 1904, out of which you made a profit of ninety-eight thousand dollars? A. Mr. Gilbert informs me the Savannah & Waco property.

Q. Don't you know more about it than Mr. Gilbert? A. Not in my head; I am not in the real estate department.

Q. Who does have charge of this matter? A. We have a superintendent of the real estate.

Q. Well, I thought you had charge of the real estate, Mr. Hubbard. You have charge of the books of the company? A. General books; yes, sir.

Q. It appears that in the year 1904 the expenses of the company exceeded its loadings, $263,290. What were the excessive expenses of 1904? A. If you will give me the statement.

Q. We have the statement? A. Yes.

Q. What I want to know is, comparing the expenses of 1904 with the much lower expenses of 1903, where the cause was of the increase in 1904? A. There was no unusual expenses in 1904; I cannot account for it, except I think in 1903 we had a larger business and the commission on that larger business was paid during the 1904 statement—during the 1904 year, I think so.

Q. You see that the expenses are two and a half times as large in 1904—I do not mean the expenses, but I mean the excess of expenses over loadings two and a half times as large in 1904 as in 1903. A. There is one item in 1903, Mr. Hughes, that we had a large loss of an instalment policy, and by the ruling of the Massachusetts Insurance Department that policy, the Wing policy, was to be charged to death claims in 1903, and carried as income in that year; and then appears as a disbursement the full amount was paid in the lawsuit as an expense appearing in the expense part of the disbursement, not payment to policyholders.

Q. What was the amount of that? A. The total amount of that one item is eighty-one thousand dollars.

Q. That was an exceptional item? A. Yes, sir.

Q. And came in 1904? A. Yes, sir—an actual disbursement.

Q. Now, was there anything else? A. I cannot think of anything, sir.

Q. It appears that you wrote $34,364,047 new business in 1903, and $28,114,662 new business in 1904. Now, do I understand that the amount of new business written in 1903 made a heavier expense for 1904? A. It would if it was written in the fall of the year.

Q. Was it? A. I cannot say offhand. Generally speaking, there is more business done in the months of November and December.

Q. That is a general experience? A. Yes, sir.

Q. Now, I find in 1902 that your new business was $35,371,913, and in 1903 $34,364,047, and that your excess over loading was $20,556 in 1902, $103,592 in 1903, and $263,293 in 1904. Would that indicate that it was due to business written in the fall of the year? A. It would to me, sir.

Q. To what extent would you say that accounted for it? A. The business of 1902, if it was written in the fall, the expenses would appear in 1903 disbursements, which expenses were offset by that consideration for the instalment policy that I have referred to, that appeared under the income item of 1903.

WILLIAM N. ELBERT, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Have you charge of the real estate matters of the Provident Savings Life Assurance Society? A. I have charge of the property; yes, sir.

Q. For how many years has that been the case? A. Since January 1st, 1902.

Q. How much was the profit on sales of real estate in 1904? A. Approximately ninety-eight thousand dollars.

Q. Upon what property was that profit realized? A. It was realized upon the Englewood, New Jersey, Waco, and Savannah, Georgia, property.

Q. How much on Englewood? A. $4,826.37.

Q. How much on Waco? A. $28,617.61.

Q. How much on Savannah? A. $72,568.06.

Q. When was the property in Savannah sold? A. May, 1904.

Q. For what price? A. Is it Savannah you ask me about?

Q. Yes. A. $175,000.

Q. And that was carried by you at a book value of $102,-431.94? A. Correct, sir.

Q. What was the price at which the Waco property was sold? A. $75,000.

Q. How much? A. $75,000; there are two properties on that.

BY MR. HUGHES:

Q. It does not appear on the schedule. A. It was a mortgage at that time.

Q. Then it was foreclosed and obtained in 1904? A. In 1904.

MR. GILBERT: Not foreclosed.

MR. HUGHES: How was the title acquired?

MR. GILBERT: I induced the man to give back the property if we would release him from his liabilities.

MR. HUGHES: You took the title on the cancellation of the mortgage?

MR. GILBERT: Yes.

Q. And by doing so you netted on the sales some twenty thousand dollars? A. Yes, sir.

Q. What is the Englewood property? A. The Englewood property was sold for $12,000; I think that was on the same basis.

Q. That was also on the same basis? A. I think so, sir.

Q. Property that was taken by the company on the cancellation of the mortgage? A. Something of that kind, I had not charge of it.

Q. And then resold by the company at a profit? A. Yes, sir.

Q. How long was it resold after the mortgage was taken? A. I don't remember; I have not charge of the mortgages.

Q. How long was the Waco property taken by the company after the mortgage was made? A. I don't know, sir; I don't remember.

MR. HUGHES: Do you know, Mr. Gilbert?

MR. GILBERT: About a month, I think.

MR. HUGHES: Do you mean that the mortgage was executed to the company and then a month later the title was taken?

MR. GILBERT: I don't know; I mean I got back the Waco and Englewood property about a month before we made this sale.

MR. HUGHES: And how long had the mortgage been on the property?

MR. GILBERT: On Englewood, I think, several years, and Waco, I think, about two years.

Q. Have you charge of the appraisals made of the property held by your company? A. I have almost all of them.

Q. What was the basis for the increase in the property on West Twenty-seventh Street, near Broadway, and 50 West Twenty-eighth Street—I refer to the increase in the book value from $531,115.30 at the end of 1903 to $1,615,555.28 at the end of 1904? A. One item that I remember was the payment of part of the encumbrance of $100,000.

Q. Wasn't that paid the year before? A. I am not sure, sir. I will look.

Q. It appears that the same property, I should judge was carried at the end of 1902 at $432,000, so that between 1902 and 1904, that is between the ends of the years, there was an increase in the book value of $180,000. Now, I understand that a part of that was due to the payment of an encumbrance? A. There was one hundred thousand dollars of encumbrance paid off that property.

Q. That leaves $85,000. Wasn't it a fact that the property in 1904 was marked up on the books $85,000? A. I cannot say that exactly, sir, because I am not sure whether it was in that particular time or not.

Q. Can you not say that by looking at the report for 1903, which puts it at $531,000, and the report for 1904, which puts it at $615,000, there having already been an increase of $100,000 in the year 1903, as compared with 1902? A. That appears apparently to be the case.

Q. On what basis did you mark up the property $85,000? A. It was marked up, I presume, on account of the fact that the property was considered of greater value than it was carried at.

Q. Did you have an appraisal? A. I think so.

Q. Have you got that here? A. Yes, sir. (Producing paper.) We have an appraisal of value of land and buildings of $850,000.

Q. When was that made? A. The appraisal was made June 4th, 1902.

Q. 1902? A. Yes, sir.

Q. Who made the appraisal? A. Made by the Insurance Department of the State of New York.

Q. To what property does the appraisal of $850,000 relate? A. It relates to the property on West Twenty-seventh Street, consisting of four lots.

Q. And 50 West Twenty-eighth Street? A. 50 West Twenty-eighth Street is not included in that figure.

Q. Will you allow me to see the appraisal, please? A. Certainly, sir. That covers a number of properties.

Q. Have you had any appraisal of that property since 1902? A. I think not. Not to my knowledge.

Q. Despite that appraisal in 1902 you carried it on your books that year subject to a mortgage at a value of $430,000? A. That is as I received it that year.

Q. Then paying off the mortgage you carried it the next year at $531,000? A. That is it.

Q. You put in the value first in 1902 at $505,000. Why did you put that in if the State Department had valued part of the property at $850,000? A. Which statement is that, sir—January 1st, 1902?

Q. December 31, 1902? A. 1902.

Q. That, I suppose, would be the equity? A. That is the equity.

Q. That would show a total of $605,000? A. That is right.

Q. That is what is put in the next year, December 31, 1903? A. Plus the mortgage, is it not? No, that is paid off.

Q. And that includes the West Twenty-eighth Street property. Why do you put in the value there as $605,000 if the Insurance Department appraised it at $850,000? A. Because the Insurance Department appraised it mortgage and all. The Insurance Department appraised the value of the land and the value of the building; we were carrying it as an equity.

Q. You were carrying it as an equity in 1902 and not in 1903? A. Certainly; the mortgage was not paid off.

Q. Was not the payment of the $100,000 mortgage the reason that you increased the book value from $430,000 at the end of 1902 to $531,000 at the end of 1903? A. Yes, sir.

Q. Is there any other mortgage? A. The same mortgage.

Q. How much was the mortgage? A. The mortgage I think was $400,000 originally.

MR. GILBERT: $300,000.

THE WITNESS: $300,000.

MR. HUGHES: I think we better get the exact figures; I think we do not want more conjectures about this.

THE WITNESS: Mr. Hughes, allow me to say I did not expect to be called on—I have been attending to the rents and so on and I came down here—I have not had time to look up these things. I will do it with pleasure.

MR. HUGHES: I do not want to imply any reluctance; I only want the facts so that we can get through once for all and do not have to go through a number of conjectures.

. . .

Q. Can you now state from recollection what incumbrance there was on that property at the end of 1903? A. I cannot place it that particular year. I will be very glad to get you up a statement of it and give it to you.

Q. Can you state why it was you marked up the property in 1903 $85,000? A. No, sir.

Q. Was not the reason that losses had occurred in other departments of the business on loadings and a very small gain in mortality, and you needed it to make a good showing in surplus? A. Not to my knowledge.

Q. You don't have charge of that department? A. Nothing to do with it.

MR. GILBERT: He was mainly brought down to prove the net rents on the property. He has the care of the real estate and collects the rents.

Q. Who makes up the statement for the report to the Insurance Department with reference to that real estate? A. The schedule?

Q. Yes. A. I have.

Q. What other properties besides those you have in West Twenty-seventh Street did you put an enhanced value on at the end of 1904—in other words just tell me how much of the surplus of 1904 is attributable to marking up the values of real estate? A. I can only tell you about the real estate; I know nothing about the surplus.

Q. Tell me how much the values of real estate were enhanced —the book value in 1904 in your annual statement at the end of that year? A. I will have to get that for you; I have not the dates before me; I am sorry.

Q. All right; that you can get for me and let me have it Monday morning. A. All right.

Q. Pardon me a minute. Have you had any appraisal of any of your properties since this appraisal that you now show me made by the department? A. On these particular properties?

Q. On the properties mentioned therein? A. No, sir, none at all.

MR. HUGHES: I will offer that in evidence.

(Paper marked Exhibit 722.)

THE WITNESS: May we substitute in place of that a certified copy? This is part of the records.

MR. HUGHES: Of course.

Q. Did you sell this property in West Twenty-seventh Street that we have referred to and the contiguous property in West Twenty-eighth Street? A. Yes.

Q. When? A. 1905.

Q. For what price? A. $600,000.

Q. Was that the sale of an equity? A. Allow me to correct that as you asked me both properties together—$675,000.

Q. $675,000? A. Yes, sir.

Q. That sale was made subject to a mortgage? A. Subject to a mortgage. That was the equity value.

Q. You don't know just what the incumbrance is at present? Q. No, I would rather not state about that.

Q. To whom was it sold? A. It was exchanged for the building at 35 Nassau Street.

Q. We had that in part the other night? A. That is one of the exchanges.

Q. Have you a statement of the rents received upon those premises? A. Not upon the 1904 premises. I will get it for you if you will allow me.

E. W. SCOTT, resumed:

BY MR. HUGHES:

Q. Mr. Scott, now, recurring to this question of the surplus interest, etc., for 1904, which amounted to $357,792, are you able to state to what extent that surplus was the result of marking up the values of real estate—book values I refer to? A. I think I have a schedule, Mr. Hughes, perhaps I can do that. We account here for $135,000?

Q. Yes. A. How much does that leave? Have you the schedule of real estate?

Q. Here is the schedule of the real estate that figured in the report of that year? A. 151 to 169, inclusive West 140th Street, $30,000.

Q. There you have about $127,000 of increased value in your real estate to the marking up at the end of 1904 which is included in this $353,000 of gain of surplus—— A. Part of that is permanent improvement, just how much I cannot tell you.

Q. Yes. A. But on the Twenty-eighth Street property there was quite a considerable.

Q. But it was all due to the enhancement of value of real estate, but you draw the distinction that in some cases it represented moneys expended that you put in? A. Yes.

Q. To what amount was that the case? A. Oh, I should think $20,000.

Q. It left something over $100,000 which was added to the value on the books of the real estate? A. Yes.

Q. Then in addition you realized a profit of $98,000 on your real estate? A. Yes, sir.

Q. And that is roughly $200,000. In addition to that you made a profit on the sales of securities of about how much? A. About $36,000.

Q. Your surplus interest as distinguished from profits on sales or enhanced values was how much? A. I could not answer you that question at this moment.

Q. This is the total item (handing paper)? A. Well, I know it is—well, it would be the difference.

Q. The difference? A. Yes.

Q. Or about $116,000 or so? A. Yes.

Q. The net result is that the insurance experience of the year was unfavorable and the loss on the insurance, that is on your loadings and your surrenders taken in connection with your gain on mortality and on surplus interest would have left you a decrease in your surplus for the year had you not had the advantage of the sales you have mentioned? A. Precisely. The mortality of 1904, Mr. Hughes, as you will see by the report, if it is not there on that statement, was considerably in excess of the previous year, and that is what makes up very largely for that loss in loading.

Q. I see that in 1903 the surplus interest and so forth is put at $101,000. Is there any part of that which is made up of enhanced values of real estate? A. I think not.

Q. Or gains on sales of securities or on sales of real estate apart of course from interest returns? A. I think not. I think it all was savings in that year.

Q. Back of 1904 was the surplus interest and so forth are comparatively small amounts as compared with that for 1904, and they represent the regular interest gains, do they? A. Yes, sir; I think so. I do not recollect any sales in 1903.

Q. Did you in fact increase your book values in 1904 in order that the results of your business for that year might not become apparent? A. No, sir.

Q. Or you might have an increase in surplus? A. I should just as soon show $500,000 as $650,000, but it was to take advantage of the value that we had there under suitable appraisal.

Q. But you did not take advantage of any appraisal that you had at that time, you recurred to the old appraisal of 1902, did you not, that has been put in evidence? A. I think so.

Q. A statement is contained in your charter to the effect that any surplus arising from the payment of persons insured upon the non-participating or stock plan and that derived from other sources shall be credited pro rata to the stockholders but shall be retained by the corporation as a guarantee fund until the same shall amount to the sum of $250,000, after which any excess may be divided amongst the stockholders annually. Has any amount been divided amongst the stockholders under that clause? A. No, sir.

Q. At any time? A. No, sir.

Q. You have been asked to produce a specimen of your agency contract? A. Yes, sir.

Q. Does this show the commissions paid to agents? A. Yes, sir; that is the uniform contract in its entirety.

MR. HUGHES: I will have this marked for identification.

(Paper marked Exhibit 723 for identification.)

MR. HUGHES: From this it appears that the commissions on accumulation policies participating are as follows:

Continued payments, including joint life, first year 50 per cent., second and subsequent years 5 per cent.

Twenty payment life 50 per cent. and 5 per cent.

Fifteen payment 45 per cent. and 5 per cent.

Ten payment 75 and 5 per cent.

Endowment maturing in 30 years 50 per cent. and 5 per cent.

Endowment maturing 20 years 45 per cent. and 5 per cent.

Endowment maturing in fifteen years 40 per cent. and 5 per cent.

Endowment maturing in ten years 25 per cent. and 5 per cent.

That the rates of commission on special investment policies participating are as follows:

Continued payment 50 per cent. and 5 per cent.

Twenty payment 50 per cent. and 5 per cent.

Fifteen payment 45 per cent. and 5 per cent.

Ten payment 35 per cent. and 5 per cent.

Twenty-five year endowment bond 50 per cent. and 5 per cent.

Twenty year endowment bond 45 per cent. and 5 per cent.

Fifteen year endowment bond 40 per cent. and 5 per cent.

Ten year endowment bond 25 per cent. and 5 per cent.

Commissions on term insurance participating policies, as follows:

Twenty year renewal term 50 per cent. and 5 per cent.

Convertible term ten year distribution policy 50 per cent. and 5 per cent.

Renewable term to age 70 under age 55 at issue 50 per cent. and 5 per cent.

Special policy combination term renewal option participating 50 per cent. and 5 per cent.

Combined assurance and debenture bond non-participating 45 per cent. and 5 per cent.

Endowment 5 per cent. gold bond, 45 per cent. and 5 per cent.

It is further provided as follows: "Commissions on premiums on all classes of policies not named in Section 1, shall be determined by the party of the first part; where policies are changed and an allowance made on old policy, no commission shall be paid on any amount thus transferred from old to new policies; if the assured under any policy should request that a change be made, the party of the first part may make any such change, the commission thereafter being modified to such rates (if any) as might be applicable to the substituted policy; and the commissions provided in Section 1 shall not apply when the assured is over 60 years of age, but the first year's commissions on such cases shall be the same amount in cash as would have been payable had the assured been aged 60 when the policy was taken. If any policy issued to the second part cease to be in force for six months and is afterwards restored by any other party, then the party of the first part shall be discharged fully and entirely from further liability to the party of the second part on account of said policy, notwithstanding such restoration. No commissions are allowed on extra premiums.

THE WITNESS: Now follows the allowance for expenses.

MR. HUGHES: It is further provided the party of the first part will furnish such stationery, books, blanks and canvassing literature as it shall consider necessary to the conduct of the business; to pay (unless otherwise stipulated) the statutory license fees required of the party of the second part and taxes within said district, and also the fees of examining physicians; but shall have no responsibility for expenses otherwise incurred under express agreement in writing between the parties hereto.

It is further provided should the party of the second part in any calendar year, secure and settle for hereunder, in accordance with the rules of the Society, $5,000 in first year's premiums on business as scheduled on page 1 of this contract, he shall be entitled upon the premiums on said business of said year to receive an additional renewal commission of two and one-half per cent. subject to the stipulations and limitations regarding the payment of renewal commissions hereunder.

It is further provided that the party of the second part shall be allowed for traveling and other expenses of every name and nature an additional commission on first year's premiums, on business as hereinabove scheduled, which shall be secured and settled for through his instrumentality, as herein provided, of twenty per cent.

Should this contract remain in force one year and after that date be terminated for any cause not specified in paragraphs 13, 14, 15, 16 or 19 hereof, renewal commissions subject to the stipulations and limitations herein contained shall continue to be paid to the said party of the second part, his executors or administrators, for the term of five years from the date of each policy while in force during said term, less one per cent. of the premium as a collection fee.

Should this contract remain in force two years and after that date be terminated for any cause not specified in pargraphs 13, 14, 15, 16 or 19 hereof, renewal commissions subject to the stipulations and limitations herein contained, shall continue to be paid to the said party of the second part, his executors, administrators, for the term of ten years from the date of each policy, while in force, during said term, less one per cent. of the premium as a collection fee.

Should this contract remain in force three years and after that date be terminated for any cause not specified in paragraphs 13, 14, 15, 16 or 19 thereof, renewal commissions, subject to the stipulations and limitations herein contained, shall continue to be paid to the said party of the second part, his executors or administrators, for the term of fifteen years from the date of each policy while in force during said time, less one per cent. of the premium as a collection fee.

The provisions referred to in paragraphs 13, 14, 15, 16 and 19 relate to collection, use of funds collected, defaults, breach of duties in connection with agreement to devote full time to the company, to submit all proposals for life assurance, whether reported on favorably by the Medical Examiner or not, to treat the contract as strictly confidential and to any interference with the business of the company.

THE WITNESS: Now you have another specimen there, I think, Mr. Hughes, where the renewal commission is $7\frac{1}{2}$ per cent.

Q. Well, it is practically $7\frac{1}{2}$ per cent. under this, is it not? A. It is 5.

Q. It is 5 with an arrangement for an increase if the premiums amount to $5,000, and if practiced—— A. Yes, in other respects it is the same.

Q. Do you give bonuses to agents? A. Contingent bonus sometimes. That was the practice four or five years ago, more than it has been for the last year or two years.

Q. Have you more favorable terms for particular agents, or is this a schedule that is in force? A. No, sir, that is a schedule rate.

Q. Do you have any other rates for anyone? A. No, sir.

MR. HUGHES: Will you withdraw for a moment, Mr. Scott.

HENRY MOIR, resumed.

MR. HUGHES: Mr. Moir, have you the figures on the policy of Mr. Henry Clay Evans of Chattanooga? A. I have.

Q. When was the policy issued? A. The policy was dated the 24th day of November, 1890.

Q. What was the kind of the policy? A. Yearly renewable term policy with surplus applied to maintain the premium leveled.

Q. Was it one of the forms that had been put in evidence, the form of 1889. A. Practically. There may be a word or two different in the contract.

Q. In substance it is the same? A. In substance it is the same.

Q. What was the age at time of issue? A. Forty-seven.

Q. What was the amount of the policy? A. $10,000.

Q. What was the initial premium? A. $202.

Q. How long did the policy remain at that amount or that rate of premium. A. For eight years.

Q. Then how was this changed? A. An increase in the premium became necessary.

Q. What was the increased rate? A. $252.50.

Q. That was the ninth year? A. Yes, sir.

Q. How long was that amount paid per annum? A. It was never paid.

Q. He refused the legal period? A. Yes, sir.

Q. What year was that? A. 1898.

Q. Did the policy then lapse? A. It lapsed.

Q. What was paid upon its lapse; did it have a surrender value? A. It had no surrender value.

Q. Why not? A. Because it was a yearly renewable term policy and at the date of lapse there was a deficit under the contract.

Q. No surplus had been accumulated? A. A surplus had been accumulated, but it had been used in keeping the premium level, and it had disappeared before 1898.

Q. That is, on account of the use of the surplus the premiums had not increased before 1898? A. No.

Q. Otherwise they would have increased? A. Earlier, yes.

Q. As a matter of fact, you say there was a deficit on the policy? A. Yes.

Q. And that sized off. A. Yes.

Q. What was the rate at attained age at the time the policy lapsed under your schedule of rates, what was the maximum rate of the insured at that time? A. That rate is given in one of the schedules.

Q. I want to compare that with the amount which is charged the insured at the time of increase. Can you state it approximately? A. I presume that the rate was the same as the schedule which I have before me, $202.40.

Q. The rate to which it was raised was $252 at age attained, according to your schedule was $292. A. The maximum rate.

Q. The expectation had been on the part of the insured that he would not have to pay more than $202, with which he started, on account of the increase in surplus and various ways of disappointment in his letter? A. Yes. Perhaps I should add that a ten years' time contract non-participating in two of the largest companies in existence brought $240, his age at entry, $240.50 in the one company and $243 in the other.

Q. For what contract is that? A. Ten years' time, from his age, forty-seven. That is what he said in his letter he had received. He paid out $202. Now, the rate for ten years' insurance, term insurance, non-participating, with no rights of renewal, in one of the largest companies in the country would have been $240.50.

Q. Now you say one of the largest—— A. That is the Mutual.

Q. Is that the usual rate? A. That is the published Mutual Life rate.

THE WITNESS: But other companies—the Connecticut Mutual is $243.

Q. That shows the disadvantages and disappointments from attempting to insure people too cheaply and raising hopes that cannot be realized? A. Yes. I think I said before, the premium rates were paid on eighty per cent. expected mortality.

Q. Eighty per cent? A. Yes.

BY THE CHAIRMAN:

Q. Is there a clause in the policy which would have warranted, Mr. Evans, of the possibility or the probability, and if so, what clause? A. I may say that a policy with the same form was the subject of suit not long ago, and the judge rendered a decision saying that the policy was clear and explicit, and there was no reason to misapprehend its terms.

Q. What clause was there in Mr. Evans' policy which either permitted that practice or should have warned him of its existence? (No reply.)

MR. HUGHES: That policy has been read in evidence, but have you a form of policy under which Mr. Evans came? A. Not exactly. There are some verbal changes, but the form I have before me is practically the form.

Q. Did the policy that Mr. Evans had contain this clause?

"And the said society further agrees to renew and extend this insurance upon like conditions upon each successive year of the life of the insured, from date hereof, upon the payment of annual renewal term for the age attained, in accordance with the schedule rate on the next page of this policy for each one thousand dollars insurance, excepting as reduced by the application of the surplus and guarantee fund. Such payment to be made in semi-annual equivalents, payable on the fifteenth days of January and July, respectively, in each successive year."

A. To the best of my knowledge and belief that is exactly the same in that respect.

Q. Then the provision for the guarantee fund was in the form that has already been read on the record? A. Yes.

Q. Containing the words that after deducting the expense charge, which is limited to four dollars per annum on each one thousand dollars of insurance, the society agrees to appropriate the residue of each annual premium paid upon this and upon other similar policies, as follows:

So much thereof as is necessary for paying the share of death losses will be deposited in such bank or banks as shall be designated by the directors as a death fund to be used solely in settlement of death claims. The remainder thereof will be deposited in trust as a guarantee fund in the Farmers' Loan and Trust Company, or such other depository as shall be designated by the directors, and will be applied to offset the otherwise unavoidable increase in rates of premiums on account of advancing age.

That was the provision? A. That is the general provision.

Q. And the sole point was that the insured got the idea that under that the accumulation would be enough to prevent a change of rates? A. That is right.

Q. And that is what those who issued the policy believed; at least that is what was held out as the confident expectation? A.

Yes, that these rates would continue during the expectation, and not longer.

Q. Yes, there is a schedule stated there of rates which would be charged if the surplus did not exist, and it turned out it did not? A. Yes.

Q. Now, we have another letter here—— A. Mr. Hughes, there is one point in regard to expenditure which perhaps I could explain a little more clearly if you wish that explanation.

Q. I do not think you can add anything to it, I think we understand it fully, but if you are desirous of explaining it you may. A. The gain and loss exhibit is rather an elastic schedule, and in 1903—between 1903 and 1904—there was a change in bookkeeping arrangement, whereby the charge on outstanding premiums was increased fifteen per cent., I think, or seventeen and one-half per cent., in the two years, which made a difference in loadings of roundly sixty thousand dollars. That difference could only be charged against loadings, but there was in effect no real difference.

Q. Who made this difference? A. The difference was made in the returns to all departments.

Q. Who established the rule necessitating the difference? A. It was made in the company.

Q. You advanced this explanation in connection with the showing for 1904? A. Yes.

Q. The loss on loading? A. The loss on loading was bookkeeping as between the two years to the extent of fifty-five thousand or sixty thousand dollars.

Q. Why should it have been? A. Because of the change in practice, the change in plans in creating outstanding premiums.

Q. If you can get to the bad, fifty thousand dollars one year that way, you can get to the good, fifty thousand dollars the other way by changing the bookkeeping can you not? A. I do not think the Insurance Department would allow a change from twenty per cent. deduction to a five per cent. They would allow the change the other way.

Q. What was the change you made? A. It meant taking credit for less outstanding premiums to the extent of fifteen to seventeen and one-half per cent., and the only place in which that can possibly get in the gain and loss exhibit is in loadings.

Q. Here is a letter written by your company with regard to Chestnut Policy, October 2, 1904, No. 63,856, as follows: That is written by a general agent of your company.

"October 26, 1905.

"Messrs. Hesse & Shingler,
"Charleston, South Carolina.

"Gentlemen:—Your letter of October 20 to the home office of the Provident Savings regarding Policy 63,856, on the life of Cornelius Chestnut, which policy is assigned to you has been referred to me for reply. I am informed by the home office that the premium which has been charged for the past eleven years under this policy is so exceedingly low and the mortality experience in this class has been higher than was originally anticipated, that there has been no dividend earnings. In accordance with the terms of the present policy, the insurance may continue beyond October 2, 1905 without new medical examination being required under any form now issued by the Society at the premium rate for the insured's attained age. We think in view of Mr. Chestnut's advanced age a continued payment non-participating policy would be the most desirable. Under this form the annual rate per thousand is $112.63."

Q. Mr. Chestnut's policy was issued at age 59, amount, $3,000? A. Yes.

Q. October 2, 1894, and the initial premium was $130.11, and how long did he pay that premium? A. The policy contract provides it should run to the age of 70.

Q. That was a—— A. A fixed rate for eleven years of insurance.

Q. And this was issued in 1894? A. Yes. Perhaps I could illustrate again——

Q. Pardon me. He got to the age of 70? A. Yes, sir.

Q. And then he wanted to know what he was going to get? A. Yes, sir.

Q. And then he referred to this clause in the policy regarding dividends and extended insurance: "The surplus contributed by this policy, if it be in force, at its anniversary in 1905 will then be paid as a dividend in cash, except that if written application shall have been made therefor not less than one year prior thereto, the Society will at said anniversary issue upon the life of within named insured, without medical re-examination, a new renewable term policy for quinquennial or longer period than his option for an equal or less amount of insurance, conditioned upon the payment of the Society's rates of premium for his then attained age, and in such case said dividends will be applied to reduce the premiums payable thereon. If after three years the policy be terminated solely by the non-payment of any premium when due the owner hereof will be entitled to the surrender value in extended insurance as provided in the Statutes of the State of New York, Laws of 1892, etc." A. There was no surplus contributed by this policy.

Q. Then he was not entitled to anything? A. He was entitled to continue the insurance——

Q. On paying for it? A. Whatever the state of his health might be.

Q. Well, that is, he was entitled to continue the insurance at attained age without a medical examination? A. Yes.

Q. The advantage to him under the policy was the freedom from the necessity of passing a medical examination? A. Yes, and the protection he obtained during the eleven years.

Q. This was a term policy to age 70? A. Yes, sir.

Q. And the net result was that what he had paid in in annual premiums of $130.11 for eleven years simply sufficed according to the experience of your company to carry his insurance and left him nothing for the money except the fact that his risk had been carried? A. That is so. As a matter of fact, it did not suffice, it was not enough.

Q. Was that because of the heavy mortality in the company? A. Partly so, and partly because the premium may have been much too low.

Q. The premium was too low? A. I think so.

Q. And the mortality too high? A. Yes.

Q. That is a bad combination? A. I think so.

Q. What about agents' balances in your company, do you know about those? A. No, nothing whatever.

EDWARD W. SCOTT resumed.

BY MR. HUGHES:

Q. Mr. Scott, regarding your agreement with agents, you have under date of November 15, 1905, issued a supplemental letter as to non-participating plans? A. Yes.

Q. And in brief the purport of that is what, to raise the commissions on non-participating business? A. Somewhat, yes, sir.

Q. To make them more nearly approach the commissions on participating business? A. Yes, sir.

Q. Prior to that time it was to the advantage of the agent not to write non-participating business? A. Exactly.

Q. And the participating business paid you a larger premium? A. The participating business, yes, sir.

Q. Although the surplus results had not been as anticipated? A. I must say that during the last year there has been a tendency to writing a larger line of non-participating business generally in the companies.

Q. And what has been the reason for that—has that been a general disappointment with results on dividends in participating business? A. To some extent, I must say.

Q. And in this circular you have given the agents an additional advantage in non-participating business? A. Yes, sir.

Q. Well, you refer to this year, to the result of the agitation this year? A. To some extent, yes.

Q. Growing out of the Equitable trouble? A. Very largely.

Q. With regard to agent's bonds, do you treat those as assets? A. No, sir, we do not.

Q. What do you do at the end of the year when you have a large amount of agents' balances and you wish to make a good showing by your report, do you get in a temporary payment and then loan out money again to the agents? A. We have our agents pay up their balances as fully as they can.

Q. At what time in the year? A. In December.

Q. Then do you in January make increased advances to them? A. Usually less amounts.

Q. Well, take—— A. Not in January, but the——

Q. Early in the year? A. Early in the year.

Q. In other words, if you were to take the agents' balances as they exist, say on the 1st of December in a given year, and as they exist on the 1st of March the following year, there would not be much difference? A. Well, that would depend upon the condition of the agents.

Q. But if you took them on December 31st and compared them with the 1st of December there would be quite a difference? A. Yes.

Q. Frankly, is it not the point that they are encouraged to give you payments in December, and in that way free a certain amount for your cash balance? A. It is the usual practice, yes, sir.

Q. Which otherwise would be treated as a non-admitted asset by the Department? A. Yes.

Q. To what extent does that go, do you get checks from them which you treat as cash at any time? A. Yes.

Q. Do you get checks from them on the 31st day of December sometimes which you carry over? A. Or before.

Q. Do you take checks which you treat as cash which do not go through the banks? A. Well, very seldom. I do not think that our cash in the office—that would be cash in office ever exceeds $20,000.

Q. It appears from your report for 1903 that the amount of agents' debit balances were $235,333.23, and the amount of agents' balances for 1904 were $77,005.77. What was the explanation of the difference? A. We charged off the difference.

Q. You mean charged to profit and loss? A. Yes, sir.

Q. They were not reduced by giving any cash at that time? A. No, sir. Is not that correct, Mr. Hubbard?

MR. HUBBARD: Yes.

Q. Can you give me a statement by months of the amounts of your monthly debit balances to agents for a period of five years? A. Yes, sir.

Q. If you will have that for me on Monday morning, and also a statement that I asked with regard to that real estate.

MR. GILBERT: Let me know exactly what you want, and I will have it.

MR. HUGHES: If five years imposes too much of a burden on you in that respect——

THE WITNESS: It would be quite a task.

MR. HUGHES: Make it two years, and that will answer our purposes. Make it from January, 1903, to November, 1905, the monthly balances of the agents, and that will answer the purpose.

Before we go, will you state, Mr. Moir, whether the Blue Book figures are correct of the premiums received, payments to policyholders and expenses and total disbursements.

MR. MOIR: The expense item certainly was incorrect. That was given correctly in a statement filed with Mr. Hughes.

MR. HUGHES: Have you the data which will enable you to state the total your company has received from its organization in premiums, and the total it has paid to its policyholders?

MR. MOIR: No.

MR. HUGHES: Have you no records which will enable you to state that?

MR. MOIR: Not to my knowledge, in the company. We must have some sort of record which will state it, but I do not know it.

MR. GILBERT: Mr. Hubbard says he will give you a statement of that on Monday morning, Mr. Hughes.

THE CHAIRMAN: The Committee will now take an adjournment until Monday morning, December 18, 1905, at 10:30 A. M.

ALDERMANIC CHAMBER,

CITY HALL, NEW YORK CITY.

December 18th, 1905.

The Committee met pursuant to adjournment, Senator Armstrong in the chair.

HENRY MOIR, resumed.

BY MR HUGHES:

Q. Have you prepared a statement of the total receipts from premiums and payments to policyholders from the organization of your Society? A. Yes, sir.

Q. (Handing paper): Is that correct? A. Yes, to the best of my knowledge.

Q. Where did you get the data for that statement? A. Principally from the reports to Departments.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 724.)

Mr. Hughes read Exhibit No. 724.

Q. How much of this is the legal reserve, that is, how much of the $7,926,128 is the legal reserve? A. About seven millions and a few thousand dollars over.

Q. Have you got the exact figures—$7,174,431? A. Yes, that is so.

Q. And the difference between $7,926,198 which you say are the admitted assets now held for protection of policyholders and $7,174,431 is the surplus as of the 31st of December, 1904? A. That is right.

Q. Have you a statement of the mortality of your company exclusive of the mortality of the first policy year? A. I have.

Q. Do you include the mortality of the first policy year in making a computation of your surplus earnings? A. No.

Q. Why not? A. Because the policy contracts provide that the first year shall be excluded in every case.

Q. From the computation of surplus? A. Yes.

Q. Here is a sample policy of your company. Please point out the provisions of that effect? A. In the current policy form it takes the form of being one-year term insurance and thereafter renewable.

Q. You mean preliminary term? A. Preliminary term.

Q. And in your former policies it took what form? A. I will read the exact form.

Q. Yes, give me the provision under which you claim the right to exclude that? A. (Indicating.) That has already been read in evidence.

Q. You refer to policy form of January, 1887, of what class—well, you have given me the Owen policy which has been read in evidence? A. Yes.

Q. 75 per cent. of the insurance portion of each annual premium paid hereon, excluding the first year.

Q. You mean the reference of 75 per cent. of the insurance portion of each renewal premium indicates that you are not to take into consideration the mortality rate of the first year in computing surplus? A. Yes.

Q. Is there any other language upon which you base that construction? A. The language is somewhat similar in all the old policy forms.

Q. Is the language from which you deduce this method or the right to employ this method of computation the reference to the 75 per cent. of renewal premiums and the subject of deposit as a death fund? A. It explicitly excludes the first premium for all computations.

Q. Where? A. By providing for the renewal premium.

Q. When you say it explicitly excludes the first year's premiums, you mean it does so by the use of the word renewal premiums in connection with the provision for a deposit of 75 per cent. to constitute a death fund? A. Yes, that is right.

Q. Have you the mortality rate exclusive of the first year (handing paper.) Is that a correct statement? A. That is correct.

MR. HUGHES: I will read it.

1890-1	1.100
1891-2	1.086
1892-3	1.049
1893-4	1.182
1894-5	1.202
1895-6	1.211
1896-7	1.225
1897-8	1.153
1898-9	1.350
1899-0	1.065
1900-1	1.034
1901-2	1.010
1902-3	1.066
1903-4	1.091

Q. What do those figures mean? A. They give the ratio between the actual losses and the expected losses for the years stated.

Q. Then the actual losses were in 1890 to 1891 10 per cent. more than the expected? A. That is right, yes, excluding the light mortality of the first year.

Q. You have presented a statement with regard to the expenses of 1904. Is that accurate from your books? A. Yes, accurate from the gain and loss exhibit.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 725.)

Mr. Hughes read Exhibit No. 725.

Q. What was the class of policy upon which the loadings were high which had been considerably reduced in amount? A. The five-year combination term policy.

Q. You remember a case of a policy on the life of Isaac Shapira, No. 29,771, issued April 25th, 1889? A. No, I have no recollection.

Q. You have had considerable correspondence in regard to that policy, have you not? A. I am not aware of it. I do not remember the name at all.

Q. It appears on April 25th, 1899, there was issued by your company on the Shapira life a policy at the annual premium of $192.50. It appears that this amount was paid annually for nine years, when there was an increase to $240.63; that this rate was raised annually until 1903, when the rate was $488.60, the policy being in amount $5,000. A. That policy must have been a very old life.

Q. That policy must have been a very old life, you say? A. Yes.

Q. (Handing paper.) Looking at this policy, which I understand was issued on the surrender of the original policy and dated back, would you find the age at which the assured originally took his policy? A. He was aged 59 in 1889.

Q. And the policy which is in your hands was dated back to 1889 and issued in exchange? A. Yes.

Q. For $5,000? A. Yes.

Q. Now I have here what I understand is a schedule of rates which you gave per $1,000, which would be the rates paid by Shipira under his old policy had he continued it (handing paper). These are the maximum rates which could have been charged.

Q. These are the maximum rates which could have been charged? A. Yes.

MR. HUGHES: I offer this in evidence.

(Paper marked Exhibit 726.)

Mr. Hughes then read Exhibit No. 726.

THE WITNESS: I cannot swear to the accuracy of those figures.

Q. I understand that this came from your company. You can make any correction if on looking at it you find there is any inaccuracy? A. Yes.

Q. Now, this was an insurance taken in 1889, the policy was in amount $5,000, and in 1903 was $488.60 or $122.15 a thousand? A. $5,000 policy—$97.72 per thousand.

Q. On a five thousand dollar policy. Now, what was the age of entry—59? A. 59 in 1889.

Q. And the maximum amount that could be charged at age 73 was how much? A. By this table $145.20.

Q. Now, it was actually possible under that form of policy that

Mr. Shapira, had he retained it and reached age 80, would have been compelled to pay in the neighborhood of $1,300 a year? A. That is so.

Q. And your explanation of that situation is what? A. That the mortality rates at age 80 are very high.

Q. Now, this was started as a policy upon which it was not expected that premiums would be increased at all? A. Oh, yes, they were certainly expected to be increased.

Q. It was expected that the surplus gains would be sufficient to meet any extra cost of insurance as age progressed? A. No; the most favorable statement I have ever seen is that the surplus gains were expected to maintain the premiums level during the expectation of life, a man at age 50 would not be expected to reach 80.

Q. What would be his expectation? A. 14.7 by the American table.

Q. That would bring him up to about 73? A. Yes, nearly 74.

Q. And he starts in with the payment on $5,000 of $192.50, and at 73 the maximum payment which he could be compelled to make was about $700? A. Yes.

Q. So that although he might be expected to pay these premiums charged in the policy through his expectation of life according to the provisions of the policy on which you rely you would have been entitled at any time to increase the rates during his expectation, and on the expiration of his expectation of life he would have been paying something over seven hundred dollars a year, which in the next few years would have run up to an amount as high as thirteen hundred dollars? A. Yes, and those are the maximum rates and that table, as I say, I cannot swear to.

Q. You can have that, and if there is any correction to be made in it I would be glad to have it.

Q. But you know that he did get insurance at the original rates for nine years out of the fourteen?

Q. Now, when you gave him this insurance in exchange for the policy that you had, you took the face of the policy and scaled it to what amount—I am referring to 1903? A. By the reserve value of this policy there was a division.

Q. What amount was that? A. That I cannot say, I am afraid I have not the table here necessary to show it.

Q. About thirteen hundred dollars, wasn't it? A. That would seem a reasonable figure. Was the exchange made April, 1903?

Q. Yes. A. Then the reserve should have been—at that time —$2,142.

Q. And the face of his policy would have been what amount—I mean the net amount of his new policy would be what amount? A. The difference between $5,000 and $2,142.

Q. In the neighborhood of three thousand dollars? A. Yes.

Q. And the difference you have mentioned as the amount of the reserve constitutes a lien upon the policy? A. Yes.

Q. Does that run with interest? A. Yes, that runs with interest.

Q. Interest at what rate? A. 5 per cent.

Q. Down to 1903 the insured had paid $3,852, had he not, under the old policy? A. I presume that this statement is correct.

Q. And under the new policy he has paid amounts to bring the total payments, exclusive of interest, up to about $4,500? A. That is about correct.

Q. About $4,500 he has paid to date, and he says he has got insurance of about $3,700, and that is figuring the lien of $1,300. If you are right in the amount of the lien it would only be three thousand dollars? A. That is so.

Q. And he has got to pay to maintain the insurance $312 a year from now on? A. Yes, sir.

Q. That is an illustration of the way that insurance of that class results? A. This is a most unusual exchange—it is such a case as I have never seen before. I personally have not seen that case.

Q. Why is it unusual? A. First the age of the life is older than the usual ages of entry and the exchange is made to a non-participating form dated back, and a form which does not provide for the additional benefits which most of the exchange policies do.

MR. HUGHES: You had better look up the history of that policy, and let me have any facts which should be taken in connection with it by way of explanation.

Q. Were you ever engaged as an actuary in Great Britain? A. I was.

Q. For how long a time? A. Well, as an actuary about ten or twelve years. In life insurance for fifteen or sixteen years.

Q. With what company were you engaged as actuary? A. The Scottish Life Insurance Company of Edinburgh.

Q. What is the practice of the English companies with regard to the payment of dividends? A. The system there is entirely different from what it is here.

Q. In what respect? A. The surplus is ascertained at periodical intervals, most commonly five years. When the surplus is ascertained at a five-year period, the greater part of it, sometimes every dollar of it, is distributed, and distributed by fixed rules amongst the policyholders according to the amount of their policies and the number of premiums they have paid.

Q. Explain this a little more fully. You say it is distributed by fixed rules. How are the fixed rules? A. The rules are generally incorporated in the charter of a company. For example, one company may have a statement that the surplus may be distributed as an addition to the sum assured, payable in the event of death. Another company may have a similar provision which is called the compounding. That is that the surplus calculations made not only on the sums assured, but on the sum assured and previous additions. Other companies again have a provision for allocation in cash; but that is more unusual and less popular.

Q. Do the companies ascertain exactly the amount of their gains for the periods in question? A. They are under no obligation to put up any specific reserve. The fixing of the reserve is, therefore, left in their own discretion, and when that is fixed the difference between that amount and the assets in hand represent the surplus.

Q. They then set aside what they think is a sufficient guarantee fund, and they rely upon the publicity that is given to their operations as the safeguard—as a sufficient safeguard? A. That is so.

Q. Now, having determined what they think is a sufficient reserve, do they take their actual assets and figure the actual surplus over and above that reserve? A. They do.

Q. And actually distribute that surplus? A. They do.

Q. The whole of it? A. Generally the whole of it. Some companies have provisions for distributing, say, ninety-five per cent. to the policyholders and five per cent. to the shareholders, or ninety per cent. to the policyholders and ten per cent. to the shareholders.

Q. And they distribute this either by allowing insurance, or in some cases by cash distribution? A. In some cases, comparatively few, by cash distribution. The common way is to distribute it as paid-up life insurance as an addition to the face value of the policy.

Q. Which they notify the policyholder at the time? A. Yes, sir. Of course, in these cases the notification to the policyholder is received some six months after the actual date of allocation, because the distribution is made at the end of the year, the 31st of December, and the notification to policyholders probably won't come out for several months after.

Q. Are there distributions in less period than five years? A. Some companies—I think there is only one company that makes an annual distribution—some three annually, and some quinquennially, and some seven years only.

Q. What is the company that makes an annual distribution? A. The Prudential of London, I remember, is one, and that is the only one I remember.

Q. Is the business of the Prudential of London largely non-participating? A. No, sir; it is largely industrial.

Q. And participating? A. And participating.

Q. Have many companies failed abroad, in Great Britain? A. In the last thirty years I think there have been none.

Q. They have failed? A. Yes. In 1870 or 1871 there were one or two very bad failures, and that caused the passing of the Life Assurance Companies' Act at the time.

Q. How do the premiums abroad compare with those here? A. The participating premiums are a trifle higher, I think. I have statistics of that elsewhere, but I have not got those with me. The non-participating premiums in this country are lower, I think.

Q. Is there any difference with regard to the part that dividends play in the operations of the company? A. I think there is. Companies there are judged more largely by their dividends than they are here.

Q. Is it true that in Great Britain the company figures out about what dividend it wants to pay, and makes its rates and manages its business in order to reach the results desired? A. Yes, sir. That is one of the main differences between the actuarial system in this country and in Great Britain.

Q. Indeed, it is the goal there, and here it is the accident, or incident. A. I would not call it an accident here.

Q. It is not accident insurance—incident, it is an incident. A. There the custom is to make the premiums equitable as between the policyholders of different ages, and so forth, and have the distribution by fixed rules. Here there is not the same trouble taken to make the premiums equitable as between policyholders, but the equity is introduced in the distribution of the surplus.

Q. What do they do over there to make premiums equitable between policyholders—what do you mean by that? A. They usually add a loading to the net premium for expenses, and thereafter add a certain amount to provide the class of bonus which the charter of the company provides for.

Q. That is the class of dividend? A. Class of dividend.

Q. So after paying the loading for expenses they add another amount on the calculation of what they will want to pay in dividends. A. That is so. Usually they pay more than they calculate upon in that way.

Q. What are the agency methods in Great Britain? A. Entirely different from the methods here. Most companies have some hundred agents who possibly write one or two policies each year, and possibly write none. They are not professional agents.

Q. They must be engaged in some other lines of business? A. They are engaged in other lines of business, bankers, solicitors, even little grocers in little country stores have agencies for life insurance companies. They write very few policies personally; many of them know little about the way to write business; and they are assisted by an inspector of agents from the home office, an official, or branch official, who goes about and gets introductions from these men to various policyholders and help them write their business.

Q. Does the business increase very much from year to year? A. Not in anything like the volume that it has increased in this country.

Q. What is the proportion of the number of policyholders to the population of Great Britain as compared with the State of New York for example? A. That is an economic question I have not refreshed my memory on.

Q. How are agents compensated? A. Commissions only.

Q. What are the usual commissions paid? A. From one per cent. on the face value of the policy to 1½ per cent. for the first year's commissions; thereafter 2½ per cent. of the premiums they collect. Occasionally, but very occasionally, they get five per cent. on the premiums they collect.

Q. How would they compare with the first year's commissions in this country? A. Well, that is from ten to fifteen dollars a thousand, which would be about from 50 to 60 per cent. I think on the first premiums on smaller forms of policies. But the great difference is when they write endowment policies which carry higher premium rates they get the same fixed commission based upon the sum assured. They therefore don't get anything like 60 per cent. on premiums on the policy forms which carry large rates.

Q. Is it a fact that most of the companies pay $10 a thousand? A. Most companies do.

Q. And that would be about 50 to 35 per cent. of the first year's premiums? A. That would be about 50 per cent. of the first year's premiums on life policy at a young age and decreasing percentage as the policyholder gets older.

Q. I mean on the average premiums? A. On the average premiums I think roughly 30 to 35 per cent. of the average premium would be about right when you include the higher form of participating policy.

Q. What about endowment. I did not understand what you said about endowment? A. If an endowment requires a premium of $50 a thousand, $10 a thousand is only 20 per cent. And here the custom would be to pay about 50 or 60 per cent. of it.

Q. Is that same plan used in Australia? A. I understand it is.

WILLIAM E. STEVENS, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. You are the Secretary of the Provident Savings Life Assurance Society? A. Yes, sir.

Q. How long have you been secretary of the company? A. Twenty-eight years.

Q. What are your duties as secretary? A. Do you want me to detail them all?

Q. Briefly. A. I have so many matters in detail I have charge of.

Q. Briefly. A. I look more or less after the investments; I pass on all applications for insurance after being approved by the medical department. I sign policies, checks and various matters of that kind; attend all meetings of the committee and directors.

Q. Have you been for some years concerned with the preparation of the annual statements of your company to the Insurance Department? A. Not of late years, no, sir.

Q. Well, who prepares the statements now? A. They are prepared by the bookkeeper with the help of the comptroller and I believe under the direction and general oversight of the President.

Q. Don't you have anything to do with it? A. Nothing to do except to sign statements.

Q. You sign statements? A. Yes, sir.

Q. Are you familiar with the real estate portion of your company? A. Not closely, no, sir.

MR. HUGHES: Will you withdraw, Mr. Stevens, please.

WILLIAM N. ELBERT, resumed:

BY MR. HUGHES:

Q. Mr. Elbert, it appears that in 1897 your company was the owner of the following properties: Six story brick and stone building 80 by 150 feet and part of lots 1, 2 and 3 in block No. 11 in the City of Waco, Texas, recorded May 18th, 1889, McLellan County, Book 65, pages 618, 619 and 620. That is referring to the record of the deed. When did your company acquire that property? A. Which property is that? What year did you say? That was acquired by building in 1889.

Q. Have you a statement of that property (witness produces paper). That building was an office building which you erected in 1889? A. Yes, sir.

Q. And it cost your company $145,448.53? A. Yes, sir.

Q. You have added to that betterment value cut stone $50,000. When did you make that addition? A. The cut stone was given at the time the building was erected and was appraised and valued $50,000 and therefore it was added to the cost of the property.

Q. That is what you referred to the other day? A. Mr. Scott.

Q. Is that entered in your books as a part of the cost? A. That is entered in the books as a betterment of the property.

Q. Now that was carried in your report of 1897 at a book value of $200,000. It appears from your statement of that year that you booked in income and profit on Waco, Texas, real estate of $56,527.97. A. Income?

Q. Under the head of income profit and loss you say Waco real estate $56,527.97. What is that? A. That is a betterment of the property in accordance with the terms of an official appraisal—it really amounts to a little more than that. That is properties—I was not employed by the company at that time and am not particularly familiar with the transaction, but as I have it that was added and warranted by the official appraisal which was made at that time.

Q. In other words, in your statement for that year you enhanced your profits for that year by adding to the value of the Waco real estate over what it had previously been carried on your books, the sum of $56,527.97? A. That appears to be correct.

Q. Now in your report of 1898 you added another $25,000 to your income of that year by reason of profits on Waco, Texas, real estate. That was the same real estate, wasn't it? A. That one year I have just testified. The next year because of the $253,000—if you will notice that statement that covers all years prior to 1900, that statement which I showed you.

Q. Pardon me a minute; let us get this definite. In 1897 you marked up the Waco real estate, this property you have mentioned and increased your profits to the extent of $56,527.97. In 1898 in your statement to the Department you marked up the same real estate and increased your profits an additional $25,000? A. I am not sure of that.

Q. Look at the report. A. I cannot say from these reports. I never saw them.

Q. You see them now? A. Yes, sir; but I could not say what that is for.

MR. GILBERT: That is so, Mr. Hughes; that is so.

MR. HUGHES: Of course it is, why doesn't the witness say so, it is before him in black and white.

THE WITNESS: Because I was not in charge of the property at that time.

Q. I ask you to look at the sworn report of your company and tell me if that was not the fact according to that? A. I see, sir.

Q. The next year in 1899 the income or profits rather of your company were increased by the further marking up of this same property in Waco, Texas, $26,980.50? A. It appears to be the same, sir.

Q. Now by that time you had got the property up to the full appraised value of $253,406? A. That is right.

Q. And that is making the book value equal $243,406? A. That is right.

Q. The amount actually spent by your company upon the property was $145,448.53 and the residue of this increase was for the cut stone betterment and for the enhanced value reflected by your appraisal? A. Of course the value of the cut stone was actually $50,000; if we bought it we would have had to pay that for it. Therefore the property really cost $195,000.

Q. It did not require an outlay by your company to that extent? A. That is right.

Q. The outlay was $145,000, but the point of the enhancement which you took credit for I have stated was due to the cut stone, and the rest was due to the bringing of the property up to appraisal that you had obtained. Is that right? A. That appears to be so, sir.

Q. Now, that was carried the same in 1900 as in 1899. Now in your report for 1901 I find that while the book value of this property remains $253,957, the value of it is put at $225,000. Was the difference taken account of as a loss in your statement? A. It must have been, sir; I don't know.

Q. Did you dispose of that property in 1902? A. Yes, sir.

Q. How did you dispose of it? A. In exchange for property at No. 532 and 534 Broadway, and for 80 and 82 Wooster Street, of this city.

Q. Then did you get it back again, I mean the Waco property? A. Yes, sir.

Q. How did you get it back? A. I believe it came back by an amicable foreclosure; I was not familiar with the details of it.

Q. Let us get at the details of it. You exchanged the Waco property for 532 and 534 Broadway, in 1902. What were the terms of that exchange? A. The terms of that exchange were that the property was sold at a valuation of $100,000, so far as I know.

Q. That is, the Waco property was treated at that value? A. Yes, showing a profit of six thousand dollars.

Q. What was the Broadway property taken at? A. The Broadway property was calculated at $215,000.

Q. How was the difference made up? A. The Wooster Street property, $45,000.

Q. Then did you get any mortgage in the transaction? A. I believe there was. The mortgages are not under my charge and I cannot testify.

Q. How did you get a mortgage in that transaction? A. The money must have been loaned back.

Q. Loaned to whom? A. To the person who exchanged, I presume.

Q. If you took equal value, where does the mortgage come in; do you know anything about it? A. No, sir.

MR. GILBERT: They made a loan on the property.

MR. HUGHES: Made a loan upon the Waco property?

MR. GILBERT: Yes.

Q. To whom was the loan made on the Waco property?

MR. GILBERT: What date?

THE WITNESS: 1902.

MR. HUGHES: This year, when it was sold or exchanged, 1902.

MR. GILBERT: I think it was to a man by the name of Henry H. Peters.

Q. Who is Henry H. Peters, do you know anything about him? A. No.

MR. HUGHES: Withdraw for a moment; Mr. Gilbert, will you take the stand?

WILLIAM T. GILBERT, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. You are counsel of the Provident Savings Life Assurance Society? A. I am.

Q. Have been so for ten years? A. Nine years.

Q. Are you familiar with the transactions relating to the Waco property referred to in the reports of 1897 to 1900 inclusive, as a six-story, brick, stone building, in the City of Waco, Texas? A. I am.

Q. What was the loan made upon that property in 1902? A. I think it was $125,000, but I can verify my memory. (Referring to report.) $125,000.

Q. When was the loan made? A. Made at the time of the exchange of the properties.

Q. Was the person who borrowed the money concerned with the exchange? A. He was the owner who made the exchange. In other words, he was a dummy that represented the real owners, as I understand. I do not know Peters.

Q. There was an encumbrance on the Waco property at the time of the exchange? A. None whatever.

Q. And you took full value in the Broadway property for the Waco property, and then made a loan on the Waco property to the one from whom you had received the Broadway property, or someone representing him? A. That is a fact.

Q. How long was it after you made the loan when you foreclosed it? A. I do not think there was any foreclosure of that.

Q. How did you get the Waco property back? A. It was conveyed back.

Q. By whom? A. By Peters.

Q. And how long after the loan was made by the company? A. I think on the first default of interest.

Q. Was interest in default on the first instalment? A. On the first instalment, to my recollection.

Q. Then it was conveyed back? A. I want to ask you a question, Mr. Hughes—I do not want to violate my duties as a lawyer—whether it is right for me to testify on information received from my client?

Q. Your client is here silent, and apparently acquiescent. A. I am perfectly willing to give all the information I have if they will consent.

MR. HUGHES: Is there any objection?

MR. SCOTT: We will explain it satisfactorily, and he may give the benefit of his knowledge.

Q. Was this property conveyed to the company in payment of the loan? A. It was.

Q. Was that within two weeks or three months of the time of the making of the loan? A. It was six months.

Q. It was within the same year? A. It was within the same year, yes.

Q. By the report of 1902, it appears now the same property is acquired in 1902, and the book value is $204,697.20. A. Those are the figures.

Q. Look at them and see if they are correct. A. Yes, sir.

Q. How is that the book value; is that the cost? A. I could not tell you how they get at the book value.

Q. What was the amount of the mortgage? A. $125,000, according to my recollection.

Q. If it was deeded to the company in payment of the mortgage, that would be the cost, would it not? A. I presume so.

Q. Did the company pay any additional moneys? A. No, none whatever.

Q. Did it get the property for $125,000? A. Plus the interest.

Q. Plus the interest in default on the first instalment? A. Yes.

Q. How is this book value of $204,000 arrived at; you have no idea of that? A. I suppose it must be by assimilating the value to the value of the appraisals.

MR. HUGHES: That is all, Mr. Gilbert.

WILLIAM N. ELBERT, resumed.

BY MR. HUGHES:

Q. How is this book value, $204,697, arrived at? A. I do not know, sir.

Q. You were comptroller of the company at the time of this report in 1902? A. I am superintendent of real estate, but not comptroller.

Q. I beg your pardon. Superintendent of real estate. How was the market value of $205,000 arrived at? A. I should say it must have been done in accordance with Mr. Gilbert's testimony. Beyond that I have no idea, sir.

Q. How was it that this same property was valued in 1900 in your report at $253,957, in 1901 at $225,000, and in 1902 at $205,000? A. Well, 1902 it was naturally explained by that being the cost of the property, and returned to the company.

Q. No, this is a matter of market value I am speaking of, which, as your reports show, is quite a different thing from cost, because it took a couple of years to bring up the book value to the market value of $253,000. How does it happen that the next year the market value is put at $205,000? A. I imagine in accordance with the official appraisals received by the company.

Q. Do you know that you had an official appraisal? A. I think there was; yes, sir. I am sure of that. I have not it.

Q. Did you, as superintendent, have to do with this real estate? A. Simply in connection with the management of the property and the collecting of rents, and so on.

Q. In connection with the management of the property did you after 1902 collect the rent of this property? A. Yes, sir.

Q. Have you a statement of the rents collected? A. Not in a statement form; no, sir.

Q. Did you collect the rents during the whole year of 1902? A. Yes, sir; I think so.

Q. Without a break? A. That is from the time it was acquired again?

Q. Let me see what statement you have of that matter? A. Of which?

Q. Of the rents. A. I have no statement of those rents, sir.

WILLIAM T. GILBERT resumed.

BY MR. HUGHES:

Q. What is the explanation of this difference in value between $253,000 alleged market value of 1900, the $225,000 of 1901 and the $205,000 of 1902 on the same property. A. In 1898 the property was appraised at the request of our Insurance Department by appraisers appointed by Jefferson Johnson, Commissioner of Insurance of Texas, at $253,000. At the time of the examination in 1901 by the joint Texas and Tennessee Departments, Mr. Jefferson Johnson had the property again appraised and at that time at the figure stated there.

Q. At $205,000? A. Yes.

Q. What was the date of that appraisal? A. In August, 1901.

Q. 1902 you mean? A. 1901.

Q. 1901. Appraised at $205,000? A. I think it was $205,000 or $225,000.

Q. Which was it? A. That is what I am trying to find myself. I did not suppose you would ask me these questions, that is why I did not prepare myself.

Q. You seem to be the best informed, so I have to ask you. A. I will give you all the information I can. I will verify that. (After consultation with Mr. Scott.) My recollection now is, Mr. Hughes, that Mr. Johnson did not send us on those appraisals. We just took the results—found out what they were appraised at from the result of the examination.

Q. When did you find it out? A. In 1901.

Q. Why did you not put it in your report for 1901? A. I cannot answer that question.

Q. You have market value at the end of 1901 $221,000? A. Yes.

Q. Although you had an appraisal of it at $205,000? A. No, $225,000.

Q. You had an appraisal of $225,000? A. Yes.

Q. Why did not you put it at $225,000 in the report of 1902 instead of $205,000? A. I cannot tell the reason why.

Q. Don't know anything about that? A. No.

Q. Where did the company get the information for making up the report of 1902? A. My information is that their representative was here conducting the examination and gave us the information.

Q. Did the property actually fluctuate in value $20,000 that year? A. I do not think so.

Q. Now, in 1903 the value is put at $220,000. It goes up from the $205,000 to $220,000. What is the explanation of that? A. The value of the cost, of the market——

Q. The market value? A. The appraisal was $225,000 and I suppose they could carry it at anything below the appraisal they thought proper.

Q. When they are swearing to the market value? A. I cannot answer that question. I do not know.

Q. As a matter of fact they took credit—— A. That is 1903.

Q. Yes, took credit for the $15,000 increase in market value in the report of 1903. A. Yes.

Q. Now, in 1904 the property is put up another five thousand dollars, and is valued at $225,000. A. 1904?

Q. Yes. A. I do not find it in 1904.

Q. There (indicating). A. Yes.

Q. And the company took credit for that five thousand dollars? A. Yes.

Q. As a profit made—— A. No, beg your pardon.

Q. Well, I mean as an excess? A. No, beg your pardon.

They carried the properties in the report at the book value, not at the market value.

Q. But in your statement you took as a part of your assets the excess? A. Not in this statement.

Q. Pardon me, excess of market value over book values, do you not? A. Only where we have taken advantage of them.

Q. What? A. Let me verify it again.

Q. Market value over book value, $18,000? A. Yes, I guess that is a fact.

Q. Yes, you do that right along? A. Yes.

Q. Now, have you any explanation other than you have stated for the fluctuation in the values of this Waco property as stated in your report? A. I have not.

Q. I should like to have the appraisal that you refer to as having been made in 1901. Have you had any more recent appraisal? A. No, sir, not that I know of.

Q. Now I find here in the report of 1897 the following property: Four-story brick and stone building, 90 by 60 feet, lot 10, First Tything, Reynolds Ward, City of Savannah, Georgia, recorded in Register's office of Chatham County, Book 6 Y. S. Pages 398-391? A. Yes.

Q. In your statement of 1897 you took credit as a profit during the year on account of the Savannah, Georgia, real estate of $18,436.24. That refers to the real estate I have mentioned? A. Yes.

Q. That credit was by marking up the book value of the property the amount I have stated? A. $16,000——

Q. $18,000. A. Yes, that is right.

Q. Did you have an appraisal of that property? A. We did.

Q. Have you got it here? A. Yes, sir (producing paper).

Q. The appraisal you speak of is as follows——

MR. HUGHES: I will offer it in evidence.

(Paper marked Exhibit 727.)

M. Hughes read Exhibit No. 727.

Q. Have you the amount that property had cost your company? A. $83,107.26.

Q. What was the date? A. Of course where I make these answers it is not from personal knowledge, but from records furnished me.

Q. What was the date of the acquisition? A. I could not say. It was prior to 1897.

Q. So having property which cost $83,107.26 in 1897, the propeerty was marked up $18,436.24? A. Right.

Q. You did not have this appraisal at that time in 1897? A. Not from the date of it apparently.

Q. No, you did not have any, did you? A. Yes, there must have been appraisals, but that is the only one I have seen.

Q. In 1898 the property was left at the same amount and in 1899 that property was marked up again and profit taken in the transactions of the year at $19,464.37? A. Right.

Q. When did you dispose of that property? A. In October, 1901.

Q. Before it went up in 1901 it was marked up once more $8,722.39, was it not? A. I fancy that must have been some alterations in the building.

Q. Do you think so? A. Yes.

Q. You think that is the fact? A. Yes. It is not on this list.

Q. Yes, but it happens to bring it up to the appraisal you got shortly after? A. I cannot swear to it. I did not remember that.

Q. I call your attention to the fact that at the statement of December 31st, 1901, puts the market value at $129,301? A. Yes.

Q. And that is the amount shown by the appraisal you have furnished me of November 14th, 1900? A. Yes.

Q. Thereupon you at once took credit in your report for the difference between the book value as previously enhanced and the said appraised value by an addition of $8,722.39? A. That appears to be the case.

Q. Now in 1901 the property was disposed of? A. Yes.

Q. In what manner? A. In part exchange for the Earlington.

Q. What is the Earlington? A. The property on West Twenty-seventh Street.

Q. Who was the other party to the exchange? A. Mrs. Alice Gill.

Q. Who represented her? A. Her counsel.

Q. Now did she appear in her own name in the transaction? A. Yes.

Q. What were the terms of the exchange? A. The exchange of a piece of property at Englewood, a piece of property at Mamaroneck and the Savannah property, and cash.

Q. What were those properties put in at, and what was the amount of the cash? A. Englewood was put in at $10,000, Mamaroneck at $50,000 and Savannah at $150,000 and $43,063.52 in cash.

Q. What property did you get? A. We got the property on West Twenty-seventh Street known as the Hotel Earlington.

Q. What was the total amount of the consideration you paid in the properties so sold and exchanged? A. $253,063.52.

Q. Was 50 West Twenty-eighth Street acquired at the same time? A. No, that was acquired later.

Q. In the same year? A. In the year, yes.

Q. What did you say was the total amount you paid? A. $253,063.52.

Q. How was it you entered the Twenty-seventh Street property in your report at book value $327,063.52? I refer to the report of 1901? A. Apparently there was an enhancement of $70,000.

Q. How an enhancement? A. As the difference between $253,-000 and $323,000 is $70,000.

Q. You mean as soon as you bought it you put a profit on your books of $70,000? A. That appears to be the case, that is, it was in the following December.

Q. When was the date you acquired it? A. I cannot give you the exact date—it was the 16th of September—I think the title was closed on the 9th of September.

Q. In 1901? A. Yes.

Q. Your report was December 31st, 1901? A. Yes, sir.

Q. Savannah went out in September, 1901. When did it come back? I am referring to the same piece of property in Savannah? A. About a year afterwards, I think.

Q. From whom did you get it? A. Mrs. Alice Gill.

Q. What did you pay for it? A. We cancelled the mortgage. I think that was all.

Q. What mortgage? A. The mortgage on the property.

Q. To whom did you make the mortgage? A. Mrs. Alice Gill.

Q. For what amount? A. $70,000.

Q. At the time—— A. Let me have the report. The mortgage is reported there on the last page of the 1901 report.

Q. You mean a mortgage from Mrs. Gill to the company on a loan by the company to Mrs. Gill? A. Yes, sir. $85,000.

Q. How long after that mortgage was made did you get the title back? A. About a year, I should say. I cannot give you the exact date.

Q. How long was the interest paid? A. I think one payment of interest.

Q. And then Mrs. Gill defaulted? A. Offered to give us back the property.

Q. Offered to deed you the equity in consideration of the cancellation of the mortgage? A. Yes.

Q. And that showed the property at a cost to you of $85,000? A. Yes.

Q. And you entered it upon your books at what book value? A. I could not tell you.

Q. What was the year in which you got it back? A. 1902, I should think.

Q. It does not appear in 1902? A. I do not think it appears in any of the reports anywhere.

Q. It should, if you acquired it? A. I think not. We could sell it again.

Q. It appears in 1903, the same property in Savannah? A. Then I am apparently wrong as to my statement. Mr. Gill did not give it back as soon as I supposed.

Q. Yes. In 1903 the property in Savannah, and the same property to which I have already referred, appears to be owned by your company, and the book value is put at $202,431.94? A. Yes.

Q. How was that figure arrived at? A. I cannot tell you. Probably in the same way.

Q. By an enhancement? A. Probably.

Q. Marked up on acquisition over and above the amount of the mortgage for which you took it? A. It appears to be so.

Q. Then there is a market value stated there of $110,000. Where did you get your market value? A. From appraisals.

Q. Was it not agreed to make the property worth $110,000 at that time when it appeared from the other appraisals to be worth $109,000? A. I suppose the difference of the appraisers.

Q. Personal equation? A. Yes.

Q. What became of that property after that time? A. I think it is held on mortgage still.

Q. You must have deeded it to somebody. You got the title in 1903. To whom did you transfer it? A. That is what I am looking for.

Q. Well, in May, 1904, was it? A. Yes, that is right.

Q. To whom? A. It was exchanged for 534 and 536 Broadway.

Q. 536 and 538 Broadway? A. Yes, sir.

Q. With whom did you deal in that transaction? A. What was the name of the party? Walter S. Jones.

Q. The same parties with whom you had dealt—the same party you had dealt with in connection with 530 and 532? A. No, it came from three different sources.

Q. You treated that on what terms? You put in the Savannah property for how much? A. $175,000.

Q. What did you get the Broadway property for or at what amount? A. $272,200.

Q. How was the difference made up? A. The Englewood property was put in at $12,000, the Auditorium Waco at $75,000.

Q. Is this the same Englewood property or different? A. No, the same one.

Q. It came back? A. Yes, when Mrs. Gill cancelled one, she cancelled all three. Savannah $175,000 and $10,200 cash.

Q. Was there a mortgage in connection with that transaction? A. There was.

Q. For what amount? A. $70,000 on the Savannah property.

Q. What was the date of that mortgage? A May, 1904.

Q. Has it been foreclosed? A. It is under foreclosure now.

Q. The property has not been deeded back to the company. A. No.

Q. When was there a default in interest? A. I started the foreclosure last May, I think it was, some time.

Q. Then properties 534 and 536 Broadway—was that it? A. 536 and 538.

Q. Came in in 1904. A. Yes.

Q. At what value? A. It came back at what value?

Q. Yes, those properties came in and you took them at what value; that is, what was the value according to the properties you gave in exchange? A. $272,200.

Q. And what was the value of 530 and 532 Broadway when you acquired them? That is, the cost to you, taking into consideration the value of the properties given in exchange? A. 530 was $144,911.79.

Q. And 532? A. $275,000.

Q. And the other three? A. No——

Q. 534, 536, 538? A. $275,000 is the first three I gave you. 530, 532 and 534. And then 536 and 8——

Q. What are 536 and 538, those last acquired? A. Those are the first ones. I gave you $272,200.

Q. Making a total of $690,111, is that right? A. It seems to be.

Q. And in your report for 1904 you put those in at a book value of $954,145.51? A. Apparently so, yes.

Q. What is the explanation of the difference? A. I can give no explanation of it. I do not know, sir. It would appear to be a case of marking up.

Q. Marking up the values so that you took a large profit on those Broadway properties—— A. Well, there is one explanation you can make——

Q. As soon as you obtained them? A. Of course, when you —there is a certain value added to the property by having the three pieces in one ownership, what real estate men call plottage, and that went in.

Q. You took plottage on that? A. Yes.

Q. And enhanced it in value? A. The plottage was appraised at sixty thousand dollars.

Q. Sixty thousand dollars? A. I will just say one word in explanation about that last piece of property. But before the society owned the two on the corner of Spring street and Broadway—and 534 and 536 runs around into Spring street, so it completely surrounded the old property—and by the acquisition of that it gave the company the title to a big tract of land, about 125 feet square.

Q. And you thought the value of the plottage, or having all in one ownership was about sixty thousand dollars? A. That is what the real estate men thought.

Q. That makes a total of $752,000, but still it is two hundred thousand dollars short of the book value of December 31st, 1904, as contained in your statement. A. That appears to be a case of marking up, as I said, Mr. Hughes. I do not prepare the reports; I am only giving you my best information.

Q. And the amount of that enhanced value went into—— A. Profit and loss account.

Q. Went into your statement for the year and to that extent enhanced your profits? A. Yes. It did not bring it up to the appraised value of the property.

Q. I see that it did not, but you have here a valuation of $995,000. A. Whatever it is there.

Q. On December 31st, 1904? A. Of course, I take your word for it.

Q. And you took credit for the market value over book value in your report? A. We undoubtedly must have.

Q. First in your report you put in the book value? A. Yes.

Q. Then you put in a separate item of excess of market value over book value? A. Yes.

Q. So that when you enhance the book value you get an increase in the total of your assets accordingly? A. Certainly.

Q. Then when you take the market value in its excess over book value you get an increase in your assets or profit for the year accordingly? A. Certainly, that is what it is done for, I suppose.

Q. Now, a little back we found a reference to a Mamaroneck property. How did you acquire that property? A. Under foreclosure, I believe.

Q. What was the amount of the debt for which you took it? A. I could not give you the exact amount. It was made to secure an agents' indebtedness, and I could not give you the exact amount. What was the amount of this, Hubbard? I think it was just under, or just about twenty thousand dollars; that is my best recollection.

Q. It appears that you acquired that property in 1900. Does that accord with your memorandum? A. That is about my recollection, yes. I have no memorandum about it.

Q. Nine hundred and sixty-four thousandths acres of ground, with two and one-half story frame house, stable, Mamaroneck, Westchester County, New York? A. Yes.

Q. Having acquired that on foreclosure for a debt of twenty thousand dollars, approximately, as soon as it was acquired was put in at a book value of forty thousand dollars? A. That appears to be the case.

Q. It was marked up immediately on its acquisition? A. Apparently so. Of course, they had appraisals for that. I have seen the appraisals at that value, and I suppose everybody knows that a sale under foreclosure does not produce the best estimate for the value of a piece of property.

Q. If you carried your real estate on your books at cost, and then in your reports took credit for the excess of the claimed market value over cost, that would be one thing. A. Yes.

Q. As a matter of fact, you start in the first instance by increasing your book value and then take also the excess of appraised value over book value? A. As I said to you the other day, the commissioners themselves make the distinction between book and cost value.

Q. Well, book value is whatever you carry it on your books? A. Yes.

Q. And usually it means cost, does it not? A. Usually it seems to be the same, but as the commissioners make a difference, I suppose the company has to be governed by their rules.

Q. To whom do you refer by the commissioners? A. The commissioners of the different States.

Q. No commissioner has made a ruling that there should be included in the book value an amount in excess of the cost of the property? A. No, but a commissioner has made a distinction between the cost and book values, and in the blanks he sends out he strikes out the words book value and puts in the words cost value.

Q. He may have in mind the importance of having a definition of the amount paid. A. And, of course, if he had called for the cost value the company would have reported it. It all comes down to the question of the value of the property in the final end, and the other appears to me to be a matter of bookkeeping.

Q. Of course, an excess of market value over what appears to be cost is not as striking if the book value itself has been previously enhanced? A. That is true; it enables it to be hidden a little bit.

Q. The Mamaroneck goes out in 1901. That is when you disposed of it? A. Yes. Wait, and I will give you the date. I was trying to find where it went to.

Q. I think you mentioned it in one of the trades to which you referred in connection with either the Waco or Savannah property? A. Yes, it went into the Earlington.

Q. At what value, $50,000, was it not? A. My recollection is it was $40,000.

Q. I think you read $50,000 a minute ago. A. I think it was forty thousand. The best answer I can give, Mr. Hughes, is that I think it went into the $40,442.17.

Q. When did you get it back? A. At the same time with the rest of the property.

Q. That is from Mrs. Gill? A. Yes.

Q. When you got back the Savannah property. A. Yes, sir.

Q. Did she give you a separate mortgage on the Mamaroneck property? A. Yes, three separate mortgages.

Q. What was the third piece of property? A. The Englewood.

Q. What was the amount of the mortgage that she gave you on the Mamaroneck property? A. Mamaroneck, I think it was $20,000 or $25,000.

Q. And on the Englewood? A. I think it was five thousand.

Q. How long was it before you took the Mamaroneck property? A. All three came back at the same time.

Q. What is the explanation of that transaction? A. Well, the explanation, what I had in my mind in the matter was, that we owned these three pieces of property, one a small house in Englewood, which was acquired from an old mortgage held for a long time; we held this farm, practically a farm, in Mamaroneck, and the building in Savannah, and it was felt by the officers of the company that if there was any possible way by which those properties could be consolidated into a piece of property in New York, where it would be under the supervision of the officers and where they could run it themselves and have their own officers in charge of it, it would be that much better for the society.

Q. And that was the reason for disposing of it? A. That was the reason for disposing of it.

Q. When you disposed of them, what was the reason for loaning on them? A. It was one of the requirements of the sale. You cannot find every day a person who will buy a piece of property down in Savannah, Georgia, here in New York, you cannot.

Q. So the whole thing was arranged at the time of the sale? A. The conditions of the sale, yes.

Q. So it was arranged that you should make the trade and that you should loan certain amounts of money on each parcel? A. Yes.

Q. And then that you should take the equities in the properties in cancellation of the mortgages. A. Yes. That was not a part of the terms of the trade. Each time, or both times, we hoped we had gotten rid of the property.

Q. When you made the mortgage—— A. We took—I took back the property to save myself the trouble, and the company the expense of making a foreclosure.

Q. The net result was you paid out how much money on these parcels? A. We paid out the amount of the mortgages and the cash on the transactions.

Q. And the total of the three mortgages was how much? A. On this one transaction?

Q. Yes. A. $110,000.

Q. And by the payment of $110,000 you acquired the properties again? A. We acquired the properties on Broadway—that was the Earlington—we acquired the Earlington on Twenty-seventh Street.

Q. In discharge of the mortgages for the $110,000 you got the properties back? A. Yes.

Q. So the net result was you paid $110,000, and how much extra cash did you pay for the Earlington? A. I do not think there was any extra cash for the Earlington. There was not any extra cash for the Earlington.

Q. There was not? A. No.

Q. All then that you paid was in these mortgages? A. Yes.

Q. It would be just the same if you had kept the Savannah, Englewood and Mamaroneck property, and given $110,000 for the Earlington? A. The result would have been the same, but with this distinction. The purpose was to get rid of those undesirable out of town properties.

Q. But you at once made mortgages upon them? A. Yes, we had to. We hoped they would not come back and had no idea they would come back when we took the Earlington.

Q. And for which you had to take them back? A. Yes, sir.

Q. You did not anticipate that at all? A. No.

Q. Are you right in saying that you did not pay anything in cash for the Earlington? A. $43,063.52 apparently. My attention has been called to it. As I said, Mr. Hughes, I am only giving the best explanation I can from these certificates, supported by my own recollection.

Q. We merely want the facts and will assume what you state is correct until the contrary appears. What is the date of that again? A. That was September, 1901.

Q. So that by putting up the money on the mortgages upon the three parcels conveyed and the $43,000 paid in cash, you in effect paid $153,000 for the Earlington property? A. Right.

Q. And that was the property consisting of four lots? A. On Twenty-seventh Street.

Q. On Twenty-seventh Street? A. Yes.

Q. And in December, 1901, you put that in at a book value of $323,000? A. Yes.

Q. The market value that appears in these statements is the market value of the interest that the company has in the property? A. Yes.

Q. How could it be possible that you could acquire in September, 1901, a property on a cash payment in effect, of $153,000, which had a market value of $375,000, as stated in that report? A. They put in the properties too; we put in the Savannah property—we deeded the Savannah property. You are taking the hindsight——

Q. I am taking the results. A. You are taking the hindsight, and we acted only with foresight.

Q. I am looking at the fact that within a few months you had the Savannah, Englewood and Mamaroneck properties back, and were out the $110,000. A. Yes, that is right.

Q. Together with the $43,000? A. Yes, that is right.

Q. And it was a part of the arrangement that Mrs. Gill should get the $110,000? A. Yes.

Q. Looking at it from her standpoint as the owner of the property, she was content to let it go? A. She was very much disappointed.

Q. In getting $153,000 in cash? A. She thought she should do better with the property.

Q. The whole matter comes to the point that through this you are enabled to make a more satisfactory showing in your report. A. That is the net result, but that is not the purpose of the transaction. It came before the Finance Committee, and it was to get rid of these undesirable properties scattered through the country.

Q. We find a large number of properties acquired in 1901, according to the 1901 report. A. Those are the Robinson and Tully properties, according to my recollection.

Q. I wish you would go through those properties and tell me how the book value in the report of December 31st, 1901, compares with the actual amount of the cost of those properties. A. 50 West Twenty-eighth Street. The book value of the Twenty-eighth Street property, apparently is $10,687.40, above the cost value. I cannot answer your question, Mr. Hughes, about the next piece of property. The Robinson property, the next piece, on Eighteenth Street, was acquired at a cost of $52,746.74.

Q. And it is put in at a book value of what amount? A. The same amount.

Q. No increase there? A. No, no increase there, and it was sold—do you want to know that?

Q. No, not at present. Just get the increases. A. Those are taken for annuities and my recollection is they were bought —That item there appears to be—there are two items there—appears to be—the next to enhancement advance of $22,500, those two items (indicating).

Q. $22,500. So on the premises which you acquired in that year, 1901, your book in your annual statement and in your books a profit in the same year of how much in all? A. In the neighborhood of $100,000 according to the report.

Q. That I understand was actually entered in your books? A. I suppose so.

Q. In other words book value means you have taken that profit on your books as though it were realized? A. I suppose so, undoubtedly.

Q. Now, in 1902—we have already referred to the properties on Broadway which you acquired? A. Yes.

Q. You also acquired in that year Wooster Street property, did you not? A. That came with the Broadway property as part of that—I think that was in 1902.

Q. In 1903 you acquired certain properties on One Hundred and Thirteenth and One Hundred and Twelfth Street? A. Those are annuities.

Q. And also One hundred and Sixth Street? A. Yes.

Q. Was there any enhancement there the same year it was taken? A. I should say not in those figures. Those are the annuity propositions.

MR. HUGHES: Now I will read upon the record certain extracts from the reports of the Provident Life Assurance Society showing profit and loss items.

1897 under the head of income during the year 1897.

Profit and loss agencies........................ $101.34

Waco, Texas, Natatorium Company shop.........	2,000.00
Waco, Texas, real estate.........................	56,527.17
Savannah, Georgia, real estate...................	18,436.24
Total	$77,065.55

From the report of December 31, 1898, under the head of income profit and loss.

Waco, Texas, real estate.........................	$25,000.00

From the report of December 31, 1899, and under the head of income for the year 1899, profit and loss, Waco, Texas, property.................	26,985.50
Savannah, Georgia, property.....................	19,464.37
Total	$46,444.87

From the report of 1900 under the head of income for the year 1900, profit and loss, real estate, Mamaroneck, New York....................	$16,000.00
Real estate Tunica, Mississippi..................	6,558.37
Total	$22,558.37

Report of 1901 under head of income profit on sales of real estate..............................	$145,786.27

From that time on the real estate and other securities are not separated. In the report of 1902 we have the item under the head of income profit of sales of matured or ledger assets $149,533.28.

From the report of 1903 we have items under the head of income profit of sale of matured ledger assets $63,637.99.

Report of 1902 we have the item profit on sale of matured ledger assets $238,005.35.

Q. Was Mrs. Gill the owner of the property to which you have referred? A. Yes, sir.

Q. Who was the person behind Mr. Peters in the other transaction? A. Boehm & Coon.

E. W. SCOTT resumed.

BY MR. HUGHES:

Q. Mr. Scott, have you a statement of the amounts paid back by agents in December, 1903, to re-advance to 1904? A. I think so; yes, sir (producing paper).

MR. HUGHES: I offer it in evidence.

THE WITNESS: That is for the third year, Mr. Hughes.

(Paper marked Exhibit 728.)

Paper read in evidence by Mr. Hughes.

BY MR. HUGHES:

Q. Now, from this it appears that in December, 1903, the agents' balances bonded were $50,000 and unsecured $235,333.33. Are these the balances at the end of the month mentioned? A. Yes, sir; the end of each month.

Q. What is meant by bonded advances? A. Those are balances secured by a surety bond.

Q. What company—any particular company? A. Yes; the National.

Q. How does it happen that they are secured by surety bond? A. Well, that was obtained, if you will observe there, some time back.

Q. And apparently it has run right along $50,000 from December, 1902-3? A. Well, with the exception of two or three small changes. None since December, 1903.

Q. None since December, 1903? A. No.

Q. What is the nature of those bonds? A. It is a guarantee for the repayment of the individual balances.

Q. What is the consideration to the surety company for the guarantee? A. I think about $100; I won't be positive about that.

Q. Do they hold collateral? A. No, sir.

Q. Who arranges the guarantee? A. The comptroller.

Q. Of your company? A. Yes.

Q. How is he able to effect the guarantee of an indebtedness of $50,000 without collateral upon the payment of $100? A. Well, whatever the premium is; I won't be positive about that; but these are all accounts where the renewal premium will liquidate the amount within two or three years.

Q. Does the surety company hold an assignment of the renewal premiums? A. Yes, sir.

Q. So you were not quite accurate in saying they were without collateral? A. They have my individual guaranty.

Q. They have your individual guaranty. So that the $50,000 by reason of that transaction in your guaranty is admitted as an asset by the Department? A. Yes, sir.

Q. And hence is distinguished from the other item of agents' balances which are not admitted as assets by the Insurance Department? A. Precisely.

Q. And I suppose the purpose of having a guaranty is to secure the admission of the assets? A. Yes, sir.

Q. And your company arranges that for the agents? A. Yes.

Q. It appears that on December 31st, 1903, the unsecured agents' balances amount to $235,333.33? A. December, 1903?

Q. December, 1903—didn't I say that? And it appears that at the end of November, 1903, they amounted to $388,468.78. What is the explanation of the difference? A. The difference was paid off.

Q. Paid off during December? A. Yes, sir.

Q. Then again in January, 1904, they ran up again to $301,158.36, and in February to $328,379.97, and in March to $374,363.76, and so on. The fact is you get in or you did get in in December, 1903, as much money as you could so as to reduce the amount of your unadmitted balances? A. Precisely.

Q. And then in 1904 you advanced it again to the agents? A. Yes, sir. That is, not altogether a readvance where there are commissions, advanced contingent commissions ten per cent. is charged in there; that is not a readvance.

Q. How much of it is the amount which goes back to the agent? A. Oh, possibly seventy-five per cent.

Q. In other words about 75 per cent. I don't know that I understand it—what is the 75 per cent.? A. If an agent pays off, we will say ten thousand dollars, or a thousand ——

Q. In December? A. We may not reloan any amount of it or we may reloan fifty per cent., twenty-five or sixty, according to the exigencies of his requirements.

Q. So that from 50 to 60 or 75 per cent. of the amounts that come in in December are advanced again in January or soon after? A. The first two or three months.

Q. The object being to get in the moneys for your annual report? A. Exactly.

Q. Now, it appears that at the end of November, 1904, the agents' balances were $466,000 unsecured? A. Yes, sir.

Q. And at the end of December only $77,000? A. Yes, sir; $206,000, I think was the amount, was charged to profit and loss.

Q. $206,000 charged to profit and loss at what time? A. In December.

Q. What agency was that? A. Well, various.

Q. That is not one transaction? A. No, several; wiped out entirely.

Q. That had been carried for some time? A. Some time; yes, sir.

Q. And after $206,000 had been charged to profit and loss there remained about $260,000 of unsecured balances, and that was renewed by payments to about $77,000? A. Yes, sir; that is right; that is the amount carried in our books.

Q. And you carried $77,000 among your unadmitted assets at the end of 1904? A. That is right.

Q. And in January and February you readvanced to bring that up to $97,924 in January and $115,000 in February? A. And so on.

Q. Now, have you at any time taken checks or balances at the end of the year which you have carried as cash, though they have not been banked? A. No, sir.

Q. Have you at any time taken certificates of deposit that you have carried over the year for the purpose of preventing the exclusion of assets as agents' balances? A. I don't know that I understand you.

Q. Have you ever had amounts come in in the shape of checks from agents where you have taken and deposited them, and taken certificates of deposit against them, and then released them after the first of the year by surrendering the certificate of deposit and paying the money back? A. No, sir; I do not recall any.

Q. Have you had in your company what is known as the local board plan of insurance, or insuring a number of men for considerably large amounts on the understanding that they would get a share in the renewal commissions upon those subsequently admitted to the class? A. There was an arrangement of the kind prosecuted by one of our Western agents.

Q. For how long? A. I don't know but two of them. Some months. Let me say a word. Years ago, some years ago, it was quite common for companies to organize in different localities and centres what was termed local boards.

Q. Yes. A. Having the idea of influencing business in their respective localities. That dropped out of sight, discontinued, and we had an enterprising agent come to us who wanted to re-establish the system in a different way, and as an experiment we gave him permission to do it. I think it was in Montana—one of the far Western States.

Q. Did it amount to anything? A. No; we discontinued it.

Q. How long ago was that? A. A year and a half. I saw there was a possibility of misrepresentation and misunderstanding.

Q. In your annual report you have among your non-admitted assets premium notes or loans of premiums and net premiums in excess of the net value of policies. In taking the excess of premium notes over reserve do you take the total of the notes, and the total of the reserve as the basis of computation? A. I think so; yes, sir.

MR. GILBERT: Oh, no, never that.

Q. They seem to think that you fell into an error. A. I would like to be informed. What is the question?

Q. The question is whether you take the total of the reserve and deduct it from the total of the notes or each individual case? A. Oh, no, each individual case.

Q. You compare the reserve with the note and then take the total of the amount so arrived at? A. Each individual case is treated.

Q. And that has always been the case? A. Yes, sir.

Q. What is the Waco Natatorium stock? A. That is before my day, Mr. Hughes; it came to us as a legacy.

Q. I find from an examination of your schedule of purchases, that on December 31, 1900, you purchased from Stewart Brown, sixty-two shares of the North American Trust Company stock, at 229, and that on February 21, 1901, you sold to Stewart Brown sixty-two shares of the same stock at 229. What was that transaction, and what was its purpose? A. I think the Comptroller can explain that clearly, Mr. Hughes.

Q. Did you have anything to do with it? A. No, sir.

Q. You don't know anything about it? A. I don't know anything about the details.

Q. The arrangement was not made with you? A. I don't think so, personally, no, sir.

Q. I note under date of January 2, 1900, in your collateral loan sheet, a loan to Stewart Brown upon sixty-seven shares North American Trust Company, $16,075, and a loan on February 21, 1901, of $15,369.87, upon sixty-two shares of the North American Trust Company, and on March 30, 1901, $18,090 loaned to Stewart Brown on sixty-seven shares North American Trust Company. Are you familiar with those transactions? A. No, I do not recall the circumstances, sir.

Q. The amounts paid by your company for traveling expenses do not appear to be segregated in the present form of the report. Do you know what amounts were paid out by your company for traveling expenses last year? A. I could not tell you without referring——

Q. Can you tell approximately? A. It would be a mere estimate, Mr. Hughes.

Q. Well, what amount in 1904 was paid out for traveling expenses of yourself personally? A. 1904?

Q. Yes, last year. A. I don't know as I can state the exact amount.

Q. Would it be a large amount? A. Not so very large, no, sir.

Q. Approximately what would it be? A. A thousand dollars, perhaps.

Q. I find in the report for 1900 where traveling expenses are separately stated, an item of $29,405.55. Can you tell me how much of that was for traveling expenses of officers, approximately? A. I cannot, Mr. Hughes.

Q. You are unable to give the information offhand upon that point? A. Yes, sir.

MR. HUGHES: I should be glad to receive a statement. You can send the Committee your statement what the traveling expenses have been for the last four or five years.

Q. I asked you a question the other evening with regard to the increase in the expenses of your company, as compared with the increase in the insurance outstanding. Calling attention to the fact that the expenses in 1900 were $1,260,000, in 1904, $1,684,000, while the insurance outstanding in 1900 was $102,000,000, and in 1904, $101,000,000. Can you give an explanation of that increase? A. In expenses?

Q. Yes. A. Well, the premium income had doubled.

Q. No, pardon me; the premium income was $3,421,000 in 1900, and $3,659,000 in 1904? A. No, I think that is wrong, Mr. Hughes.

Q. What is Mr. Scott's statement? A. The renewal commissions would be somewhat more.

Q. Have the items of salaries, bonuses, rents of offices, I mean, I am not—I am not speaking of salaries of officers—salaries of agents, bonuses, rents of offices, advances and so forth increased? A. I think the expenses of the Medical Department, perhaps, has increased about eighty-five thousand dollars—approximately about a hundred thousand dollars during that time.

Q. What is the explanation of that? A. I will tell you. We have appointed a staff of inspectors throughout the country, have re-organized our Medical Department entirely. We have increased our agencies there and the agency force; we have established a system of cashierships at all the principal offices.

Q. That has been quite expensive? A. That has been very expensive.

Q. When was that begun? A. Well, that was begun two or three years ago.

Q. The expense which has increased with your company then has been notably the agency expenses? A. Medical Department, clerical salaries have advanced—have been increased.

Q. Why have you found it necessary to increase your expenses in your Medical Department and in connection with your agency work? A. Re-organizing the medical staff throughout the country—re-organizing the agency department throughout the country; the old agents of the company were educated along the term insurance lines, and they had to be re-instructed; new men—a great many new men had to be secured. You may say, Mr. Hughes—allow me right here——

Q. Mr. Dawson informs me that there are in your expenses for 1904, the following items that do not appear in your report of 1900; that is, the latter report contains no corresponding items:

Paid up for claims and supplementary contracts, not involving life contingencies....	$81,536.00
Taxes on real estate....................	41,196.60
Repairs and expenses other than taxes on real estate..........................	158,714.96

It is not a question whether they are small or not, it is a question whether you had corresponding items. It seems to me that the suggestion was an error that there were corresponding items that were not as large, because you did not have as much real estate? A. Did not have as much real estate.

Q. On the other hand, you were getting in as income supposedly a rental sufficient to justify large valuations of real estate; so that there is no reason for calling attention to the repairs and expenses on real estate and taxes on real estate, as explaining the increase in your expenses. If you had invested wisely in real estate you ought to have had a net gain instead of increased expenses. A. If you will allow me to say a word on that point I will be very glad.

Q. At the same time it is fair to call attention to the fact that the totals of your expenses would increase as your investments in real estate and your taxes, and expenses, and repairs in connection therewith increased. That is what Mr. Moir meant?

MR. MOIR: I thought you were referring particularly to insurance expenses other than insurance expenses in the ordinary sense.

Q. I was taking the total amount of the expenses of the company. A. As a whole?

Q. And you desired to explain that part of the increase is due to the fact that you had invested largely in real estate and there was an increase of expenses over and above what you were put to when you did not have such investments in real estate? A. Yes, repairs last year were quite considerable. Now, as to expenses, may I say a word?

Q. Yes. A. In taking over the Provident Savings it was equivalent to starting a new company, except for the nucleus that was there. It had to be re-organized inside and outside: it required a very large expenditure to do that. We have made that expenditure, and I think we have made it wisely, because we have the company to-day on a going basis; we have improved on our ratio of mortality; we have a medical staff equal to that of any other company; we have an agency staff equal to that of any other company. I think our competitors in the business will give us credit for that. Now, as to the real estate. I think that we are entitled to some credit. This country property was a legacy to the present administration. We tried to get rid of it; we have made these various exchanges that you have listened to this morning. We have got to-day nine pieces of property, and if you will allow me I would like to give you—I say as to those nine pieces of property I am perfectly willing to submit them to the severest test in respect to valuation from the first to last. Now, we have a piece of property which has entered into this discussion, 330 West Eighteenth Street. The rate per cent.—the net rents now are reading 13½ per cent. A little piece in Owensboro, Kentucky, which is scarcely worth mentioning, only valued at four thousand dollars, 6 per cent.; 80 and 82 Wooster Street, 7 7/8 per cent.; 530 to 538 Broadway, inclusive, 2 13/16 per cent.; The Provident Building, Waco, 4 3/4 per cent.

Q. Do you own that now? A. We do.

Q. When did you get it back, you sold it in the early part of the year? A. No, we took it back.

Q. I knew that, but I thought you had disposed of it again? A. No, sir, we have made no further effort to do so, because as a local investment I think it is a good one for the company, having large business down there. The property in 112th Street, book value $77,400, is paying us 8½ per cent.

Q. Is that net? A. That is net, Mr. Hughes. On the net rent. Corner of 106th Street and Amsterdam Avenue, 6 1/8 per cent.; and East Seventeenth Street, 7 5/8 per cent.—or a total of 4 3/4 per cent net. Then we come to 35 Nassau Street, which has been mentioned.

Q. By the Metropolitan? A. That is a transaction of which I am personally proud. It gave us an opportunity to concentrate our holdings scattered in there. Of course we all know what that property is. That property will stand on its merits, and there is no getting away or beyond its true value. To illustrate, to-day we have not a vacancy in that building, not one, and we are getting two dollars and a half a square foot.

Q. What are your net returns? A. With the expiration of two leases in May, I think it is next, it will be 5⅝ per cent.

Q. What is it now? A. Well, a fraction lower than that. For instance, there is one lease, $4,800, we have been offered $10,000 on renewal. Another at $26,000, and we have been offered $25,-000, and I want $60,000.

Q. Are you insured in the Provident? A. I am, sir.

Q. Have you received any commissions upon this insurance? A. I did.

Q. From whom? A. I think from one of the agents.

Q. When were you insured, and in what amount? A. Some years ago.

Q. I what amount? A. $25,000, I think.

Q. Is that the total amount of insurance you have? A. In the company?

Q. Yes. A. Yes, sir.

Q. What commissions did you receive, or do you receive? A. I think it was 60 per cent. I received no renewal.

Q. Are you insured in other companies? A. That is a non-participating policy.

Q. Are you insured in other companies? A. I am.

Q. Have you received commissions upon policies in other companies? A. I do not recall any because the bulk of my insurance I have had for a good many years.

Q. How many years? A. It will average fifteen, perhaps.

Q. Have you received any commissions upon any in other companies? A. Not that I recall, no, sir.

RALPH K. HUBBARD, resumed.

BY MR. HUGHES:

Q. I call your attention to a loan of January 2nd, 1900, of $16,075 to Stewart Brown on 67 shares of North American Trust Company stock as collateral. Do you remember the making of that loan? A. I did not make the loan; I was appointed comptroller in January, 1901, but I was familiar with the transaction.

Q. That is all I want, if you are familiar with it. You are not in any way responsible you mean? A. Not at all, sir.

Q. What was the transaction? A. The transaction was that the acquiring of that 62 shares of stock, and the company taking credit for it, was an entire mistake in bookkeeping and should not have appeared in our holdings as 62 shares.

Q. What was that? A. Repeat your question.

Q. I think you have said the acquiring of the 62 shares and taking credit for it as a holding was an entire mistake? A. Yes, sir.

Q. Why was it a mistake—mistake of bookkeeping—why was it a mistake? A. Just a plain unintentional bookkeeping mistake.

Q. What was the error? Did you make a loan to Stewart Brown on January 2nd, 1900, of $16,000 upon that collateral? A. We did.

Q. Now, at the close of the year on September 28th, 1900, it appears from your record of purchases that you bought 67 shares from W. H. Taylor, Vice President—was he Vice President of your company? A. No, sir.

Q. Of what company was he Vice President? A. I presume of the North American Trust Company.

Q. Sixty-seven shares—were those the 67 shares? A. Yes, continued right along.

Q. Those are the same 67 shares you held as collateral for the loan? A. Oh, no, sir.

Q. What do you mean when you say there was some mistake made—what was the mistake? A. I was answering the question that I thought you put to Mr. Scott—that 62 shares of stock.

Q. You are referring now not to the 67 but to the 62? A. The 62.

Q. Now, let us get the 67 straight first, then we will go to the 62. The 67 shares were held as collateral for a loan made to Stewart Brown made January 2nd, 1900? A. Yes.

Q. What became of that transaction, that 67 shares? A. It was paid off, the loan was paid off.

Q. When was it paid? A. December, 1900.

Q. Was it made again? A. It was made again the following year.

Q. It was paid off at the end of the year 1900? A. And remade in January or February.

Q. The collateral surrendered and payment back? A. The collateral was not surrendered. That accounts for the mistake.

Q. You held the collateral and cancelled the loan? A. Yes.

Q. What was the object of that? A. It was not an object, Mr. Hughes.

Q. Simply a mistake? A. Simply a mistake.

Q. Well, on December 31st, 1900, it appears from your purchases that you bought from Stewart Brown 62 shares of North

American Trust Company. Was that 62 a part—that was part of the 67? A. Yes, sir.

Q. That had been collateral? A. Yes, sir.

Q. Did you make any such purchase? A. No, sir.

Q. Did you pay Mr. Brown any such amount? A. No, sir.

Q. It appeared in the annual report of the company for that year? A. Yes, sir.

Q. As among the securities owned? A. Yes, sir, which was a mistake.

Q. How could such a mistake arise? A. The office was in utter confusion, Mr. Hughes, in the end of December, 1900, and there was not the same care and attention paid to the preparation of the 1900 statement as there should have been.

Q. Were there other mistakes in it? A. There was, but of no particular moment.

Q. What were the others? A. Well, I could not say offhand. I have not certified the statement, but I may say that Mr. Wright —Walter C. Wright—went over that statement.

Q. Go on. A. Walter C. Wright went over that statement and verified the same with the exception of the mistakes that I have referred to.

Q. When did he go over it? A. In the examination of the company in the middle of 1901.

Q. Then the fact is at the end of 1900 the companies did not own 129 shares of North American Company stock? A. That is the fact.

Q. As stated in the report? A. Yes, sir.

Q. It did not own any shares? A. Yes.

Q. What did it own? A. 67.

Q. How did it acquire the 67? A. Purchased several years ago; I could not give you the dates of it—before that—several years—perhaps in 1899.

Q. Well, that is the 67 that had been bought in 1900 from Mr. Taylor? A. That is it.

Q. They owned that? A. Yes, sir.

Q. But they did not own the other 62 that made up the 129? A. That is right.

Q. Now, at the beginning of 1901 the loan to Mr. Stewart appears upon 67 shares of North American Trust Company stock as collateral was renewed, and it appears that on December 31, 1901, there was a purchase from Mr. Brown of 67 shares. Did that take place? A. That actually took place.

Q. That took place? A. That is correct.

Q. So that when in the end of the next year you reported you owned 134 shares of North American Trust Company that is correct? A. That is correct.

Q. And were the other 67 shares that were purchased at the end of 1901 the same that had been collateral for his loan? A. Yes, sir.

Q. They were purchased by the cancellation of his loan and taking the stock in payment? A. Yes, sir.

MILES M. DAWSON, called as witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Mr. Dawson, have you taken the annual report of the Provident Savings Life Assurance Society and compiled certain statements from them as to the profits made upon their real estate transactions and upon their real estate securities of the results of their business apart from such profits? A. I have.

Q. Are these the statements (showing witness papers)? A. They are.

Q. You believe them to be correct from the reports? A. I do.

Q. They are simply compilations of what appear in the sworn reports of the company to the Insurance Department? A. They are.

MR. HUGHES: I offer them in evidence.

(Papers marked Exhibit 729.)

Q. Just explain what those papers show? A. They show to begin with profit and loss, items including changes in the market values as per statements to the New York Department. Shall I read what the changes are?

Q. If you will take one year as an illustration of the method in which you have arrived at the results; then give the results for the years. A. 1897 the profits were:

Agency accounts	$101.34
Natatorium stock	2,000.00
Waco real estate	56,527.97
Savannah real estate	18,436.24
Sales of securities	5,164,42
Making total profits of	$82,229.97
Losses, agency account	68.83
Collateral loans (Hadley)	60,000.00
Total losses	$60,068.83
Net profits	$22,161.14

Q. That is net profit on the real estate and securities? A.

The net profit, that is in the profit and loss account, as given on the statement.

Q. Now, take the profit made—the amount indicated by the profit and loss statement of succeeding years? A. Yes.

Q. And the losses as indicated by the same statement. You find in 1898 a net profit of $5,636.55. A. Whatever it is there.

Q. In 1899	$63,176.03
In 1900	52,001.89
In 1901	183,998.38
In 1902	199,891.81
In 1903	79,579.55
In 1904	229,107.78

Your next statement is a statement of Gains on Real Estate, as shown by the reports? A. For the various years.

Q. For the various years, the first being gross gains as follows:

1897	$74,964.21
1898	26,296.92
1899	46,444.87
1900	21,280.76
1901	188,535.64
1902	224,287.65
1903	91,031.68
1904	254,233.27

From 1902, the gains on securities and real estate are together and the figures that you have given stand for both? A. They are.

Q. Then you have in your next detailed gains as shown by the report of the company on real estate and securities, net? A. That means with those losses deducted?

Q. With the losses deducted. The statement you have just given is gross, without deducting losses? A. Yes.

Q. These net are the same footings that I have given in the first statement? A. You have already read.

Q. Then you have in the next title the Remainder of Surplus Interest, etc., in Gain and Loss Exhibit, furnished by the company, marked Exhibit No. 70? A. Correct.

Q. Attributable to interest and rent after deducting net gains, real estate and securities, by sales and mark-ups.

1897.	Total under the head of surplus interest, etc., in the report is	$84,800
	And deduction for gains and real estate securities, by sales and mark-ups	22,161.00
	Leaving a remainder of	$62,639.00
1898	Total	$82,539.00
	Deduction	5,637.00
	Remainder	$76,902.00
1899	Total	$89,928.00
	Deduction	63,176.00
	Remainder	$26,752.00

1900	Total	$70,465.00
	Deduction	52,002.00
	Remainder	$18,463.00
1901	Total	$104,668.00
	Deduction	183,998.00
	Remainder, a minus quantity	$79,330.00
1902	Total	$77,725.00
	Deduction	199,892.00
	Remainder, a minus quantity	$122,167.00
1903	Total	$101,375.00
	Deduction	79,580.00
	Remainder	$21,595.00
1904	Total	$357,792.00
	Deduction	229,108.00
	Remainder	$128,684.00

Your concluding statement is the total of the net profits for the year as per the gain and loss exhibit, to-wit: Exhibit No. 709, making the gains exclusive of sales and mark-ups of real estate values of securities, in other words, what the insurance gains would be apart from such enhancements? A. Yes.

Q. As follows:

1897	As stated in Exhibit 709, net profits	$21,395.00
	Gains, as stated	22,161.00
	Remainder, minus	$766.00
1898	Net profits	$408,905.00
	Gains, as stated	5,637.00
	Remainder	$403,268.00
1899	Net profits	$96,628.00
	Gains from real estate	63,176.00
	Remainder	$33,452.00
1900	Net profits	$132,098.00
	Gains from real estate	52,002.00
	Remainder	$80,096.00
1901	Net profits	$222,990.00
	Gains from real estate	183,998.00
	Remainder	$38,992.00
1902	Net profits	$318,743.00
	Gains from real estate	199,892.00
	Remainder	$118,851.00

1903	Net profits	$227,670.00
	Gains from real estate	79,580.00
	Remainder	$148,090.00
1904	Net profits	$116,567.00
	Gains from real estate, etc	229,108.00
	Remaining, a negative quantity	$112,541.00

Your statements will appear in full in the record.

The statements heretofore summarized by Mr. Hughes to be found in the Book of Exhibits, as Exhibit No. 729.

The following papers are marked for identification:

Bank balances October 31st, 1900 to October 31, 1905, Provident Savings Life Insurance Company.

(Marked Exhibit 730 for identification.)

Record of purchases and securities for ten years preceding November 21, 1905. (Marked Exhibit 731 for identification.)

Record of sales of securities same period.

(Marked Exhibit 732 for identification.)

Securities November 21, 1905.

(Marked Exhibit 733 for identification.)

Record of collateral loans October 31st.

(Marked Exhibit 734 for identification.)

Adjourned to 2:30 this afternoon.

AFTER RECESS.

MR. HUGHES: Will you call Mr. Stacey Wilson?

THE CHAIRMAN: Is Mr. Stacey Wilson in the room? He does not appear to answer, Mr. Hughes. Is there any other witness?

MR. HUGHES: Not at present.

STACEY WILSON, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Where do you reside? A. Brooklyn.

Q. How long have you been connected with the Empire Life Insurance Company? A. In different positions since about 1883.

Q. When was the Empire Life Insurance Company organized? A. In 1881.

Q. Under the same name? A. No, the Home Benefit Society.

Q. How long did it do business under the name of the Home Benefit Society? A. Until 1894.

Q. What was the character of the business of the Home Benefit Society? A. An assessment life insurance, sick and accident insurance.

Q. Exclusively an assessment company? A. Yes, sir.

Q. Without capital stock? A. Without capital stock, yes, sir.

Q. Is this a copy of the constitution and by-laws of the Empire Life Insurance Company (handing paper)? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 735.)

(Exhibit 735 will be found in the book of exhibits.)

Q. What led to the reorganization under the name of the Empire Life? A. Well, so many companies that had similar names to the Home Benefit Society went out of existence.

Q. What was done with the insurance in force at the time of the organization under the name of the Empire Life? A. It simply was carried on. We simply had a rider printed which we attached to the old policies.

Q. Was there a re-incorporation? A. No, simply a change of name.

Q. Simply a change of name? A. Yes, sir.

Q. Your company is now under Article VI of the Insurance Laws as an assessment corporation? A. Yes, sir.

Q. And as the Empire Life it has no capital stock? A. No, sir.

Q. Who are the officers of your company? A. Well, Evelyn L. Bissell was the president.

Q. Who is president now? A. We have not elected one. Dr. Bissell died four or five days ago.

Q. Who is vice-president? A. A. Judson Stone.

Q. How long has he been vice-president? A. Since 1893, I think.

Q. Who is secretary? A. I am the secretary.

Q. And you as secretary actively managed the company? A. Yes.

Q. Who is the treasurer? A. George D. Godwird.

Q. How long has he been treasurer? A. He has been treasurer since the organization of the company.

Q. What other employes have you? A. A bookkeeper, clerk, stenographer and cashier.

Q. Any other employes? A. No, sir.

Q. How many clerks have you? A. What I stated, that includes all the clerks.

Q. One clerk? A. We have but one clerk, one bookkeeper and a cashier and stenographer.

Q. What property do you own? A. We don't own any property, sir, only—that is, no real property. We own $5,000 water bonds.

Q. You own $5,000 water bonds of New York City? A. Yes, sir.

Q. Has your company any other assets than those bonds? A. No, sir.

Q. Have you any cash? A. Well, some.

Q. What amount of cash have you? A. Well, less than $5,000.

Q. How much less? A. Probably about $2,000 less.

Q. Where is it kept? A. It is kept in the Nassau Bank and the banking house of Edgar Tripp & Company in Trinidad.

Q. Where? A. In Trinidad.

Q. How do happen to have a bank account in Trinidad? A. Well, he collects premiums there on business that we transferred from another company some years ago, and he holds that money until we call for it at certain times of the year.

Q. What company was this? A. The National Mutual.

Q. Where did it do business? A. New York City.

Q. How does it happen that the man in Trinidad has anything to do with it? A. Well, they happened to write quite a little business in Trinidad and around that section.

Q. Where was that company chartered? A. In New York.

Q. When was it chartered? A. I could not tell you when, but I would assume it was chartered in the neighborhood of 1885 or 1886.

Q. When did your company take over its business? A. 1894.

Q. What was the amount of business you took over? A. Probably about two millions of business.

Q. About two millions of outstanding insurance? A. Yes.

Q. Who is the man who handles that in Trinidad? A. Edgar Tripp & Company.

Q. What proportion of the two million was business in Trinidad? A. A very small proportion, probably—well, there might have been $25,000, or maybe $30,000 worth of business there.

Q. What amounts do you receive from Tripp & Company from time to time, how do they average? A. Probably about every year or a year and a half he sends us $1,000 or $1,500, as the case may be.

Q. Have you any other bank account in New York than the one with the Nassau Bank? A. No, sir.

Q. What is your average balance with that bank? A. Well, it varies. Sometimes we have three or four thousand dollars and sometimes we don't have more than three or four hundred dollars.

Q. What have you now? A. Probably about seven or eight hundred dollars.

Q. Then seven or eight hundred dollars in the Nassau Bank and the $5,000 water bond of New York City constitute your entire assets? A. Yes, or probably the cash on hand or something of that kind.

Q. How much would that be? A. Probably three or four hundred dollars more.

Q. At the end of 1904 how much property did you own, your company, of course, I mean? A. At the end of 1904?

Q. Yes. A. We probably had in the neighborhood—I cannot tell you exactly without looking, in the neighborhood of eleven thousand or twelve thousand dollars.

Q. Of which five thousand dollars was this water bond and the rest were cash balances? A. Cash in different banks at that time.

Q. What are your outstanding liabilities? A. In the neighborhood of—well, roughly, about fifty thousand dollars.

Q. What do they consist of? A. Claims.

Q. Death claims? A. Yes, sir.

Q. Approved as not paid? A. And that are being contested.

Q. What proportion of the fifty thousand dollars consists of contested claims? A. Probably about one-third.

Q. And thirty-three thousand dollars consists of claims uncontested, which have been existing for how long? A. Some a short time, and some a long time. When I say a long time, I mean within a reasonable time.

Q. How long is the longest time that you have permitted a death claim to exist without payment, uncontested? A. From the time of its approval, not more than ninety days.

Q. What was the amount of your outstanding liabilities on December 31st, 1904? A. I think about forty-five thousand dollars.

Q. Against which you had ten thousand dollars of assets? A. Yes, sir.

Q. Now, you have about fifty thousand dollars, with about six thousand dollars of assets. Is there any test of solvency of an assessment company? A. Well, we have—our calls come in on the first of the month. Generally on the first of the month we have a little more money come in to meet these obligations.

Q. Under the law of the State you are not required to keep any reserve? A. Only a reserve, emergency, equal to the amount of one assessment, one mortuary call.

Q. What was the amount of one mortuary call. A. About seven thousand dollars.

Q. Then you have not a reserve at the present time to that amount? A. Yes, sir.

Q. Where is it? A. That we have got, counting what we have got in the five thousand dollar bonds and the cash on hand and the money that is in the banks. We have got enough to cover that.

Q. You have got five thousand dollars and the three or four hundred dollars cash and a few hundred in bank—— A. Seven or eight hundred dollars, probably, in the bank.

Q. How much in the bank? A. Seven or eight hundred dollars, I think, in that neighborhood, maybe a little less.

Q. That would make a total of less than seven thousand dollars. A. Then we have about fifteen hundred dollars coming from Tripp.

Q. You can call on that? A. Yes.

Q. When will you be likely to get it? A. About the first of the year.

Q. What is the amount of your outstanding insurance? A. About four millions of business.

Q. Four millions of dollars? A. Yes.

Q. How many policies have you outstanding? A. Probably twenty-two hundred, from two thousand to twenty-two hundred.

Q. Where do you do business, in what jurisdictions. A. New York, Pennsylvania.

Q. What other jurisdictions? A. And West Virginia.

Q. Those are the only ones? A. Yes.

Q. What proportion of your business is in the State of New York? A. Most of it.

Q. That means seventy-five per cent.? A. Yes, sir.

Q. You have no president at present? A. No, unfortunately he died about four days ago. I went to his funeral last Tuesday.

Q. Prior to his death did he have a salary? A. No.

Q. Did your vice-president have a salary? A. No.

Q. What is your salary? A. Twenty-five hundred dollars.

Q. What is the treasurer's salary? A. Two thousand dollars.

Q. What is the clerk's salary? A. One gets about twenty dollars a week, and the other gets eighteen dollars a week.

Q. What is the bookkeeper's salary? A. Eighteen dollars.

Q. And the cashier's salary? A. Eight dollars.

Q. And the stenographer's? A. Eight dollars.

Q. That is a week? A. Yes, sir.

Q. And that is your entire payroll? A. Yes, sir.

Q. Where are your offices? A. 200 Broadway.

Q. What rent do you pay? A. Seventeen hundred dollars a year.

Q. What were your total receipts in 1904? A. I think a little less than ninety thousand dollars.

Q. Is it seventy-eight thousand dollars? A. Yes, that is right. I was counting the ten thousand dollars or eleven thousand beside.

Q. $78,335 were your entire receipts in 1904? A. Yes, sir.

Q. What were your entire disbursements in 1904? A. Twenty-seven thousand dollars—oh, total disbursements, seventy-nine thousand dollars.

Q. Is this circular issued by your company? A. It was. We are not issuing them any more.

Q. When was that issued? A. Probably three or four years ago.

Q. Well, did you state when your name was changed to the Empire? A. Yes, sir, in 1894.

Q. Have you issued any circular in the last three or four years? A. Yes, sir.

Q. Have you a form of those circulars? A. I think we have got one. It is almost the same as that.

Q. Is this the one you now produce? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit No. 736.)

(Exhibit No. 736 will be found in the Book of Exhibits.)

MR. HUGHES: I will read from this circular some of the provisions as follows:

Pure life insurance at cost.

Empire Life Insurance Company, incorporated 1881, under New York Laws.

Home Offices: 200 Broadway, New York.

Life Insurance under any and all systems consists in collecting from the living to pay the representatives of the dead. A careful perusal of this pamphlet will show that the system inaugurated by this company does this, simply, directly and inexpensively.

Empire Life Insurance Company furnishes the best life insurance. Why? Because it is pure life insurance without strings or misleading technicalities, or doubtful provisions. Because it is pure life insurance at actual cost, no twenty to thirty per cent. added for assets showing.

Because it embraces on the same table of rates both sexes, provided they are of first-class physical health.

Home Office, 200 Broadway, New York.

Then follows a statement of facts worth reading by those who hesitate about joining the Empire Life Insurance Company.

Then a statement of premium rates for each one thousand dollars.

Then comes the following:

Empire Life Insurance Company has paid claims aggregating over one million dollars to the widows and orphans of deceased policyholders. A low mortality makes cheap insurance. Rigid inquisitorial medical examinations by first-class physicians only insures a low mortality. Policy by its terms is incontestable and indisputable except for fraud, misstatement of age or non-payment of premium.

We charge the lowest premium consistent with safety during the productive period of life. You know just what you are to pay, and when it becomes due. The estimated minimum cost to a member in any year is shown by the table.

Premiums may be paid annually or semi-annually by deposit on account, thereby reducing liability of lapsing policy through oversight or absence.

Then follow certain other items which I will not read, and the circular continues:

"The Empire Life Insurance Company, incorporated in 1881, is a company of members united to furnish each other with life insurance for their families, to protect and increase the estate of deceased members, and for the securing of creditors."

It provides safe insurance at the lowest cost consistent with the greatest security upon a purely mutual plan. It is managed and controlled by its members or their duly authorized representatives. It furnishes life insurance at cost with a sufficient reserve fund to guarantee the payment of its claims. No personal liability is incurred by becoming a member of this company. The continuance of a policy and payments are voluntary at the option of the owner. A member can terminate his policy at any time by omitting to pay his premiums as they accrue, and no further liability is incurred by him or by the company to him.

A member who allows his policy to lapse may have the same reinstated at any time within one year by giving evidence satisfactory to the company of good health and payment of all premiums in arrears. Benefits payable under policies issued by this company are exempt by the laws of the State of New York from the debts of the insured, also from the debts of the widow. The Empire Life Insurance Company is purely mutual. No stockholders. All profits accruing year by year are accredited to the policyholders.

Q. You say here it furnishes life insurance at cost with a sufficient reserve fund to guarantee the payment of its claims. What is the sufficient reserve fund to which you refer? A. Well, we estimate that.

Q. What do you estimate it? A. We estimate it at the rate that these members pay on these tables would be sufficient to carry the policy.

Q. What is the amount of the fund which you estimate to be sufficient? A. Well, that is all estimated upon what we will get if there is a sufficient amount to carry the insurance.

Q. What is the amount of the reserve fund which you say you have on hand which you deem to be sufficient? A. We do not say we have it on hand.

Q. You do not mean to be understood as having it on hand? A. No; only the reserve on emergencies.

Q. You say it furnishes life insurance at cost with a sufficient reserve fund to guarantee the payment of its claims. Have you such a reserve fund? A. No; that is the ——

Q. You have not such a reserve fund? A. No, sir.

Q. Why do you issue a circular saying you have one? A. It is estimated, assuming we get sufficient members and they pay those rates, it will be sufficient to pay the cost of insurance, and leave us a reserve.

Q. Then what you mean by sufficient reserve fund is your estimate that you will be able to write business enough to supply moneys to pay claims? A. Yes, and the members will pay us.

Q. But your statement that you have a sufficient reserve fund means that you hope to get sufficient members? A. We have sufficient reserve fund that the law calls for, and we estimate that at the rate those members pay it will be sufficient to meet those obligations and allow sufficient reserve funds.

Q. In other words, your only reserve fund that is sufficient to meet the payment of your claims is in the power to levy assessments? A. Is in the membership.

Q. Is in the membership? A. Is in the membership. Our reserve is in the membership.

Q. Why don't you say it is in the membership. Why do you say you have a reserve fund sufficient to pay your claims? A. Well, that is the way ——

Q. You put it that way to get people to insure, don't you? A. I presume so; yes, sir.

Q. When did you issue this circular that I now hand you, three or four years ago? A. Yes.

Q. How long did you have that out? A. It was out quite some time.

MR. HUGHES: I offer it in evidence.

(Circulars marked Exhibit No. 737.)

(Exhibit 737 will be found in the Book of Exhibits.)

Q. Now, you say in this one, I will read the following: "Reserve or emergency fund. Dividends after five years. Twenty per cent. of the amount received from mortuary payments may be invested or deposited for the benefit of the contributor from which reserve or emergency fund there may be a dividend on the fifth and on each year thereafter, estimated to equal one-half the mortuary payments," Do you set aside twenty per cent. of the amount received from mortuary payments? A. We did. We tried to, but found we had to use part of them to meet our claims, without levying extra calls.

Q. How long did you set aside twenty per cent. of the mortuary payments as a reserve fund? A. Well, we have kept on doing it at different times.

Q. How long did you do it? A. Probably two or three years.

Q. Well, what years? A. Well, 1889, 1890 and 1891.

Q. Did you do it in the last ten years? A. No.

Q. You issued this specially three or four years ago? A. Yes.

Q. So when you issued that you did not set aside twenty per cent. from the mortuary fund? A. Well, we could not because the death claims were too heavy.

Q. And not having a reserve fund you did not give dividends? A. No, sir.

Q. After five years? A. No, sir; until we got $100,000 anyway.

Q. Well, you did not say that in your circulars, did you? A. We say it in our policy which we issue.

Q. You did not say it in your circular? A. I don't know—I think there is something in the circular, too. It is not the circular we are using now. But still—(paper handed witness). No, it is all estimated. There is nothing on that ——

Q. Nothing that would give anyone who is about to insure the idea that did not apply until you got $100,000? A. No, only in the policy.

Q. You say: "Cash surrender values. Fifteen years from the date of the policy the member has the privilege, having given the company one year's previous notice of his intention so to do, of surrendering his policy and receiving in cash his share of the reserve fund accumulations. Thus he will undoubtedly have his insurance for fifteen years at less than half the cost charged by level premium companies and receive back a very large proportion in cash of the comparatively small amount paid out by him for the insurance during said fifteen years, which will operate to still further reduce the cost of insurance he has had. In other words, he will have been protected for fifteen years for a small outlay, and the profit derived from the members of his class who have died or discontinued their policies will provide a sum, which, under the system of the company, will, at the 15th anniversary of his policy, if he desires to avail himself of this provision, enable him to continue his insurance and receive back a large portion of the money he has paid." This is quoted from the Circular Exhibit 737. Do you pay cash surrender values? A. No.

Q. Have you paid cash surrender values in the last ten years? A. No.

Q. Have those provisions I have read in the circular ever been effective? A. No, sir.

Q. You have not collected any profit? A. We have not been in a position to carry out that provision, because we have not been able to accumlate $100,000.

Q. You knew that at the time you issued the circular? A. No.

Q. You knew you did not have it? A. We did not know it.

Q. You did not have the money? A. We had it until the fifteen year period, and then we realized we could not carry it out and stopped issuing those policies.

Q. When did the fifteen-year period start? A. From 1889.

Q. To 1904? A. Yes, sir.

Q. And you issued this in 1901 or 1902? A. Yes.

Q. Did not you know in 1901 or 1902 you would not have any accumulation in 1904? A. No, we did not know. We hoped to be able to carry out the provisions of the policies.

Q. How did you expect to be able to carry out the provisions of policies? A. If we got a sufficient amount of business.

Q. By an increase of business? A. Yes.

Q. What amount of accumulation did you have in 1901? A. I don't know, about fifteen thousand or sixteen thousand, maybe; I cannot tell you exactly, but from fifteen thousand to eighteen thousand.

Q. What did you do with it? A. We used it to meet death losses.

Q. When did you use it to meet death losses? A. At different times as the necessity arose.

Q. Since 1901? A. Yes, sir.

Q. Did you use any of it in 1902? A. Yes, sir.

Q. In 1903? A. Yes, sir.

Q. You still used the circular in those years? A. Yes.

Q. Did you then expect that you would have an accumulation sufficient to pay these amounts in 1904 at the end of fifteen years? A. Well, we had expectations, yes. We were in the hopes we would do a larger volume of business, but we have been shut out of a large number of States, as all assessment companies have been, and we were confined to two States, so it was almost impossible to do business.

Q. What States were you excluded from? A. We were excluded from Kentucky, from New Jersey and from a number of just such States, and Ohio.

Q. Have you been examined by the New York Department? A. Yes, sir.

Q. How recently? A. I think 1903.

BY THE CHAIRMAN:

Q. Do you say there are only two States now where you are allowed to do business? A. We are only doing business now in New York, Pennsylvania and West Virginia.

MR. HUGHES: I will continue to read from the circular, Exhibit No. 737. Paid-up insurance.

The member not availing himself of his privilege of surrendering his policy and withdrawing his accumulations in cash as above described, a reckoning may be made fifteen years from the date of the policy of the amount contributed to the reserve fund by all the members who enter the company the same year. The entire amount apportioned to him will be placed to his credit and used in the future payment of premiums. Thus, a member of this company will not only, undoubtedly, have had his insurance for fifteen years for less than half the rates charged by level premium companies, but after fifteen years such a sum will have passed to his credit, as will provide for the future payment of his policy for many years, or for his full expectation of life.

Q. You have addressed this letter to the Committee under date of December 2nd, 1905. Are the facts therein stated true (handing paper)? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Marked Exhibit No. 738.)

Q. This is the list of your payments for legal expenses? A. Yes, sir.

Q. That is accurate and complete? A. Yes.

MR. HUGHES: I will have that marked for identification.

(Paper marked Exhibit No. 739, for identification.)

Q. Have you had any controversies with the New York State Insurance Department? A. Yes, sir.

Q. Of what nature? A. On the question of the report.

Q. When was the last one you had? A. I think it was in 1903.

Q. What was the question at that time? A. The question was, as far as my recollection goes, one of the questions was the amount of our reserve and emergency, and they claimed we had got the right to have the gross amount of the one assessment realized, which would include the dues and the expenses, and everything, reserve and emergency funds. And we claimed that it should be the net amount that should be applicable to the mortuary fund, which would be about seven thousand dollars.

Q. How was the matter settled? A. We had hearings at different times, and finally they gave in to our view, I believe, because they allowed us to do that.

Q. Who represented you in that? A. Townsend & McClelland.

Q. What was the amount paid? A. We first paid two hundred dollars, afterward we paid two hundred and fifty dollars, and afterward we gave another two hundred and fifty dollars, seven hundred dollars, I think, altogether.

Q. Did the Department accede to your view that you should have simply a reserve equal to the net amount? A. They seemed to. We had no more trouble regarding that matter. There were other questions that were involved.

Q. What other questions were involved? A. Another question was the form of our assessment notice that we sent out. They claimed that we had got a right to put on certain things that we did not put down.

Q. What did they say you should have put down? A. Well, the law states we should have put down if a claim is not paid in full, that we should put down the amount of the claim that was not paid in full when we sent out the next assessments, and we put it so that if we paid the claim in full we did not have to put the names of the members down when we sent out the assessment. It was simply the construction of the words of that law bearing out the notice, and I believe our construction was right.

Q. What was the result of the consideration of that matter? A. Well, that matter was adjusted so that we did not have any more trouble. The Department——

Q. Acceded to your view? A. They seemed to accede to our views. They did not report us any way.

Q. And with whom in the Department were those matters taken up, with what individuals? A. They were taken up, I believe, with the Department in Albany. I do not know which. The correspondence, of course, was under the heading of Mr. Hendricks, the Superintendent of Insurance, and afterward we had, I think, one or two hearings before Deputy Hunter here in New York City.

Q. Does the Department exercise any supervision over the circulars your company sends out? A. Sometimes they do.

Q. When have they? A. I do not recollect any time. Sometimes when a special circular is drawn to their attention they write to us relative to it, and we reply to it.

Q. Has the Department called your attention to either of these circulars which have been put in evidence? A. I do not recall that they have.

Q. Has your company any contracts with Mr. Godwird? A.

Q. Or with Godwird & Delano? A. No, sir.

Q. Has your company any contract with any person in relation to its expense fund? A. No, sir.

Q. Or any firm? A. No, sir.

Q. Or person? A. No, sir.

Q. Does the company handle its own expense fund? A. Yes, sir.

Q. And it pays the salaries you have mentioned out of the expense fund and if there is anything left over it keeps it? A. Yes.

Q. That is it has it available? A. Yes.

Q. There is no contract? A. There is no corporation behind our company; we run it ourselves—nothing behind it.

Q. All your provisions in the circular with regard to paid-up policy or surrender value or increasing guarantee fund and the amounts which will be returned in dividends are not borne out by the facts because you have not a sufficient membership? A. Yes, sir, unfortunately, the assessment companies have had rather a hard road the last few years. It has been impossible for us to carry out those provisions.

Q. Do you maintain sufficient rates? A. If all our business was on the rate we charge at the present time and on the same class of business we ought to meet all our obligations in full.

Q. I show you a policy dated June 28th, 1900, on the life of Edward Sanders, No. 13,019. Did your company issue that policy? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

Policy marked Exhibit No. 740 and read in evidence by Mr. Hughes.

Q. Where is the provision in the policy about these provisions being subject to an accumulation of $100,000? A. It states subject to the statutory requirements. The statutory requirements means $100,000.

Q. That is what you mean? A. Yes.

Q. Now, after five years had elapsed on that policy, to wit, 1900, instead of receiving any benefit the insured got a call for an extra assessment, didn't he? A. You mean from five years from June?

Q. Yes. A. He got an extra call, yes, sir.

Q. Got an extra assessment? A. Yes.

Q. There was nothing to apply in reduction of his premiums? A. No, sir.

Q. No dividends that he could have? A. No, sir.

Q. No reserve fund had been accumulated? A. No, sir.

Q. And you needed more money? A. Yes, sir.

Q. And sent out an extra call? A. Yes.

Q. And he applied to the Superintendent of Insurance—I suppose you remember that case? A. Well, I don't remember whether he did; he probably did; he applied to a good many places—got a fraud order, and he suddenly forgot he was alive.

Q. I will read letter addressed to Mr. Edwin Sanders by the Superintendent of Insurance under date of May 9th, 1905.

Letter marked in evidence Exhibit 741 and read by Mr. Hughes.

MR. HUGHES: I also offer in evidence letter of the Insurance Superintendent to Mr. Sanders under date of May 12th, 1905.

Letter marked Exhibit 742 and read in evidence by Mr Hughes.

MR. HUGHES: I will also offer in evidence letter of the Superintendent of Insurance to Mr. Edward Sanders, dated June 9th, 1905.

Letter marked Exhibit 743 and read in evidence by Mr. Hughes.

Q. Do you recall the case of Alonzo B. Smith holding a policy of $2,000 in your company, who died last January? A. I don't recollect the case; I recollect the name.

MR. HUGHES: I will read this letter which has been addressed to a member of the Committee:

"GORHAM MFG. CO.,

"Silversmiths and Goldsmiths.

"New York, Dec. 7, 1905.

"Hon. William J. Tully, care of Hotel Seville, Madison Avenue and Twenty-ninth Street, City.

"Dear Sir:—I would like to present for your consideration as a member of the Armstrong Investigating Committee the conduct of the Empire Life Insurance Company with respect to a policy for $2,000 on the life of my father, the late Alonzo B. Smith. The facts of the case are as follows:

"My father died on January 8th, at the age of 74 years. Proofs of death in due form were filed with the company within a week thereafter, and their receipt acknowledged on January 17th, as per their letter enclosed herewith. The ninety days allowed the company by its policy to investigate and provide for payment of the claim expired on the 17th of April. Subsequent to that date I called at their office a number of times without receiving any satisfaction other than the matter was having attention, and would be attended to as soon as possible.

"Under date of April 22d the company wrote a letter to my mother, stating that 'the matter would be disposed of some time next month.' I enclose the letter herewith.

"Failing to receive any satisfaction from the company, we notified Hon. Francis Hendricks, Superintendent of Insurance, regarding the matter, and wrote him a letter, copy of which I enclose. On the 23d of May the Empire Life Insurance Company wrote my mother a letter which was referred to in our letter to the Insurance Department, stating that 'according to the proofs of loss Mr. Smith's health first began to be affected fifteen years ago, which was prior to his application to this company, which fact is denied in said application.' They also stated that upon investigation they found he had suffered with Heart Disease, Bronchitis, Asthma and several other ailments, all of which was untrue with the exception of Asthma, from which he suffered for say ten years.

"When making out the proofs of loss my mother was so conscientious in answering the many questions, and through an endeavor to be as explicit as possible in answering the question when my father's health first began to be affected, may have put down the term of fifteen years, but while he died of heart disease he never had any heart trouble all his life, nor was he affected with bronchitis, all of which can be substantiated by our family physician.

"At the time of communicating with the Insurance Department we placed our claim in the hands of counsel, who upon the absolute refusal of the company to pay the claim or adjust it served notice for suit. However, our counsel succeeded in making a settlement on July 20th of this claim, and we agreed to take in lieu of any better settlement five drafts for $250 each, making $1,250 in all at five, fifteen, twenty-five, thirty and forty days from sight.

"The first two were paid, the last three were defaulted, but were finally paid through the efforts of counsel.

"Our complaint and the matter to which we take exception is this: That if we were entitled to anything we were entitled to all. If the claim was not a just one the company was not liable for any amount, and the statement that my father's health was affected fifteen years ago, which was 'prior to his application to this company' is false. Not only regarding the matter of health, but also regarding the time mentioned, inasmuch as the Empire Life Insurance Company has only been known as such since 1895; prior to that time, and for a number of years, it was known as the Home Benefit Society of New York, and prior to that time was known as the Dry Goods Mutual Benefit Association, which time my father joined about 1875, taking out a policy for $1,000. The policy was changed for one for $2,000 when the company was succeeded by the Home Benefit Society of New York; therefore, his application was made not fifteen years ago, but about thirty years ago. The number of the policy is 6,190.

"It is unfortunate that after a company is willing to accept premiums for a term extending over thirty years that they should be permitted to contest a claim as just as ours.

"Yours very truly,

"LESTER B. SMITH.

"Encls."

Q. Are the facts stated in the letter true, and if they are not true, in what respects are they untrue? A. They are untrue. In the first place the Dry Goods Association was an entirely different concern. We simply transferred some of the business.

Q. Did you take over the business? A. Some of it, under a warranty as to the party's condition, and we found that was false and untrue.

Q. What was the date you took it over? A. In the neighborhood of 1891 or 1892, as far as my recollection goes.

Q. Under what warranty? A. Under a transfer warranty, where they were warranted in good health five years prior to the application.

Q. That would make it back to 1887? A. That would carry it back.

Q. You received the premiums continually during that time? A. Not from 1887, from the time they transferred—from the time they signed the warranty as to their physical condition, and we took them then without re-examination.

Q. What was the face of this policy—two thousand dollars? A. I presume so.

Q. Why were you willing to pay twelve hundred and fifty dollars? A. We were not willing to pay it, but we bought our peace.

Q. Why didn't you pay the notes when they became due? A. That I don't know at this time—I cannot tell as far as that. My impression is that they were paid at that time. On settling a case of that kind we generally pay out of the surplus.

Q. What is the surplus? A. Money that has not been allotted to meet the claims already accrued and that have been approved. When we make a settlement it is a different thing.

Q. What was the total amount of your death claims in 1904? A. I think about seventy thousand dollars—sixty or seventy thousand dollars.

Q. That was the total amount paid or put in? A. Total amount put in, I think.

Q. Now, what amount did you pay during 1904? A. About sixty thousand dollars, I think, something of that kind.

Q. Didn't you have forty-five thousand outstanding at the end of the year? A. Yes, some had been carried on from the year prior.

Q. That were contested? A. Yes, and some had not been due

—were not due. We might be unfortunate, for instance, in the month of December we might get a notice of perhaps five or six deaths, each five thousand dollars.

Q. What proportion of your claims that have arisen this year have you contested? A. Oh, about ten per cent., something in that neighborhood. We don't contest any of them unless there is some reason for it.

Q. What is the time within which you ordinarily pay a claim? A. Within ninety days after the claim has been approved.

Q. How long after it has been approved—I mean how long is it before it is approved after you received it? A. From the time we get the completed proof, if everything is all right we approve it right away.

Q. Do you, as a matter of fact? A. Decidedly, unless there is some reason we cannot approve it.

Q. Isn't it a fact that you take two months to approve it? A. Oh, no. Sometimes it may be necessary because we have to make some investigation that takes some little time.

Q. It takes some little time to get in the money? A. It takes over two months to get in the money.

Q. And the period which ordinarily elapses between the time of the loss and the time of the payment is how long? A. Well, generally ninety days, sometimes it takes a little less, sometimes a little more.

Q. Sometimes it takes four or five months? A. It might, provided the claim had not been approved.

Q. Why do you settle the claims in notes? A. Simply because our money comes in in small amounts, and we have to depend as the money comes in to pay it out.

Q. You have no means except from the money—— A. That comes in from the assessments.

HENRY P. TOWNSLEY, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. You are President of the Life Association of America? A. I am.

Q. How long have you been President of that company? A. Since August 7, 1903.

Q. How long have you been in the insurance business? A. About twenty-five years.

Q. With what companies have you been connected? A. I have been connected with most of the good companies—the Mutual Life, New York Life, Northwestern.

Q. Have you been an officer of any companies? A. No, sir, except this one.

Q. Were you ever connected with the Bankers' Life Association? A. Yes, sir, I was general manager.

Q. During what period? A. From July 20, 1893, to March 23, or about that date, 1897.

Q. Were you ever general manager of any other insurance company or society? A. Yes, sir, I was manager of a company at Chicago.

Q. What was the name of the company? A. Chicago Mutual Life Association.

Q. How long were you connected with that company? A. About four years.

Q. What years were they? A. About 1884 to 1888.

Q. When was the Life Association of America incorporated? A. August 7, 1903.

Q. Under what law was it incorporated? A. Under the regular insurance law, Article 2, I believe, of the Insurance Law.

Q. Incorporated as a stock company? A. Capital stock company, yes, sir.

Q. What was the amount of its capital stock? A. Two hundred thousand dollars.

Q. Had the company been in business previously—that is, had there been any business precedent to the formal organization of the company? A. I suppose I might as well explain that; I see what the trouble is. We organized a company under the assessment law by the same name, in 1901, and while we were selling insurance there we sold stock to those policyholders in the stock company.

Q. In brief, the scheme was through an assessment company to accumulate a fund which would pay up the capital stock and then convert the organization into a stock organization with an existing body of policyholders who were also owners of stock? A. Well, yes, I presume you might put it that way.

Q. When did you start the assessment company known as the Life Association of America? A. March 20, 1901.

Q. That was regularly incorporated? A. Yes, sir.

Q. And did business under Article 6 of the Insurance Law? A. Yes, sir.

Q. Now, what was the plan by which you arranged or agreed to give any shares of stock by the corporation to be organized subsequently as a stock company? A. We offered the policyholders in the mutual company the privilege of buying stock in the stock company, one share of stock for each one thousand dollars of insurance carried by them.

Q. What sort of an agreement did the policyholder in the assessment company have with reference to his subscription for stock? A. Yes, he had an agreement—he had a sort of stock option agreement—I forget just the terms of it, whereby he deposited his money in the North American Trust Company, and got a receipt for it. After the organization of the company the certificate was to be exchanged for a regular stock certificate, which was done.

Q. He got a certificate of deposit or receipt? A. Something of that sort.

Q. Calling for a share of stock in exchange for the receipt? A. Yes, sir.

Q. And this certificate stated the amount which had been deposited? A. Yes, sir.

Q. And those deposits were held or to be held by the North American as a separate fund? A. Yes, sir.

Q. And to be turned over to the company when they received the certificates of stock which were to be issued by them in exchange for the receipts? A. That is right.

Q. Now, what amount was deposited with the North American Trust Company under that plan? A. Well, as I remember it, $268,000.

Q. Was the stock subscribed for by the policyholders at par? A. Part of it was.

Q. Was any part of it subscribed at an increased rate? A. Yes, sir.

Q. Originally was not all the stock subscribed for at par? A. No, sir.

Q. Did you subscribe for any part of the stock? A. Yes, sir.

Q. Alone or with others? A. Both.

Q. What amount did you subscribe for either way? A. Well, I should say about four thousand shares.

Q. Three thousand nine hundred and sixty shares? A. That is right.

Q. Who was associated with you in that subscription or purchase? A. Mr. Van Schaick.

Q. Mr. Eugene Van Schaick? A. Yes.

Q. Is he connected with the Life Association of America? A. General counsel.

Q. And he was general counsel of the assessment company that preceded the present organization? A. He was.

Q. What amount of money did you and Mr. Van Schaick pay in in order to make good that subscription—that is, pay into the North American Trust Company? A. As I remember it it was about one hundred and twenty thousand dollars—thirty dollars a share for 3,960 shares.

Q. What was the date of that subscription? A. About June 1st.

Q. Of what year? A. 1903.

Q. Was the hundred and twenty thousand dollars supplied at that time? A. Well, at that time and before August 7th.

Q. 1903? A. 1903.

Q. Did the Life Association of America, directly or indirectly, supply any of the moneys put up by you and Mr. Van Schaick? A. No, sir.

Q. Did you obtain any loans upon the stock of the Life Association as collaterals for that purpose? A. Yes, sir.

Q. From whom? A. Gansevoort Bank.

Q. Was that the bank where the moneys of the Life Association of America were deposited? A. We deposited the moneys there.

Q. And when did you begin to deposit money there? A. About the date of the organization of the company.

Q. What moneys did you deposit there? A. The money that belonged to the company, I think, and the money that was derived from the sale of the stock.

Q. Will you explain what the moneys were that went to the North American Trust Company, and what the moneys were that went to the Gansevoort Bank? A. The money that was in the North American Trust Company afterward went to the Gansevoort Bank.

Q. So that the moneys that had been deposited in the North

American Trust Company originally did not embrace the moneys which you and Mr. Van Schaick advanced in your subscription—they were independent of those? A. I don't understand you.

Q. Did the moneys which you and Mr. Van Schaick paid in on account of your subscription for 3,960 shares become part of the funds held by the North American Trust Company, and were they subsequently paid to the Gansevoort Bank? A. I think some of it was and some of it was paid to the Gansevoort Bank.

Q. The fact is, is it not, that you turned over the moneys from the North American Trust Company to the Gansevoort Bank in July, 1903? A. Well, some of it, if not all; I don't remember the date.

Q. You deposited with the Gansevoort Bank in July, 1903, some two hundred and two thousand dollars? A. When we deposited a great deal of money we took that out of the North American Trust.

Q. You remember drawing on the North American Trust Company in favor of the Gansevoort Bank, or in favor of yourself, and endorsing it to the bank on July 14, $114,000, and on July 20, $100,000? A. If you have the figures correct, that is true. I don't remember that date absolutely.

Q. Your recollection is not at variance with that? A. No, I should say that was correct.

Q. Was it after that time the Gansevoort Bank made a loan to yourself and Mr. Van Schaick? A. It occurs to me it was about that time, may be subsequently.

Q. Didn't it make a loan to the company? A. No, sir.

Q. The loan was to yourself individually? A. Individually.

Q. In what amount? A. $66,000.

Q. That amount was deposited to the credit of the company? A. It was.

Q. And that stood as part of the moneys which you and Mr. Van Schaick were to pay for the stock? A. It was.

Q. What was the collateral for that loan? A. Stock of the company.

Q. The 3,960 shares? A. Most of it.

Q. That was followed by another loan from the Gansevoort Bank to you and Mr. Van Schaick? A. I think so.

Q. For what amount? A. Twenty-five thousand dollars.

Q. And what was the purpose of that loan? A. Well, that was a part of the original loan.

Q. That is, the entire loan was eighty-one thousand dollars? A. No, a part of the loan was paid off, and then that much of it was renewed. It was not over sixty-six thousand dollars.

Q. Have you your checkbook with the Gansevoort Bank? A. I have.

Q. Will you produce it, please?

(Book produced.)

This you now show me is the checkbook of the Life Association of America with the Gansevoort Bank? A. It is, sir.

Q. It shows the account of the society with the bank from a date prior to the incorporation of the stock company, and for a period through the existence of the assessment company? A. Well, I should say so, yes.

(Checkbook marked Exhibit No. 744 for identification.)

Q. I find in this book, under date of July 14th, 1903, the entry of a deposit of a hundred thousand dollars. That was from the North American Trust Company? A. Yes, sir.

Q. And under date of July 20th, 1903, an entry of another hundred thousand dollars; that was from the North American Trust Company? A. That is right.

Q. Under date of July 22, 1893, $2,749.14. That is from the North American? A. I suppose so.

Q. And then follows the loan, sixty-six thousand dollars. A.

That was a loan we made and deposited with the Gansevoort Bank.

Q. Was that in the form of a check to your order? A. It was.

Q. And deposited to the order and credit of the company? A. It was.

Q. The shares, I think you have stated, were twenty-dollar shares, and the total was ten thousand shares? A. Yes, sir.

Q. Now, following that in 1903, in August, 1903, the stock company was organized? A. Yes, sir.

Q. And at that time there was paid over to the Comptroller of the City of New York $103,000? A. That was for New York City bonds.

Q. And those bonds were used for what purpose? A. Deposit in Albany, to be deposited with the Insurance Department in Albany.

Q. That was on the organization of the stock company. Then you proceeded in business as a stock company, which you have continued up to the present time? A. Yes, sir.

Q. Now, have you at any time obtained a loan upon securities furnished by the company in whole or in part? A. No, sir.

Q. Did you in April, 1904, obtain a loan from the Citizens' Trust Company of Paterson? A. Yes, sir.

Q. To whom was that loan made? A. Myself and Mr. Van Schaick.

Q. For what amount? A. Ten thousand dollars.

Q. On what as collateral? A. Five hundred shares of stock of the Life Association of America.

Q. You are reported as having said at one time in 1903, "when this company was organized, Mr. Van Schaick and myself underwrote 3,960 shares of the stock at thirty dollars, the par value being twenty dollars. By taking the stock at this figure we really placed $39,600 in the treasury of the company. When the time for settlement came we were short $52,000. We tried to negotiate for a loan of this amount with a dozen or more banks and financial institutions, but were unable to do so. Then we went to the Board of Directors and asked them to let us have this sum of money. They could not lend it to us, so they gave it to us, we, of course, intending and being expected to return it. We did return all but ten thousand dollars of the amount out of our own funds. Lacking ten thousand dollars, we applied to a trust company for a loan. They would give it to us only on condition." That is substantially correct? A. Some part of it is correct, and part of it is not.

Q. Just make a statement which will cover it and explain it, and correct it so far as it needs correction. A. We borrowed $66,000 from the Gansevoort Bank and paid it into the company, and we afterward went before the Board of Directors and they voted us fifty thousand dollars for services.

Q. When was that vote made? A. I should say in the spring of 1904 some time.

Q. Prior to that had there been a resolution passed by the assessment company relative to compensation? A. There had.

Q. Is this a copy of it that I now show you? A. I should say that was a copy.

MR. HUGHES: I offer it in evidence.

Paper marked Exhibit No. 745, and read in evidence by Mr. Hughes.

Q. Now, it was under that resolution that the compensation in 1903 was fixed at fifty thousand dollars? A. That is right.

Q. And is that the resolution under which the fifty thousand dollars was paid to Mr. Van Schaick and yourself (showing witness paper)? A. I should say that was a copy of it. It reads like it.

Resolution marked Exhibit No. 746, and read in evidence by Mr. Hughes.

Q. Now, will you identify in your checkbook the checks which paid the fifty thousand dollars? A. I cannot do it.

Q. I find here a check under date of March 4, 1904, to yourself for fourteen thousand dollars. Was that part of it? A. It might have been; I don't know.

Q. It was not for anything else? A. I could not imagine anything else, no sir.

Q. I find under date of March 21, 1904, Townsley & Van Nest, $9,560.40; was that a part of it? A. I should say it was part of it. I would not swear to it, because I don't know. I know we got the fifty thousand dollars, but I do not know what checks paid it to us.

Q. I find under date of March 4th, 1904, a payment to the Gansevoort Bank of $51,836, apparently by the check of the company, what was that for? A. When we borrowed the $66,000 from the Gansevoort Bank we agreed with the bank to keep a certain amount of money on deposit.

Q. That is when you and Mr. Van Schaick borrowed $66,000 you agreed with the company to keep a certain amount of money on deposit? A. That is a guarantee of the—they had a check of our company equal to the amount of our loan.

Q. $66,000? A. Originally. Afterward it was reduced to $51,000 and they afterward took their check and violated their agreement, and paid off that loan. Then we paid the money immediately back into the company.

Q. So as I understand it you and Mr. Van Schaick to get this loan for yourselves in order to enable you to acquire the 3,960 shares, deposited the shares themselves as collateral with the Gansevoort Bank and in addition to that collateral the bank had a check from the Life Association of America for an amount equal to the loan? A. You state some of the facts right, but you don't state the reason of it.

Q. I want to get the facts first. A. The fact is that we deposited our stock as security for the loan and we agreed with the bank not to draw that money down up to a certain amount, and as a guarantee to that agreement we left in the hands of the President a check so that if we attempted to draw the money he could interpose that check. Now you say for the reason that we might get 3,900 shares of the stock. That was not the reason. The reason for it was that we had been informed by the Department that if we incorporated this company within two years from the date of the original certificate, which was August 22d, I believe, we would forfeit the right to organize under that. We had sold a great deal of stock and we approached nearly the date. The highest price at which we had sold the stock was $30.00 a share. Now, it was up to us, being left to complete this organization with that stock, to subscribe for the stock. We had a right to subscribe for the stock at par but we did not think we had the moral right to do it, because we had sold some of the stock as high as $30 a share; so we subscribed for the stock and paid 50 per cent. additional on the stock, and in order to do that and pay that $39,600 into the company as a surplus, we had to borrow $66,000.

Q. Now you were referring to the summer of 1903? A. Exactly.

Q. But before the bank would let you and Mr. Van Schaick have the money they insisted on having a check of the company for an amount equal to the loan? A. In order to guarantee us to leave the money in their bank while we carried our loan; and we reduced that deposit in the bank in proportion as we reduced the loan to ourselves.

Q. So in fact the bank would not loan the money to you and Mr. Van Schaick unless it held the funds of the company against it? A. No, not against it.

Q. Held the funds of the company in such a way that it could resort to them if it became necessary. A. They did resort to it, although it was not according to our agreement.

Q. Now, where is the entry or the stub of the check to the Gansevoort Bank for the amount of the loan? A. $66,000?

Q. Yes. A. I don't know. The Gansevoort Bank drew the check. But did not keep their stub book.

Q. Didn't the Life Association of America give the Gansevoort Bank a check to hold? A. Yes.

Q. Where is the stub of that check? A. I guess it is there—there it is, that $51,000.

Q. That $51,000 is the amount as it stood reduced March 4th, 1904? A. Exactly.

Q. When you made the original loan it was at what time? A. It was in 1903.

Q. Now, where is the stub of that check? A. I don't know anything about that.

Q. It is not there, is it? A. No, sir, it is not.

Q. Did you have any other bank account with the Gansevoort Bank other than shown by this book? A. Not that I know of.

Q. Did you draw a check for that $66,000? A. I don't know. I assume I did, because that is there—I presume so.

Q. Because the $51,000 is there? A. Yes, sir.

Q. But you do not find any record in your check book relating to it? A. No, sir.

MR. HUGHES: Is there any other record?

MR. VAN SCHAICK: I don't know, sir.

Q. Now what leads you to make a statement in regard to the Gansevoort Bank holding the check is the fact that on date March 4, 1904, you find a check to the order of the Gansevoort Bank for $51,836? A. No, they had that check for some time; I don't know when it was dated.

Q. There is a stub? A. $66,000 stub?

Q. That is the first stub of a check given to order? A. Then it may be the first one we gave; I don't know.

Q. Whether it was the first one or not it was a check given to the Gansevoort Bank to enable them to hold that amount of the company in case you and Mr. Van Schaick did not pay that balance of that loan? A. That was not the condition. The condition was that we were to leave that there until we did pay it.

Q. And that if they did not leave it there they could—— A. They could interpose that check when we attempted to draw the company's funds out. In the meantime they paid us three per cent. interest on the money, as much as any other bank in the city would pay.

Q. Did they apply that to the payment of the loan? A. They did eventually.

Q. At what time? A. The date of that check or sometime after that.

Q. You mean they applied the check to the payment of the loan as soon as they could? A. No, I don't think so; it was within a short time afterward; it was not a very long time after that time; I don't know just when.

Q. Wasn't that check $51,836, the check paid to the Gansevoort Bank, the balance of the loan? A. That is what they used it for.

Q. Used it immediately? A. They may have used it immediately; I don't know; possibly.

Q. Now, you say you paid the money back to the company? A. Yes.

Q. You and Mr. Van Schaick? A. Yes.

Q. Will you show me any entry please of the receipt of the moneys by the company? A. Well, I don't know that I can by these things.

Q. When did you pay it back? A. My recollection is we paid it back on the 29th of March of this year.

Q. 1905? A. Yes.

Q. That was under an order of the State Insurance Department, wasn't—I am now talking about the $51,000? A. We paid that back immediately.

Q. Now, you are referring when you say you paid it back immediately to the amount which was paid out of the company's funds by this check of $51,836 dated March 4, 1904, to the Gansevoort Bank? A. Yes, sir.

Q. And which was used to discharge your loan and Mr. Van Schaick's? A. Yes, sir.

Q. Now where is the entry of the payment of that money back immediately? A. Well, I cannot tell you the entries, but it was paid back immediately—paid back into the company—you would not find it there at all.

Q. It was not in the Gansevoort Bank? A. Had not anything to do with the Gansevoort Bank.

Q. Mr. Van Schaick suggests it was paid back by the $50,000 that was voted? A. That was what we used it for.

Q. Now did you get the $50,000 that was voted to you? A. In no other way than to turn it over to the company.

Q. Did you get that money? A. I think we did.

Q. Did you give a check for it? A. I think so.

Q. Will you show me the stub of the check drawn to the company for it? A. I cannot do it. My impression is—of course I am simply stating from memory—my impression is we got a check, deposited it in joint account and then gave our check against our joint account.

Q. You have your bank book here of the Life Association of

America? A. They are all there; you can look them up as well as we can. I don't remember it. I do not keep the books any more than you do, but they are right there; I brought them all up here.

Q. Can you point out such a check for $50,000? A. I don't know whether I can or not; I don't know whether it is there.

Q. Won't you try? How many bank accounts were there at that time in March, 1904? A. I think we had at least three, one with the Gansevoort, one in the North American Trust Company and one in the Guaranty Trust Company.

Q. Will you let me have the check books of the account you had in March, 1904, aside from the Gansevoort Bank? A. Mr. Van Schaick may be right about that. He suggests that there was a credit made in some way.

MR. VAN SCHAICK: Credit of $50,000.

Q. Exactly. You did not get the money? A. If we ever handled the money it was simply done by checks, that is all.

Q. We want to get at what was done, was there a check or not for $50,000? A. I don't know. I won't answer—that is I cannot tell you. I will answer it if I can.

Q. Mr. Van Schaick says there was a check for the difference? A. I expect Mr. Van Schaick knows as much about it as I do.

Q. Then according to Mr. Van Schaick's statement there was a credit in favor of you of $50,000 against the compensation? A. I have no doubt of it.

Q. Or for the compensation against the amount to which the company was entitled? A. Yes.

Q. And as the amount paid by the insurance company upon your loan was $51,836 and the amount credited to you was $50,000 apparently it would have been for you to draw a check for the difference of $1,836 for the company? A. That would be the way it would be done.

MR. HUGHES: Now, can you give me the check?

Q. Well, now, about that time, that is March, 1904, you made this loan, that is obtained this loan from the Citizens' Trust Company of Paterson? A. Well, was it about that time? Some time later.

Q. April, 1904? A. Yes.

Q. Before we come to that why was it the other men who were named in these preliminary resolutions of 1901 did not share in the compensation? A. They all resigned from the company.

Q. So that you and Mr. Van Schaick were the only persons left who were embraced in the resolution? A. Exactly. They offered to stay in and buy the stock at $20 a share. We thought it ought to be sold at $30. We were willing to buy it at $30.

Q. Then you resold the stock, didn't you—you didn't hold it yourself? A. Some of it; we have got a great deal of it yet.

Q. You have sold a great deal for more than $30? A. Never sold less than $40 a share.

Q. The transaction with the Citizens' Trust Company in or about April, 1904, was what? A. Mr. Van Schaick and I borrowed $10,000 and put up 500 shares of stock. We made two deposits with the company of the company's funds.

Q. That is the Citizens' Trust Company? A. Yes. We put $10,000 in the Savings Bank account and $5,000 in their regular current account, they paying us 3½ per cent. on the savings bank account.

Q. Why did you put $15,000 up with the Citizens' Trust Company of Paterson? A. For two reasons. One was we wanted to have a deposit in a bank in Paterson where we did a large amount of business; the other was we wanted to borrow $10,000.

Q. That is you and Mr. Van Schaick wanted to borrow $10,000? A. Yes, sir, on our stock.

Q. As I understand you, Mr. Townsley, the Life Association of America at the time you and Mr. Van Schaick borrowed $10,000 from the Citizens' Trust Company, drew two checks, one for $10,000 and one for $5,000, to the order of the Citizens' Trust Company, which that company was to hold? A. Yes, sir.

Q. In addition to the stock belonging to Mr. Van Schaick and yourself? A. No, sir; we didn't do that. We drew two checks in favor of the company. They deposited them and gave us a book. Then we gave them one check for $10,000 and gave them the savings bank book and we made the same agreement in regard to that that we made in reference to the Gansevoort Bank; the only difference was the Citizens' Trust Company recognized that agreement and never used that check. When they were ordered by the Insurance Department of New Jersey to call the loan they notified us that we would have to pay the loan and the loan was called and we paid it and they handed us back our check and our bank book. That is the only difference between the two. One recognized the agreement and the other did not.

Q. But the agreement was in consideration of making a loan to you and Mr. Van Schaick, the Citizens' Trust Company should hold—— A. Keep on deposit $15,000.

Q. To hold a certain check which the Life Association of America made to its order for $10,000? A. Exactly.

Q. And also the savings bank book representing a deposit of the Life Association of America in its savings bank deposit of $5,000? A. No, sir, $10,000. It was the same thing.

Q. I thought it was one of $10,000 and one of $5,000? A.

The $5,000 was an open account; we could draw on it all we wanted to. The $5,000 was a current account.

Q. Have you a copy of the letter of April 21st, 1904, to Henry P. Bell of the Citizens' Trust Company of Paterson? A. No, I did not know that I had written a letter to him.

Q. Is that a copy of the letter written by you to Mr. Bell in connection with the loan (showing witness paper)? A. Yes, I guess so. I did not remember that I had written the letter in regard to that and could not find it.

MR. HUGHES: I offer these two letters of April 21st, 1904, addressed by H. P. Townsley, President, to Henry F. Bell, President of the Citizens' Trust Company of Paterson, New Jersey.

(Papers marked in evidence Exhibit 747 and 748 and will be found in the book of exhibits.)

Q. Those letters were written by you as President of the Life Association of America? A. Yes, sir.

Q. And in the last letter the words "in payment of our loan when called" referred to the loan made to yourself and Mr. Van Schaick? A. Yes, sir.

Q. Now, were those loans paid? A. Yes, sir.

Q. Was that last check used by the Citizens' Trust Company drawn by the Society? A. No.

Q. Now, I call your attention to the entry of a check under date of March 4th, 1904, on the stub of your check book with the Gansevoort Bank, Exhibit 744 for identification to the order of H. P. Townsley for $14,000? What was that for? A. I don't remember.

Q. What consideration was there for the receipt of those moneys? A. Evidently the company owed me the money or they would not have drawn the check for it.

Q. How could they owe it to you? A. I do not know.

Q. Have you any idea of the transaction? A. It might have been some transaction whereby it was necessary to draw the check in that way.

Q. That was March, 1904? A. Yes, sir.

Q. Have you no recollection of any transaction which entitled them to draw that check? A. I do not remember. It was evidently an exchange of checks in some way, I think.

Q. And why do you say that, what evidence is there of that? A. The company never paid me $14,000 at any one time.

Q. Then evidently you remember enough about it to know that you did not get the money on that check? A. It might have gone through my account in some way.

Q. Where is the check which was given in exchange? A. I do not know, sir.

Q. Do you know anything about it? A. I know pretty well there has been no money taken out of the Life Association by me or by any one else that has not been properly accounted for.

Q. That is a general statement. Can you tell me now what that is for, specifically? A. I cannot without going through—I would have to talk to the treasurer.

Q. Here is a check dated March 31st, 1904, to the order of Townsley & Van Schaick, on the stub of the company's check book with the Gansevoort Bank, $9,560.40. A. $14,000 and $9,000 would be $23,000—just give me a piece of pencil and paper. I think I know. Well, I will tell you. That comes so close to it that I suppose I can account for it. We deposited here to the credit of the Life Association $25,000. There it is (indicating). That meant a deposit there by Townsley & Van Schaick——

Q. That is a check. A. I beg your pardon. That is a check. I will tell you, we made a second loan with the Gansevoort Bank of $25,000 which I told you about a few minutes ago.

Q. Yes. A. And that $25,000 was undoubtedly given to the account of the Association in the Gansevoort Bank, and then these checks were drawn to us as compensation for it.

Q. As compensation? A. It was—you will see that they together make about $25,000. And we made the loan with the Gansevoort Bank undoubtedly, as I remember it—I am not stating accurately, but undoubtedly we made that loan with the Gansevoort Bank. You take the $14,000 and you take the $9,117 and you take the $1,836, the difference between that and the $50,000 check, and it gives you $25,000.

Q. Well, but the $1,836 is what you should have paid the Life Association, and not what they should have paid you. A. It is undoubtedly in that account right there.

Q. Then the point you make is—— A. The point I make is that that is the best way I can account for it just now. It may not be correct.

Q. I want to work it out so there will be no mistake about it. The Gansevoort Bank, I understand, made a loan of $25,000? A. Yes, sir.

Q. And that the Life Association of America got credit in this account for the proceeds of the loan? A. Exactly.

Q. Then the Life Association of America gave you and Mr. Van Schaick in these checks the amount of that $25,000 less the $1,836 which you owed them on the amount of the previous loan? A. That is undoubtedly true.

Q. With the Gansevoort Bank? A. That is undoubtedly true.

Q. What was the security of this loan of $25,000 by the Gansevoort Bank? A. That was stock of the company.

Q. And did you place a check with the Gansevoort Bank of $25,000? A. I do not think so.

Q. When that loan was paid, who paid it? A. Mr. Van Schaick and H. P. Townsley.

Q. Individually? A. Yes, sir.

Q. Did the Life Association of America pay any of it? A. No, sir.

Q. Why should it have gone through the Life Association? A. Why, we evidently owed the money to the Life Association and put that in when we borrowed that money.

Q. The Life Association gave the money to you? A. But I do not know why I should have done it.

Q. Why should the Life Association in other words have received $25,000 from the Gansevoort Bank and then paid over this amount to you and Mr. Van Schaick? A. I do not know.

Q. Why should you not have arranged your matters with the Gansevoort Bank? You do not know how it was done? A. I don't know. It was done all right, but I don't know how it was done. All of that account has been gone through with by the Insurance Department thoroughly, and they checked those accounts all up and found them correct.

Q. Taking this Gansevoort Bank account, I find under date of September 20th, 1903, a check to W. H. Wiemer for a loan on collateral $20,000. Who was W. H. Wiemer? A. W. H. Wiemer was a wholesale boot and shoe man in Philadelphia.

Q. Is he connected with the Life Association of America? A. He is a director.

Q. In any other way? A. That is all.

Q. What was the collateral for that loan? A. Bank stock and bonds. You will see it in the Insurance Department report you have before you. I may as well state here that the loan has been paid off. It was paid off because we would not reduce the interest below five per cent., and he wanted it at 4.

Q. Is he your father-in-law? A. No, sir.

Q. Is he related to you in any way? A. Indirectly; his wife is a cousin of mine, that is all.

Q. Now, it has been stated that the fifty thousand dollars which you received as compensation has been returned to the company? A. Yes, sir.

Q. That was pursuant to a report of the Insurance Department this year? A. That was pursuant to the request of the Insurance Department, yes, sir.

Q. Made at what time? A. Made about the first of the year, along between January and March.

Q. In what form was that return? A. Cash.

Q. Or check, or which? A. I think it was by check, check in our account.

Q. Where was it deposited? A. It was deposited in the Guaranty Trust Company, March 29th, 1905.

Q. I am shown an entry of a deposit March 29th, 1905, of $50,122.57. Your names are not mentioned nor is the character of the deposit stated, but is the $50,000 a part of that? A. I think it is. Is it on the 29th?

Q. March 29th, 1905? A. Yes, sir; the fifty thousand dollars is a part of that deposit.

Q. Who is Wilson B. Brice? A. He is a lawyer.

Q. Is he connected with your company? A. Yes, sir.

Q. In what way? A. He is a director and assistant counsel.

Q. Is he under salary from your company? A. A small salary.

Q. Did you on August 28th, 1903, make a loan to him of ten thousand dollars? A. Yes.

Q. What was the security? A. The security is—well, that security that is here has been taken up, and that loan is paid off.

Q. Paid off last December? A. Yes, sir.

Q. This was made about the time your stock company was organized? A. Yes, sir; just before, I think.

Q. And the security was one hundred shares of Wheel Within Wheel Company, 45 shares of patent Title Guaranty Company and 250 shares of the New York Sanitary Street Refuse Receptacle Company? A. Since that loan has been paid off and those securities taken up what is your object of reading that, for the benefit of the press?

Q. My object is to show you made a loan on worthless collateral. A. Was it worthless, if it is paid off.

Q. I do not think the collateral has improved? A. I think the loan has improved.

Q. I do not care for any discussion with you Mr. Townsley. We propose to find out what your transactions have been. A. Yes, sir.

Q. Did you have any quotations on this collateral at the time you made this loan? A. I was assured that it was good security.

Q. Who assured you? A. Mr. Van Schaick.

Q. Any other information? A. No.

Q. Is Mr. Brice in Mr. Van Schaick's office? A. Yes, sir.

Q. You made a loan in December, 1903, to Mr. C. A. Allen on 100 shares of the Gold Car Heating and Lighting Company? A. Yes, sir.

Q. What was that? A. That was 100 shares of the Gold Car Heating and Lighting Company.

Q. What was it worth? A. $30,000.

Q. You made a loan on December 21st, 1903, to Henry P. Townsley, secured by a mortgage on property in Sedalia, Missouri? A. Yes, sir.

Q. You were the Henry P. Townsley? A. Yes, sir.

Q. What was the value of the property? A. The loan was for $2,000, was it not?

Q. Yes. A. $3,000 I sold it for, and those are the notes; one has been paid, and the other comes due in January.

Q. On December 21st, 1903, there is a loan to Henry P. Townsley of $2,500 on 100 shares Toledo, St. Louis and Western; what is the value of that? A. That is worth 59 to-day.

Q. What was the value at that time? A. Well, I should say it was worth $4,000.

Q. Who is William A. Cable? A. He is an architect in New York.

Q. On October 8th, 1904, there is a loan to Henry P. Townsley of $5,000 on 300 shares of Toledo, St. Louis and Western. Is that the same loan? A. The same loan.

Q. With an increase in collateral and amount? A. With an increase in collateral and amount.

Q. Is that a statement of all the loans that have been made by your company since its organization with the exception of those now in force? A. Yes, sir. That is my recollection of it. That was gotten from the books.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 749.)

Q. This is a statement of the collateral loans now in force of your company? (Handing paper.) A. Yes, sir. There is one there that has been paid off since that was made out.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 750.)

Q. Was Mr. Allen a Director of the company, whose name is mentioned in this first sheet, Exhibit 749? A. He was at that time.

Q. Is Sidney H. Salomon connected with your company? A. No, sir.

Q. Is George C. Capron connected with your company? A. He is an agent.

Q. What is the American Collectors' Company? A. Why, that is a company which collects coins or stamps or something of that kind. Those are a sort of mortgage bond on the company.

Q. Are there any quotations for them? A. None at all, but they are perfectly good. And that credit is one of the bonds which matured and was paid.

Q. $100? A. Yes.

Q. Is this a list of your mortgage loans made by your company? A. Yes, sir.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 751.)

Q. Who of these parties are connected with the Life Association of America in any way? A. John Vincent is Treasurer. Wilson B. Brice is connected with it in Mr. Van Schaick's office. That is all.

Q. Is Henry Van Schaick related to Mr. Van Schaick? A. Father.

Q. Is James Glass in any way connected with the company? A. No, sir.

Q. Is this a statement of the securities held by the Life Association of America, on December 7th, 1905? A. We furnished you this, yes, sir.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit No. 752.)

Q. Were you, or was any officer of your company, so far as you know, interested in any of the purchases and sales? A. I know that none were.

Q. Or any of the mortgage transactions, or loans that have been mentioned other than as they appear to have been made by the company? A. No.

Q. Have you been a member in any syndicate participation? A. No, sir.

Q. Or has any officer of the company? A. No.

Q. Have you made any political contributions? A. No.

Q. For any campaigns, either National, local or State campaigns A. No.

Q. (Handing paper.) Is this a statement of cash balances from August 7, 1903, to date? A. Yes, sir.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 753.)

Q. You have been asked to furnish a statement in reply to certain questions addressed you by the Committee. (Handing paper.) Is this your answer and are the facts stated in it true? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 754.)

Mr. Hughes then read Exhibit No. 754.

Q. The Blue Book contains a statement that the expenses for 1904 were $190,000. Does that include the fifty thousand dollars which had been paid to Mr. Van Schaick and yourself? A. Yes, sir.

Q. And that has been omitted from the statement of expenses herein, leaving the amount one hundred and forty thousand dollars? A. Yes.

Q. Is this a specimen of agents' contract to which you referred in your letter? A. Yes, sir.

MR. HUGHES: I will have that marked for identification.

(Paper marked Exhibit No. 755 for identification.)

MR. HUGHES: I will read upon the record so much as states the compensation.

7. Commissions to be allowed to said party of the second part under this contract shall be as follows:

On the cash of ordinary premiums on deferred dividend policies issued for whole life or endowment assurance plan—

With a dividend period of twenty years, with not less than twenty annual premiums, 50 per cent. for the first year of assurance only, and 5 per cent. for second to tenth year of assurance, inclusive.

With dividend period of twenty years: Ordinary life, 50 per cent. first year, 5 per cent. second to tenth year.

Life, fifteen payments, 45 per cent. first year, 5 per cent. second to tenth year.

Fifteen year endowment, 40 per cent. the first year, 5 per cent. second to tenth year.

With dividend period of ten years ordinary life, 45 per cent. the first year, 5 per cent. second to tenth year.

Life, ten payments, 40 per cent. first year, 5 per cent. second to tenth year.

Ten year endowment, 35 per cent. first year, 5 per cent. second to tenth year.

Non-deferred dividend.

If with continued premiums to death or not less than twenty annual payments, 50 per cent. first year, 5 per cent. second to tenth year.

If paid up by fifteen annual payments, 45 per cent. first year, 5 per cent. second to tenth year.

If paid up by ten annual payments, 40 per cent. first, 5 per cent. second to tenth year.

Single premium payments, 5 per cent. first year.

Extra premiums 2 1-2 per cent. first year and 2 1-2 per cent. second to tenth year.

Special rates to be made for new forms of policies.

Q. Is this your signature, and do you send out this circular? (Handing paper.) A. That is the secretary's signature. I presume he sent that out.

Q. C. B. Townsley? A. Yes, sir.

Q. Is he a relative of yours? A. Yes, sir, a son.

Q. And these circulars have been quite freely distributed, have they not? A. Yes, sir.

Q. To whom are they sent? A. Let me look at them and maybe I can tell you.

Q. I mean to what class of persons? A. I guess they are sent to agents of life insurance companies.

Q. Of other companies? A. Yes.

Q. That is the same thing without the name?

(Handing paper.)

MR. HUGHES: I will offer this in evidence.

(Paper marked Exhibit 756.)

Mr. Hughes then read Exhibit No. 756.

Q. Is this the card which you sent out? (Handing paper.) A. That is the card which he sends out.

Q. Well, it is officially authorized by the company? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 757.)

Mr. Hughes read Exhibit No. 757.

Q. How many agents have you to whom you are paying 90 per cent. commissions? A. We do not pay any agent 90 per cent. commission. It may amount to that the way we figure that, but we do not pay it in commission. We pay a commission of 50 per cent. and make allowances for certain purposes.

Q. What are they? A. That is to say, we make allowances for renewals and they may amount in a brokerage contract to 90 per cent.

Q. Will you explain how you figure out the compensation you will give in this circular, 90 per cent.? A. That would call for fifty per cent. and forty per cent. against renewals, which would practically eat up the renewals, and make a brokerage contract.

Q. You mean advanced against renewals which would not otherwise have to be repaid? A. Yes, that is right.

Q. In other words, it practically amounts to giving a man who will bring you in an application for insurance who takes a policy 90 per cent. of the first premium? A. That is what it amounts to, yes, sir.

Q. You commute the renewal commissions? A. That is it exactly.

Q. Frequently, don't you? A. Yes, sir.

Q. On how much of your business are you paying 90 per cent. of the first premium in this manner? A. I suppose we have three or four brokers who bring us in business in this way. Most of our agents work for renewals, and do not care for these advances.

Q. You are sending these out broadcast, are you not? A. Simply to catch brokerage business.

Q. Well, you do catch it? A. A little, yes.

Q. How can you afford to pay 90 per cent. of the first premium to get the business? A. Well, that is the simplest proposition in the world. Our policy is written for one year on a preliminary term and starts as a life policy on the second year, therefore all of the premium over and above the mortality charge or the cost of mortality is their loading for expenses, and you will see that that provides for 90 per cent. on twenty payment life, and twenty year endowment.

Q. You do not give that on other policies? A. No, sir, on other policies we do not pay so much because the charge for death loss is the same in either case.

Q. What do you pay on ordinary life? A. 85 per cent.

Q. Eighty-five per cent? A. We work it up to 85, yes, sir.

Q. How much of that is a first year's commission, in other words, how much do you compute the 85 per cent? A. On the basis of 50 per cent. and 35 per cent.

Q. Thirty-five per cent. being a commutation of the renewals? A. Yes, sir.

Q. Is this your rate book? (Handing book.) A. Yes, sir.

MR. HUGHES: I will have it marked for identification.

(Book marked Exhibit 758 for identification.)

THE CHAIRMAN: The Committee will now adjourn until to-morrow morning at 10:30 o'clock sharp.

COUNCIL CHAMBER,

CITY HALL, NEW YORK CITY.

December 19th, 1905.

The Committee met pursuant to adjournment. Senator Armstrong in the chair.

HENRY P. TOWNSLEY, resumed.

BY MR. HUGHES:

Q. What amount of money did the Life Association of America have in its treasury when it started in business as a stock corporation? A. About $268,000.

Q. Had that amount been obtained from the sale of its stock? A. Yes, sir.

Q. Did it take over any surplus from the Life Association of America, the assessment corporation? A. Yes, sir.

Q. How much? A. About $85,000.

Q. In addition to the $268,000? A. Yes, sir.

Q. I see that at the end of 1903, according to the Blue Book, you apparently had a surplus of $300,000. What had become of the difference between the total of $85,000 and the $268,000? A. Why, the reserve.

Q. Went into the reserve? A. Yes.

Q. How were the policies of your company, the assessment policies, valued at the time you became a stock corporation, that is, December 31st, 1903? A. As term policies.

Q. For one year? A. Yes, sir.

Q. On what basis had that insurance been written with regard to the amount of premiums? A. Had been written as assessment insurance with an assessment clause providing for insurance year by year.

Q. That was necessary under the law governing your organization? A. Yes, sir.

Q. But you fixed the premiums at rates which you intended to maintain level, did you not? A. Not necessarily.

Q. Did you, as a matter of fact? A. Well some of those rates will be maintained level, yes sir.

Q. In other words, you fixed the rates at the same amount at which you subsequently issued policies after you became a stock corporation? A. No, sir.

Q. You did not? A. No, sir.

Q. What was the difference between the rates on life policies? A. Well, one was simply a rate which we made which was sufficient to carry the policies for a considerable number of years as term insurance, and the other was the regular premium rate —the tables were made by Mr. Standen, our actuary.

Q. What was the difference in dollars and cents between premiums per thousand say, at age twenty-five, on life policy issued before and after incorporation as a stock company? A. In some issues the difference was not very great. When we first started the company the rates were quite low, and we advanced those rates from time to time in anticipation of organizing a stock company, and by the time we got to the organization of the company the rates were about the same.

Q. I see. That was the information I had received. Now, when you turned over that business to the stock company, how was it done? A. It was done under a contract between the two corporations providing that that should be renewable term insurance.

Q. You assumed the risk? A. Yes, sir.

Q. Without writing any new policies for the insured? A. That is it exactly.

Q. Now, when you came to the end of your first calendar year as a stock corporation the reserves were not calculated as they would have been if that insurance had been originally written by you as a stock corporation? A. That particular insurance; but we wrote some insurance that was written——

Q. Certainly, between that time of your incorporation as a stock company in August and the end of the year? A. Yes.

Q. How much did you calculate you saved on that reserve at the end of the year 1903 by beginning as an assessment corporation? A. I don't know.

Q. Forty or fifty thousand dollars would you say? A. I would say so. Mr. Standen figured those reserves for us. I don't know about it.

Q. The point I desire to make clear is the advantage which under the laws of the State a company has starting as an assessment company and getting its rates up to about the rates you can maintain as a stock company on a level premium basis and then reorganizing as a stock company, with reference to the insurance outstanding at the time of such reorganization. There is an advantage is there not? A. In the valuation, yes, sir.

Q. And that advantage in the case of your company was you would clear about forty thousand dollars or fifty thousand dollars at the end of the first year? A. I would rather not guess at that because Mr. Standen made those figures.

Q. At the end of the second year 1904, those old assessment policies which existed prior to your reorganization as a stock company were valued in the same way? A. Same way.

Q. In reference to their original status? A. Yes, sir.

Q. So at the end of 1903 $76,818 of your available funds constituted your reserve, and the difference $300,917 your surplus? A. Yes, sir.

Q. What occasioned the diminution of your surplus to $271,423, according to the Blue Book at the end of 1904? A. Well, I guess that fifty thousand dollars transaction.

Q. Which is included as the Blue Book gives it in the expenses of that year? A. Yes, sir.

Q. I asked you for the check which showed the repayment of the fifty thousand dollars by yourself and Mr. Van Schaick: Is this the check (showing witness check)? A. Yes, sir, that is right.

MR. HUGHES: I offer it in evidence.

Check marked Exhibit No. 759 and read in evidence by Mr. Hughes.

Q. And was that deposited to the credit of the company? A. Yes, sir.

Q. With the Guaranty Trust Company? A. Yes, sir.

Q. That is included in the deposit you showed yesterday in the bank book? A. Yes, sir.

Q. Now you were speaking yesterday of the expenses of your company. Have you a salary list here? A. I had a salary list made out for you and I had it in my pocket, in my papers ——

Q. You can state the facts. A. I can state it.

Q. What are the salaries? A. Salaries at present, or all the time.

Q. Well, it is only a couple of years. Give the whole amounts that have been paid. A. At first the salary of the president was $10,000 up to May 1st; since May 1st last it is $12,000 per year. The treasurer was $2,500 up to that date; since which time it has been $3,000. The medical director was $2,500, since which time it has been $3,000. The general counsel was $5,000, since which time it has been $6,000.

Q. Who is the president? A. Myself.

Q. You have been president continuously? A. Yes, sir.

Q. Have you a vice-president? A. Nominally, yes, sir—John W. Vincent.

Q. Does he receive a salary? A. No, sir.

Q. Is he also treasurer? A. Yes, sir.

Q. Who is the secretary? A. C. W. Townsley, my son.

Q. He is your son? A. Yes, sir.

Q. Does he receive a salary? A. No, sir.

Q. What compensation does he get? A. He gets commissions.

Q. What commissions does he get? A. He gets the usual commissions paid to any other agent.

Q. What are they as matter of fact in his case? A. He gets 50 per cent. and advances against his renewals.

Q. Amounting to what sum or percentage? A. Well, the past year—I had that statement made up for you—this past year his total commissions on his business amounted to $4,400, out of which he pays his agents.

Q. Is he virtually the general agent of the company? A. He is virtually that; we have a number of them; he is one of them.

Q. What business is within his charge as secretary? A. Any business that he secures.

Q. What territory has he? A. He is in open territory—the metropolitan district of New York, which is open to any general agent whom we appoint.

Q. Does he get any business outside of the ——? A. Metropolitan district?

Q. Yes. A. No, sir.

Q. Are advertisements turned over to him? A. Yes, sir; some of them.

Q. That is from people who answer—from people who reside in the metropolitan district? A. In the City of New York, some are turned over to him and some are turned over to other agents.

Q. Does he receive any commission or compensation on business outside of the territory of the metropolitan district? A. No, sir.

Q. Is there any other general agent in the metropolitan district? A. Three or four.

Q. Who is the medical director? A. Dr. George D. Van Schaick.

Q. Is he a relative of your counsel? A. Brother.

Q. Does your general counsel have a regular salary or retainer? A. Has a regular salary.

Q. And what is the amount of that? A. $6,000 a year.

Q. What was the total amount of salaries paid last year by your company to officers, including the medical director, secretary and the counsel? A. I would have to look at the books to tell you. You have a statement there of it. That gives it to you; that is correct.

Q. I see that according to your report of December 31, 1904, your first year's premiums, without deduction for commissions, amounted in 1904 to $71,419. You report in your disbursements as commissions and bonuses to agents, less commissions on reinsurance first year's premiums $35,104.56. Would the inference be correct that that average payment that year was 50 per cent. on the first year's premium? A. That would be what we put into the commission account.

Q. Where do you carry other expenses—in what account? A. In advances and expense allowances.

Q. Where do your expense allowances figure in your report? A. Salaries and allowances for agents, including managers, agents and clerks, $9,731.

Q. Have you prepared a gain and loss exhibit for last year? A. I did; yes, sir.

Q. Have you it here? A. No, I sent it to you. I had a copy of it.

Q. You wrote us a letter a little while ago that you had it in course of preparation. I do not recall we had received it. A. That was the whole of it just as I gave it to you in that letter.

Q. You refer to the letter that I read in evidence yesterday? A. Yes, sir.

Q. Did you make last year, or rather did you gain last year a surplus over your operations? A. That is my recollection of the gain and loss account.

Q. Your total premium receipts are stated here $185,519. What was the additional amount put up in your reserve? A. The Life Association of America reserve for the year before was $76,818, the next year it was $124,815. The additional is the difference.

Q. You received $185,519 and exclusive of the $50,000 subsequently returned you expended $140,346? A. Yes, sir.

Q. Leaving $45,100 approximately? A. Yes, sir.

Q. Now, how much of that were you required to put up in reserve—about $21,000 additional reserve I mean? A. No, we put an additional reserve of about $50,000.

Q. Of about $50,000? A. Yes.

Q. Then did you have a net gain for the year? A. Well, if you exclude—that is you admit the return of the $50,000 which was returned afterwards, we have a net gain of $45,000.

Q. You are now comparing the total premium receipts with the total expenses reducing the expenses to $140,000? A. We made a gain of $45,000—that is the figures of it including the $50,000 taken out—they exclude the $50,000. You put that $50,000 in and you increase the surplus, that is all.

Q. In order that there may be no confusion, let us find what you had in. In the first place you received $185,000, you expended, exclusive of the $50,000, $140,000, leaving $45,000? A. Yes, sir.

Q. You paid your policyholders about $13,000? A. Yes, sir.

Q. Leaving $32,000? A. Yes, sir.

Q. Now how much through the business of that year did you have to put up as additional reserve? A. I said $50,000.

Q. About fifty thousand dollars? A. Yes.

Q. What would be the net result of that for the year? You had had a net gain of your receipts over your disbursement of thirty-two thousand dollars, and your business for the year required you to put up as additional reserves fifty thousand dollars. A. If you add that fifty thousand dollars to this two hundred and seventy-one thousand dollars, you will have three hundred and twenty-one thousand dollars, a gain of twenty-one thousand dollars.

Q. Pardon me. We do not want to add that to the other, we want to take what money you got in, and what money you disbursed, and what increased liabilities you had. You took in a hundred and eighty-five thousand dollars; you disbursed a hundred and fifty-three thousand dollars, leaving thirty-two thousand dollars, and your liabilities increased during the year through the risks you had taken fifty thousand dollars, which would apparently show a net loss for the year of eighteen thousand dollars. Is not that the fact? A. Well, that looks so here.

Q. What dividends did you pay on capital stock during that year? A. During that year we paid twenty thousand dollars.

Q. Ten per cent. dividends? A. Yes, sir.

Q. Did you pay any dividends for the year 1903? A. No, sir.

Q. I mean for the part of the year after the incorporation? A. No, sir.

Q. So that the only dividends from the time of incorporation to December 31st, 1904, were the twenty thousand dollars in 1904? A. That is all.

Q. Have you paid any dividends in 1905? A. One quarterly dividend.

Q. At what rate? A. At the same rate, ten per cent., five thousand dollars.

Q. What system have you of representation of stockholders? Do you have a proxy system? A. Yes, sir.

Q. Who holds the proxies? A. They are held by Mr. Van Schaick and Mr. Vincent and myself.

Q. To what extent do you hold the proxies? A. Well, we always ask for a proxy when we send out the stock. Sometimes we get it and sometimes we do not.

Q. (handing paper). Is this a circular issued by your company? A. Yes, sir.

Q. How recently? A. Well, very recently.

Q. Within the last few months? A. Yes, sir.

MR. HUGHES: I will mark it for identification and will read part of the circular.

(Paper marked Exhibit No. 760, for identification.)

MR. HUGHES: I note in this circular the following statement:

"The Life Association of America issues annual dividend policies, and pays larger dividends to policyholders than any other company."

Q. How much did you pay to policyholders in dividends in the year 1904? A. We paid very little, but we paid——

Q. How much in dollars? A. I do not remember.

Q. A hundred and fifty-nine dollars, or a hundred and sixty dollars? A. Our statement will show. You have the statement there. I do not know. (Paper handed to witness.) Yes, sir, a hundred and sixty dollars.

Q. How much did you pay in 1903? A. I do not think we paid anything.

Q. What did you pay in 1905? A. Well, we have paid something more than this, doubtless.

Q. How much more do you think? A. I have no idea.

Q. One thousand dollars? A. Oh, no, sir.

Q. Under one thousand dollars? A. Under one thousand dollars, I think so. We have not very many annual dividend policies.

Q. What do you mean by the statement in your circular that you pay larger dividends to your policyholders than any other company? A. We pay a larger dividend per dollars, per cent. of dividends.

Q. Per dollars of what? A. Of premium.

Q. How much of your insurance is annual dividend? A. Very little of it.

Q. What percentage would you say? A. I should say, I figured it out for you here, .033 per cent.

Q. How could you have paid in 1904 any dividends at all if your business showed a net loss? A. We had a very large surplus, which we had a right to distribute, and we distributed it.

Q. You mean from the sale of the stock? A. From the sale of the stock, and other operations.

Q. The other operations were the eighty-five thousand dollars which you took over? A. Yes.

Q. That is from the assessment business? A. Yes.

Q. But of that eighty-five thousand dollars seventy thousand dollars was required for your reserve at the end of the year, or seventy-six thousand dollars. A. There were some other premiums came in, there were some fifty thousand dollars of premiums on new business which came in, and that was carried to the reserve.

Q. Yes, but at the end of 1903, you had a surplus of $321,917 over and above your reserve? A. Yes, sir.

Q. And of that amount $268,000 had come in from the sale of your stock? A. Yes.

Q. Have you a copy of your charter here? A. I have not, except in—yes.

Q. (Handing book.) This is the charter of your organization as a stock company? A. Yes.

Q. Reading from the original records of the Association, Article 4 of the Charter, dated May 29th, 1901—that was the proposed charter or certificate of organization, which was not filed until 1903, although it seems to have been—— A. It was filed and approved.

Q. In 1901? A. In 1901, and we were given two years in which to complete the sale of our stock.

Q. So that I have before me the document as it finally existed? A. Yes, sir.

MR. HUGHES: Reading from Article 4:

"The capital of said company shall be five hundred thousand dollars in cash, divided into twenty-five thousand shares at twenty dollars each. The earnings and receipts of said company over and above all losses, expenses and reserves, provided by law, shall be accumulated, and shall, from time to time, be distributed in such manner as the Board of Directors of such company shall provide, in the following ratio, to-wit:

"To the stockholders, 3/10 thereof, and to the participating policyholders 7/10 thereof.

"But nothing herein contained shall compel the Directors to declare any such dividend, and they shall have full authority to accumulate such a further reserve and surplus as in their estimation will fully protect and safeguard the interests of the company."

Q. What amount of stock is owned by you? A. Personally?

Q. Yes. A. 2,000 shares.

Q. Out of the ten thousand shares? A. Yes, sir.

Q. What amount is owned by the other officers of the company? A. About an equal amount.

Q. About four thousand dollars in all? A. Yes, sir.

Q. Out of the ten thousand dollars? A. Yes, sir.

Q. Have you a comparative statement which shows the dividends declared by your company to policy holders amounting to the sums you have stated? A. Yes, sir.

Q. As compared with those made by the other companies? A. We have sóme—not compared with other companies, I do not believe; I do not think we made a comparative statement. We simply published our own statement of what dividends were paid on certain policies.

Q. Where is that statement? A. Well, I have not the circulars with me. You may find it on the back of that. There have been only two or three policies.

Q. What? A. There have been only two or three policies which are annual dividend policies, which have drawn dividends.

Q. There are only two or three policies which draw annual dividends? A. That have drawn annual dividends, sir.

Q. That have drawn annual dividends? A. Yes, sir.

Q. Now, one of those—— Well, you stated all the policies you had in your circular practically, did you not? A. Just exactly, we did, yes, sir, all that we had paid dividends on up to the time.

MR. HUGHES: Well, I read the entire circular, that is, that part relating to dividends:

"The Life Association of America issues annual dividend policies, and pays larger dividends to policyholders than any other company. The Association also issues deferred dividend policies and must by reason of this large annual dividend produce correspondingly better results at the expiration of the deferred period.

ILLUSTRATION NO. 1.

Policy No. 2,149, dated March 20th, 1901; amount, $10,000. Twenty-year endowment. Age, 31; annual premiums, $483.50.

Dividend first year, $72.52.

Net cost, $410.98.

Dividend fourth year, $79.77.

Net cost, $403.73.

Dividend fifth year, $79.77.

Net cost, $403.73.

ILLUSTRATION NO. 2.

Policy No. 2,438. Dated December 16th, 1902. Amount, $1,000. Twenty-year endowment. Age 24.

Annual premium, $47.90. Dividend third year, $7.18.

Net cost, $40.72.

Q. What is the fifth year alluded to in the first illustration? A. Of the policy.

Q. Does that mean this year, the current year? A. That means the current year, doubtless; yes, that probably means this year. It must mean this year.

Q. And the dividend for the fourth year was for the year from March 20th, 1904, to March 20th, 1905? A. Yes, sir.

Q. Are these according to policy years or calendar years? A. Those are policy years.

Q. Now, how did you compute this dividend of $79.77 for the fifth year? A. I took 16½ per cent.

Q. How could you compute it before you had the results for the fifth year? A. Well, then, probably that is for the other year.

Q. Won't you look at it (handing paper)? A. I do not know myself, because——

Q. That is dated March 20th, 1901. A. I will tell you. The dividend is not paid until the end of the year.

Q. Well, that would be March 20th, 1906. A. Well, I will tell you. At the end of the second year on the payment of the third premium we pay the dividend. Now, the second year of this policy was in 1903, 1904, 1905—that was the third premium paid. That was the fifth premium, at the end of the fourth year and the fifth premium paid.

Q. Did you give your first dividend after two years? A. After two years; yes, sir, after the payment of the premium.

Q. The date of the policy being March 20th, 1901, and March 20th, 1903, you declared a dividend on the policy of $72.52 as against the premium then payable? A. Well, I suppose we must have allowed it that way.

Q. Then on March 20th, 1904, you declared a dividend of $79.77 against the fourth premium then due? A. Yes, sir.

Q. Then on March 20th, 1905, you declared a dividend of $79.77, the same amount as the year before? A. Yes, sir.

Q. To apply on the premium then due? A. Yes, sir.

Q. Where did you get your figures, $79.77? A. In the matter of payment of dividends on policies it is a very difficult matter for me to make a calculation, and I consulted our actuary, and he advised us to make a straight dividend of about that amount for the first year.

Q. Well, you say a straight dividend. You mean—— A. A straight fifteen per cent., and the dividend we are paying there——

Q. How did you calculate the straight dividend? A. I simply took 16½ per cent.

Q. Of what? A. Of the premium.

Q. Why did you not take fifteen per cent or ten per cent? A. Because I took 16½ per cent.

Q. And it was simply an arbitrary figure? A. Absolutely.

Q. It really did not make much difference, so long as you had a good showing, seeing there were only two policies to which it applied? A. It would have applied to any others, if we had had them.

Q. Of course, if you had had them, but not having them, it only applies to these? A. Yes.

Q. Who held these policies? A. I think that ten thousand dollar policy is held by Mr. Capron.

Q. Who is he? A. He is one of our agents. He used to be connected with a corporation here and came to us last Spring.

Q. What is his full name? A. His full name is George C. Capron.

Q. What is his district? A. He is here in New York.

Q. In the metropolitan district? A. In the metropolitan district.

Q. What is his contract or compensation? A. Well, it is about the same as the other contracts, I forget just what it is.

Q. 50 per cent.? A. And some allowances, yes.

Q. And allowances which you are ready to commute at 40 per cent. more? A. Yes, sir; if necessary. I do not think he gets that much, he does not get that.

Q. Who holds the other policy of $1,000 which is illustrated? A. I forget who holds that; some policyholder simply outside, no special connection with him.

Q. How did you come to write an annual dividend policy in 1901? A. We wrote that man in the assessment company and when we organized the stock company he came over to the stock company and made his premium up by the payment of the difference between the assessment premium and the life premium and had his policy dated back to the original date.

Q. And the dividends declared ex-post facto? A. The dividends were declared to meet that premium, yes, sir.

Q. In other words, after you had organized as a stock company in August, 1903, he took out a policy dated back to March 20, 1901, and then you declared dividends as of March 20, 1903, to offset the premium which at that date under the new policy would have been payable? A. If the company had started at that time. He paid up his premium in full from the date of the original policy at the rate of the new policy and I think some time subsequent was allowed his dividend. He came in and claimed he was entitled to a dividend and we looked it up and found he was, and paid it to him.

BY THE CHAIRMAN:

Q. Then the first dividend you computed on this policy, do I understand, if it had been actually declared, would have been declared nine months before the corporation organized? A. well, a few months, not nine.

Q. March to December? A. March to August, yes, sir.

BY MR. HUGHES:

Q. You had no right as an assessment company to declare a dividend? A. We had no right as an assessment company to declare dividends at that time, and we had no right to issue a straight policy. This man took out his policy and afterward changed it to his original date.

Q. The point is this, when he changed it after you became a stock company it was dated back to March 20, 1901? A. Yes.

Q. The date of his original assessment policy? A. Yes.

Q. Then changing it to an endowment policy with a premium of $483.50, payable annually, he made a payment to you covering the premiums? A. Yes, sir.

Q. And you made a payment to him covering the dividend which, had you been able to write such a policy and declare dividends, you would have declared on March 20, 1903? A. Absolutely.

BY THE CHAIRMAN:

Q. Was there any other purpose in that than advertisement? A. Why, that was not the purpose at all. The advertisement was a subsequent matter. At the time the dividends were paid he never dreamed of it.

Q. Do you deny that that was deliberately done for the purpose of creating advertising matter? A. Absolutely. It was done because he believed he was entitled to it and because we believed we had a surplus sufficient to justify us in paying that dividend, and we think so now.

BY MR. COX:

Q. Who took part in that transaction for the agent, who negotiated this new policy on behalf of your company? A. I think a man by the name of Russell.

Q. Was he an agent of yours? A. Yes, sir.

Q. An agent in the field? A. Yes, sir.

BY MR. HUGHES:

Q. Mr. Van Schaick suggests that I should ask whether under the terms of the original policy that Capron had he was entitled to exchange it for the new policy on the reorganization of the company? A. Yes, sir, he was.

BY. MR. COX:

Q. And that was before, I suppose, he became an agent of your company that this was done? A. Long before, yes, sir.
Q. How long before? A. Well, he did not become an agent for this company until about July or August of this year.

BY MR. HUGHES:

Q. But the point is that when he did take out his new policy some time in the latter part of 1903, after you had incorporated, you went back and declared a dividend as of March 20, 1903? A. Yes, sir.
Q. To apply against his premium? A. Yes, sir.
Q. And that dividend you then figured out as an arbitrary percentage of the premium? A. Yes, sir.
Q. And you immediately issued a circular containing the statement of the dividend, did you not? A. No, sir.
Q. How long after? A. About two years.
Q. After you had declared two more dividends upon the policy? A. Yes, sir.

BY MR. COX:

Q. I suppose all of your earlier policies could do the same thing if they wanted to? A. Any one of them.
Q. That is any of your policyholders can go in to-day and have their policies dated back and get the dividend? A. Yes, sir, if they pay the premiums they have a right to do it.

BY MR. HUGHES:

Q. Now, did you declare a similar dividend upon deferred dividend policies? A. No, sir.

Q. As to deferred dividend policies you make no accounting or apportionment until the end of the period? A. No, sir.

Q. What is the shortest period that you have in deferred dividend policies? A. Ten years.

Q. So that none of those have yet matured? A. No.

Q. And you have not set aside any fund to meet them? A. No.

Q. And the only dividends you have calculated have been the dividends upon these two policies? A. Well, up to date of the publication of that circular, yes, sir. There have been some others paid since.

Q. How many have you got in annual dividend policies at the present time? A. A hundred and fifty, I think.

Q. Have any of them reached the third year so they are entitled to dividends? A. Yes, sir.

Q. How many? A. Oh, I suppose five or six. I don't know.

Q. Are you declaring dividends at the same rate upon those policies? A. Fifteen per cent.

Q. When did you adopt fifteen per cent. instead of sixteen and one-half? A. The date of the letter that you have there from Mr. Standen, a copy of which I sent you.

Q. That is this last month, is it not? A. Well, about that time.

Q. How much has the association paid in death losses since organization? A. Seventy thousand or eighty thousand dollars.

Q. How much did it pay in 1904? A. Twelve thousand five hundred.

Q. And in 1903? A. Three thousand.

Q. Well, did it pay in death losses upward of fifty-five thousand dollars in 1901 and 1902? A. It might have done it. That was the assessment company.

Q. Do you know how much it did pay before it was organized as a stock company, that is in 1901 and 1902? A. I do not remember.

Q. How much has it paid this year? A. About forty thousand dollars.

Q. In this one year? A. Yes, sir.

Q. Has your rate of mortality been excessive this year? A. Yes, sir.

Q. How far has it exceeded the expected rate? A. It has not exceeded it.

Q. Well, it has been excessive, then, as compared with what? A. With the other years.

Q. In this circular you also set forth a number of letters acknowledging prompt payment of the claims arising on your policies? A. Yes.

Q. Have you any litigated claims? A. One.

Q. What is that? A. That is a ten thousand dollar claim where a man—that is, the mutual company. We have no litigated claim in this company.

Q. You have no litigated claim in this company? A. Of the stock company, no.

Q. Have you compromised any claim of this company? A. Yes, sir.

Q. What percentage do you compromise? A. Very few—none at all—no percentage. We compromised one claim, I think.

Q. So you make it a practice to pay very promptly your death claims? A. Yes, sir.

Q. As shown by the letters in this circular? A. Yes, sir.

Q. How long after the loss do you pay the death claims? A. When we pay a claim at all we pay it on proof of claim.

Q. At once? A. Yes, sir.

Q. And you avail yourselves of that for advertising purposes? A. Yes, sir.

Q. I show you a check of October 24, 1904, or the stub of a check, drawn by the Life Association of America, on its account with the Guaranty Trust Company, to Townsley and Van Schaick for ten thousand dollars. What was that for? A. I do not know, sir.

Q. Have you no idea? A. I am trying to think. No, sir; I cannot think what it is for. It accomplished some matter of bookkeeping, I do not doubt.

Q. You and Mr. Van Schaick got the money? A. Well, no; we might, I don't know. If we did it was for some purpose. I don't know what it was for.

Q. Well, is there an account kept between the association and yourself and Mr. Van Schaick? A. Absolutely.

Q. A regular debit and credit account? A. Oh, no; we do not have any such account at all. We have our private account, and I did not know what that check was for. October 24, 1904, that is last October. That was probably an exchange of checks. We may have paid into the Life Association a number of checks and they gave us that in one check.

Q. Do you know whether that is the fact, or is it a conjecture? A. No, sir; it must be a fact. We never got ten thousand dollars out of the company.

MR. VAN SCHAICK: It was an exchange.

MR. HUGHES: Have you got anything here to show the checks in exchange?

MR. VAN SCHAICK: We will look it up.

Q. I would like to have you send the committee a list of your transactions and Mr. Van Schaick's transactions with the association, so we can see what they have been. A. Yes, we would just as soon do it.

Q. Now, with regard to your report of December 31, 1904 (handing paper), that is a copy of it. According to the report you make up your total of admitted and non-admitted assets, $488,962.34? A. Yes, sir.

Q. According to your statement to stockholders under date of January 1, 1905, you make up your total at $451,614.35. What is the explanation of the discrepancy? A. I suppose that it is in this item of premiums uncollected and deferred, and it was cut down a larger amount in our report than it shows in the report to the department. In the report to the department we made the statement of the whole amount. We did not consider it all good, but we made it as the law calls for, and in making our statement to our policyholders we made it as to what we would probably collect. Therein lies the difference.

Q. And the difference is how much? A. About thirty thousand dollars.

Q. Can you point out the items in the report to stockholders which correspond to the item of eighty-nine thousand dollars in your report to the Insurance Department? A. Net premiums in process of collection, commissions deducted, thirty-seven thousand four hundred and seventy dollars; under deferred and not reported premiums, twenty thousand dollars; making fifty-seven thousand dollars against eighty-nine thousand dollars. That is where that item is.

MR. HUGHES: I offer in evidence the report of the president, Mr. Townsley, to the stockholders under date of January 1, 1905.

(Paper marked Exhibit 760.)

Exhibit 760 will be found in the book of exhibits.

Q. Did you publish a statement of your condition on January 1, 1905, in the New York Times? A. I think so.

Q. That has been compared with the advertisement (handing paper). I understand it to be correct. Will you explain how it was that the total in your statement to stockholders, Exhibit 760, is $451,614.35 and in your public statement $457,713.52? A. Well, we included some items in this that were not included in the statement to policyholders. For example, we have furniture and fixtures, $4,332, in one and not in the other. We have got the furniture and fixtures, but we did not put it in in this statement. That is all. That amounts to that much. You will find that the items vary a little in that respect. That is all.

Q. Now, I find therein errors in several of the items, for example, cash in bank in one statement is $70,469 and in the other statement $70,535. What I want to get at is this: How is it possible in making up a financial statement as of the same date there should be any discrepancies whatever? A. There could be no discrepancy made for the department. There might be slight discrepancies made for publication because we might not be exact.

Q. How could you make your books balance? A. We did not. We do not take these statements from our books absolutely; we may go through the books and make estimates as to what the furniture is worth or we may take what it cost. It is written off the books, and does not show.

Q. You do not have any statement in your books of furniture and fixtures. Have you an account of it there? A. It is written off to profit and loss, as I remember it. I would go around and hunt it up and put it in the statement.

Q. Without having any entry in the book to represent it? A. Exactly.

Q. Would you do that with other items? A. We might do that with such an item as interest due and accrued, and things of that sort. We might make a mistake in one report, and correct it in the next. That report for the newspapers was gotten out after the 31st of December, and the other report was gotten out later and more carefully.

Q. That is the real explanation, is it not? In other words, you published this report in the papers on January 2? A. Yes.

Q. As to your condition on January 1? A. Yes.

Q. Then you got out your statement for the stockholders about January 16? A. Yes, sir.

Q. And you made up the statement for the press which you published somewhat hurriedly? A. Yes.

Q. And you put in that an estimate of furniture and fixtures? A. It was not an estimate. It was from the books, and we put it in one statement and did not in the other.

Q. I thought you said you did not have such a statement in your books, but had written it off to profit and loss? A. Yes; we knew exactly what we paid, but we turned it into profit and loss. It ceased to be an account carried in the books. I think we carry to-day sixteen dollars in our account for furniture and fixtures, something bought during the year that has not been written off.

Q. You show a surplus in the statement published in the Times of $137,195.51, and of January 1 a statement published in your address to stockholders of $131,096.35. In other words, do you have a system of bookkeeping which shows an exact amount on that day from which you took this balance? A. We have got a system of bookkeeping as perfect as the system of any life insurance corporation or company in the city of New York, and we have been complimented on its efficiency by the insurance managers. I do not say that because I have anything to do with it, Mr. Hughes. I have not.

Q. And it was so complete that you could take off your exact balance on that day? A. I could have taken off the exact balance if I had chosen to do so. I made up that statement in my own way, and if I chose to take the exact balances from the books I could have got them.

Q. Why didn't you do that? A. I got them as near as I wanted to. Those items that are taken from the books are exact —all of the items taken from the books are exact.

Q. Now, what didn't you take from the books? A. I did not take the net premiums in process of collection, commissions deducted, $37,470.

Q. Why not? A. I estimated how much we would get on it. I took the premiums from the books, and took off what I supposed would not be paid, and considered what would be good. I did not take the actual amounts from the books and net deferred and unreported premiums, commissions deducted, because I deducted the commissions. I may have varied that deduction differently in one case than the other. I made the deduction for the department according to their system. I made that according to my own.

Q. What is the average premium collected on a thousand dollar policy of your company? A. I should say about forty dollars.

Q. What do the losses average per thousand dollars? A. This year they have run about ten dollars a thousand, practically that.

Q. What does the reserve average? A. I cannot tell you. The reserve on all kinds of policies vary. An endowment policy has one standard——

Q. I am taking an average—in a life policy, for example? A. Take a life policy, I suppose the reserve is about 60 per cent. of the premium for the first year.

Q. What is it the first year? A. It is about eight or nine dollars.

Q. Eight dollars or nine dollars per thousand? A. Yes.

Q. So out of the $40 we must take about $10 for losses and about $8 or $9 for reserve? A. Yes.

Q. What does the medical examination average per thousand? A. About three or four dollars.

Q. Then how are you able to pay 90 per cent. of the premium for expenses in getting the business, that is for commission? A. We do not pay it. We advance it against the renewals.

Q. You pay it and charge it against the first year's business, because you commute the renewals in the first year and treat it as brokerage? A. Yes, we anticipate the renewals on the business.

Q. You borrow from what will come in in later years? A. Yes. We don't do business in that way any different from other companies.

Q. You mean you are a little franker about it? A. I don't know about that.

Q. You put it at 90 per cent. flat on the circular? A. We try to be frank about everything. We do not put anything under cover. Our books are wide open for this committee to go down and look at them; I would like to have you do it, too.

Q. We find at the end of 1903 you had outstanding $4,698,000 of insurance. At the end of 1904 $7,048,052, a gain of about $2,400,000 net; and that in 1904 you wrote in new business $4,618,302. That would show a very heavy lapsed rate? A. Yes, sir.

Q. What is the lapsed rate, according to your calculation? A. I have not made any calculation on it.

Q. Is the exhibit of last year typical? A. It is typical of last year; it probably won't be of this.

Q. It was exact of last year, but were the results of the business of the years preceding substantially the same? A. About that, I should say.

Q. Then you gain about half of the business you write, or about half of the business you write stays on the books? A. I suppose so.

Q. By the way, did the Insurance Department discover the payment to yourself and Mr. Van Schaick of the $50,000 when they made the examination September, 1904? A. Yes, sir.

Q. Did they make any remonstrance? A. Why, they said they would have to submit the matter to the Attorney General, and did so.

Q. They submitted it to the Attorney General? A. Yes, sir.

Q. And you heard from him the next month? A. Yes, sir.

Q. I think it was testified by you last night that the Attorney General after the examination made a demand that the money should be returned? A. Yes, sir.

Q. In how many States do you do business? A. About five or six or seven.

Q. What are they? A. In New York, Pennsylvania, Maryland, Illinois, Alabama, California and Rhode Island.

Q. Have you ever been debarred from doing business in any State? A. Yes, sir.

Q. In what State? A. New Jersey.

Q. When was that? A. Last spring.

Q. What was the reason of it—or the stated reason? A. Well, that is different. The stated reason was because we had made that loan over in the Citizens' Trust Company. The real reason is they are a pack of pickpockets.

Q. Have you been debarred from doing business in any other State? A. No, sir.

Q. Some years ago I think you said you were connected with the Bankers' Life Insurance Company? A. Yes, sir.

Q. What was the original name of that company? A. Bank Clerks' Mutual Benefit Association.

Q. What was that company originally? A. An assessment company.

Q. And when did it become a stock company? A. 1899, I think.

Q. Was its name changed? A. Its name was changed in 1904.

Q. To the Bankers' Life Insurance Company of the City of New York? A. Yes, sir.

Q. Between 1899 and 1904 was there any difference in its organization—I mean to say since 1899 has there been any difference in its organization other than the change of name? A. Yes, I think—not since 1899—not since it was organized as a stock company.

Q. Then it started and maintained for some years an assessment business? A. Yes, sir.

Q. And then it had a paid-up capital stock of how much at the time it became a stock company? A. $100,000.

Q. Has its stock remained substantially the same? A. I think so.

Q. How much of that is there? A. I think $100,000.

Q. What was your connection with the company originally? A. I was general manager.

Q. How long were you general manager? A. Three years.

Q. When did you cease your connection with the company? A. In March, 1897.

Q. Did you subsequently obtain a beneficial interest in the stock of that company? A. I cannot say that I have.

Q. Have you within recent years obtained any interest in the stock of the company? A. I own jointly with Mr. Van Schaick ten shares.

Q. Do you know the Knickerbocker Investment Company? A. Yes, sir.

Q. Was the Knickerbocker Investment Company organized to take and acquire an interest in the stock of the Bankers' Insurance Company? A. I don't know, sir.

Q. Did it in fact acquire an interest in that stock? A. I think so.

Q. It bought 626 shares, did it not? A. I believe it did.

Q. Out of a total of $100,000? A. Yes, sir.

Q. It bought those shares from whom? A. Well, I am not positive about that; it is only hearsay of course. There are rumors as to whom they bought that from. I don't know positively.

Q. In short, the Knickerbocker Investment Company acquired a control of the Bankers' Company through an ownership of a majority of the stock in it about 1904? A. I think so; yes, sir.

Q. When did you become interested in the Knickerbocker Investment Company? A. I think I went on the board about along in the spring of 1904.

Q. Mr. Eugene Van Schaick also went on the board of the Knickerbocker Investment Company about that time? A. At the same time.

Q. The stock which the Knickerbocker Investment Company had acquired in the Bankers' Company had been put in a voting trust, had it not? A. Yes, sir.

Q. For five years? A. Yes, sir.

Q. And who were the voting trustees? A. Governor Stokes, Foster M. Voorhees and William Scherer.

Q. The voting trustees issued voting trust certificates representing an equal number of shares of the stock of the Bankers' Company? A. Yes, sir.

Q. And those certificates were pledged by the Knockerbocker Investment Company as collateral for loans? A. I believe so, yes, sir.

Q. Did you take over some of the loans—you and Mr. Van Schaick? A. We did at one time.

Q. To the amount of about thirty-five thousand dollars? A. Yes, sir.

Q. And did you take over any of the collateral at the time—those voting trust certificates? A. Yes, sir.

Q. Did you take over the entire amount of the collateral? A. That was with the loan that we took up, yes, sir.

Q. Was that amount equal to or representing 626 voting trust certificates? A. No, sir, not all of that.

Q. How much did it represent? A. It represented something over five hundred shares.

Q. That is something more than a control of the bankers' company? A. Yes, sir.

Q. So that your position with Mr. Van Schaick was that of creditor of the Knickerbocker Investment Company with the voting trust certificates representing the stock of the Bankers' Company and security? A. Yes, sir.

Q. That was in the early part of 1904? A. Yes, sir.

Q. Did the Knickerbocker Investment Company bring a suit to dissolve the voting trust? A. Yes, sir.

Q. Of the stock of the Bankers' Company? A. Yes, sir.

Q. You procured that suit to be brought? A. The Knickerbocker Company did.

Q. What was your relation to the Knickerbocker Company at that time—were you an officer? A. Director.

Q. Simply a director. Did you with or without Mr. Fiske control a majority of the stock of the Knickerbocker? A. No, sir.

Q. You were then simply in the position of a creditor of the Knickerbocker, holding a small amount of stock, and you and others believed that an action should be brought to break up the voting trust of the Bankers' Life? A. Yes, sir.

Q. And upon what ground did you seek, or did the company seek to destroy that voting trust? A. The papers in the case will show that a good deal better than I can tell you.

MR. HUGHES: Inasmuch as the Bankers' Life Insurance Company is one of the companies to be investigated and the situation is somewhat complicated, I will read from the opinion of Hamilton Odell, dated June 22d, 1905, in a suit in the Supreme Court, New York County, of the Knickerbocker Investment Company, plaintiff, against Foster M. Voorhees, William Scherer and Edward C. Stokes, individually, and as voting trustees, etc., and the Bankers' Life Insurance Company, defendants, so much of the opinion as bears upon the facts in the case:

"The plaintiff"—that is, the Knickerbocker Investment Company—"is a New Jersey corporation. It was organized in March, 1902, and by its certificate of incorporation was authorized to do a general real estate, investment, brokerage and commission business—to act as agents for individuals, firms, and corporations—to buy and sell all kinds of stocks, bonds and other securities—to manufacture, purchase and sell goods, wares, and merchandise of every description—and also 'to acquire and undertake all or any part of the business, assets and liabilities of any person, firm, association or corporation, and to pay for the same in cash, the stock of this company or otherwise, and to carry on any business which the corporation may think calculated to develop its best interests.' It is alleged in the complaint that 'the purpose of the incorporation and organization of the Knickerbocker Investment Company, was the formation, ownership and control of a life insurance company,' and in the separate answers of the defendants, Voorhees and Stokes, it is admitted that 'one of the purposes of the organization of said company was the control of the life insurance company through the ownership of its stock.' No such purpose is stated in terms in the certificate of incorporation. It is to be found, if at all, in the very general and comprehensive language of the provision quoted above.

"The Bankers' Life Insurance Company is a New York corporation, it has a capital stock of $100,000 represented by one thousand shares of $100 each. In November, 1902, the defendant, Voorhees, acting for parties identified with and interested in the plaintiff, and now in his own behalf, secured an option for the purchase of 626 shares of the stock of the Bankers' Company, and at once executed and delivered to the plaintiff, a declaration that he had procured such option for the plaintiff's benefit, and that upon complying with the terms of the option the plaintiff would be entitled to a transfer of said shares. The plaintiff accepted the option and purchased the stock, and a few weeks later after the happening of events, which need not be recited here, a voting trust agreement between all the stockholders of the Bankers' Life Insurance Company who should become parties thereto, by signing the same, parties of the first part, and the defendants, Scherer, Stokes and Voohees, parties of the second part, was entered into and executed by the plaintiff and the three second parties, by which the said second parties were constituted voting trustees of the stock of the parties of the first part and issue 'stock trust certificates.' Therefore, and to have and be entitled to exercise during the said five years 'all rights of every name and nature including the right to vote in respect to all such shares deposited.' The 626 shares which belonged to the plaintiff were deposited with the trustees pursuant to the said agreement, and were voted by them at the annual elections of directors of the Bankers' Life Insurance Company in the years 1903 and 1904. No other act has been done or attempted by the trustees as holders of said stock.

"This action is brought to obtain the removal of the trustees 'for violation of their fiduciary trust toward their cestuis que trustent' and to have the voting trust agreement 'declared null, void, and of no effect, having been conceived and executed in fraud of the rights of the Knickerbocker Investment Company.' The complaint abounds in charges of conspiracy and fraud against Scherer and Stokes and Voorhees. It is alleged that they conceived a scheme for acquiring personal control of the Bankers' Life Insurance Company 'with its consequent personal benefits to themselves;' that in the prosecution of said scheme, Stokes and Voorhees, by false representations, willfully made, induced the directors of the Knickerbocker Investment Company to purchase the 626 shares of stock, and then to enter into the Voting Trust Agreement, naming the defendants Voorhees, Stokes and Scherer as trustees;' that in further prosecution of said scheme, the three conspirators voted themselves in as directors of the Bankers' Company at the annual election held in January, 1903, 'and voted in other persons as directors, who were their blind tools and figureheads, and who would do their bidding as directors;' that having obtained control of the directorate, they proceeded to vote themselves and their kindred into profitable offices, and use their positions and voting power for their own benefit, in violation of the trust imposed in them, 'voting themselves large and unreasonable salaries' and doing other dishonest and disreputable things, with the result that the business of the company was largely reduced, and its stock was largely depreciated in value. Not one of the allegations of collusion or conspiracy or fraud has been shown to be true. It is due to these defendants to say that the proofs utterly fail to show any concerted action on their part, or any plan or scheme conceived or contrived by them, or any false representations or fraud, or any possession or control by them of the directors of the Bankers' Company, or any misuse or abuse of the voting power, or any other misconduct or violation or neglect of duty, either as voting trustees, or as officials of the company. Nor, am I able to discover anything in the record before me, which will permit of finding that any misfortune that may have overtaken the Bankers' Life Insurance Company—any decrease of business or loss of surplus, or shrinkage in the value of its stock—is properly or fairly chargeable to these voting trustees, either directly, by reason of their own acts or omissions, or indirectly through any unfitness or incompetency, or infidelity or negligence or other defect, moral, mental or physical, of the directors they selected and elected to manage the company's affairs. It is plain, I think, that if relief is granted to the plaintiff in said action it must be for some other reason than fraud or other misconduct on the part of the defendants.

"No other ground of action is set forth in the complaint unless it be as alleged in the tenth paragraph, that 'there was no consideration paid or given for the execution' of the voting trust agreement. My opinion is that the proofs disclose an abundant consideration. The facts appear to be as follows: On November 8, 1902, the option agreement, as it is called, was entered into between Charles H. Fancher and the defendant Voorhees. Fancher owned 125 shares covered by the option, the other 501 shares were owned by Demarest. The price to be paid by Voorhees was $300 a share, amounting to $187,800. Of this sum $30,000 was paid on the signing of the agreement. As to the balance the agreement provided that $82,000 should be paid within ninety days thereafter, and that Fancher should procure a loan for Voorhees of not more than $75,000, 'with which to make up and pay the sum remaining due, such loan not to extend beyond a period of four months from the time of making such loan, and the stock to be deposited as collateral for the payment thereof;' and it is expressly agreed, that in case Voorhees should not complete the purchase of said stock according to the terms of the option, the $30,000 should be forfeited—the agreement declaring that it was paid 'as the purchase price of the option hereinbefore given'—to be applied however, as a payment on account in case the purchase was completed. On the same day (November 8th), Voorhees executed and delivered to the plaintiff, a writing over his hand and seal, in which he declared that he had procured the option for the benefit of the said Knickerbocker Investment Company, and that it, said company, upon compliance with the terms of said option, will be entitled to have said stock transferred to it.' At a meeting held on the 21st of November, 1902, the stockholders of the Knickerbocker Company voted without dissent to take over the option and purchase the 626 shares of stock for $187,000, the directors of the Bankers' Life Insurance Company were so disturbed by the proposed transfer of a controlling interest in the stock to outside parties, that on the 13th of December they adopted a resolution by which they 'placed themselves on record as unalterably opposed to the consummation of this option for the transfer of the control of the capital stock of this company into the hands of Governor Voorhees or anybody else of whom we have had no previous knowledge.' And by which they instructed the counsel of the company, 'to take such steps as may be necessary to protect the interests of the company in this matter. This action of the Board was communicated to the Knickerbocker Investment Company and to Governor Voorhees. It was not claimed, as I understand it, that Francher and Demarest were not at liberty to dispose of their stock to any party and upon any terms they pleased, or that there was any legal ground upon which the Bankers' Company could prevent the acquisition of the stock by the Investment Company; and it may fairly be assumed that the Investment Company would have paid no heed to the Bankers' Company's resolution or protest to Demarest, who was a director of that company, and who had not signed the option agreement, had not given notice that he would not carry out the option and deliver his stock unless matters were arranged to the satisfaction of the Bankers' Company. It was during the negotiations that followed that the voting trust was suggested as a solvent of the situation. Meantime, application had been made by the Investment Company to Fancher, for a loan of $15,000 in addition to the loan of $75,000, which in the option agreement Fancher had engaged to procure for use in making the final payment on the stock. The results were as follows: Fancher agreed to make the additional loan; and on December 27th, 1902, an agreement was entered into between him and the Investment Company, which recited the option of November 8th, and the deposit of 626 shares in escrow with the Irving National Bank, and the assignment of the option by Voorhees to the Investment Company, and that 'the parties hereto deem it for their interest that a voting trust be created, and the voting power on said 626 shares of stock . . . be lodged with voting trustees,' and that 'the party of the first part has agreed to procure a loan to the party of the second of the sum of $15,000, in addition to said sum of $75,000, as agreed upon in the original option,' and by which, 'in consideration of the premises, etc., the Investment Company agreed to deliver and Francher agreed to accept, as a security for said loan, and in lieu of the said shares of stock 'stock trust certificates to be issued by the voting trustees appointed under the deed of trust, now being arranged between committees of the party of the second part (the Investment Company) and said insurance company (the Bankers' Life). On the same day upon receipt of communications, 'from the representatives of the Bankers' Life Insurance Company, and the makers of the option held by the Hon. Foster M. Voorhees on behalf of this company' the directors of the Knickerbocker Investment Company adopted the following resolution:

"Resolved, That the amendments to the aforesaid option, where by the amount agreed to be loaned upon the stock of the Bankers' Life Insurance Company, according to the terms thereof, was increased from $75,000 for four months to $90,000, as follows: $10,000 for thirty days and $80,000 for four months, upon condition that the stock in the Bankers' Life Insurance Company of the City of New York, so to be purchased and transferred, when transferred to this company shall immediately be retransferred to three voting trustees, according to the terms of the agreement submitted as aforesaid, and to receive stock certificates, be accepted by this company in lieu of the option as originally given and accepted; 'and the officers of the Investment Company were authorized and directed to execute on behalf of the company the voting trust agreement, upon condition that the names of the following persons be inserted in said agreement, as the voting trustees provided for therein: William Scherer, Edward C. Stokes and Foster M. Voorhees.' On the preceding day (December 26th), the directors of the Bankers' Life Insurance Company acted upon and adopted the report of the Special Committee previously appointed, which recommended 'that a Voting Trust be created for three members, one such voting trustee to be selected by the present Board of Directors of this company as representing the owners of the minority of the capital stock of the company; one to be selected by the owner of said option for the purchase of the majority of the stock, as representing the holders of the majority of said stock; and the third voting trustee to be the choice of those two;' and William Scherer was designated as the voting trustee of the minority of the stock. The matter was closed upon these terms. Demarest's opposition was withdrawn; the Investment Company became the owner of the stock; it designated the Defendant Voorhees as its voting trustee; the voting trust agreement was executed, and trust certificates were issued by the voting trustees, and deposited as a security for the loan made to the Investment Company, by aid of which it completed the purchase of the shares. The facts narrated show ample consideration to support the voting trust agreement. Under the amended option agreement the plaintiff acquired title to the stock, 'upon condition' that it should be immediately transferred to three voting trustees according to the terms of the agreement, which it is sought in this action to avoid and annul. The increased loan of $15,000 to the plaintiff was made or procured by Fancher upon the same condition."

Then follows a consideration of the questions of law with reference to the consideration being a valuable one and to the validity of the voting-trust agreement under the law of New Jersey, with citations of authority upon that point. The conclusion of the learned referee is: "My judgment is that the complaint should be dismissed."

Q. Now, in the spring of this year, did you, with other directors of the Knickerbocker Investment Company, form a company known as the Manhattan Bond and Underwriting Company? A. Yes, sir.

Q. And that company was formed under the laws of the State of New York? A. Yes, sir.

Q. Did that company take over $35,000 of the obligations of the Knickerbocker Investment Company? A. Yes, sir.

Q. And does that company hold as security something over five hundred shares of the voting trust certificates representing the stock of the Bankers' Life Insurance Company? A. Yes, sir.

Q. Did the Manhattan Company issue a bond in exchange for the stock of the Knickerbocker Investment Company? A. Yes, sir.

Q. Is this the form of the bond (showing witness paper)? A. I should say so—yes, sir. Of course, I assume you have made a copy of it.

Q. You and Mr. Van Schaick own practically all of the stock of the Manhattan Company? A. Yes, sir.

Q. So that the Manhattan Company now stands in place as a technical corporation of you and Mr. Van Schaick as the creditor of the Knickerbocker Investment Company holding the majority of the Bankers' Life Insurance Company's stock as collateral—that is, subject to the voting trust? A. I suppose we will draw —that would be the natural conclusion.

Q. Has this decision been appealed from of Hamilton Odell? A. I believe so.

Q. Through the issue of these bonds of the Manhattan Company to the Knickerbocker Investment Company has the Manhattan Company acquired a majority of the stock of the Knickerbocker Investment Company? A. Yes, sir.

Q. So that the Manhattan Company is the owner of the majority of the stock of its own debtor on the $35,000 loan? A. Yes, sir.

MR. HUGHES: The form of the bond of the Manhattan Company I will have marked in evidence and introduced at this place.

Paper marked Exhibit No. 761.

Q. Was the Manhattan Company organized for the purpose of obtaining control of the Knickerbocker Investment Company and through that the control of the Bankers' Life? A. Yes, sir.

Q. Following that organization was there a suit brought in the State of New Jersey? A. I believe so—yes, sir.

Q. Is there a suit now pending there? A. No, sir.

Q. When was it discontinued? A. Within two weeks after it was brought.

Q. Abandoned? A. Well, it was dismissed.

Q. Who brought the suit? A. I believe it was brought by Howard Stokes.

Q. It was brought on behalf of the minority interest of the Knickerbocker Investment Company? A. Well, perhaps so.

Q. Against yourself and Mr. Fisk in the Manhattan Company? A. I think so.

Q. Now, was a preliminary receiver appointed? A. Yes, sir.

Q. And then the suit was dismissed upon an arrangement changing somewhat the plan which had been formulated? A. Well, sir, I don't know about that. I understood the suit was dismissed on an argument in court.

Q. Was there an arrangement made by which the obligations of the Knickerbocker held by the Manhattan were changed to time loans which should not mature until the expiration of the voting trust? A. Yes, sir.

Q. And in consideration of that which made it impossible for the Manhattan Life to sell out the collateral prior to the expiration of the voting trust the legal proceedings in New Jersey were withdrawn? A. Yes, I presume that may be so; I don't know; the legal proceedings were terminated and the receiver was dismissed and that was one of the things that transpired, but whether that was the reason for it I don't know.

Q. Then the $35,000 against which a majority of the voting trust certificates representing the stock of the Bankers' Life Insurance Company stands as collateral is now in the shape of a time loan? A. Yes, sir.

Q. Maturing at the expiration of the voting trust? A. Yes, sir.

Q. Through the Manhattan controlling the Knickerbocker Trust Company and through your control with Mr. Van Schaick of the Manhattan Company you are in a position to default upon that loan of $35,000 and have the collateral sold out, if you so desire? A. I do not so understand it.

Q. In other words you control the debtor and therefore the payment of the obligation? Mr. Van Schaick says there is a provision in the loan that the collateral shall not be sold out, save upon fair notice and notice to every stockholder of the Knickerbocker Investment Company. Was that put in as a part of the disposition of the suit?

MR. VAN SCHAICK: Why, yes.

MR. HUGHES: A suggestion of the court?

MR. VAN SCHAICK: It was a suggestion of ourselves which the court availed itself of.

Q. So that to sum up the situation of the Bankers Life Insurance Company, its stock is held by voting trustees who up to date have been confirmed in their position by the court and the voting trust expires about 1907?

MR. VAN SCHAICK: Yes.

Q. The majority of the voting trust certificates are owned by the Knickerbocker Investment Company?

THE WITNESS: That is right.

Q. A majority of the voting trust certificates owned by the Knickerbocker Investment Company is pledged with the Manhattan Bond and Underwriting Company? A. Yes.

Q. The Manhattan Bond and Underwriting Company owns a majority of the stock of the Knickerbocker Investment Company? A. Yes, sir.

Q. And you and Mr. Van Schaick own practically all of the stock of the Manhattan Bond and Underwriting Company? A. That is right.

Q. When you originally planned the organization of the Life

Association of America you issued a prospectus, didn't you? A. Issued a good many.

Q. Is that one of them (showing witness paper)? A. This is one of them, yes, sir.

MR. HUGHES: I offer it in evidence.

Paper market Exhibit 762 and read in evidence by Mr. Hughes.

Q. Now, did you send out with this prospectus or at any time did you give to persons illustrations of returns to the investors? A. Yes, sometimes.

Q. Is this one of them that I now show you? A. No, sir, I did not make that. Some of our agents made that and sent it out. They made out their own estimates on those things and that is made out by some agent. I don't know as I ever saw it before.

MR. HUGHES: I offer it in evidence.

Paper marked Exhibit 763 and read in evidence by Mr. Hughes.

Q. Now, did the agents have the stock or rather the subscription blanks or whatever were used in obtaining subscriptions? A. I don't think so.

Q. How were the subscriptions obtained? A. When they got an application for insurance and when that was issued the man sent his check for the stock, the stock was deposited in the North American Trust Company and a certificate calling for the stock was issued and endorsed by the North American Trust Company. When that was returned to the company the stock was issued and that was taken up.

Q. So the matter of obtaining investment in the stock was put in the hands of agents very largely? A. Oh, yes, yes, sir.

Q. What was this cash commission contract $2,000 that is estimated? A. That is on the original charter members we made a contract with them that they would be entitled to one per cent. of the premiums on the business done in the State of New York and that is what they estimated that would be in ten years, to those that were surviving at the end of the time. That was the tontine contract.

Q. One per cent. commission? A. Yes, sir.

Q. How long was that maintained? A. That is maintained now.

Q. Is that in force now? A. That is in force now. We cannot abrogate those contracts; we took them over.

Q. How many of your policyholders share in that commission? A. I should think about 150.

Q. What proportion of your business is within the State of New York? A. A great majority of it—two-thirds of it.

Q. Where does the commission to these policyholders appear in your report? A. It does not appear there; it is not payable until the end of ten years.

Q. You do not treat it as a liability then? A. No, sir.

Q. Is the Insurance Department familiar with that arrangement made with policyholders? A. Undoubtedly.

Q. Have you had any interviews with anyone from the Department in regard to it? A. We consulted them about everything and I think about that also; I don't know.

Q. They have never suggested you should charge yourselves with that as a liability? A. No, sir.

Q. Do you keep any account of it in your books? A. No, sir.

THE CHAIRMAN: How much is it estimated at?

MR. HUGHES: It is estimated in the case of a five thousand dollar policy in the illustration I have here to amount to $2,000 at the end of ten years, one per cent. of the gross premiums.

THE WITNESS: Yes, sir, one per cent. of the gross premiums.

Q. One per cent. of the gross premiums to be divided among the policyholders surviving the period and that is one per cent. of the gross premiums beginning with what time? A. Beginning of the company.

Q. That is as a stock company? A. That is the Mutual Company.

Q. It meant I suppose last year $1,855? A. Yes, sir.

BY MR. SCOTT:

Q. There is no way of computing the amount of liability because you cannot determine the number who will survive? A. You cannot tell the amount until the end of the term. It only belongs to the survivors.

BY MR. HUGHES:

Q. If there are no survivors there will be nothing paid? A. Nothing paid.

Q. How is this amount of $2,000 arrived at here? A. I don't know. The agent who sent that statement out arrived at it in his own way. I suppose he estimated we would write $25,000,000 in the time specified.

Q. Later on there was a good deal of dissatisfaction with those who had agreed to take stock, was there? A. No, sir.

Q. Didn't a good many withdraw from the plan? A. No, sir, none of them.

Q. None of them who originally agreed to take stock? A. No, sir, no one.

Q. Didn't you return the money to several? A. No, sir.

Q. I mean by you the company? A. No, sir. They were always glad to get the stock.

MR. HUGHES: That is all, Mr. Townsley.

JOHN TATLOCK, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Mr. Tatlock, you are the president of the Washington Life Insurance Company? A. Yes, sir.

Q. How long have you been president of that company? A. I was elected on December 30, 1904.

Q. Were you previous to that in the insurance business? A. Yes, sir, for twenty years.

Q. In connection with what company? A. With the Mutual Life.

Q. In what capacity did you serve that company? A. For nearly sixteen years I was assistant actuary of the Mutual Life.

Q. For sixteen years prior to your leaving it? A. Yes, sir. (Handing witness book).

Q. Is this the charter of the Washington Life Insurance Company? A. Yes, sir.

Q. The Washington Life Insurance Company was incorporated in January, 1860, Act of June 24, 1853, providing for the incorporation of life and health insurance companies? A. Yes, sir.

MR. HUGHES: I will read from the charter the following provision:

Article 3. Section 2. Amended 1863 to read as follows:

The insurance business of the company shall be conducted upon the principle of giving to policyholders an interest in the profits of the company as hereinafter provided, unless otherwise expressly agreed between the company and the assured.

Article 7. Section 1. The amount of the capital stock of the company shall be $125,000, divided into shares of $50 each, which shall be personal property and transferrable on the books of the company according to the law of the by-laws of the company.

Section 2, amended 1863 to read as follows: The policyholders of the said capital stock shall be entitled to a semi-annual net dividend out of the earnings of the company of, but not exceeding, three and one-half per cent. on the amount of stock held by them respectively, payable on and after the first day of February and August in every year, without deduction, said payment commencing with the 1st day of August, 1863.

Section 4. The Board of Directors shall have power in its discretion, to increase the capital stock of the company to an amount not exceeding five hundred thousand dollars, and for that purpose to provide by resolution for the subscription and issue of additional stock to an amount not exceeding $75,000 in like shares of fifty dollars each, payable in cash.

Article 8. Section 1, amended 1863 to read as follows: The company within sixty days next after the expiration of five years from the 1st day of January, 1861, and within the first sixty days next after the expiration of every subsequent period of five years, shall cause a general statement to be made of the affairs of the company, which shall exhibit the amount of the then remaining net profits of the company after allowing a sufficient amount to reinsure all outstanding risks, and to cover all other obligations. The whole amount of the net profits so ascertained as above provided shall be credited to the account shall be apportioned among them and paid or applied in such of the policyholders entitled to participate in the profits which manner or at such time as the Board of Directors may deem equitable and from time to time provide.

Q. Has the capital stock of the company been increased? A. Yes, it has been increased to five hundred thousand dollars.

Q. When was the increase made? A. As of December 29, 1904—December 30.

Q. And ratified by the stockholders? A. Later on, February 3, 1905.

Q. These are the present by-laws of your company? A. Yes, sir.

Q. Adopted at what time? A. April 18, 1905.

MR. HUGHES: I will read from the by-laws the following:

Article 2. At each annual meeting for the election of president and vice-president the following standing committees shall be appointed by the president, subject to the approval of the board, and they shall hold office until their successors are appointed.

1st. An executive committee, to consist of nine members, including the president.

2d. A finance committee to consist of seven members, including the president.

3d. An insurance committee to consist of eight members, including the president.

4th. An auditing committee to consist of four members.

A majority of any committee shall be a quorum for the transaction of business.

Regular minutes of the proceedings and resolutions of the standing committee shall be kept in books provided for that purpose and shall be read at the next stated meeting of the directors when called for. Every report of a standing committee not entered on the minutes shall be in writing, and signed by the members of the committee assenting thereto.

All standing committees shall convene on the call of the president.

Article 3. Executive Committee. It shall be the duty of the executive committee to fix and regulate all salaries and fees of the officers, directors and employees at the home office of the company, subject to the approval of the board. To take cognizance of any business which may be referred to them by the president, and generally to advise and consult with him on all matters not specially confided to the other committees.

Article 4. Finance Committee. It shall be the duty of the finance committee to superintend the finances and investments of the company, and to consult and advise with the president on all matters connected with the finances of the corporation. The finance committee shall require from such of the officers and employees of the company as in its discretion may seem advisable, proper bonds with surety for the faithful performance of the prescribed duties of such officers and employees.

Article 5. Insurance Committee. It shall be the duty of the insurance committee to receive and pass upon all recommendations of the president in regard to rates of premium, forms of policy contracts, agency contracts, and such changes or modifications in the agency system of the company as may be referred to the committee by the president. In November of each year the insurance committee shall receive a report from the president and the actuary on the amount of surplus which may be apportioned to participating policyholders during the ensuing calendar year, and shall report to the board its recommendations in regard thereto.

Article 6. Auditing Committee. The auditing committee shall meet twice in each year in conjunction with a professional accountant or audit company, examine the books, accounts and securities of the company and report thereon to the board.

Article 7. Officers. The officers of this company who shall be elected by the board shall consist of the president, vice-president, second vice-president and secretary, and the board may appoint an actuary and medical director, auditor, treasurer and attorney and such other officers or assistants as may from time to time be required. The first four officers mentioned in this article shall be known as executive officers.

Article 16. No policy shall be issued on any single life for a greater sum than fifty thousand dollars, but a policy for that amount of which the commuted value may exceed that sum may be issued.

Q. There is no provision in your company for voting by the policyholders? A. No, sir.

Q. Who are the present executive officers of your company? A. The president; Hon. Charles H. Allen, vice-president; Mr. T. T. Johnson, second vice-president; Mr. J. B. W. Vandewater, secretary.

Q. Were any of these officers connected with the company prior to 1904? A. Mr. Vandewater has been connected with the company for a great many years, but not in an official capacity until this fall.

Q. When were the new officers elected or chosen? A. I was elected president on December 30, 1904, and then after meeting on the second Tuesday in April, 1905, was re-elected in accordance with the charter and by-laws and Mr. Allen was elected vice-president at the same time. Mr. Johnson, I think, was elected second vice-president on the same date, and Mr. Vandewater was elected secretary on the third Tuesday in October, 1905. I have forgotten the exact day of the month.

Q. Have you a list of the present directors of your company? A. Yes.

Q. This is a correct list? A. Well, there are three names there who are not now directors.

Q. Will you check them off? A. Yes, sir. Judge O'Brien, Mr. Root and Mr. Thomson.

MR. HUGHES: The present force, then, is as follows: Charles H. Allen, Dumont Clarke, Samuel B. Clarke, Samuel P. Colt, Charles F. Cutler, Charles D. Dickey, H. Ward Ford, George M. Hard, G. G. Haven, Levi P. Morton, James A. Parker, Winthrop Rutherford, Thomas F. Ryan, Valentine P. Snyder, William A. Street, John Tatlock, E. B. Thomas, Harry Payne Whitney.

THE WITNESS: There is one addition to be made to that, sir. Mr. William Corcoran Eustis.

Q. And there are two vacancies in the Board? A. There are two vacancies in the board.

Q. Is Charles H. Allen connected with any other company? A. He is vice-president of the Morton Trust Company.

Q. And he is the vice-president of your company? A. Yes, sir.

Q. Mr. Theodore T. Johnson, is he connected with any other company? A. No, sir.

Q. He is second vice-president of your company? A. He is second vice-president of our company.

Q. Are you connected now with any other company? A. No, sir.

Q. Who are the members of your executive committee? A. May I get a list from my papers?

(Book handed to witness).

Levi P. Morton, Mr. Ryan, Mr. Whitney, Governor Allen, Mr. Dickey, Mr. Rutherford. Judge O'Brien and Mr. Root were members, but are no longer directors.

Q. And they are no longer connected in an official capacity with the company? A. No, sir.

Q. Who are the members of the finance committee? A. Mr. Morton, Mr. Ryan, Mr. Allen, Mr. Whitney, Mr. Haven and Mr. Rutherford, and the president ex-officio under the by-laws.

Q. Who are the members of the insurance committee? A. Mr. Dumont Clarke, Mr. Samuel B. Clarke, Mr. Colt, Mr. Parker, Mr. Cutler, Mr. Street and Mr. Thomas.

Q. Who are the members of the Auditing Committee? A. Mr. Eustis, Mr. Ford, Mr. Hard and Mr. Snyder.

Q. Have you a statement of the salaries paid to the officers of your company? A. There was one submitted this morning. That is it—

MR. HUGHES: I offer it in evidence and read it upon the record.

(Paper marked Exhibit No. 764.)

Q. Does Mr. Charles H. Allen, your vice-president, receive a salary? A. No, sir.

Q. The new officers were elected——

BY THE CHAIRMAN:

Q. As a matter of curiosity I would like to know why $144 was added to those salaries. It seems strange. A. That is an inheritance of a long standing of the company, by which every employee at the home office received an allowance of twelve dollars a month, presumably for lunches.

Q. Then the president does not eat lunch, I take it? A. Not officially—no, sir.

BY MR. HUGHES:

Q. That practice has obtained for a good many years? A. For a great many years, yes, sir.

Q. The election of the new officers of your company followed upon an examination by the Insurance Department, the results of which are shown by the reports of December 29th, 1904? A. Yes, sir.

Q. The old executive officers then resigned; at about the same time the capital stock was increased, and new directors were elected to a considerable extent, and new officers chosen? A. Almost entirely.

Q. The reorganization of the management, in other words, took place at the end of 1904? A. Yes, sir.

MR. HUGHES: I now offer in evidence the report of Isaac Vanderpoel, chief examiner of the Insurance Department, under date of December 29th, 1904, of the result of his examination of the agents of the Washington Life Insurance Company, as of November 30th, 1904.

(Paper marked Exhibit No. 765.)

Mr. Hughes then read Exhibit No. 765.

Q. Now, it was because of that report that the old management, and the officers herein referred to were ousted, and you were brought from the Mutual Life to become president of the company, and the capital stock was increased to make good the impairment caused by these transactions? A. Yes.

THE CHAIRMAN: What is the date of that report?

MR. HUGHES: Then follows the affidavit of Mr. Vanderpoel under date of December 29th, 1904, and the report was of November 30th, 1905.

THE CHAIRMAN: We desire to take a recess.

MR. HUGHES: I will read a supplement which should go with this, by the Superintendent of Insurance, which will only take a moment:

State of New York.
Insurance Department.
Albany, January 21st, 1905.

Since the date of the foregoing report a reorganization of the Washington Life Insurance Company has been instituted, and is now (January, 1905), being effected.

The members of the old Board of Directors have offered their resignations, and their places have been filled by men prominent in public life and in well known financial institutions in New York City. The former president of the company has resigned his office and the executive management is now entrusted to Mr. John Tatlock, late associate actuary of the Mutual Life Insurance Company of New York, who was elected president on December 30th, 1904. Further radical changes in the management are taking place to the end that approved and proper methods of administration may be instituted and carried out.

The capital stock has been increased to $500,000, the new stock being paid for at a premium of 75 per cent. and the company now possesses a surplus to policyholders of $575,316, on a rigid and conservative basis of valuation of both assets and liabilities.

The agency department of the company, which has been justly criticized for inefficient and extravagant management in the past, is being reorganized on the basis of paying only for results, which are of value and profitable to the company and essential to its continuous progress along safe and conservative lines.

The Department is satisfied that it is the aim of the new management to conduct all the branches of the business of this company in such a manner as to fulfill beyond peradventure the contracts entered into with its policyholders and to use all legitimate means to the end that such contracts may be secured by the policyholders at a cost to themselves fairly comparable with the cost of insurance in other approved companies. The Department can state that the new management engages in the task set before it with absolute integrity of purpose and honesty in method and procedure, and fully believes that its plans and aims will result in maintaining this company in the position in which the forty-five years of its history justly entitles it to be placed.

(HENDRICKS,)
Superintendent of Insurance.

THE CHAIRMAN: The Committee will now take a recess until 2.30 o'clock sharp, this afternoon.

ARTERNOON SESSION.

JOHN TATLOCK resumed.

BY MR. HUGHES:

Q. Mention has been made in the report of the Chief Examiner of the Insurance Department which has been read, of the method by which the company prior to the introduction of the new management withheld policies for valuation as required by law. Are we to understand that it reported in December as lapsed which in January were insured? A. That is my understanding, sir.

Q. Yes; so that it practically wrote off its books at the end of the year for the purposes of its report a large number of policies thus escaping a liability for the reserve against such policies, and then shortly after the beginning of the year restored the insurance? A. So I understand.

Q. The net result being that the condition of the company to the extent that the liability was concealed was presented erroneously? A. Yes, sir.

Q. I should be glad to have you state what you have done as president or the new management has done with reference to a change of the methods of the company? A. The two principal problems that presented itself to the new management and in which the changes have been made were first a reform in office methods and practice and second in the agency field.

Q. A little louder please. A. In the office we have simply introduced more economical methods and taken measures to obtain more efficient results from the office force.

Q. How have you introduced more economical methods? A. Well, by introducing what might be called modern methods—businesslike methods.

Q. What are they precisely? A. There had been a large amount of duplication of work.

Q. You mean you reduced the office staff? A. We have reduced the office staff.

Q. In what ways has there been a duplication of work? A. Well, in matters of petty detail in making in duplicate and triplicate records which were of no use, and we have instituted card systems in place of registers in many places and matters of that kind.

Q. To what extent have you through the changes in salaries and the changes in the work of the office reduced the expenses of the company? A. The office expenses of the company for the first nine months of 1905 were over $39,000 less than they were in 1904, due to more economical methods and increased efficiency. It is proper, I think, also to add that we have been able to aggregate the whole office force on one floor, instead of distributing it in various parts of the building, as it was before, and in that way added indirectly to the rental of the building, at the same time increased the efficiency of the office force by getting it nearer the central point.

Q. Is that included in your estimate of saving of $39,000? A. Oh, no, sir.

Q. That is separate from that? A. That is separate from that.

Q. What gain do you make in rental space? A. About $3,000.

Q. What changes have you made with reference to the insurance or rates of insurance? A. The existing rates and policy forms have been continued with the exception of one or two forms that the new management considered undesirable. In addition to that, on September 1st we started to issue all standard forms of policies on reduced rates of premium, both on participating and non-participating basis, the policies being much simpler in form than the standard forms and being intended for life insurance purposes only.

Q. Have you a report of the insurance committee with regard to those changes? A. Yes, sir.

Q. Is this it (showing book to witness)? A. That is it—yes, sir.

MR. HUGHES: I will read it in evidence from the minutes of the insurance committee.

"A meeting of the insurance committee of the Washington Life Insurance Company was held at the office of the company Friday, September 1st, 1905, at 12 o'clock noon. Present, Messrs. Dumont, Clarke, Street and Tatlock. The president laid before the portion of the committee present a new form of policy which it is proposed to issue at a reduced schedule of premium on both the participating and non-participating plan, this new form being divested of various options which have become so prominent a feature of life insurance contracts and being intended for those who desire life insurance for life insurance purposes only. After considerable discussion the committee approved the recommendations of the president in regard to the adoption of this new form of policy and also approved of the methods of advertisement and by circulars sent through the mails through which mediums it is intended to bring this new departure to the attention of the public."

Q. Have you the new form of policy here? A. I regret I have not a specimen of it here.

Q. Will you send over for me? A. Yes, sir.

Q. I should be glad to have you send over for one. A. Participating and non-participating both.

Q. While we are waiting for the policy form, you might state in substance the nature of the options which you eliminate. A. The options are those of annual cash surrender value, and of a loan value.

Q. Has your new form of policy no cash surrender value? A. It has a cash surrender value at the end of twenty years only.

Q. And in case of lapse, in the meantime there is no surrender value? A. Except in the form of paid up insurance.

Q. How do you justify that? A. It seems to me that the system of cash surrender values, or of loan values, which has grown up, and which was instigated by the Massachusetts law, entails an expense upon the persistent premium payer for the benefit of the defaulting policyholder. I see no reason why a defaulting policyholder should receive any other surrender value, except in the same form of consideration that you might say that he originally purchased, namely, life insurance. Of course, it is contended that many defaulting policyholders are bound by necessity to realize upon their policies; but such realization is, from my standpoint at least, something that is not inherent in the nature of a life insurance policy; has been engrafted upon it by force of circumstances and by competition, and is totally foreign to its nature and, as a matter of fact, we know practically that it tends to defeat the very object for which the life insurance policy is taken out.

Q. Your position is that primarily an insurance policy is to give a man a certain amount, or give his beneficiaries a certain amount in case of death? A. Yes. sir.

Q. And that if he pays for a certain length of time, and is then unable to continue his payments, it is sufficient if he receives a paid up policy for the amount to which his payments entitle him, that policy payable at death? A. Yes, sir.

Q. But that in the scheme of life insurance he should not on default be entitled to receive an amount in cash? A. No, sir.

Q. Well, now, what difference does it make to the company, whether they pay him on default an amount in cash or give him a paid up policy for the amount which his premiums will buy? A. I think it makes considerable difference, Mr. Hughes. In the first place, it is only good lives who take cash surrender values. A man who knows his health to be impaired will not risk giving up his insurance for cash. In that case, the mortality rate of the company is accentuated to a greater or less degree. In the second place, if a man knows he can surrender his policy at any time, experience shows that he is tempted to do it at the slightest provocation; that is, if he needs a little money, he is liable to give up his insurance. But, in my mind, the worst feature of cash surrender values lies in the opportunity which it gives to agents of different companies to twist policyholders from one company into another. They thereby increase the total business to the company from which the policy is taken by reason of the fact that that company is put under the obligation, or under the necessity, or under the apparent necessity, of replacing that life, and it is not in the interest of the man himself, because if he surrenders a policy in one company for its cash surrender value and uses the proceeds to buy insurance in another, he must pay for his insurance at the advanced age. Those are the principal objections that seem to exist against that system. There is one more, and that is that the system of cash surrender values encourages and inculcates the idea that a policyholder has a definite interest in the funds of the company in which he is insured—a definite and specific interest, which is not in accordance with the facts.

Q. Why shouldn't he be regarded as having a definite interest in the funds of the company, if he has provided a portion of it? A. He has an undivided and unapportioned interest, for it is impossible in any individual case to say what the interest of any individual policyholder in the reserve accumulations of the company is. The reserve, of course, is computed for certain—the tables of reserves, rather, give tabular values for a given amount of insurance, and it is impossible to say in the individual case that the reserve on an individual policy is so much money, for the reason that in that individual case the risk insured may be of extraordinary vitality, and of extraordinary prospects of longevity, in which case the reserve is very much less than the tabular value, or the risk may be very much impaired; in fact, near death, in which case the reserve approximates very closely to the face of the policy.

Q. You look at life insurance, then, from the insurance and not from the investment standpoint? A. Largely, yes, sir.

Q. Your idea is that an insurance company, so far as possible, should give a man life insurance at the least possible cost? A. At a reasonable cost, yes, sir.

Q. And that the relations of the policyholders to the company should be regarded as purely contractual? A. Purely so.

Q. With reference to the insurance that is payable to him under his policy in the event stated? A. Yes, sir.

Q. And that he should not be educated to regard himself as having invested so much in the company and entitled to certain cash returns—is that the point? A. That is the point, yes, sir.

Q. Now, are there any other respects in which the cost to the company of providing insurance is lessened by the elimination of cash surrender value features, other than improving the rate of mortality, the reduction in expense because of the diminution in twisting, so-called, and the fact that you have stated that a man would be led to regard a policy more from a contractual point of view—that last does not involve any reduction of expenses, does it? A. No, sir.

Q. The other two do involve that? A. The other two involve that.

Q. Have you had any experience or data which will enable you to judge to what extent you can improve the mortality rate by removing the temptation to surrender policies for cash surrender values? A. No, sir. I cannot say that I have.

Q. That is a mere general judgment? A. That is a general judgment—one on which most actuaries would agree.

Q. You have said that you have also eliminated loan features, if I understand you correctly? A. Yes, sir.

Q. You mean by that the option to the policyholder to obtain a certain loan upon his policy? A. Yes, sir.

Q. Now, under your new form of policy, do you give no right to receive a loan? A. No, sir.

Q. Why not? A. Because a loan is merely a deferred surrender. A man receives a certain amount of cash in the form of a loan, secured by his policy as collateral with the interest on the loan paid in advance, and experience has shown that only about five per cent. of those loans are ever paid off, that is, by the insured reimbursing to the company the cash which he receives. The company realizes on its security by accepting the surrender of the policy when the loan is due and is not paid.

Q. Recurring again to the question of surrender values, are you familiar with the experience with the Australian Provident? A. Only in a very general way.

Q. That is a company which pays the largest cash surrender values, is it not? A. Yes.

Q. Is it not also the company which has the lowest mortality rate? A. I think that statement is true, as a general statement, yes.

Q. Does not the mortality rate of the companies that give cash surrender values compare favorably with the experience of those who in the past have not given them? A. It is claimed so, yes.

Q. If that is so, how can you reconcile it with what you have said as to the expectation of an improved mortality rate in the absence of the option to take cash surrender values? A. Well, I make that statement on theoretical grounds, and also because the full effect of that self-selection against the company, which is evidenced and manifested in the taking of cash surrender values is only felt to a large degree, or at least up to this time has only been felt to a large degree, in companies which, for the time being, have become discredited. In fact, you may say there is practically no experience on that point, no thorough experience on that point, although it is a well established matter of record that companies which make a feature, and have for many years made a feature, of cash surrender values have lost a larger proportion of their insurance by surrender than companies which have not made a feature of cash surrender values.

Q. It is suggested that the Australian Mutual Provident Society exhibits an extremely low rate of lapses, and so does the Mutual Benefit, which is a cash surrender company. A. Well, as to the Mutual Benefit, in comparison with another company, which is twice the size as regards amount of insurance, the surrenders in the Mutual Benefit were approximately within a few thousand dollars of the surrenders in the second company in 1904; in other words, the rate of surrender in the Mutual Benefit was twice what it was in the other companies.

Q. Was its rate of premiums any higher? A. The rate of premiums was lower.

Q. The Mutual Benefit? A. The Mutual Benefit, yes, sir.

Q. If the cash surrenders were quite as great and the rate of commissions was lower, why would not that show that they were able to give a low priced policy despite the advantages to the insured in cash surrender? A. It does show that.

Q. Does not that militate against the proposition you have advanced? A. Well, on the face of it, yes; but the effect of these things are only visible and only manifest when examined over a term of years. I do not like to speak about other companies, but it has always seemed to me, at least, it has seemed to me for a number of years, that if the Mutual Benefit ever got into difficulties, its difficulties would be very much accentuated by its adherence to the programme of low premiums and cash surrender values.

Q. Then the cash surrender values and low premiums are all right in times of prosperity? A. I think so.

Q. But if there is anything which tends to discredit a company and its business falls off, it would tend to discredit it? A. Yes.

Q. Was the limitation of cash surrender values—— So the limitation of cash surrender values is an anchor to the windward? A. It would seem so to me.

Q. Would you think you could reduce premiums simply because you eliminated cash surrender values? A. No, sir.

Q. Then whatever profits came from that elimination would be gained by the stockholders? A. Or by an increase in the dividend on participating policy.

Q. What has enabled you to put out this policy, which you speak of, upon lower rates of premium, if you were not justified in doing it by eliminating the cash surrender feature? A. Simply an extremely reduced cost in getting the business.

Q. How do you achieve that? A. By paying less commissions.

Q. How much commissions—what rate of commissions do you pay in connection with that new form of policy? A. We are paying twenty per cent. on participating policies and fifteen per cent. on non-participating.

Q. What renewal commissions do you pay on that class? A. 7½ on participating and five per cent on non-participating.

Q. What period of years? A. Fourteen years.

Q. Take the aggregate cost of the new sort of insurance and compare it with the old sort, what is the saving? A. To the policyholder do you mean?

Q. No, I mean in the commissions paid to get the business. Commute the renewal premiums for the sake of illustrations, and take the entire amount as a charge against the premium for the first year and what would be the comparison? A. Something like 100 per cent., I should think.

Q. You would take it under the old sort of policies, under the old rate as averaging what? A. 75 per cent.

Q. And under the new rate? A. 20 per cent.

Q. That is, without the renewals? A. Adding the present value of the renewals to that, I should say that the sum would be somewhere near 100 per cent. The difference there is 55 per cent., and I think it is fair off-hand to consider the present value of renewals is about 45 per cent.

Q. So you would make it 65 per cent. in one case and 100 per cent. in the other? A. Yes.

Q. So you would gain about 35 per cent.? A. Yes, sir.

Q. How can you place this insurance, when you give your agents such small commissions? A. You cannot place much of it through the agents.

Q. Then how do you place it? A. Well, we have written a large amount of it direct with policyholders.

Q. You mean policyholders coming to your office? Well,——

Q. In answer to advertisements or circulars? A. A very few.

Q. Do you make arrangements for writing such insurance directly at the office? A. Yes, sir.

Q. Was that in vogue before the new administration came in? A. No, sir.

Q. Is it practiced by other companies? A. So far as I know, it is.

Q. As a rule, do companies insure people directly at the office without handing them over to agents? A. I think they do— that very small amount of people that come in for that purpose.

Q. How do you place the most of it? A. Through agents.

Q. But that, I thought you said, could only be to a small extent? A. Well, as compared with the other classes of business.

Q. How far have you been able to push this new class of policies? A. We have written about $275,000 of it only.

Q. Since the 1st of January? A. No, since the 1st of September.

Q. What is the total amount of business you have written since the 1st of September, approximately? A. About seven and one half millions.

Q. Did the Mutual Life prior to 1899 give cash surrenders? A. Only at the end of a term of years, not annual cash surrender values.

Q. Will you tell me what amount of the Mutual Life's business was in force in 1894, approximately? A. $855,000,000.

Q. And what amount was written in the next five years, approximately? A. About $836,000,000.

Q. And the total of the insurance in force and the insurance written in the next five years would be $1,690,000,000? A. Yes.

Q. What was in force at the end of 1899? A. $1,251,000,000.

Q. Which shows there was discontinued about $639,000,000, or about 40 per cent. of the total? A. Yes, sir, that is right.

Q. Now, during that period cash surrender values were not allowed? A. No, sir.

Q. Now, if you will turn to the Mutual Benefit. A. Here it is (indicating).

Q. What amount was in force at the end of 1904? A. $209,-000,000.

Q. And written in the next five years, how much? A. $173,-000,000, or something about like that.

Q. Making a total of $382,000,000? A. Yes, sir.

Q. At the end of 1899 there was in force how much? A. $260,-712,000.

Q. Leaving $120,000,000 discontinued, or about 31 per cent. of the total? A. Yes, sir.

Q. And during that period the Mutual Benefit did give cash surrender values? A. Yes, sir; it did.

Q. But you recur to your original proposition that people are led to discontinue when they are in difficulties, or may desire to change their policies or for some reason or another, by reason of the fact that they are able to get a cash surrender value? A. Yes, sir.

Q. Whereas they would persist if they were not able to get a cash surrender value? A. In many cases, I think so, yes, sir.

Q. And that by reason of that, if the cash surrender value is eliminated as the paid up insurance is substituted, the company will have a gain—should have a gain? A. Should have a gain, yes, sir.

Q. In the persistence of its business? A. I would like to make this explanation, Mr. Hughes, that if a surrender value is granted in the form of paid up insurance only, there is no company which will not turn that paid up insurance into cash on a basis which will yield a profit to the company, and which will entail a surrender charge, which is a very fair measure of the loss sustained by the holder of the paid up insurance.

Q. Why, is not that equivalent to giving cash surrender values equaling the present worth of the paid up insurance? A. It is the same thing; but if you incorporate the present worth of the paid up insurance in the policies, such values would show up so poorly, in comparison with the cash surrender values, which are used by most companies, there would be no inducement in them.

Q. How many forms of policies does your company write, how many do you use? A. Oh, I should think about seventeen or eighteen.

Q. What proportion of those forms are used most frequently? A. I should say the life and the twenty payment life forms.

Q. And what proportion of your business would be on the life and twenty payment life forms, or take life and limited payment whether twenty years or not? A. Oh, I should say 75 or 80 per cent.

Q. How many forms of the seventeen or eighteen are used in the life and limited payment life? A. There would be only four.

Q. Then the other fourteen forms are used only in 25 per cent. of your business? A. Yes, sir.

Q. There are some of those forms that are scarcely used at all, are there not? A. Yes, sir.

Q. How many of those? A. I should suppose five or six.

Q. That are hardly used at all? A. Yes, sir.

Q. Then you will have eight or nine forms that would be used for about 25 per cent. of your business and about four or five forms that would be used for 75 per cent. of your business? A. Yes, sir.

Q. Have you this new form of policy here? A. Yes.

Q. Is that it (handing paper)? A. That is it.

Q. Now this policy contains a cash surrender value provision, does it not? A. Yes, providing for a value at the end of twenty years.

Q. You endeavored in getting up this form of policy to reduce insurance to its lowest terms, I mean to make as simple a form as possible? A. Yes, sir.

Q. And as cheap an insurance as possible? A. For people who wanted life insurance for that purpose only and would be willing to come and ask for it themselves.

MR. HUGHES: I offer this policy in evidence.

(Policy marked Exhibit 766.)

Q. Now what is the difference between the rate of premium paid on that policy and upon an ordinary life policy of the other forms issued by your company? A. About thirteen per cent.

Q. About thirteen per cent.? A. Yes.

Q. So that by that form of policy you plan to give the policyholder who is willing to come to the company and be insured, or who has written through an agent receiving the reduced rates of commission, you have stated, a reduction in the premium? A. Yes.

Q. That is about the amount of it? A. That is about the amount of it.

Q. Does the company receive the saving in the difference of premium? A. That remains to be seen.

Q. According to your estimate? A. I tried to arrange the loading upon those premiums so as to make them homogeneous with the premiums on standard forms of insurance, paying standard rates.

Q. Your rating is the same? A. Yes.

Q. Your loading is much less? A. About twenty-two per cent. less.

Q. That represents the net estimated saving in commissions? A. Yes.

BY THE CHAIRMAN:

Q. Mr. Tatlock, on this subject of forms, if you consider life insurance classes, there is the ordinary life class, the limited payment life class, the endowment class and term insurance, I suppose? A. Yes.

Q. What other classes of life insurance are there? A. Well, that covers the whole field as basal forms.

Q. Is term insurance a modification of endowment, or vice versa? A. No, it is a modification of life, inasmuch as it provides only for the insurance to be payable at death during a certain term of years.

Q. Are there any of those four classes which are modifications one of the other, so that the classes of life insurance can be embraced in less than four classes? A. Limited payment policies are simply modifications of the ordinary life form, providing that the premium shall be paid simply during the term of years, instead of the life of the contract.

Q. So you could roughly divide life insurance into two classes, ordinary life and endowment? A. Yes, sir.

Q. And limited payment and term insurance would be really modifications of ordinary life? A. Yes.

BY MR. HUGHES:

Q. You have said that there was a thirteen per cent. reduction in the gross premium? A. Yes.

Q. And that is twenty per cent. of the loading, twenty per cent. less on the loading as compared with the old form? A. No, it would be more than that; it would be nearer twenty-five per cent., twenty-six per cent., because the old forms are quoted six per cent. less eighty cents.

Q. And this is how much? A. This is fourteen per cent., plus twenty-five cents.

Q. You mean twenty per cent. of the premium when you say twenty per cent.? A. Yes.

Q. So that the reduction in the loading is in the neighborhood of twenty-five per cent.? A. Yes. Or it would be the difference between the fourteen and the thirty-six.

Q. Figure it out, Mr. Tatlock, so we can have a definite statement. A. It is a reduction in the loading itself of sixty per cent.

Q. The loading upon the premiums in the new form of policies is about sixty per cent. less than the loading upon the premiums on the old form? A. Yes.

Q. And the premiums themselves gross are about thirteen per cent. less in the former case than in the latter? A. Yes.

Q. Have you made any effort to reduce the expenses incident to the getting of business, aside from the introduction of this form of policy? A. Yes, sir.

Q. What is it? A. The total reduction of expenses for the first nine months of 1905, as compared with the first nine months of 1904, amount to about $121,000. Of that about eighty thousand to eighty-five thousand dollars is in reduction of fixed charges of the agency.

Q. What do you mean by those? A. I mean as the various allowances for traveling and expenses, and the reduction of a custom which pertained under the old management of the Washington, of allowing salaries to their managers as well as commissions.

Q. Have you not impaired the efficiency of your field force? A. No, sir, I do not think so.

Q. Have you increased it? A. I think we have—yes sir.

Q. Just explain how you were able to cut off salaries and reduce them and keep the force just as efficient? A. Well, it has been accomplished largely by the removal of old incumbents and replacing with other men, but there have been cases as, for instance, in Chicago, where the company up to this year maintained three separate offices, neither one of which really earned its fixed charges, if I may use that expression. Two of those offices have been cut off, saving the allowances thence, and salaries which were paid there, and a better business has been done this year through one office than last year through three.

Q. In other words, you got rid of a good deal of dead wood? A. Yes.

Q. Apart from those efforts, have you made any change in the system? A. We have improved—I think I may use that term—the methods of agency accounting. We have succeeded in installing a system, through which the agents render us frequent accounts—in fact, sending their cash balances every week, instead of every month.

Q. What do you do with regard to making advances to agents? A. In some cases advances from fifty dollars to one hundred and fifty dollars a month are made against future renewal commissions.

Q. How often is that done, in how many cases? A. I think that pertains, probably, in half of the cases, perhaps sixty-five per cent.—perhaps two-thirds of the cases—largely an inheritance which could not at once be cut off, and it has been done in some cases where men have been appointed this year in order to get them started.

Q. What was the amount of the agents' balances at the end of 1904? A. Forty-five thousand dollars.

Q. What is the amount of them now, or at the last convenient date? A. Ninety-three thousand dollars.

Q. Was the $44,000 the amount reported or the actual amount? A. Well, my recollection is that that was the amount reported, although it may have been $65,000. I am not certain as to that.

Q. What was the real amount? A. The real amount, my impression is, was $45,000. My memory may have failed on that point.

Q. Then they have greatly increased this year? A. Yes, but I would like to explain that, if you will allow me.

Q. Yes, explain it. A. We found that there was a large amount of money owing to the company from old-established agencies, which did not appear upon the company's ledger as a debt. It had simply been charged off from year to year as an expense, but under the contracts of those agents, those amounts were really due to the company and the agents owed them. We have, therefore, restored those amounts to the ledger, and that accounts for the most part for the increase in the agents' balances.

Q. So that the increase to $93,000 is really putting on the books what had previously been advanced? A. Yes, sir.

Q. What is the amount of the new advances since January 1st, 1895? A. I think it is under $20,000.

Q. Have you continued the system of salaries? A. No, sir.

Q. Have you cut off salaries altogether? A. Not altogether, but I am cutting them off as fast as I can.

Q. Why do you do that? A. Well, it does not seem to me that under the general agency system where a manager or general agent has a commission contract with renewals, that he is entitled to any compensation in addition to that, except under the most extraordinary circumstances.

Q. Then these salaries that were previously given were in addition to commissions? A. Yes, sir.

Q. And you have eliminated those so far as possible? A. Yes, sir, as far as possible.

Q. And your policy is to eliminate them until they are no longer existing? A. Yes, sir.

Q. Have you reduced the rate of commissions? A. Not during 1905, except in some instances.

Q. What are your present rates of commission? A. Seventy-five per cent. graded.

Q. What do you mean by that? A. That is to pay seventy-five per cent. for the so-called most desirable forms of policies and——

Q. What are they? A. Under the existing system they were for twenty-year distribution policies, and grading them down according to distribution periods.

Q. That is on first year's premiums? A. First year's premiums.

Q. Well, were advances made formerly on top of the seventy-five per cent.? A. Yes.

Q. Are these advances you have referred to this year in addition to the seventy-five per cent.? A. Yes, sir.

Q. What is your commission on an ordinary life policy? A. If it is written on the twenty-year distribution plan it is seventy-five per cent.

Q. If it is written on the annual dividend plan what is it? A. I think it is fifty-five per cent.

Q. Why do you discriminate against the annual dividend business? A. Simply because it has not been possible up to this time to change that discrimination. Our contracts for 1906 are drawn without reference to the dividend period. That is to say, the same amount of commission will be paid for an annual dividend as for a twenty-year distribution policy.

Q. (handing paper). Is this the form of your new agents' contract? A. Yes, sir.

MR. HUGHES: I will have it marked for identification.

(Paper marked Exhibit 767 for identification.)

The compensation of the manager for all services rendered by him during the continuance of this contract, will be as follows: First year's commissions on:

PARTICIPATING PLANS.

Class A.—	Ordinary life Twenty payment life Endowments with 25 or more premiums	70 per cent.
Class B.—	Fifteen payment life Twenty year endowments	65 per cent.
Class C.—	Ten payment life Fifteen year endowment	60 per cent.
Class D.—	Ten year endowment	50 per cent.
Class E.—	Double endowments	35 per cent.
Class F.—	Preferred class	20 per cent.

NON-PARTICIPATING PLANS.

Term insurance .... 35 per cent.
All other forms, excepting preferred class.......... 40 per cent.
Preferred class.................................... 15 per cent.

SINGLE PREMIUMS.

Participating life 10 per cent. endowment......... 7½ per cent.
Non-participating .... 5 per cent.
Annuities .... 3 per cent.

Continuous installment policies rank as life policies with the same number of premiums.

Semi-endowments, installment endowments, combination bonds and combination annuity bonds rank as endowments, with the same number of premiums.

RENEWAL COMMISSIONS.

Classes A. B. and C.—Second year renewal, 15 per cent., and not to exceed 13 subsequent renewals of 7½ per cent.

Class D.—Second year renewal, 15 per cent., and not to exceed 8 subsequent renewals at 7½ per cent.

Class E.—Ten renewals of 5 per cent.

Class F.—Fourteen renewals of 7½ per cent.

On all non-participating plans, except term and preferred class, 5 renewals of 5 per cent.

On preferred class plans, non-participating, 14 renewals of 5 per cent.

The said manager agrees to collect and remit to the said company, for a remuneration of 2 per cent., such premiums on policies not issued through his instrumentality, as the company may furnish him receipts for.

Commissions shall accrue only as the premiums are paid to said company in cash.

When premiums upon policies issued through the instrumentality of said manager are not collected by said manager, 2 per cent. of such premiums for collecting the same shall be deducted from the commissions to be allowed on said premiums.

Q. What do you mean by preferred class? A. The reduced rate policy.

Q. The new form of policy Exhibit 766? A. Yes.

Q. Your rates of commission are higher than ordinarily given, are they not? A. No, sir, I do not think so.

Q. Are they not higher than those given by the Mutual Life? A. No, sir.

Q. Or the New York Life? A. I do not think so; perhaps by 5 per cent., for the high class.

Q. The Equitable has a basis of 50 per cent., has it not? A. So I have understood, yes, sir.

Q. Your experience is that the totals do not vary much, however the rates vary? A. That is my experience, yes, sir.

Q. There are different ways of making up the total? A. There are many different ways.

Q. And you think that your total is about as low as the total of others? A. I am quite positive of it.

Q. Is it any lower? A. I think it is lower than some.

Q. Why were you not able to put in a lower scale of commissions than you have here? A. Simply the fact of competition.

Q. Have you a judgment as to what new business should cost—I mean, have you been able in all your experience, to arrive at a conclusion as to how much a company can profitably expend in order to write new business? A. No, sir, I must say that I have not. There are so many varying factors that enter into that problem that I do not think anybody is really competent to give a definitive and specific and flat opinion.

Q. We would be glad to have you state what you do think about it, although you do not want to state a positive conviction. A. Well, it seems to me that the criterion is such an amount of new business as will show a healthy growth and progression in the company, not a large growth, but what most people would agree and understand by a healthy growth—a moderate increase in each year.

Q. Can you conceive of a condition where any growth would be unhealthy? A. Oh, yes, sir.

Q. What would that be? A. Why, you wrote more than you could afford to pay for.

Q. Where a company is so large it would be unwise to extend it further? A. I can conceive of those conditions.

Q. You also consider whether the cost of writing the business impaired the returns for existing policyholders? A. Certainly. I was about to remark that having determined the amount of new business which will afford to the company a reasonably healthy growth of progress, it is easy enough to figure out what you can afford to pay to get that business.

Q. Give us an illustration of how you would figure that out. A. Supposing a company was so situated that ten millions of dollars is conceived to be an amount which it will afford the company the aforesaid healthy growth. Ten million dollars of insurance represents about four hundred thousand dollars of new premiums. It is then a question as to what proportion the amount of free surplus of the company, or the amount of loadings on the existing premiums paid into the company bear to that four hundred thousand dollars. The proportion of those two things will show you the rate of commission you can pay to get that business.

Q. Why do you speak of free surplus—in what sense is the surplus free? A. If the management determines it is in the position of being able justifiably to use a certain portion of the surplus to buy new business.

Q. Then you would not say that was so in a mutual company? A. No, I think not, not in a strictly speaking mutual company—no. I think perhaps a fairer statement would be to say you would determine the amount of the loadings and other incidental sources which are available for expenses, and determine what proportion the sum of those bears to the total premiums, which will give the rate of commission you can pay.

Q. Take your concrete case of a company that could have a normal extension of ten million dollars annually, which would bring in four hundred thousand dollars premiums on new business. Now, how much of that four hundred thousand dollars would you think you could expend to get the business? A. Well, according to my way of looking at it, it depends upon the amount of loadings you have on existing premiums.

Q. Take average loadings? A. Of course, it depends upon the size of the company. If the company has already a hundred million dollars outstanding insurance, that would give a premium income of approximately four million dollars. Say 22 per cent. on those gross premiums would give you eight hundred and eighty thousand dollar loadings. Now, it would depend altogether on what the fixed charges and general expenses of the company were as to how much of those loadings you could expend for new business. In a company wishing to write only ten million dollars of business, and with eight hundred and eighty thousand dollars of loadings, it could probably be thought it could afford to pay a pretty high price for its new business. There would probably, in that case, be at least after the general expenses and dividends—at least four hundred and fifty thousand dollars of free loadings available.

Q. That could be used for business? A. Which could be used for business. That, of course, would be a hundred and twelve per cent. of the premiums. I don't think anybody would advocate paying a hundred and twelve per cent. for new business.

Q. Take the Washington Life, that had outstanding insurance of $66,000,000, what would be a healthy growth, in your judgment? A. You mean under existing conditions?

Q. Yes. A. I should think to pay for six or seven millions a year, that is all we can afford to pay for.

Q. Now, what fixes the loadings—do you have any criterion by which you determine the amount of loadings? A. Well, they are determined, that is the actual loadings on the premiums receivable are calculated.

Q. They are determined? A. They are determined.

Q. There is a great deal said about companies living within their loadings. What enables you to determine what to live within? A. Simply a matter of calculating—simply a matter of clerical labor in taking your premiums, and determining what the loadings are.

Q. In the first instance you determine what the loadings shall be fixing your premiums? A. I beg your pardon, sir.

Q. You figure what your loadings will be when you fix your gross premiums? A. Yes. I mean having an existing body of premiums coming in it is an easy matter to determine what those loadings are. It is simply a matter of arithmetic.

Q. Fixing as an original matter your loadings, to determine what your premiums shall be, have you any criterion? A. That has been largely a matter of custom, sir.

Q. Yes, and a matter of competition. A. And a matter of competition.

Q. So when you speak now with regard to existing companies keeping within the loadings we mean within that provision which its existing volume of business makes for expenses? A. Yes, sir.

Q. Now, have you been able to reduce your premiums on other forms of insurance than this preferred form Exhibit 766? A. No, sir, and on those forms I should not think of attempting to do it.

Q. And so far as the general business of your company is concerned the economies that you have stated will be represented in the gains of surplus? A. Yes, sir.

Q. And if the policyholders get the benefit of those gains it will be through dividends or increased amounts payable at the end of deferred periods? A. Yes, sir.

Q. It is suggested that the surplus is used to furnish reserves for new policies that do not supply their own reserves? A. Well, that is simply a question of standpoint.

Q. You can do it either way? A. You can figure either way.

Q. You can say you are using surplus to pay expenses or using your surplus to provide reserves? A. Yes.

Q. A mere question as you say of point of view? A. I would like to amplify that if I might, for a moment.

Q. Go on. A. There are two points of view as regards paying for new business. One is that the new policyholders themselves provide the cost of getting into the company, in which case the deficient first year reserves are a charge against the general fund of the company.

Q. Exactly. A. The other theory is—the other point of view, rather, is that the expenses of getting new business are a general charge upon the treasury of the company as a whole, in which case the new premiums provide their own reserve.

Q. In other words, you have got a certain volume of money and certain disbursements to make, and you simply draw out of the company's treasury what is needed to make your disbursements, and when you get to the end you have certain liabilities to protect through a valuation of policies, and you set aside what is necessary for that purpose and determine your surplus? A. Certainly, sir.

Q. And from either point of view what the company can afford to pay for the new business is the same? A. Oh, certainly, yes, sir.

Q. Now, you have furnished a statement of your first year's expenses? A. Yes, sir.

(Showing witness paper.)

Q. Is that correct and complete? A. So far as I can make it, yes, sir.

MR. HUGHES: I offer it in evidence.

Paper marked Exhibit 768, and read in evidence by Mr. Hughes.

Q. How does that compare with the loading on premiums received during the period—do you know? A. The total loading on premiums received in the period I should say would be about four hundred and thirty thousand dollars.

Q. Did you give us a statement of the loadings on first year's premiums? A. Yes, sir.

Q. Have you a copy of that statement? A. No, I am sorry to say, I have not.

Q. I don't find it among the papers. A. I can send down for it, Mr. Hughes.

Q. These are correct statements as to the matters stated? (Showing witness papers.) A. Yes, sir.

Q. That is, they state accurately and fully the total loadings received on first year's premiums, 1903 and 1904, as compared with the first year's expenses in those years? A. Yes, sir.

MR. HUGHES: I offer them in evidence.

Papers marked Exhibits Nos. 769 and 770, and read in evidence by Mr. Hughes.

Q. You have been asked whether any sums have been expended by the company in contributions for political purposes, or in connection therewith, or payment in connection with legislation; is this a complete statement from the books of your company (showing witness paper)? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

Paper marked Exhibit No. 771, and read in evidence by Mr. Hughes.

Q. Were there no other payments to secure those services than six hundred dollars a year? A. Not that I know of, not that I can ascertain, no, sir, I think not.

Q. Why was such a beneficent service discontinued—economicai, too, it might be added? A. I am afraid the responsibility for that must lay at the door of the present management.

BY THE CHAIRMAN:

Q. Who is Walker? A. I don't know, sir. I have no knowledge beyond this correspondence. I think he is a Chicago newspaper man of some standing.

BY MR. HUGHES:

Q. The minute I now show you is the minute of the Board of Directors containing the report of the Committee with reference to the increase of stock and change of management. A. Yes, sir.

MR. HUGHES: I will read that in evidence:

Adjourned meeting of the Board of Directors of the Washington Life Insurance Company was held at the office of the company on Friday, December 30th, 1904, at 12.30 p. m.

There was present the president, Messrs. Bowne, Ludington, Hitch, Thomson, Purdy, Hard, Braman, Lawrence, Pierson, Mead, Haynes, Giraud F. Thomson and the secretary.

Mr. Root was also present.

The minutes of the last meeting were read and approved.

The Committee appointed at the meeting of December 27th, reported as follows:

To the Board of Directors of the Washington Life Insurance Company. The Committee appointed by your board on the 27th of December to negotiate for a sale of the unissued stock of the company with a view to obtaining new funds to enable the company to continue business with safety to the policyholders, respectfully report:

That a number of negotiations have been in progress; that upon a final meeting of the committee held in the afternoon of December 29th it appears that none of the negotiations had reached any definite result and that there was no proposition from any source before the committee.

Under these circumstances Mr. L. P. Morton submitted the proposition which is the next hereto marked A.

Thereupon Mr. Morton observing that he could not act upon the proposition withdrew from the Committee.

Thereafter the committee in the absence of Mr. Morton took said proposition into consideration, and resolved to report the same to the Board and recommend its acceptance.

New York, December 30th, 1904.

Very respectfully,

(Signed) GEORGE W. HARD,
HENRY FOSTER HITCH.

The undersigned offers to buy the 7,500 shares of the capital stock which the Washington Life Insurance Company is authorized to issue and to pay therefor in cash at the rate of $175, viz.: at an aggregate price of $656,250.

This offer is subject to three conditions:

(1) That resignations of officers and directors be put at my disposal to enable the new stockholders to reorganize the management.

(2) That the holders of at least one-half of the old stock give me an option on their stock for one year at par.

(3) That the Insurance Department is willing to accept the new arrangement as a satisfactory basis for the continuance of the company's business.

(Signed) LEVI P. MORTON.

December 29th, 1904.

This report of the committee on motion duly seconded was unanimously adopted. Mr. Hard and Mr. Hitch expressed themselves as being exceedingly gratified that they were able to make a report.

On motion duly seconded it was resolved that a copy of the report of the committee appointed at the meeting of the board held December 27th be sent to each director not present at the meeting held to-day.

On motion duly seconded the following preamble and resolutions were unanimously adopted:

Whereas, An examination of this company by the Insurance Department of the State and the further examination by an independent actuary employed by the company has satisfied the Board of Directors of the company that the surplus of the company is substantially exhausted, and upon the liquidation of the assets of the company the reserve for the security of the policyholders would probably prove to have been impaired, and, Whereas, The company has been unable after diligent effort to effect the re-insurance of its risks by reason of insufficiency of assets, and,

Whereas, The Insurance Department has expressed its unwillingness to permit the company to continue in business unless policyholders are made more secure by the contribution of new money sufficient to make a substantial surplus, and,

Whereas, The committee of this Board appointed to negotiate for a sale of stock which the Board of Directors is authorized to issue, but has not issued, has reported that the only offer for such stock which they have been able to obtain is an offer made after all other negotiations have failed by the Honorable Levi P. Morton for himself and associates to purchase and pay for said authorized and unissued stock at the rate of $175 for each 100 dollars per value thereof, and,

Whereas, it is necessary for the further continuance of the company that the surplus should be made up in time to appear in the annual statement of December 31st, 1904;

Now, therefore, in the exercise of the power and discretion vested in the Board of Directors by the fourth section of the seventh article of the charter of the Washington Life Insurance Company, the Board of Directors,

Resolve to increase and does hereby increase the capital stock of the company to the amount of five hundred thousand dollars, and for that purpose it does hereby provide that the officers of the company receive and accept the subscription of the Honorable Levi P. Morton for stock additional to that heretofore issued to the amount of $375,000 per value divided into 7,500 shares of fifty dollars each at $87.50 per share, payable in cash, and issue the said stock to the said Honorable Levi P. Morton or such persons as he shall designate upon payment of the said purchase price.

The resignations of all directors present at the meeting were then called for. The resignations were tendered and placed in the hands of Mr. Root.

Mr. Mead's resignation as director was accepted.

The president then called for the unanimous consent of the directors to suspend Article 16 of the by-laws entitled "Vacancies."

The unanimous consent being given the Board proceeded to the election of directors to fill vacancies.

The following gentlemen were nominated:

Thomas F. Ryan,
Harry Payne Whitney,
Payne Whitney,
Charles H. Allen,
William A. Street,
Winthrop Rutherford,
Elihu Root, and
John Tatlock.

On motion duly seconded the secretary was instructed to cast one ballot for the election of these gentlemen as directors and they were declared unanimously elected.

On motion duly seconded it was resolved that the Board adjourn to meet Tuesday, January 3d, 1905, at 11 a. m.

The president then tendered his resignation, and his resignation was accepted, Mr. Hitch taking the chair.

Mr. Root stated that the Mutual Life Insurance Company had given Mr. John Tatlock, the associate actuary of that company, a three month's leave of absence, in order that he might supervise the affairs of the Washington Life Insurance Company with the distinct understanding that Mr. Tatlock is to have absolute control for that purpose.

On motion duly seconded Mr. John Tatlock was elected president of that company.

On motion the meeting adjourned.

GULIELMUS H. BREWER,
Secretary.

Q. Prior to the re-organization of the management of the company at the end of last year the company had made very few investments in stocks, had it not, or bonds? A. Very few, yes, sir.

Q. What was the amount of the outstanding securities owned by the company at the end of 1904? A. It was about $453,000—less than half a million.

Q. And they are thus stated in the annual report of the company—you find—found that to be correct? A. Yes.

Q. What has been the amount which has been invested in securities since January 1, 1905? A. Something over four million dollars—about $4,100,000, I should say.

Q. What is the explanation of such a large investment in 1905? A. Well, the Finance Committee felt that the investments of the company in bonds and mortgage loans, and in real estate, were altogether too heavy, and the amount of money which we have had for investment has been in the form of negotiable securities.

Q. How much did you have invested in real estate prior to or at the end of 1904? A. About $6,300,000, sir.

Q. And has any considerable part of that been withdrawn from investment in real estate? A. No, sir. We have sold one piece of property amounting to about $150,000, and there was a mortgage on one of the pieces of property included in the schedule which has since been paid, which, of course, increases by $350,000, the amount of real estate.

Q. How have the moneys been provided which have been used for the purchase of securities in 1905? A. At the beginning of the year there were bank balances amounting to about $1,750,000, which had accrued from loans paid off under the old administration, and not reinvested, from current income, and from the amount paid in for the new stock. There has been paid in this year into the treasury of the company a large amount of bond and mortgage loans, the proceeds of which have had to be reinvested.

Q. What amount of bond and mortgage loans have come in which you have reinvested? A. I should think between three and four millions.

Q. Between three and four million dollars. Were they called to any extent? A. Some of them were due and were called. On a number of them the company was advised by the insurance department to call for a reduction of principal, and reductions were very generally made, and some of those loans were paid off in addition.

Q. Has it been the policy of the new management to invest so far as possible in negotiable securities and to lessen its investment in mortgages in real estate? A. Yes, sir, by reason of the fact that real estate itself and bond and mortgage loans on real estate are the same kind of investment practically.

Q. Well, why do you not regard an investment in real estate or that is to say in mortgages secured by real estate as a very satisfactory investment for a life insurance company? A. Experience, I think, has shown that it is well for a life insurance company of any size to have its investments distributed through different kinds.

Q. What is the amount you now have invested on bond and mortgage on real estate? A. About four and a half million dollars.

Q. What is the amount you now have invested in real estate? A. About $6,700,000.

Q. And the real estate holdings on December 18, 1905, according to their book value amount to $6,652,484? A. Yes.

Q. How does that compare with the amount of real estate holdings at the end of 1904? A. I think it is an increase of about two hundred thousand dollars, something like that.

MR. HUGHES: I will have this sheet of real estate holdings furnished by you marked for identification.

(Paper marked Exhibit 772 for identification).

THE WITNESS: That increase is not due to the acquisition of any new real estate. It is due to the mortgages that were paid off.

Q. Is this last Exhibit 772 for identification a complete list of your—of all your real estate holdings on December 18, 1905? A. Yes, sir.

Q. And these have not changed since 1904 save to the extent any mortgage upon certain of them was paid off? A. Was paid off, yes, that is right.

Q. What was the amount at the end of 1904 invested in bond and mortgage upon real estate? A. I suppose about eight millions—I really don't remember—(examining book)—$6,700,000.

Q. What is the amount now invested in bond and mortgage upon real estate? A. About four and a half million dollars.

Q. So you have reduced that a couple of million dollars? A. Yes, sir.

Q. And you have invested since the first of the year three or four million dollars in securities? A. Over four million dollars.

Q. Over four million dollars in securities? A. Yes, sir.

Q. Is the list which your company has presented to the Committee a complete list of the securities owned by your company as of October 31, 1905? A. Yes, sir.

(Paper marked Exhibit 773 for identification).

MR. HUGHES: The securities owned on October 31, 1905, and purchased since January 1, 1905, consist of:

Hocking Valley Preferred.
Allegheny & Western Railway Company.
Cleveland & Pittsburg Railroad Company.
The Brooklyn City Railroad Company.
Mobile & Ohio Railroad Company.
The Morris & Essex Railroad Company.
Rome, Watertown & Ogdensburg Railroad Company.
The United New Jersey and Canal Company.
Consolidated stock of the City of New York.
Corporate stock of the City of New York.
City of Richmond, Virginia.
City of Havana, Municipal.
Oregon Railroad & Navigation Company Consolidated Mortgage.
Ohio Prior Lien.
Missouri, Kansas & Texas Company First Mortgage.
The Rio Grande & Western Railroad Company First Mortgage.
Reading Company General Mortgage.

Second Avenue Railroad Company, First Consolidated Mortgage.

Chicago, Burlington & Quincy Joint Consolidated.

Kansas City, Ft. Scott & Memphis Railroad Company Refunding.

Western Maryland Railroad Company First Mortgage.

Western Union Telegraph Company Refunding and Real Estate Mortgage.

Oregon Short Line Railroad Company Refunding Mortgage.

Continental Coal Company First Mortgage.

Atchison, Topeka & Santa Fe Railroad General Mortgage.

Southern Pacific Railroad Company First Consolidated Refunding Mortgage.

Texas & Pacific Railway Company First Mortgage.

Westchester Lighting Company First Mortgage.

Kansas City, Ft. Scott & Memphis Railroad Company Consolidated Mortgage.

Choctaw, Okhahoma & Gulf Railroad Company Consolidated Mortgage.

Lackawanna Steel Company Gold Notes.

The Long Island Railroad Company Refunding Mortgage.

The Chicago, Rock Island & Pacific Railway Company, Collateral Trust Series.

Central Vermont Railway Company First Mortgage.

Chesapeake & Ohio Railroad Company General Mortgage.

Minneapolis & St. Paul Sault Ste. Marie Railroad Company Consolidated Mortgage.

Galveston, Harrisburg & San Antonio Railway Company First Mortgage.

Pennsylvania Railroad Company Consolidated, 1905.

Mason City & Fort Dodge Railroad Company First Mortgage.

Central of Georgia Railway Company Consolidated Mortgage.

Seaboard Air Line Company.

Atlanta & Birmingham First Mortgage.

Imperial Japanese Government Sterling Loan, Second Series.

St. Louis, Memphis & Southeastern Railroad Company First Mortgage.

Baltimore & Ohio Railroad Company, Southwestern Division First Mortgage.

The Louisville & Nashville Railway Company Collateral Trust Mortgage.

The Central Pacific Railway Company First Refunding Mortgage.

Atlanta Coast Line Railroad Company First Consolidated Mortgage.

Norfolk & Western Pocahontas Joint.

The Lake Shore & Michigan Southern Railway Company Debentures.

Making an aggregate cost of $4,604,742.19; the present book value is stated to be $4,568,866.71.

Q. I find that I was in error in stating that those were all purchased since January 1, 1905? A. Yes, sir, I was about to call your attention to it.

Q. The purchases are all since January 1, 1905, with the following exceptions:

Consolidated stock of the City of New York in 1899.

Corporate stock of the City of New York in 1904.

City of Richmond, 1889 and 1894.

City of Havana Municipal, 1899 and 1900, Oregon Railroad Navigation Company 1901, Baltimore & Ohio, Missouri, Kansas and Texas, Rio Grande and Western, and Reading General Mortgage in 1902. A. Yes.

Q. Now, these are all the purchases made by the company since January 1st, 1905, or the securities now on hand? A. Yes, sir.

Q. Have you a statement of securities which have been purchased and resold since January 1st, 1905? A. They have been furnished to the Committee.

Q. Did these three transactions represent all the transactions of purchases of securities since 1905, other than syndicate participations, than those stated in Exhibit 773 for identification containing a list of securities now owned? A. Yes, sir, I think they do.

MR. HUGHES: I offer these three sheets in evidence.

(Papers marked 774, 775 and 776 respectively.)

(Exhibits 774, 775 and 776 will be found in the book of exhibits.)

MR. HUGHES: By Exhibit 774 it appears: The American Tobacco Company, maturity August 1st, 1951, rate of interest four per cent., interest period February and August 1st, as follows—purchases indicated in black ink and sales in red ink.

The purchases are as follows: January 13, 1905—$100,000 at 72, less interest $1,800, $70,200, Ryan & Kelly.

March 3, 1905—$45,000 at cost 75.375, less interest $160, book value $33,758.75, Ryan & Kelly.

March 3—$40,000, cost price 75.125, less interest $160, book value $29,907.78, Ryan & Kelly.

March 3—$40,000, cost price 75.125, less interest $142.22, book value $1,492.89, Ryan & Kelly.

March 6—Par value $9,000, cost price 75.375, less interest $35, book value $6,748.75, Ryan & Kelly.

March 6—$4,000 at 75.125, less interest $15.55, book value $2,989.45, Ryan & Kelly.

Sales: February 10, 1905—$5,000 at 77.625, book value $3,510. Credit profit and loss account $366.25.

February 10th—Par value $35,000. price 77.750, book value $24,570. Credit profit and loss account $2,607.50.

February 10—Par value $10,000, price 77.875, book value $7,020. Credit profit and loss account $57.50.

July 13, 1905—Par value $55,000, price 76.250, book value $40,332.46. Credit profit and loss account $615.04. H. H. Ryan & Brother.

July 13, 1905—$95,000, price 76.375, book value $69,665.16. Credit profit and loss account $1,181.09. A. A. Ryan & Brother.

Q. That closed out the $200,000? A. Yes, sir.

MR. HUGHES: I offer this paper in evidence.

(Paper marked Exhibit 775.)

(Exhibit 775 will be found in the Book of Exhibits.)

MR. HUGHES: Without reading it in detail, it shows the purchase of the American Tobacco Company preferred stock, rate of interest six per cent., as follows:

January 13th, 1905, par value........	$70,000
January 13th, 1905, par value........	20,000
January 16th, 1905, par value........	10,000
Making a total of................	$100,000

through Ryan & Kelly. On July 14th and 19th, sales of $100,000 through Ryan & Kelly, and the profit on the entire transaction of $3,993.34.

Exhibit 776 is the Imperial Japanese Government Second Series Bonds, six per cent., maturing 1911, and shows the purchase of $200,000 on January 17th and 19th, 1905, through the Morton Trust Company, and sales of $200,000 in February and March, 1905, through Ryan & Kelly with a profit of $11,290.27.

Q. Why was it you closed out the American Tobacco? A. We bought it in January at the time we were confronted with the investment of a large sum of money—nearly $2,000,000. Those securities were not bought for a permanent investment, simply for the time being, because they paid a good rate of interest, and there was a prospect of appreciation.

Q. How did you justify the buying of securities for a mere temporary measure, and not as a permanent investment? A. The finance committee felt it necessary that we ought to get that amount of money at work.

Q. Have you the minute of the board authorizing that purchase? A. Yes, sir; I think it was January 18th.

Q. Is this the minute of the meeting? A. I think so, 1,000 shares six per cent. preferred American Tobacco Company stock, at the market price——

MR. HUGHES: I will read the minutes upon the record:

A meeting of the finance committee of the Washington Life Insurance Company was held at the office of the Morton Trust Company, 38 Nassau Street, on Thursday, February 12th, 1905, at 11 a. m.

Present—Mr. Morton, Mr. Ryan and Mr. Tatlock.

Mr. H. P. Whitney was also present by invitation.

Among the minutes is the following:

It was moved that the company purchase the following securities:

Two hundred thousand of C., B. & Q. joint four per cent. bonds at such a price under par as they may be procured.

One hundred thousand American Tobacco Company four per cent. bonds, at the market price, and

One thousand shares of the six per cent. preferred stock of the American Tobacco Company at the market price.

Motion, being duly put, was carried.

On motion, adjourned.

JOHN TATLOCK,

President.

Q. Some of these purchases had already been made under date of January 13th and January 17th, when this meeting—— A. But this is January 12th.

Q. Oh, yes, I was mistaken in reading the date. Do you find any authorization of the second purchase of $100,000 or any ratification? A. No, sir, I do not, under the dates stated there.

Q. Why did you close out the American Tobacco securities? A. We got to the point where it showed us a profit on the sale, and we thought it was a good time to sell them.

Q. Was it not because the investment in those securities was disapproved by the board of directors? A. The auditing committee of the board of directors did express a resolution to that effect.

Q. And that is found in the minutes of July 18th, 1905, of the board? A. Yes. My recollection is very clear that we had already determined to sell them, because there was a distinct understanding when we bought them they were only to be held for a temporary purpose.

MR. HUGHES: I will read the following minutes:

The regular quarterly meeting of the board of directors of the

Washington Life Insurance Company was held at the office of the company, 141 Broadway, New York, on Tuesday, July 18th, 1905.

The president in the chair.

Present—Messrs. Allen, S. B. Clarke, Eustis, Ford, Hard, Morton, Parker, Rutherford, Street, Tatlock and Thomas.

The minutes of the quarterly meeting of April 18, 1905, were read and approved.

On the request of the president the report of the Auditing Committee was read by Mr. Hard in consequence of the absence of the chairman of that committee, Mr. Valentine P. Snyder.

Your committee in accordance of Article 6 of the by-laws of the company has made an examination as on June 30, and beg to report as follows:

It seems proper to remark by way of introduction that this is the first audit on the part of the present Board of Directors under the new management. It has therefore become necessary to familiarize ourselves with such changes as have been adopted, and to gain an intelligent comprehension of these methods and the results intended to be obtained thereby.

With this in mind the committee has had before it all the officials of the company charged with the supervision of the accounts and responsible therefor, and has made detailed and searching inquiries into all points which have come up in the course of the examination, as to which the committee desired information in regard to the purpose of a method adopted or the course of procedure followed in any given case.

The cash, bonds and mortgage, stocks and bonds and title papers to real estate were examined by the members of the committee and found to agree with the statement prepared for their use, and which is submitted herewith.

The examination of books and accounts was made by Mr. W.

J. Wells, a professional accountant, retained by the company as an independent examiner of its accounts, both at the home office and in the agencies, and his report to the committee is a verification of the reports prepared for the committee by the officers and submitted.

We therefore report that having made the examination called for by the by-laws, we find the assets and accounts correctly reported in the statements submitted to us.

The president will submit a brief statement of the operations of this company for the past six months, as compared with the corresponding period of 1904, and also a statement regarding the liabilities of the company. This side of the account being almost wholly actuarial in the minutes and passed by the committee on the statement of the president, acting as the actuary of this company.

Your committee desires to call the attention of the directors to this specific point:

Comment upon these points is worthy of attention because, as is known by the Board of Directors, the circumstances of the company are in a somewhat peculiar position owing to the conditions which have necessitated the change of management.

For the purpose among others of avoiding any chances, even the slightest, that these conditions may be reproduced, the committee mention the following items to which it thinks that the attention of the management should be especially directed.

We find that interest is overdue on bond and mortgage on three pieces of property, the amounts of overdue interest being $10,125. We are advised by the president that this matter is receiving his prompt and careful attention, and he is of the opinion that these loans are all good, and that this matter will shortly be adjusted.

We note several investments in industrial securities among the assets of the company, and the committee doubts whether they will meet with the approval of the Superintendent of Insurance. We suggest that no further investments of this characte be made by the company.

Your committee is of the opinion that the amount of real estate owned by the company is too large and believes in the policy of reduction as rapidly as may be, and in regard to this, we are informed by the president that his views are entirely in harmony with the opinion expressed by the committee.

Regarding the matter of expenses, the committee finds that there has been a very large reduction both in regard to the agency business and in the administration of the home office. By way of illustration, we remark that the salary list at the end of last year stood at $156,000, while now it stands at $96,000, showing a reduction of sixty thousand dollars in this item alone. In regard to this the committee desires to express its commendation.

The committee approves of the policy of the management in attempting to lay firm, secure and safe foundation here in the first place for the conduct of the business. The committee does not believe that an aggressive movement to build up a large volume of insurance business can be successfully carried out until the foundation has first been securely laid.

The committee is in hearty accord with the opinion expressed by the president, that before entering upon an aggressive campaign for new business, or for the increase of business, it is very essential that a proper foundation of stability be first assured, and, in general, the committee desires to express the opinion that based upon its examination, and with the officers, it desires to express full commendation upon what has already been done, and its belief that the methods adopted will produce satisfactory results.

(Signed) V. P. SNYDER.
(Signed) GEORGE M. HARD.
(Signed) WILLIAM C. EUSTIS.
(Signed) H. WARD FORD.

On motion of Mr. Morton, duly seconded, the report of the Auditing Committee was accepted and ordered on file.

The statement of the business affairs of the company for the six months ending June 30, 1905, was then read by the president.

MR. HUGHES: In order that the record of securities produced may be complete, I will offer in evidence Exhibit No. 773 for identification.

(Paper marked Exhibit No. 773 in evidence.)

(Exhibit No. 773 will be found in the Book of Exhibits.)

Q. Who have acted for the company as brokers in making the purchases stated? A. The firm of Ryan & Kelly, afterward changed into the firm of A. A. Ryan & Brothers; McVickar & Phelps, Joseph Walkers' Sons, and we have bought a number of securities direct from the sellers.

Q. What proportion of your securities have been purchased through Ryan & Kelly, or through A. A. Ryan & Brother? A. I have not examined that, but I should say about from one-third to forty per cent., perhaps a half.

Q. A. A. Ryan & Brother succeeded Ryan & Kelly? A. Succeeded Ryan & Kelly.

Q. On July 1? A. On July 1; yes, sir.

Q. Where do your company keep its bank account? A. They have five accounts.

Q. What are they? A. One in the Chatham National Bank, the Liberty National Bank, the National Bank of Commerce, the Morton Trust Company and the Girard National Bank of Philadelphia.

Q. When were these accounts opened? A. The accounts in the Morton Trust Company and in the Chatham National Bank were opened many years ago. The account in the National Bank of Commerce was opened in the spring and in the Liberty National Bank some years ago, two or three years ago, I think, two years ago; and in the Girard National Bank in Philadelphia about June, I think.

Q. Have you opened any new accounts since the beginning of the year? A. The Girard and the National Bank of Commerce.

Q. What is the average balance carried with the National Bank of Commerce? A. About twenty-five thousand dollars, twenty thousand to thirty thousand dollars.

Q. What is your most active bank account? A. The Girard and the Liberty. The Liberty for drafting, and the Girard is the bank that we put our collections through.

Q. What rate of interest are you paid upon these accounts, or balances? A. Two per cent. in all cases, except in the Morton Trust Company, where we are paid two and one-half per cent., and in the Chatham we receive no interest on five thousand dollars.

Q. Is there any amount in the Morton Trust Company on which you receive no interest? A. No, sir.

Q. Or in the National Bank of Commerce? A. No, sir.

Q. Is the National Bank of Commerce an active account? A. No, sir.

Q. Why is it inactive, or what is it kept for? A. It is kept to have twenty-five thousand to thirty thousand dollars to draw upon as an emergency. We have used it in some cases.

Q. I note that the account with the Morton Trust Company in 1904 ran along from $126,000 and upward, balance in July, 1904, to $181,000, balance in November, 1904 and then was increased in December to $1,057,000. Was that through the proceeds of the sales of stocks? A. Proceeds of the sales of stocks, all covered into that account, and then the loans paid off in December under the old management were covered into that—that is our investment account.

Q. Then in January, 1905, a balance in the Morton Trust Company is $475,000, $695,000 in February, and falls to $259,000 in March, rises to $900,000 in May, falls to $459,000 in June, then $239,000 in July, $124,000 in August, $72,000 in September, and $20,000 in October. What is the explanation of the fluctuation? A. The explanation is that all the money we received from the loans that were paid off were turned into the investment account in the Morton Trust Company. It was only by September or October that we were able to get our money out as investments rather than in the form of bank balances.

MR. HUGHES: I will have this paper marked for identification.

(Paper marked Exhibit No. 778 for identification.)

Q. Was this resolution adopted by your Finance Committee on January 6, 1905 (indicating)? A. Yes, sir.

MR. HUGHES: I will read the minutes:

"A meeting of the Finance Committee of the Washington Life Insurance Company was held at the office of the Morton Trust Company at 38 Nassau street, on January 6, 1905, at ten thirty A. M.

Present:

Mr. Morton,
Mr. Ryan,
Mr. Tatlock.

Mr. Allen was also present on invitation.

The minutes of the last meeting of the Finance Committee, held on October 18, 1904, were read.

On motion it was

RESOLVED, That the bank accounts of the company in the Bank of America, and in the United States Mortgage & Trust Company be closed and that the respective balances in these depositories be transferred to the account of the company in the Morton Trust Company. Also, that the balance in the Chatham National Bank be reduced in the discretion of the president, and that the Liberty National Bank be considered as the depository for the active account of the company. Motion carried."

Q. Those instructions were carried out? A. Yes, sir.

Q. Do you find any record of syndicate participation by the Washington Life Insurance Company prior to January 1, 1905? A. No, sir.

Q. Have there been syndicate participations by that company since that time? A. Yes, sir.

Q. How many syndicates has the Washington Life Insurance Company gone into since the first of January, 1905? A. Six.

Q. And these are the six indicated by the papers you have given me (indicating)? A. Yes, sir.

Q. This sheet that you now hand me shows the participation in the Imperial Japanese Government Sterling Loan Syndicate, 4½ per cent. Government bonds, due 1925? A. Yes, sir.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit No. 779.)

(Exhibit No. 779 will be found in the Book of Exhibits.)

Q. What is the amount of the participation of the Washington Life Insurance in that syndicate? A. It was ten thousand pounds.

Q. Through whom was the allotment received? A. Kuhn, Loeb & Company.

Q. What amount was paid on the subscription? A. The first installment—they allotted—the condition of the participation was that the participants should subscribe to an equal amount.

Q. Is this the letter (handing paper)? A. Yes, sir. We were allotted half of the participation. The first installment was twenty-five hundred dollars and we paid the balance of the subscription price.

MR. HUGHES: I offer the letter in evidence.

(Paper marked Exhibit No. 780.)

Q. Now, did you accept that participation? A. Yes, sir.

Q. What payments were called? A. No payments were called on account of the syndicate.

Q. No payments at all? A. No, sir.

Q. Did you withdraw your bonds? A. We took our bonds and paid for them, yes, sir.

Q. What bonds did you take? A. We took twenty-five thousand dollars New York Stock Exchange face, which was the amount allotted to us under the subscription.

Q. Then you did not get the full allotment? A. We did not get the full allotment, no.

Q. What did you pay for the twenty-five thousand? A. It is stated there. The total sum of $21,885.93.

Q. You took those from the syndicate managers? A. Yes.

Q. Then subsequently did you get a profit from the syndicate managers? A. Yes.

Q. Is this the letter conveying it (handing paper)? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit No. 781).

Q. I find in this statement, Exhibit No. 779 a reference to one hundred thousand dollars paid April 26, 1905, to the Morton Trust Company? A. That was an additional purchase.

Q. That was an additional purchase of what? A. Of that same bond. It had nothing to do with the syndicate.

Q. Then these purchases appear in your other sheets? A. Yes.

Q. Why is it upon this list? A. I do not know why Mr. Metcalf put it there. That is not part of the syndicate.

MR. METCALF: No, but it is a part of the same account.

Q. Through whom did you buy these bonds? A. Morton Trust Company, I think.

Q. At what price? A. At the subscription price.

Q. How did you happen to do that? A. They let us have them. I do not remember the circumstances exactly.

Q. Is that at the same price at which they had subscribed for the bonds to the syndicate? A. Yes, sir, so I understood.

Q. Then you sold out the $125,000? A. Yes, sir.

Q. On June 21 and 22, through Ryan & Kelly and realized a profit of $5,335.92 on the bonds you had taken? A. Yes, sir.

Q. And your profit on the whole transaction was that $5,335.92 plus the $1,257.70 you had received from Kuhn, Loeb

& Company? A. Yes, sir, unless this is computed after setting that profit against the original cost of the bonds.

Q. It may be that that is the case, as I do not see it carried to the last column? A. Yes.

Q. So that the total profit was $5,335.92? A. Yes.

Q. The next syndicate is the Pennsylvania Railroad convertibles. Is that a statement of it (handing paper)? A. Yes, sir.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 782.)

(Exhibit 782 will be found in the book of exhibits.)

Q. From whom did you receive the participation? A. Kuhn, Loeb & Company.

Q. What was the amount of your subscription? A. $50,000 I think, and then they allotted us $45,500 in bonds or allotted us a participation of $45,500.

Q. And the correspondence relating to the matter is in this file now handed you (handing papers)? A. Yes, sir.

MR. HUGHES: I offer them in evidence.

(Papers marked Exhibit 783, 784 and 785.)

Q. The third syndicate is Imperial Japanese Government second series 4½ per cent. Is this a correct statement of it (handing paper)? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 786.)

(Exhibit 786 will be found in the book of exhibits.)

Q. From whom did you receive the subscription? A. From Kuhn, Loeb & Company.

Q. And what was the amount of the subscription? A. $50,000. I forget what the allotment was. We subscribed for as much as the participation——

Q. You subscribed for ten thousand pounds? A. Yes.

Q. And you received an allotment? A. It would show there we received an allotment of ten thousand.

Q. How many of the bonds did you take? A. The same amount.

Q. And did you sell them? A. Yes, sir.

Q. And after crediting the profit on the syndicate of $1,170.80 against the price of the bonds you realized on the re-sale a net profit of $3,326.79? A. Yes.

Q. The sale being made on November 27, 1905, through A. A. Ryan & Brother? A. Yes, sir.

Q. The taking of the bonds having been on August 3, 1905? A. Yes, sir.

Q. And the letters exchanged in regard to the matter are these (handing papers)? A. Yes, sir, are these.

MR. HUGHES: I offer them in evidence.

(Papers marked Exhibit 787 and 788.)

Q. The next subscription is the Republic Iron & Steel Company first mortgage. Is this a statement of that transaction (handing paper.)? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 789.)

(Exhibit 789 will be found in the Book of Exhibits.)

Q. That participation was through an allotment from the Morton Trust Company? A. Yes, sir.

Q. As shown by the following letter? A. Yes, sir, it was a share of their participation.

MR. HUGHES: I offer that letter in evidence.

(Paper marked Exhibit 790.)

THE WITNESS: We had nothing to do with the syndicate managers in that case.

Q. Who was the syndicate managers? A. Blair & Company.

Q. You accepted that? A. Yes, sir.

Q. Did you have to put up any money? A. No.

Q. Did the Morton Trust Company put up any money for you? A. No, sir, I think not; in fact, I know they did not.

Q. Nobody had to put up any money? A. Yes, sir.

Q. What did you get as a profit? A. One thousand eight hundred and forty-seven dollars and four cents.

Q. So that your entire interest in the transaction was through the receipt of the letter notifying you of the allotment and the subsequent receipt of a check for the profit? A. Yes.

Q. And the letter accompanying the check is the letter of November 20, 1905 (handing paper)? A. Yes, sir.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 791.)

Q. You did not enter into that syndicate with the idea of taking any of the bonds, did you—you did not take the allotment with the idea of investing in any of the securities? A. No, because it was not expected that we would have to.

Q. It was an industrial, was it not? A. It was an industrial.

Q. It was a matter as to which you would not contemplate a permanent investment? A. Yes, sir, that is right.

Q. The next syndicate is Imperial Japanese Government 4s, maturing in 1931? A. Yes, sir. That is still open.

Q. This is the statement of the participation? A. Yes.

MR. HUGHES: I offer this in evidence.

(Paper marked Exhibit 792.)

(Exhibit 792 will be found in the Book of Exhibits.)

Q. Imperial Japanese Government Sterling Loan, 1905, November 28th, first subscription, $1,250. From whom did you receive your allotment? A. Kuhn, Loeb & Company.

Q. What was the amount of your allotment? A. I have forgotten. Mr. Metcalf, how much was it?

MR. METCALF: Our allotment was £2,000.

THE WITNESS: It was very small. I think it was £2,000.

Q. And did you put up any money? A. We put up the first call called for the subscription.

Q. One thousand two hundred and fifty dollars. A. Yes, sir.

Q. November 28th? A. Yes, a few weeks ago, I believe.

Q. What is the item in red ink of $250? A. The first check was drawn for the full amount of the subscription, and this was a refund of the balance over the first amount.

Q. Have you taken any of the bonds? A. We have subscribed for the same amount.

Q. You have not taken them? A. We have not got them—— Oh, yes, in fact we just got them yesterday.

Q. But you have not paid for them? A. Yes, we paid for them yesterday.

Q. How many of the bonds have you taken? A. Two thousand pounds.

Q. The entire amount allotted to you? A. The entire amount allotted to me.

Q. In any of these cases that have been mentioned did you buy any bonds in excess of your allotment? A. Not from Kuhn, Loeb & Company.

Q. Have you from any one else? A. We did, $5,000 of the Japanese 1sts, from the Morton Trust Company.

Q. In any other case have you bought any? A. No, sir.

Q. So what you have stated covers your entire transactions in connection with the securities as to which you participated in the syndicate? A. Yes, sir.

Q. Now, the last syndicate is the Bethlehem Steel Company syndicate. When did you obtain a participation in that? A. November 29th.

Q. Nineteen hundred and five? A. Nineteen hundred and five.

Q. From whom did you receive the participation? A. Harvey Fisk & Sons.

Q. What is the amount of your participation? A. One hundred thousand dollars, with a further contingent participation of $50,000.

Q. As shown by this letter of November 22d, 1905? A. Yes, sir.

MR. HUGHES: I offer that in evidence.

(Paper marked Exhibit 793.)

Q. Did you sign the syndicate agreement? A. I did, on the instruction of the Finance Committee.

Q. Is this the resolution of the Finance Committee giving you those instructions? A. Yes, sir.

MR HUGHES: I will read in evidence.

A meeting of the Finance Committee of the Washington Life Insurance Company was held at the office of the Morton Trust Company, November 29, 1905, at 1.30 p. m.

Present: Messrs. Allen, Morton, Ryan, Whitney and Tatlock.

The minutes of the meeting of November 22, 1905, were read and approved.

The president reported the sale of $50,000 Imperial Japanese loan, 4½% second series at 93; and the purchase of $50,000. Lehigh & Wilkesbarre Coal Company, 4½% bonds for 1910, at 101⅞ and interest.

Also that after consultation with officers of the Finance Committee, the company had subscribed to the new Imperial Japanese 4% loan to the amount of its participation in the syndicate formed for the placing thereof.

On motion, the above mentioned transactions were approved.

On motion, it was ordered to accept participation of $100,000 in the syndicate being formed by Harvey Fisk & Son for the purchase of the Bethlehem Steel Company first, extended, guaranteed 5% bonds.

On motion, adjourned.

JOHN TATLOCK,
President.

Q. That is the last meeting of the Finance Committee? A. That is the last entered in the book.

Q. How do you reconcile the joining in the syndicate with the opinion expressed at the meeting of the Board of Directors in July, as to the attitude of the company toward industrial securities? A. Well, I do not take the personal responsibilities for investments.

Q. You acted under instructions in the matter? A. I acted under instructions, and in these syndicates it is understood you do not have to take the bonds unless you want them.

Q. But you do have to take them if you do not want them, if you are required to? A. If you are required to, yes, sir.

Q. Well, my point was this. There appears to have been a definition of policy at the meeting of the Board in July, 1905, as to the propriety of investing in industrial securities. Has there been a change in that policy? A. No, sir, I do not think there has, but the line—but the definition of what is industrial is so broad and without such definite limits, that I think there would be a difference of opinion in any Board. For instance, we hold $50,000 of the Lackawanna Steel Company bonds and notes, 5 years, 5% notes, and while, of course, that is an industrial security, yet no man who has any opinion on securities would consider that anything but first class.

Q. Well, is the point then that you will invest in first-class industrial securities or that you will not invest in industrial securities at all? A. Well, I think it is rather the first because——

Q. That is, you will not invest in poor industrial securities? A. I know that that very point came up when Mr. Snyder drafted that report, that paragraph concerning industrial securities in the report of the Auditing Committee, that very point about the Lackawanna Steel Fives that I mentioned to you just now.

Q. Well, then, your company has no settled policy with reference to industrial securities as a class, but only scans them a little more carefully before making an investment? A. I think that is a fair statement, although——

Q. Now, have you had any other participations in a syndicate of any sort through the Morton Trust Company or through any one of your officers which does not appear in the sheets which have been mentioned? A. No, sir.

Q. Are you entitled directly or indirectly to any benefits on any syndicate participation which does not appear in these sheets which have been put in evidence? A. No.

Q. These comprise all your transactions of that sort? A. Yes, sir.

Q. And all the securities which you have purchased either directly or indirectly or have acquired that have been floated by syndicate managers are comprised in the list of securities produced which has been furnished the committee? A. Yes, sir.

Q. Have you participated yourself in any of the syndicates? A. No, sir.

Q. Have any of the executive officers participated in any of these syndicates? A. No, sir, nobody connected with the company in any capacity.

Q. Well, the members of the Finance Committee have, have they not? A. Not personally, no.

Q. Not in any of them? A. Not in any of them.

Q. You are prepared to testify to that positively? A. Yes.

Q. So that Mr. Ryan was not in any of these syndicates? A. Not personally.

Q. You mean by that if he had any interest it would be through the Morton Trust Company? A. It would be through the Morton Trust Company's interest.

Q. And similarly with Governor Morton? A. Yes, sir.

Q. Are these brokers related to Mr. Ryan that have been mentioned? Ryan & Kelly? A. Yes, sir. The Ryans are his sons.

THE CHAIRMAN: The committee to-morrow will meet in the Aldermanic Chamber at the other end of the building at 10.30 o'clock sharp.

Adjourned to December 20, at 10.30 A. M.

ALDERMANIC CHAMBER,

CITY HALL, NEW YORK CITY.

December 20, 1905.

The committee met pursuant to adjournment, Senator Armstrong in the chair.

JOHN TATLOCK, resumed.

BY MR. HUGHES:

Q. Mr. Tatlock, are these all the collateral loans made by the Washington Life Insurance Company since January 1, shown by the papers received by the committee? A. Yes, sir.

MR. HUGHES: I will have them marked for identification.

(The papers were marked Exhibits 794, 795, 796, 797 and 798 for identification.)

Q. These appear to be business loans on collateral? A. Yes, sir.

Q. Has there been any loan since January 1, 1905, to or for the benefit of any officer or director of the company, directly or indirectly? A. No, sir, absolutely none.

Q. Is this a complete list of legal fees paid by the Washington Life for the ten years last past? A. Yes, sir; up to the end of 1904.

MR. HUGHES: I will have it marked for identification.

(Paper marked Exhibit 799 for identification.)

Q. You found no records of any payments to Andrew Hamilton? A. No.

Q. Or to A. C. Fields? A. No, sir.

Q. Or to William H. Buckley? A. No.

Q. Or of any payments in connection with matters of legislation? A. No, sir.

Q. (Handing paper.) Is this a complete statement from the books of the Washington Life of the loans made prior to December 31, 1904, for the preceding ten years? A. Yes, sir.

MR. HUGHES: I will have it marked for identification.

(Paper marked Exhibit 800 for identification.)

Q. Is this a correct statement of the amount of your outstanding insurance on the annual and deferred dividend plans respectively? A. Yes, sir, to November 1.

Q. November 1, 1905? A. Yes, sir.

MR. HUGHES: I will read it in evidence: "The present amount of outstanding insurance on the annual dividend plan is $12,339,000.

"The present amount of outstanding insurance on the deferred dividend plan is $45,440,000."

Q. What is the method by which annual dividends have been calculated? A. For a number of years it has been the custom to allow one and one-half per cent. interest on the initial reserve for the policy year and five and one-half per cent. on the loading on the premiums. These contributions so-called for each age were modified according to a scale of percentages, the scale varying according to the duration of the policy, the policies issued in the earlier years getting 100 per cent. of the contributions and for the later years being scaled down according to the table which has been submitted.

Q. Is the method correctly stated in this memorandum that has been produced? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 801.)

(Exhibit 801 will be found in the Book of Exhibits.)

Q. Is that the same method that was adopted by the Mutual Life? A. It was very similar.

Q. Similar, but different? A. No, only in detail.

Q. In other words, you took one and one half per cent. interest on the initial reserve and 5½ per cent. on the loading on the annual premium? A. Yes, sir.

Q. That was the manner in which the dividends were calculated, whatever the income may have been? A. Of course, you will understand this is the method adopted by the prior actuary of the company.

Q. Yes, prior to your connection with the company? A. Prior to my connection with the company, yes.

Q. Did this method result in giving the same dividends right along? A. From year to year do you mean?

Q. Yes. A. Well, it would give an increasing dividend, increasing in the ratio of the reserve.

Q. But apart from that proportionate increase the dividends would be the same? A. Yes, sir.

Q. So that whether the company made or lost money the gain of the policyholder would increase according as the reserve upon his policy increased? A. Yes.

Q. Do you think that is a proper way of computing an annual dividend? A. I am inclined to think that there is a good deal in justification to be said for that method.

Q. What is the justification for giving a man gains in annual dividends which the company may not have earned? A. I beg pardon, I misunderstood your question. I thought your question was as to the method. Of course, you cannot justify distributing profits that you have not earned.

Q. I mean it would lead to it in the case of a given year when they did not make money? A. Yes, sir.

Q. And this plan would lead to that, would it not? A. In the particular case of the Washington Life in the past years, yes, sir.

Q. And this method would give a definite percentage of the loading which remained constant on the annual premium each year, and in addition 1½ per cent. upon an increasing reserve? A. Yes.

Q. So that a man would continually have a certain amount or dividend based upon the loadings and an increased amount based upon the reserve, regardless of the operations of the company? A. Yes, sir.

Q. Was that method adopted in the Mutual Life? A. No, sir.

Q. Then was there an attempt to approximate the dividends to the actual gain? A. Yes, according to the actual facts.

Q. By a modification of the actual factors that were taken with some reference to the actual experience? A. Yes, sir.

Q. What is your method now in the Washington Life? A. The problem has been presented to me only for the dividends for 1906, for annual dividends for 1906 it has seemed to me wise to use that same method for the annual dividends. The changes in the financial history of the company and the process of reorganization which it is going through absolutely precluded any actual determination of the so-called real earnings.

Q. Have you made any estimate of the results of the business for the year 1905? A. No, sir—well, yes, for nine months.

Q. What does it show? A. It shows that for nine months the actual net earnings of the company, based upon the best valuation of the liabilities I could make, at the end of September amount to $226,000, of which earnings $77,000 is dividends paid to policyholders in 1905 and $149,000 in increase in surplus, making the surplus at the end of September $224,000.

Q. Is that over and above the capital stock? A. Over and above the capital stock.

Q. At par? A. At par, yes, sir.

Q. How much of that is due to the premiums received on the increased capital? A. Well, that premium upon the increased capital went to make—all but $75,000 of it went to make up the deficiency at the end of 1904.

Q. So there was only $75,000 which could apply on the gains of this year, or be a part of them? A. Yes, sir, or be a part of the surplus dividend at the end of this year.

Q. So that after setting aside dividends to policyholders in the amount of $77,000 and paying all of your expenses for the nine months, you figure you will have a surplus in excess of the

$75,000 realized from the capital stock, of about $75,000? A. No, of $149,000.

Q. Oh, that was in excess of the $75,000? A. That was in excess of the $75,000. The actual free surplus of the company at the end of September over and above the capital stock was $229,000.

Q. How were the dividends on deferred dividend policies computed under the former administration? A. Well, the annual dividends for a similar policy having a five, or ten, or fifteen year distribution period were taken during that term, and the reversionary values, that is, the insurance values of those paid dividends as computed for each year were summed; the present cash value of that sum of reversionary insurance was considered as the cash dividend on that distribution period, and those results were modified by percentage in accordance, I regret to say, with what seems to me no plan.

Q. What do you mean by that, precisely? A. Well, there does not seem to have been any regular method in applying those percentages.

Q. They were applied arbitrarily? A. Rather, yes.

Q. Well, with what object? A. Well, I should judge, to make them look about right, to give a reasonable percentage of the premiums that had been paid by the policyholder.

Q. What method have you adopted, or do you plan to adopt, under your administration? A. I plan to adopt a method of taking the annual dividends which were declared on similar policies to the distribution policy, and accumulate them at interest to the end of the distribution period, or what comes to the same thing, accumulate them as pure endowment to the end of the distribution period, which method compensated the deferred dividend policyholder for the risk he has run of losing his dividend. That method, I think, would meet the approval of other actuaries.

Q. At the end of 1904 the surplus had been exhausted and the capital impaired? A. Yes, sir.

Q. As a result up to 1904, that is the end of that year there was no accumulation? A. Yes, sir.

Q. For any of the deferred dividend policies previously issued? A. Yes, sir.

Q. So whatever will be apportioned to the deferred dividend policies of issues earlier than 1905 will depend on the surplus gain, beginning January 1, 1905? A. Yes, sir.

Q. And will be apportioned in accordance with their contributions to that surplus? A. Not necessarily, Mr. Hughes, because the surplus it seems to me must be drawn upon to make up the accumulation of past years, that were wiped out. That is only fair to the individual policyholders.

Q. Well, is that fair to the policyholders, who in 1905, are providing the surplus which is then accumulated? A. Strictly speaking, perhaps not, but it is a question of expediency of practice rather than of strict theory it seems to me.

Q. Isn't that the vice in this whole matter of dividend ascertainment, that the effort is to keep people quiet, and deal with the situation in such a way as to create harmony rather than to give them the gains they are actually entitled to on the business according to its actual results? A. There seems to be a good deal of evidence that would justify that view. I would not go quite as far as that myself.

Q.Don't you think that starting with a deficit on December 31, 1904, and then accumulating the surplus through the contributions made in the premiums of policyholders paid after that date, that the accumulations should be distributed according to those contributions? A. So far as your statement is true that is correct, yes, sir; but there are miscellaneous sources of profit which seem to me are fairly entitled to be credited to policyholders who lost their accumulations before.

Q. You mean a gain on some investments that have been made for example years ago? A. No, I do not mean that; I mean current gains on investments, profit and loss gains, and gains on excess of interest.

Q. Those are gains at this particular time? A. They are gains at this particular time, of course, but it seems to me that the old policyholders are entitled to something out of that.

Q. The point is you think they would feel very sore if they didn't get it? A. I know they would feel very sore if they didn't get it, but if they have a right to—the problem is not a simple one by any sort of means.

Q. Do you now permit estimates to be distributed with regard to the prospects of policyholders under deferred dividend policies? A. No, sir.

Q. How do you endeavor to control that matter? A. Well, it is one which from the particular nature of the business it is impossible to control. Whenever the question has been presented to me I have said that I in no wise authorized estimates to be given out, that I didn't approve of them, and that no agent of the company—I have said this to several policyholders in writing—certainly by word of mouth—that no agent of the company had any authority to express an opinion on the question of profits, either his own or any other person's premiums.

Q. Have you, as a matter of fact, any deferred dividend policies maturing this year, 1905? A. Yes, sir.

Q. Have you made any calculation with regard to apportionment to them of any surplus? A. Those apportionments were all made before I took hold of the company and the dividends have been paid in accordance therewith.

Q. In accordance with those apportionments? A. In accordance with the previous apportionments.

Q. How could you do that on the ascertainment of the fact there had been no accumulation? A. We simply felt it was right to those policyholders to give them those dividends.

Q. That had been declared upon a false hypothesis? A. Yes, sir.

Q. Have you any system of accounting by which the amount ultimately payable to a deferred dividend policyholder is placed to his credit annually and merely awaits payment? A. No, sir.

Q. Testimony has been given here with regard to the adoption of that system by another company. What in your judgment is the objection, if there be any, to determining each year the dividend which will be payable at the end of a given year, and ascertaining the present worth of the amount now determined and accumulated for a given period, and crediting it to the policyholder as a legal obligation of the company? A. I see no objection to it whatever.

Q. Would that tend to cramp a company in any way in doing its business? A. Under conditions that have existed it would, but if I may speak personally, my theory has always been that a surplus was for distribution and not for accumulation.

Q. Yes; and you would set aside how much of the surplus of the company to protect you against contingencies and fluctuations in values, that could not be definitely anticipated? A. Well, of course, that must be determined by the conditions of the individual companies; but it seems to me that the provisions of the Massachusetts law which I think says no company shall accumulate above ten per cent. of its assets is a very good rule for a general rule.

Q. And you would personally favor a plan by which gains in excess of ten per cent. of the assets should be either annually distributed or put in the form of a liability annually? A. I see no objection to that, with the single exception, if I may state right here, that the annual dividend system has never appealed to me personally as anything but a good deal of a makeshift.

Q. Makeshift for what? A. Well, from the very nature of the business of a life insurance company it is impossible to determine with a high degree of accuracy what the earnings of any one year are in that year. It seems to me that this business of taking, say, a premium of thirty-five dollars a year and giving him back four dollars and seventy-three cents at the end of the year, there is no justification for it. Of course, there is justification if he takes the dividend in the form of addition to his policy, but personally, if I may say so, I should favor a system of surplus distribution at periods of not more than five years, or less than three—within a period of three or five years, an actuary can determine with a very high degree of accuracy the actual surplus earnings of a given class of policies and to a degree beyond which he can determine it for a period of a single year. The distribution of dividends must necessarily be made on the basis of policy years. The fiscal years of all life insurance companies under the laws and in accordance with their practice are calendar years. Policy years must therefore lap over calendar years, and by taking a period of three or five years you can determine the factors which constitute surplus with a much greater degree of accuracy and of fairness than you can of taking only one year.

Q. Then you would favor the distribution at periods within which the actual gains can be determined? A. Yes, sir.

Q. You would favor an actual cash distribution at such times?

A. Certainly. I see no objection to that.

Q. Of course, at the option of the policyholder in reversionary additions. A. Yes.

Q. But your objection to an annual payment is that you cannot annually determine the amount accurately? A. Well, there are other considerations, too. The real problem that concerns an actuary with an annual dividend company is what the first annual dividend shall be, because he knows that by the scale there determined in the first year he has got to stand or fall. The policyholders and agents will view with disfavor any marked fluctuation, especially in the way of a decrease in the coming years, and the problem really is to determine to the best of his judgment the scale for what the future years shall be, and that is why I call it an arbitrary system.

There is also this to be considered, that the annual dividend system was engrafted upon American life insurance companies partly because of the system of making an annual valuation under the State laws which was set up, and also on account of competition. The original system, as you know very well, was a five year distribution, five year determination of the surplus. Then one or two companies, I think, began distribution at less periods, and finally an annual dividend system grew out of that, coupled with a system of annual valuations.

Q. When do you begin to accumulate a surplus upon a policy—in what time in the average? A. Well, that depends; that is rather an academic question, but it depends necessarily upon the point of view, as to from what source you pay your expenses of getting new business. If you take the view that the expenses of new business are properly chargeable to the premiums of new business itself, the authorities have decided that there is no surplus on policies probably for three years. If you take the contrary view, that new business is paid for out of the treasury of the company as a general expense charge, then of course there must be some surplus on the first year's premiums on new business because the premiums—first year's premiums are only chargeable with their pro rata share of the expenses.

Q. Dividends paid by a life insurance company are in effect a return of an overcharge? A. Yes, sir.

Q. Calculation is made as to the expected cost of the insurance? A. Yes, sir.

Q. And if anything is gained either through good fortune in investments, or through good fortune in mortality rate, or through paying out less on lapsed policies than has been calculated, you have got something which in a mutual company, apart from any claims of stockholders should be given back at some time? A. Yes.

Q. And in some form? A. Yes.

Q. And your point is that it should not be given back until it can be calculated with accuracy? A. With substantial accuracy.

Q. With substantial accuracy, and that it cannot be calculated with substantial accuracy short of three years? A. That is my individual judgment, others might differ on that point.

Q. Now, with regard to the difficulty that an actuary has in fixing the dividend for the first year, suppose all companies were required to distribute their gains after setting aside a reasonable amount to meet contingencies, would there be any practical difficulty in the way of such distribution? A. No, sir; I don't think there would.

Q. It would simply compel them to show the efficiency of their management A. It would help the situation very much.

Q. Yes; what really disturbs you now is that if you attempt to apportion your gains as they actually are and another company does not, there will be a factitious advantage in the favor of the other company? A. Yes.

Q. And you will suffer from trying to do the honest thing? A. Yes.

Q. Of course the thing that ought to be done is to return what the policyholder has paid more than he should have paid, because of an overcalculation as to the cost of carrying his insurance? A. Yes, sir. My objection to the annual dividend system really goes deeper than that.

Q. Go on? A. I think there is no ground for it.

Q. Why not? A. On the two grounds that is seems absurd on the face of it to overcharge a man on the 1st of January for handing him back the overcharge on the next January.

Q. You mean it goes back too quick. There is no possibility of making any pretense that you have earned anything for him with that overcharge in the short space of a year.

Q. The real point is that you have not satisfactorily at that time determined that he has been overcharged or the amount of it? A. That is also a point.

Q. Of course just as soon as you did determine it and you had the money you think that you ought to give it back to him? A. Oh, yes; and then in the net view of it the proper system would be to defer the first dividend until the end of the second year. Then you would have twelve months more to examine and see what the man had actually earned.

Q. What is the advantage of accumulating the dividends for any period beyond a period necessary to make a fair and accurate distribution—is there any advantage to the company? A. I see no real advantage.

Q. Of course it is a practical advantage to have a good deal of money in hand, it makes one feel more comfortable? A. That is true.

Q. But there is not any essential advantage, that is if the company has a proper fund, as a contingency fund? A. If its surplus for contingencies is large enough.

Q. So that really it is a mere matter of whether it is a good thing for the policyholder to be allowed to gain whatever advantage there may be through the discontinuance of other policies by having a surplus accumulated and perhaps getting at the end more than he otherwise would, or perhaps through that saving money he otherwise would not have saved—that is about what the argument comes to? A. That is about what the argument comes to.

Q. And if there were accumulations you do not see any way in which the company would be handicapped by being compelled to set apart each year as a liability the present value of the amount payable at the end of the period? A. I can conceive of no circumstances under which it would be any detriment to any corporation or any individual to know what his real liabilities are at any time.

Q. Have you had experience with the business of American companies in foreign countries? A. Some experience; yes, sir.

Q. What was that experience? A. Well, I have never been directly charged with the management of foreign business, but I have lived abroad more or less on insurance company business and I have had opportunities to examine the foreign business, and I am familiar somewhat with its cost.

Q. Was that during your connection with the Mutual? A. Yes.

Q. In what companies have you examined foreign business—in what companies and in what countries have you examined the foreign business? A. My knowledge is confined for the most part to foreign business of the Mutual Life, and I have examined practically all over the whole of Europe.

Q. What conclusions have you reached concerning the advisability of an American company's doing foreign business? A. Well, of course it is to be said that much of the foreign business done by American companies has been profitable. It has been of exceedingly good quality and low mortality, and some of it is claimed to have been secured at a reasonable cost, but the sum of my conclusions is that life insurance is a business which is admirably adapted to be done by the companies domiciled in the countries in which the business is sought to be done.

Q. What are the reasons for that conclusion? A. Well, based on these facts, that the American business in foreign countries has for the most part been done at a very high rate of expense. In some European countries the mortality is not as good as in America. Of course the business has suffered from that end, and the high rate of expense is largely due to very excessive taxation, fees and administrative cost—I mean official administrative cost. To my mind one great objection is the requirements of most foreign countries to the end that the liability under the policies issued in that country shall be placed in assets prescribed by the governments of those countries and held there. I do not believe in this business of putting your money out of your hands. I merely state that as a personal opinion.

Q. Mr. Tatlock, do you desire to correct any of your testimony given yesterday? A. Yes, sir; in one or two respects. I inadvertently gave you an impression in my statement that the net premiums used in computing the participating rates on the so-called preferred class policy were based on 3½ per cent. I regret the inadvertence and I want to correct it. They were based on 3 per cent. The loading on those premiums is 14 per cent., plus the 25 cents on 3 per cent. premiums. The effect of that is to make the difference in percentage of loading between the regular rates and the preferred class rates 40 per cent. instead of 60.

Q. Is there anything else? A. There is one matter I would like to speak of in regard to the investments of the company, and that is that no investment that has ever been brought up in the Finance Committee has ever been bought unless the full Committee present agreed. And I want to say that Mr. Ryan has never made any attempt whatever to influence the Committee in its decisions, in fact he has been the one member of the Committee who has taken less interest in its deliberations than anybody else; and that all our investments have been made of securities that have been purchased and sold with the full knowledge and consent of the Committee and in their best judgment with the view of making the utmost profit we could for the company.

Q. Who did suggest the investments which you referred to yesterday in American Tobacco? A. My recollection is it was Mr. Morton.

Q. Was that concurred in by all the members of the Committee? A. Yes, sir.

Q. Did you concur in it? A. I did, for the reasons I stated to you yesterday.

Q. You said yesterday as I recall it, that you acted under instructions? A. I desire to correct that if I said so.

Q. What did you do? A. I concurred as a member of the Finance Committee in that purchase.

Q. How did you justify your concurrence? A. As I told you yesterday that it seems to me they were securities which would yield up a very great rate of interest for a time, and that might yield us a profit on sale and the necessities of the company were such that I considered we were abundantly justified in that investment.

Q. As a regular policy you do not feel that a company should buy securities with a view to a resale for the purpose of making a profit on the rise in the market, do you? A. I think I do, Mr. Hughes. It seems to me that one of the functions of a life insurance company is that of a banker where it can make a legitimate profit in safe securities for the benefit of its policyholders, sir.

Q. Isn't a preferable policy that it should invest its money so far as possible permanently with a view of keeping a uniform rate of return, and of being compelled to turn its money over as infrequently as possible? A. No, sir, I don't think so. That was the policy adopted by the old management. Their investments were made entirely for many years in bond and mortgage; the results were that they made heavy losses, and were saddled with a large amount of real estate, and I think that——

Q. That was because of the unwisdom of their investment, was it not? A. Yes, sir, but at these times—at this time I think one would regard it as a mistake to invest exclusively in any one class of securities—notably in bond and mortgage. The bond and mortgage market in New York has become very much restricted for first class investments with the growth of the title companies and other corporations who invest in mortgages for the purpose of selling them, and certainly the experience of the Washington Life in that respect seems to me to justify the opinion that a mixed class of investment is altogether desirable.

Q. Well, the pith of your statement is that you went into these transactions which were stated yesterday to make money? A. Yes, sir.

Q. And your justification is that you did make money? A. Yes, sir.

Q. The question is whether you think it advisable to have a temporary investment with a view of resale; does not that expose you to the risks of what is tantamount to a speculation? A. I do not think so, sir, if those investments are made with good judgment. I do not believe in speculating of course, or of investing in speculative securities.

Q. How do you draw the line between an investment for a temporary period with the idea not of holding these securities, but of reselling on speculation. If a security is likely to fluctuate upward it may fluctuate downward? A. It may; but I believe the best financial judgment is able to discriminate as to the direction it is likely to go.

Q. It comes down to a sound financial judgment in such cases? A. Of sound financial judgment. It seems to me the case is no different in investing in securities at a low price for temporary investment for the purpose of making a profit from what it is in making a collateral loan on the same securities at a high rate of interest when the money market is high.

Q. To what extent do you favor putting out money on collateral loans, Street loans in other words? A. I do not favor it for my own company.

Q. Why should you not favor a collateral loan as against investment for a temporary purpose in securities of the same class? A. Well, my opinion is based largely on the fact that we have not the machinery necessary for making collateral loans. It involves a good deal of labor and trouble, then again, there are very few occasions when you can make the same profits in the way of interest on collateral loans, that you can in buying securities low that are deemed by the best judgment obtainable, that they will rise.

Q. Do you keep a minute of the transactions of the Finance Committee? A. Yes, sir.

Q. We found yesterday I believe in one case that their——. You were unable to point out at the moment an authorization? A. Yes, sir. I can only explain that as a clerical omission. I have no other explanation for it.

Q. Were in fact all the purchases and sales mentioned yesterday authorized by the Finance Committee? A. Yes, sir.

Q. Did the Finance Committee act unanimously in the matter? A. Absolutely, yes, sir.

Q. Did all the members of the Committee concur in an authorization or approval of these transactions? A. Yes, sir.

Q. Did the same thing in the way of authorization or approval occur in the matter of the syndicate participation to which you testify? A. Yes, sir.

Q. Is it your point of view, Mr. Tatlock, that an insurance company is justified in going into any syndicate participation, or into any transaction in securities merely because it expects to make money? A. Yes, sir, that is my point of view. Always, coupled with the condition that it shall be done with sound judgment.

Q. What is the more likely to fluctuate, real estate values or the values of securities? A. Well, I cannot pose as a real estate expert, Mr. Hughes, but my own judgment is that real estate is the most speculative form of investment known.

Q. Do you set apart any class of securities in which you think an insurance company should not invest, or would you leave it entirely to the business judgment of the men in charge of its investments? A. I would leave it entirely to the business judgment of the men.

Q. Then you do not favor any action which would control the liberty of investments on the part of an insurance company? A. No, sir, I think it would be a great mistake.

Q. From your judgment of men and experience of affairs do you think that it is advisable to rely simply on business judgment in determining the investments of an insurance company? A. Yes, sir, if you rely upon enough of them.

Q. It comes down to a question of personal equation? A. Yes, sir, I think this idea of control is very much exaggerated; it certainly is as regards my experience in these matters.

Q. How have you seen it exaggerated? A. Well, this popular idea that men are led by private interests.

Q. Oh, well, do you think that the limitation of the field of investments in the case of savings banks inadvisable? A. Yes, sir, I think so.

Q. Do you think it would be better to have an open field and no favors and trust to the personal judgment of the Directors or Trustees? A. That is my judgment, Mr. Hughes.

Q. Have any securities been bought by the Washington Life from Mr. Ryan? A. No, sir.

Q. Have any securities been bought by the Washington Life from the Morton Trust Company? A. Yes, sir.

Q. To what extent? A. We bought two hundred thousand dollars of the Japanese Loan, second series, sixes.

Q. Anything else? A. No, sir, nothing that I can think of.

Q. Have any securities been bought from Governor Morton? A. No, sir.

Q. Have any securities other than the two hundred thousand dollars of Japanese sixes been bought by the Washington Life from any one connected with the Board of Directors of the Washington Life? A. No, sir.

Q. Or from any firm or institution in which any officer or Director of the Washington Life has an interest? A. No, sir.

Q. From whom were the American Tobacco securities purchased? A. They were purchased on the market from—they came through two or three firms. Kingsley, Mabie & Co. were one, I think. I do not remember the names of the others.

Q. And no officer of your company was interested in those? A. No, sir.

Q. I mean in the securities which were sold? A. Oh, as to that I do not know. You mean in the sales to the company?

Q. Yes. A. No.

Q. Did they sell their securities to the company? A. No, I do not think so, not so far as I have any knowledge.

Q. Your information is to the contrary? A. My information is to the contrary. They were bought on the board, and the names of the sellers appeared on the advices.

Q. Then is it your idea that an insurance company should establish relations which will give it an opportunity to make profitable investments by knowledge of the Wall Street market? A. Well——

Q. In other words, which is the policy which you prefer, to have an insurance company managed by men who have no other interest, who limit themselves to conservative investments in established securities, or in real estate, or to have it managed in such a way that opportunities for profit through syndicate transactions, or purchases of securities which will likely rise in value may be seized and taken advantage of promptly? A. Well, I prefer the latter.

Q. You prefer the latter? A. I regard the first as tending to a state of affairs—which leads toward a state of affairs which is popularly called dry rot.

Q. And you see no danger in the latter? A. I do not.

Q. So that you are frankly and candidly in favor of having the investments of an insurance company handled by those that are closest to the financial operations of Wall Street? A. Yes, sir.

Q. Because of the opportunities of making money? A. Yes, sir, always on the condition and under the circumstances that they are handled by men of integrity and good and recognized sound judgment.

BY THE CHAIRMAN:

Q. Mr. Tatlock, of what advantage is it to policyholders that there should be non-participating insurance? A. They have the advantage of paying less premiums than they do—than they are called upon to do upon the participating plan, and of knowing exactly in advance what their insurance is to cost them.

Q. Why do they have a less premium for non-participating business? A. Because the contract is they shall have no profits, and the premium is made less on the basis of that contract.

Q. Can such policies be written without endangering the stability and responsibility of the company? A. Yes, sir.

Q. Why should not premiums generally be reduced to a non-participating basis, if those premiums upon that basis will still pay into the company sufficient to make it stable and responsible? A. There is no reason, but as a practical matter it will be found, I think, that a company cannot continue on a non-participating basis only.

Q. Why? A. It could not pay sufficiently attractive commissions to enable agents to get the business.

Q. That is solely a matter of competition is it not? A. That is solely a matter of competition.

Q. So that competition aside, is there any reason why all business should not be written so far as premiums are concerned upon the lower premium which would indicate a non-participating business? A. No, sir.

Q. There is not? A. There is not, leaving aside the question of competition.

Q. Leaving aside the question of competition? A. Yes, sir.

Q. It then would be a manifest advantage to the public, because they would obtain the same insurance at a less rate of premium, would it not? A. Yes, sir, but it is fair to say that participating policyholders in many companies who pay premiums for a number of years do obtain their insurance at less cost than if they had taken a non-participating policy in the first place.

Q. That is just what I was coming to. Now, what has been the experience of insurance companies as to the cost of insurance between participating and non-participating policyholders, which of them obtain their insurance cheapest? A. Well, as a matter of fact, in many companies, owing to the extremely low rate at which non-participating insurance has been sold, and the only moderate dividends which have been paid on participating policies, it is true that the non-participating policyholder has obtained his insurance at a less cost than the participating policyholder. But in other companies I think it is a fair statement that the contrary has been the case, as it should be.

Q. Then it depends necessarily upon the ability with which the company is managed? A. Yes, sir.

Q. And it also depends upon this fact that in the past there has been a lack of co-ordination or homogeneity in the basis upon which participating and non-participating rates have been computed; in other words, non-participating rates have been made too low.

Q. We reach the other branch of the question then, why should there be any non-participating business if that be true? A. Simply because some people have preferred it.

Q. But if the company is managed so that all its surplus earnings, except what is required for administration and reserve funds, are distributed as dividends, there is some probability that the insurance will be cheaper, if the company is well managed, than if written on a non-participating basis, and at all events an absolute certainty that the business will cost the policyholder no more than it should cost him? A. That is true if the non-participating rates are put on a proper basis in the first place.

Q. If they are not put on a proper basis they are on an entirely wrong basis are they not? A. Then the non-participating policyholder gets his insurance a little cheaper.

Q. And that would be a wrong to all the other policyholders? A. Yes, sir.

Q. Then why is it not an absolute equity to prohibit non-participating business entirely in the insurance business, and write all business upon the participating basis? A. Upon the non-participating?

Q. Upon the participating business. Wherein will the harm come there to the company or the policyholder? A. I do not see any objection to that for purely mutual companies.

Q. What objection is there for those that are not purely mutual?

A. Because it seems to me it is all right for a stock company to write—to sell insurance on the best terms it can make.

Q. You believe a stock corporation, as in the case of an ordinary business corporation, is one primarily created to make money for its stockholders? A. Within the limits in its charter, yes.

Q. Is there any reason why you make your reply to my last question? A. No.

Q. Viewing it from the standpoint of the public and the policyholder then, is there any reason why all business should not be participating business? A. I can see no good reason against it.

Q. And no other reason you can suggest except that in the case of stock companies they ought to have the right to determine what classes of business they would sell for themselves? A. Yes, sir.

BY MR. HUGHES:

Q. If a non-participating premium is adequate, why should a participating premium be a cent more? A. Because of the contract rights that are given to a policyholder on a participating policy.

Q. Those contract rights are to return him moneys which he may pay in by being charged too much? A. How do you mean by being charged too much?

Q. By being charged more than the insurance will cost? A. Yes, for the purpose of getting something back.

Q. Now, the scheme of insurance is to give a man insurance at what it cost the company? A. Yes.

Q. In a mutual company? A. Well, all companies are practically mutual, and the body of the policyholders is the company.

Q. Yes. In other words, you would carry in the case of a stock company the amount of a fixed dividend charge into the fixed expenses? A. Yes.

Q. You do not in this country load premiums with the idea of paying bonuses as in England? A. Well, what they call bonuses in England are what we call dividends.

Q. I understand that, but you do not load your premiums for the purpose of providing dividends? A. Yes.

Q. What? A. Participating premiums are loaded largely for that purpose.

Q. And only for that purpose? A. Well, yes, you can say only for that purpose, and for providing for contingencies.

Q. There is no good reason why if a non-participating premium is adequate in carrying the insurance you should charge a penny more for a participating policy except on the theory that that penny more is going to be given back to the policyholder in some way? A. Yes, that is right.

Q. And yet the expenses of American companies very frequently exhaust the entire loading on participating premiums? A. Yes, sir.

Q. Is that so in the Washington Life? A. Yes, sir, it is.

Q. Is it so to-day—do you save anything in your loading upon participating business? A. I do not think we will for this year. I am trying my best to get them down.

Q. So the situation is that the participating premium, though made higher than the non-participating upon the theory that there will be a return to the policyholders, in fact, does not permit that return, because the excess is used up in expenses? A. Yes, sir.

Q. Well, that would seem to indicate that the non-participating premium was not adequate? A. Well, in a great many cases it has not been adequate.

Q. If all your rates were made as your non-participating rates are made, with a view to meeting the cost of carrying the insurance without intending to return to the policyholder any benefit in excess of charges, you could not get along unless you reduced expenses still further than you have been able to do? A. That is undoubtedly true.

Q. So, according to your present scale of reduced expenses, your non-participating rates are not adequate? A. Yes, well, academically no. They are adequate to carry the cost of non-participating business.

Q. How can such a thing be academical when we know practically yes? A. What I mean is that non-participating rates are adequate to pay the cost of carrying those policies. They are not adequate in the sense that most companies are conducted, I think the non-participating policyholder has an advantage over the participating policyholder.

Q. Then you charge a higher premium on the participating policy on the theory that the policyholder is to get the money back? A. Yes.

Q. And then you pay such large commissions to the agent to get that policy that there is not any money coming back? A. There is not enough coming back to reduce the cost of those policies to the cost of non-participating policies; that is the condition I understand exists.

MR. HUGHES: That is all.

THE WITNESS: May I make one more correction, Mr. Hughes?

MR. HUGHES: Certainly.

THE WITNESS: I mind that we bought from the Morton Trust Company one other stock, Louisville, Memphis & Southeastern, $100,000.

Q. The views you have expressed here in regard to investment you understand to be the views of your Finance Committee? A. I do.

(Handing paper.)

Q. Is that a correct statement of the loading on the issues of 1903 and 1904? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit No. 802 and read by Mr. Hughes.)

Q. What is this book that is now shown you? A. That is a book which was prepared by former agents of the company now dead, which I believe the former management of the company allowed its agents to use.

MR. HUGHES: I will have it marked for identification.

(Paper marked Exhibit 803 for identification.)

(Handing witness paper.)

Q. Are these the actual results in 1905 of the apportionments on deferred policies where the period matured in 1905? A. Yes, sir.

MR. HUGHES: I offer them in evidence.

The papers are marked Exhibits 804, 805, 806 and 807.

Q. Who made these up, did you? A. No, they were made up——

Q. Are they all 1905? A. Yes, I know that.

Q. How do they compare with the estimates? A. Well, they are, naturally, under them.

Q. To what extent, roughly? A. I cannot tell that. I have not examined them.

Q. Considerably? A. Considerably, yes, sir.

CORNELIUS DOREMUS, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Mr. Doremus, you are President of the Germania Life Insurance Company? A. I am.

Q. How long have you been President of that company? A. Seven or eight years.

Q. Is that a stock company? A. It is.

Q. Is this a copy of the charter and by-laws of the company (handing book)? A. It is.

MR. HUGHES: I will have it marked for identification.

(Book marked Exhibit No. 808 for identification.)

Q. Your company was organized in 1860? A. It was.

Q. Under the laws of the State of New York? A. 1853.

Q. The General Act of 1853, relative to life insurance companies? A. Yes, sir.

MR. HUGHES: I read from the Charter the following provision, of Article 4:

"In the election of Directors every stockholder in the company shall be entitled to one vote for every share of stock held by him; every policyholder paying at least one hundred dollars per annum in premiums, or annuitant entitled to an annuity of not less than one hundred dollars per annum, shall be entitled to one vote; and every person whose life is insured by a policy, the legal reserve on which at the end of the last policy year amounted to one hundred dollars or more, shall be entitled to one vote for each even hundred dollars of the amount of such reserve, and all of such votes may be given in person or by proxy."

I read the following from Article 6, of the Charter:

"The capital of said company shall be two hundred thousand dollars, divided into four thousand shares of fifty dollars each, which shall be personal property, transferable only on the books of the company in conformity with its by-laws.

"The holders of the said capital stock may receive interest thereon at a rate not exceeding seven per cent. per annum. For such interest the Board of Directors may declare dividends, and designate the time and manner of their payment.

"No division of profits will be made until the stockholders shall have first received interest at the rate of seven per cent. per annum on the amount of the capital stock."

Article 12.

"No loan of the funds of this company shall be made to any Director or officer of the company."

Article 13.

"Within three months after the expiration of the year 1867, the officers of the company shall cause a general statement to be made, and a balance to be struck of the affairs of the company, which shall exhibit the amount of surplus or net profits of the company, as near as the same can be ascertained, after deducting a sufficient amount to reinsure all outstanding risks, and to cover other contingencies, as provided by law. Twenty per cent. of the net profits thus ascertained, in addition to the amount to be divided among the stockholders for interest on the capital, pursuant to Article 6, shall be apportioned and divided in cash among the holders of the capital stock of the company, and the remaining eighty per cent. of the said net profits shall be equitably divided in cash, or at the choice of the assured in such other manner as the Board of Directors may determine among those policyholders who, by the terms of their policies, participate in the profits subject to the regulations of the Board of Directors from time to time, as to the period during which a policy must have been in force to entitle the holder to such participation, and as to the period for which the dividends shall be declared. And, on or before the first day of July, in the year one thousand eight hundred and sixty-nine, and in every subsequent year or at such other times as the Board of Directors may determine, the officers of the company shall cause a general statement to be made and a balance to be struck as aforesaid. After deducting a sufficient amount to reinsure all outstanding risks, and to cover other contingencies provided by law, a sum equal to five per cent per annum of the capital stock, in addition to the amount to be divided among the stockholders for interest on the capital, pursuant to Article 6, shall be apportioned among the holders of the capital stock of the company, and the remaining net profits shall be equitably divided in cash, or, as the option of the assured in such other manner as the Board of Directors may determine, among those policyholders who by the terms of their policies participate in the profits, subject to the regulations of the Board of Directors from time to time, as to the period during which a policy must have been in force to entitle the holders to such a participation, and as to the period for which dividends shall have been declared. In case of death of anybody insured, his ratable portion of the profits which may have accrued prior to his death and since the last division of profits, shall at the next succeeding term of dividing profits be paid in cash to his legal representatives or assigns."

Q. Was that a provision of the original Charter that every policyholder paying at least one hundred dollars and so forth, should be entitled to a vote, or was that the amendment of 1901? A. That was a provision of the original Charter.

Q. So that the voting power of policyholders has remained the same since your organization? A. Oh, no; it was formerly——

Q. Which part of this paragraph that I have read was the amendment of 1901? A. First, giving them the right to vote by proxy as well as in person, and then giving them that right and determining the extent of their rights upon a scientific basis: the stockholders had a right to vote for each share of stock, and we give the policyholders the right to vote for each one hundred dollars' interest that they have. If a policyholder has a policy, that is, on which the reserve is one thousand dollars, he has ten votes, the same as a stockholder with ten shares.

Q. In other words, you calculate the policyholders' interest in accordance with the amount of the legal reserve against his policy? A. Exactly.

Q. You give him one vote for each one hundred dollars of that reserve, just as you give a stockholder a vote for each one hundred dollars' worth of stock he has? A. Yes, sir.

Q. That is, for each share? A. Yes, sir.

Q. You figure that the policyholder has an interest in the company measured by the reserve against his policy at the time being? A. I think that is exactly it.

Q. So that the older the policyholder is, I mean in relation to his company—— A. The more votes he has, sir.

Q. The more votes he has? A. Certainly.

Q. And if there should come a question at any time of the control of your company through the votes of policyholders, it would be the older policyholders who would control the situation? A. Well, the stockholders are such a drop in the bucket as compared with the policyholders——

Q. I mean the earlier policyholders. Did I say stockholders? A. No, you said policyholders. Yes, that is it.

Q. In other words it would be those that have been longest in the company who would have the majority of the policyholders' votes? A. Or a new policyholder of a few years would, of a very large amount.

Q. That would come in and modify it? A. Yes, sir.

Q. And how has that worked in practice? A. Excellently.

Q. Do the policyholders vote? A. Surely.

Q. Do they vote in person or by proxy? A. By proxy altogether.

Q. How many policyholders have you? A. Upwards of 100,000. I simply speak from memory.

Q. Well—— A. I would not attempt to say that, you know.

Q. About 63,000 or 64,000? (Handing paper.) A. Oh, yes.

Q. About 63,000 in number? A. Yes, I would say so.

Q. How many votes of policyholders were cast at the last election? A. 13,000.

Q. Who held the proxies? A. The three officers of the company held the proxies. I vote them.

Q. Who are the three officers to whom the proxies are issued? The President, Vice President and Second Vice President.

Q. What means are taken to get the proxies? A. Only at the time we made that change in our charter we addressed a communication, a letter of mine of which you have a copy, to our policyholders direct.

Q. Is this the letter (handing paper)? A. It is.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 809.)

Q. This was sent out after the amendment of 1901? A. Yes, sir.

Mr. Hughes then read Exhibit No 809.

Q. What amounts have been distributed to the stockholders by the Germania? A. Seven per cent. up to 1868, 12 per cent. since then.

Q. Twelve per cent. since then? A. Yes, we declared our first dividend to policyholders in 1868, and thereupon they became entitled to an interest in the dividends.

Q. Have any dividends been paid to stockholders aside from the 7 per cent. up to 1868, and the 12 per cent. since that time? A. No.

Q. No other division in any way? A. No.

Q. And the capital stock has not been increased? A. No.

Q. What amount of insurance is in force? A. About $110,000,000, I should say.

Q. How much of that is ordinary insurance? A. Just exactly what do you mean by ordinary, Mr. Hughes?

Q. Well, as distinguished from industrial? A. Almost the whole of it, practically the whole of it. I think there is only three hundred thousand dollars of industrial left.

Q. Can you give the figures? A. I can, from this blue book.

Q. Are they—these figures are yours (indicating)? A. $103,-937,343 and $383,924 industrial. We discontinued doing industrial business twenty years ago.

Q. Were you connected with the company at its organization? A. Before. The first policy was issued on the 17th of July, and I entered the company the 21st of May, 1860.

Q. In what capacities have you been connected with the company since that time? A. I have——

Q. In what capacities, I say, have you been connected with the company, what offices have you held in the company? A. Everything from clerk to President, up or down, as you may say.

Q. So you are familiar with the entire business of the company? A. Yes, sir.

Q. Certain questions were asked you with regard to payments in connection with legislation and other matters. You have furnished the Committee with this statement. Is that acccurate and complete? A. Yes, sir.

MR. HUGHES: I offer the paper in evidence.

(Paper marked Exhibit No. 810 and read by Mr. Hughes)

Q. What is the amount of the surplus of your company? A. $4,744,717.00.

THE CHAIRMAN: Before you leave that topic I wish you would ask him if he knows how much was paid in all in regard to that lien bill, and how it was paid.

Q. What was the entire amount paid for counsel in regard to the lien bill? A. I cannot tell that, Mr. Hughes.

Q. What companies or institutions were interested in that? A. All the title companies, some of the other life companies, and some individuals.

Q. Who was the counsel that they employed? A. I don't know. I can ascertain that for you.

Q. To whom did you pay the money, the $250 from your company? A. To the organization, the Allied Real Estate Interests.

Q. No, that is in regard to the Mortgage Tax Bill. I am referring to the payment of two hundred and fifty dollars in 1904, in connection with the lien bill? A. Oh, that, we paid that to E. C. Potter. He is not a lawyer, he is a well-to-do man here, a large real estate man and operator.

Q. To E. C. Potter? A. Yes, sir.

Q. And did he engage the counsel? A. I understand so; yes.

Q. And you don't know who the counsel was? A. I do not.

Q. Or what the total amount was? A. No. I can ascertain that if you wish.

THE CHAIRMAN: I wish you would. We would like to know.

THE WITNESS: You would like to know, do I understand?

THE CHAIRMAN: Yes.

MR. HUGHES: Yes, we would like the information on that point.

THE WITNESS: I will ascertain that.

BY THE CHAIRMAN:

Q. It is quite possible that you had a statement of some kind showing what your proportion was before you paid it, did you not, Mr. Doremus? A. I doubt it. A meeting was held at the office of one of the prominent real estate men downtown, and we each subscribed a certain sum, and I subscribed two hundred and fifty dollars.

Q. In advance of the introduction of the bill? A. Oh, no, the bill was before the Committees and counsel had appeared before the Committees at that time.

BY MR. HUGHES:

Q. Will you state the circumstances under which you made the payment. The meeting was called? A. Yes, I think at Horace Ely's, or some other large downtown real estate firm, which was attended by representatives of the companies, presidents of savings banks and title companies were represented, and a list was circulated to which I subscribed two hundred and fifty dollars.

Q. Was the list circulated at that meeting? A. Yes, sir.

Q. What was the status of the bill at that time? A. I think it was at the time that the Legislature had adjourned, leaving a certain bill in the Governor's hands. He then, if my recollection is right, called a special session, did he not? Did not the Governor call a special session?

Q. In 1904—this was in 1904 you made the payment, I understand? A. Oh, yes, that is true.

Q. Are you confusing the matter of the Allied Real Estate Interests with the Mortgage Tax Bill? A. I am now; yes, sir.

Q. Was this meeting you referred to a moment ago a meeting in 1904, in regard to the lien bill, or was it not in regard to the Mortgage Tax Bill? A. The Mortgage Tax Bill.

Q. Put your mind back to 1904, in regard to the lien bill, what was done or suggested as to the subscription? A. There was no meeting there.

Q. No meeting there? A. No.

Q. And Mr. Potter communicated with you? A. Yes, sir.

Q. And was that before the bill was introduced? A. I could not say that.

Q. You don't know as to that? A. No.

Q. You don't know what the condition of the matter was except that you were asked for two hundred and fifty dollars toward the end of getting the law amended in this particular? A. I may have been asked for more, but that is the amount I subscribed.

Q. Do you recollect whether you were asked for more? A. No, I do not.

Q. You can get us information about that, I suppose? A. What is that?

Q. You can get us information about that? A. About the——

Q. Of the total amount that was subscribed and who the counsel were? A. I will try to, yes, sir.

Q. Now, the matter that you refer to was in April, 1905, when there was a meeting downtown of a great many real estate people, and a list was passed around to subscribe for the services of counsel before the Committees of the Senate and Assembly, in connection with the Mortgage Tax? A. Exactly.

Q. And what was the total amount that was obtained through the subscriptions? A. I think some twenty-thousand or twenty-five thousand dollars.

Q. Twenty or twenty-five thousand? A. Nearly; that is my recollection, I think.

Q. Who were the counsel? A. I don't know. They were gentlemen who I did not know.

Q. Who arranged for their employment; who was the man, or committee, that had the matter in charge and took the money and handled it? A. One of the members of the firm of Horace Ely and Company, I think, was prominent in the matter. His name I do not recall.

Q. With whom did you communicate in regard to the matter of the contribution in connection with the Mortgage Tax Law, who called the meeting? A. I think some hastily assembled committee of some prominent real estate people downtown. I was invited through Mr. A. L. Mordecai & Son.

Q. To whom did you send the five hundred dollars? I wish you would look up the check for the five hundred dollars during the recess hour, and give me the name of the man who got the five hundred dollars in the one case, and the two hundred and fifty dollars in the other case, and if you have any correspondence relating to the matter, or can refresh your memory, we should be glad to know what you can say on the subject? A. Yes, I shall be glad to do it.

Q. With reference to both these matters, the lien matter and the mortgage tax? A. Yes, with reference to the two hundred and fifty dollars, I can tell you now it was E. Clinton Potter.

Q. E. Clifton Potter? A. Yes, and he is, as I say, a large real estate man and dealer.

BY THE CHAIRMAN:

Q. That was the lien bill, we understand now? A. Yes.

Q. Did you state the name of the recipient of the money for the Mortgage Tax Bill? A. That I cannot tell; someone, a secretary of an association.

Q. Was the total twenty-five thousand dollars——

BY MR. HUGHES:

Q. What did you say the total in the mortgage tax matter was? A. I think twenty thousand, or twenty-five thousand dollars was raised.

Q. We would like to have you get the statement of the one to whom you paid the money, and if you had a circular or correspondence relating to it, we would be glad to have you bring that down at half past two, at the afternoon session? A. Yes.

Q. It would appear by the blue book that your company has had a constant increase in surplus—is that the fact? A. It is.

Q. What are your investments—what is the nature of your investments? A. Conservative securities, bonds and mortgages on real estate.

Q. Have you found it necessary to watch the ticker to see where you could make a profit on a turn in securities? A. We never do.

Q. What kind of securities have you invested in? A. Well, Mr. Hughes, the best that we could find.

Q. What proportion of your assets do you invest in real estate? A. Not in real estate.

Q. Well, in bonds and mortgages? A. Well, we have about thirty-five million dollars of assets, and I think about eighteen or nineteen million dollars is invested of that in bond and mortgage.

Q. Has that proportion obtained during the entire period of your history—have you invested a little more than half of your assets in mortgages upon real estate? A. Yes, we have.

Q. Now, what has been your experience as to that class of investment—do you find them highly speculative? A. We do not; we find them very stable, indeed.

Q. What has been your experience with regard to losses on such investments? A. They have been very moderate.

Q. If you have men of sound business judgment you are able to make a very safe investment in that class of securities? A. Exactly.

Q. Now, what class of securities have you invested in apart from mortgages upon real estate? A. Oh, what we considered first class railroad bonds.

Q. Bonds—railroad bonds? A. Mostly, yes.

Q. What proportion of your thirty-five millions of assets is invested in railroad bonds—have you got anything there which would help you? A. Yes, I have. Mr. Hughes, as between the different kinds of securities, I would say that while investments in real estate and bond mortgage are very stable and while our experience has been very fortunate comparatively, still we have a small loss; while on the other hand in our negotiable securities we have a great gain through our whole history.

Q. That being the case, why do you invest a large proportion in real estate? A. There is no chance for a gain in advancement on bond and mortgage.

Q. Why do you invest so largely in bond and mortgage? A. Stability. There is a risk of loss in the other which we have not experienced.

Q. While there is no chance for gain, a risk of loss is greatly diminished? A. Yes.

Q. And in an insurance company it is not necessary to have a very large amount of your assets upon call? A. Well, to-day, yes. We are all doing what we ought not to, Mr. Hughes.

Q. What is that? A. That is an individual opinion. We are giving the right to every policyholder of to-day to call upon us at any time for almost the value of his policy as a loan. Under those circumstances we must have quick assets. You understand that was never necessary ten years ago.

Q. You think that policy of encouraging policyholders to take loans should be abandoned? A. No, I do not say that; but where every policyholder in case of panic can come down to us and demand a loan for the amount of his reserve on the policy, we have got to be prepared to do something.

Q. You have been for forty years connected with the company. Is there any doubt whatever about the advantage of the stability of investments in mortgages upon real estate? A. We could not meet these supposed demands on us in a case of a panic if we had investments on bond and mortgage only.

Q. I mean in a large percentage of your assets being invested in that form—is there any doubt of the advantage of it in the standpoint of stability? A. No, none whatever, in stability, surely.

Q. You have spoken of the risk of loss in connection with securities. When is that risk most manifest—in times when conditions are unsettled—panicky? A. Well, Mr. Hughes, of course that does not affect the life insurance companies so much because we under no circumstances being properly administered can be compelled to sell in a panic.

Q. There is a risk of loss in connection with investment in securities? A. Oh, surely.

Q. As compared with real estate? A. Oh, certainly we have had losses, but our gains much more than over-balance them.

Q. And that risk is much more apparent in troublous times than in other times? A. Surely.

Q. So that the best safeguard against a great fluctuation in your assets is to have a considerable amount invested upon bond and mortgage upon real estate? A. Yes.

Q. Now will you tell me please what the amount of your investments in railroad bonds is at the present time? A. About five millions of dollars.

Q. About five millions of dollars? A. Yes.

Q. What is the amount you have invested in securities all told? A. $10,000,000.

Q. Ten millions of dollars? A. Yes.

Q. Do you invest in stocks? A. We do not.

Q. Have you ever invested in stocks? A. Oh, we held one little item some years ago. We bought, I think, some fifty shares of bank stock and concluded afterward to clean it out.

Q. Why did you conclude to clean out the bank stock? A. Because the German government did not allow us to carry stocks; that is about it.

Q. But apart from bank stock you had not invested in stocks when you were free to do so? A. No, never invested. We once got some city railroad stock in satisfaction of a debt which we sold at a handsome profit.

Q. So that you have $10,000,000 in securities and about eighteen or nineteen millions in mortgages upon real estate; and what are the rest of your investments? A. Real estate itself.

Q. What real estate do you own? A. More than I would like to, Mr. Hughes, although it has decreased very much of late. Our total holding of real estate is $3,111,069.37.

Q. Where is that real estate situated? A. Our home office building here.

Q. What is the book value of your home office building? A. $507,731.

Q. What did it cost? A. It cost $462,500. I have declined an offer of $1,350,000, Mr. Hughes, as an instance of investment.

Q. What are your other real estate holdings? A. St. Paul, Minnesota, we have a building there.

Q. Office building? A. Yes, sir.

Q. What did it cost? A. The cost I haven't here. It cost something more than that—we hold it at $700,000.

Q. You mark it down a little? A. Yes, I think it cost about $800,000.

Q. Go on. A. In Berlin, Germany, we have a building which cost us $291,947, bought two years ago in place of one we sold then at a profit of $300,000. And in Vienna, Austria, we have a building which cost us $180,799.87. Then we have our foreclosed real estate almost entirely in this city, which I have given special attention to reducing the amount of the last few years. At the end of 1901 it amounted to $1,337,481; at the end of 1902, $1,125,090; 1903, $981,480, and 1904, $861,744, showing that we have sold about half a million dollars of foreclosed real estate in these four years, about 40 per cent. of the total holdings. That comprises all the real estate.

Q. How many purchases of securities have you made this year in this country? A. Four, I am sorry to say.

Q. What are they? A. They are $100,000—oh, no, I beg pardon, no, only two; March 27——

Q. Amounting to how much? A. One for $50,000 and one $100,000.

Q. How much did you make in 1904 in this country? A. $200,000.

Q. How many? A. Two investments of $100,000 each.

Q. Then you make very few investments from time to time? A. Yes; with the market as it is now.

Q. How much of your business do you do in Germany? A. One-third.

Q. Do you do business in any other foreign country? A. When I speak of Germany I mean all Europe.

Q. Your headquarters are in Berlin? A. In Berlin.

Q. Have you ever had any trouble with the German government? A. No, on the contrary they are very courteous and obliging.

Q. Has your business in Germany been profitable? A. It has in every respect, better than any business in this country, costs less and stays better.

Q. Why is that? A. Well, they have not been entirely educated up to our wild methods of doing business here.

Q. What are our wild methods of doing business? A. Oh, paying too much for it, Mr. Hughes.

Q. Just explain that a little. We should be very glad to have the benefit of your views upon that point. A. Well, we went to Germany in 1868——

Q. Just compare, if you will, for our illumination the methods you employ in Germany and the methods you employ in New York City? A. Well, the methods are not unlike, but the figures are very different. For instance, commissions over there are not graded on the percentage of the premium, but a smaller percentage of the amount insured.

Q. So much per thousand? A. Yes. My actuary would know that better.

Q. So much per thousand? A. Yes.

Q. Well, reducing them to amounts how do they compare with the commissions paid here? A. I want to look that up, Mr. Hughes. It is less, but growing constantly.

Q. To what extent is rebating prevalent over there? A. I don't think it is known at all.

Q. Not known at all? A. I don't think so.

Q. It has not been carried over there, or what is the explanation of it? A. I think it has not been carried over there.

Q. Is that indigenous—— A. To this country.

Q. To this country? A. Yes, I think so.

Q. What is the explanation of the growth of that evil in this country? A. The desire to be at the head of the heap.

Q. Desire to be big? A. Yes.

Q. Get business on any terms? A. I don't think it was ever as prevalent, Mr. Hughes, as it is to-day.

Q. Why can't it be stopped by a company that desires to stop it? A. I don't see how.

Q. You mean they pay so much the agents can afford to do it? A. Agents have got to do it in competition with agents of the other concerns.

Q. He has got a commission out of which he can do it? A. Yes; the other fellow can get a bigger one probably.

Q. What do you insist on a return to the company of in amount when the agent writes a policy—the net premium only? A. He makes his monthly report, deducting his commissions and remitting the balance.

Q. So that he does not have to account to the company for anything more than what remains of the premium after deducting his commissions? A. That is it.

Q. And you have no control over his use of that part of the premium which he deducts, have you? A. No, none whatever.

Q. To what extent do you receive premium notes in payment of premiums? A. Not at all.

Q. Not at all? A. Never.

Q. Why has not the competition forced you to take premium notes? A. Well, because they are too risky.

Q. Because you won't take them? A. That is it.

Q. Then you in making an agent account do not accept from him the policyholder's notes? A. Never in any case.

Q. He has to pay over the cash amount of the premium after deducting his commissions? A. That is it.

Q. And it is his own lookout if he takes a note? A. Certainly.

Q. Is that the practice generally with American companies? A. I have no knowledge, Mr. Hughes.

Q. Now, what is the rate per thousand paid in Germany? A. Perhaps our actuary might——

Q. Fifteen dollars per thousand; what is the average premium per thousand of your company in New York?. A. About $40 I would say.

Q. And what are your rates of commission? A. Here?

Q. Yes. A. Our scale runs up to about 65.

Q. Sixty-five on the first year's business? A. Yes.

Q. Do you commute the renewal commissions? A. No, not commute them.

Q. I mean will you pay an agent in the first year in the way of advances what you understand his renewals amount to? A. No, we either pay him 65 with the renewal or a brokerage, which would amount perhaps to 15 more. Of course the 65 I am mentioning is the highest figure on ordinary life. It varies according to the kind of policy; down to 10-year endowment it would be about 35 or 40.

Q. You pay a brokerage commission if men were willing to put in the business on a brokerage basis? A. Yes.

Q. And that would be what, your highest rate? A. 75 or 80. I think so. It is always graded. The figure I mentioned is the highest possible figure.

Q. In Germany do they pay a renewal commission? A. Yes.

Q. In addition to the $15 per thousand? A. Yes.

Q. What are the renewal commissions? A. Four per cent.

Q. For how long? A. During the life of the policy.

Q. Four per cent of the premiums? A. Of the premiums.

Q. Do the agents collect the renewal premiums? A. Yes.

Q. They collect them themselves? A. Yes.

Q. They are not paid direct to the company? A. Oh, no; they collect them.

Q. That is a sort of collection fee of four per cent.? A. Yes.

Q. Of the premiums? A. Of the premiums, yes.

Q. Is the average premium in Germany $40 a thousand or what would correspond to that? A. I don't know whether there is any difference——

Q. One hundred and sixty marks? A. Our premiums are a little higher in Germany.

Q. What are they in marks? A. Well, 24 cents to a mark—how do you think they compare—is that so Mr. Fuhrer?

Q. You may adopt his answer, Mr. Doremus. A. About $44 per thousand—a little higher than here.

Q. About $44 per thousand? A. Yes.

Q. Then it is 35 per cent. practically that you pay in Germany on the first year's premium as against 75 to 80 per cent. here on a brokerage basis? A. You are taking the commission there with the renewal and here you are taking the brokerage.

Q. The fair way would be to compare 35 and 65? A. Yes.

Q. Thirty-five and four per cent. with sixty-five and seven and one-half per cent.? A. About that.

Q. Now, in what other respect do the operations in Germany differ from those here? A. The business is much more stable; they do not drop their policies.

Q. Is that a matter of temperament or due to the absence of competition? A. Oh, temperament, I think.

Q. Is the competition pretty keen abroad? A. I think so, yes.

Q. But they are more inclined to retain what they have once taken? A. Exactly.

Q. Than to change? A. Yes, yes.

Q. Do you give surrender values in Germany? A. Oh, yes.

Q. Is there as much of a temptation to a policyholder to surrender his policy and get the surrender value in cash and go into some other company, as there is in New York? A. Quite as much, I think.

Q. So it all comes down to a matter of temperament in that respect? A. I think so, yes.

Q. In what other respect is there a difference? A. Well, on the whole mortality is better.

Q. Mortality is better in Germany than in the United States amongst selected risks? A. I am sure that has been our experience.

Q. Have you data which will show that? A. That is our experience.

Q. To what extent is the mortality better abroad than here? A. Well, it is becoming about even now, Mr. Hughes; but from the time we established our Berlin agency in 1868 up to the present time our experience there has been better than ours here.

Q. You employ the same methods in the selection of risks there? A. Oh, yes.

Q. As to examination and so forth? A. Altogether the same, yes.

Q. Now, do you really think that the mortality is in itself better over there than it is here or is it because the crowding to get business in this country results in a poorer selection of risks? A. No, I do not think that, but I think that we get better medical service in Germany than we do here in making examinations.

Q. Better medical service in examination? A. Considering the country.

Q. How many States do you do business in? A. Oh, in all—practically in all.

Q. What proportion of your business is in the State of New York? A. Eighty per cent., possibly—new business you mean?

Q. No, total business, taking it at the end of 1904, you had about eight million dollars? A. Yes, sir—New York—yes.

Q. Out of a total of $104,000,000? A. Yes, sir.

Q. When did you begin to write industrial insurance? A. I have to look this way for an answer, Mr. Hughes. I would say about twenty-five years ago.

Q. What led you to adopt that method of insurance? A. Mr. Hegeman and Mr. Dryden had just gone into it, and it seemed attractive, as it is an excellent business if the whole force of such staffs as Mr. Hegeman and Mr. Dryden have been given to it.

Q. Has it proved profitable to your company? A. We have not lost anything, but as a side issue it cannot be worked.

Q. Have you a table of rates of your industrial business? A. We have not, we have not done any business in twenty years.

Q. No industrial business? A. No.

Q. Then these policies you have? A. Are simply the hold-overs—some remaining in force of the old.

Q. Of the old business? A. That is all.

Q. Do you make loans upon collateral frequently? A. Very rarely.

Q. Have you made any since 1896? A. Only one, I think.

Q. What is the reason for not making them? A. Oh, they are not attractive in any way as an investment. In the first place it is only a temporary thing.

Q. Do you object to making temporary investments? A. Yes, as a rule.

Q. Why? A. Oh, take these loans for instance, the rate is rarely more than you can get in a bank from a trust company, and a great deal of trouble is connected with them, changes of securities daily, perhaps hourly, having to be running to the safe deposit company to get your securities, and it don't pay.

Q. This is a complete list of all your—is this a complete list of all your purchases in the United States of securities since 1895? A. It is.

(Paper marked Exhibit 811 for identification.)

Q. And this is a complete list of your purchases in Germany for the last ten years? A. It is.

(Paper marked Exhibit 812 for identification.)

Q. This is a complete list of the bonds sold? A. It is, in the United States.

(Paper marked Exhibit 813 for identification.)

Q. This is a complete list of the bonds sold abroad? A. It is.

(Paper marked Exhibit 814 for identification.)

MR. HUGHES: Mr. Doremus, will you withdraw for a moment.

E. CLIFFORD POTTER, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Mr. Potter, you reside in the City of New York? A. Yes, sir.

Q. What is your business? A. Real Estate.

Q. Did you receive from the Germania Life Insurance Company in 1904 a contribution towards expenses in connection with lien legislation? A. I received a check for legal fees.

Q. $250? A. I don't remember the exact amount. It might have been $250.

Q. Were there others who contributed for the same purpose? A. Yes, sir.

Q. What amount did you collect altogether? A. I think about $2,000—$2,500 at the outside.

Q. For what purpose was it expended? A. For legal fees.

Q. And who was the attorney who represented you? A. Mr. Buckley.

Q. Mr. William H. Buckley? A. Yes, William H. Buckley.

Q. For what purpose did he represent you? A. He was simply my attorney to try and prevent a bill being passed up there, and looking after my interests.

Q. What did he do to represent you? A. I was not in Albany at the time. I don't know. He was simply my attorney up there. There were a number of representatives.

Q. Did he appear before any committee? A. I imagine that he did.

Q. Do you really think that he did? A. I had every reason to suppose so.

Q. Did he tell you he did? A. No, he did not tell me he did or did not.

Q. Did he tell you that there was any opposition to that bill? A. No, but I knew it from other sources.

Q. What opposition did you understand there was to that bill? A. I understood that Jordan L. Mott was trying to put the bill through.

Q. Jordan L. Mott was trying to put it through? A. Yes.

Q. And you were opposing it? A. I refer to another bill he was trying to put through.

Q. What bill was Jordan L. Mott trying to get through according to your information? A. He was trying to put through a bill where it was not necessary to put a chattel mortgage on record—if you will allow me to explain.

Q. Certainly—explain the whole matter. A. We make a great many building loans, and it has been the custom of Jordan L. Mott and several of those big concerns to sell materials to those builders and keep a bill of sale and chattel mortgage without putting it on record, and the builder would come to us and say all the plumbing fixtures were in—"I want so much money." We would give them the money, and six months afterwards a man would come down and say: "If you don't give me so much I will take out my bath tubs and all your plumbing." I would say: "We have paid the builders money for all this." He would say: "I can't help it. Here is the bill of sale, you have to pay for it over again or out goes the stuff." A number of these material men were opposed—what I wanted to do was to have a bill introduced that would simply compel the men that had liens on personal property in buildings to put their liens on record so that we would know it, and demand a release from them before we paid the builders their money.

Q. Whom did you approach with reference to having such a bill introduced? A. Well, my impression is that Simpson and Warner drew up one bill, and I submitted it to several of the title companies for their approval.

Q. This was in 1904—the session of 1904? A. I think 1904.

Q. And was not there a bill introduced? A. There was a bill introduced.

Q. Was it passed? A. It was.

Q. Who introduced it? A. That I don't know.

Q. In either house do you know? A. I have not the slightest idea.

Q. How did you get into communication with Buckley? A. I have known him a good many years.

BY THE CHAIRMAN:

Q. Whom did you give the bill to for introduction? A. I am not even familiar with that.

BY MR. HUGHES:

Q. Did you give it to any one? A. I could not say; it was several years ago.

Q. No, it was only last year. A. Year before last I thought it was.

Q. 1904. A. I think it was before that.

Q. Was it introduced two or three years in succession? A. I think it was introduced for two years—I am very sure.

Q. Now, we are dealing with the time when it was introduced and passed—that was 1904, wasn't it, last year? A. I did not think so; I thought it was further back than that. I may be mistaken.

Q. We have a statement here from the Germania of having paid you two hundred and fifty dollars in 1904? A. I think it was

1903. I may be mistaken, but whatever the date it was it was to the same effect.

Q. What led you to communicate with Buckley? A. He was the only attorney I knew in Albany.

Q. Hadn't you attorneys in New York? A. I had.

Q. And weren't they competent to make any argument that related to that matter? A. They were, but I thought it would cost me a great deal more money, trips up to Albany all the time, than to have a local man attend to it.

Q. How many insurance companies contributed to the fund? A. The Germania was the only one.

Q. How did it happen that the Germania alone contributed? A. I wanted to raise, I think it was two thousand dollars, and I went to both the title companies that were very much interested in it; I saw Mr. Kelsey, and he said that he would not put up a dollar, and I saw Mr. Bright, and he said he would not put up a dollar; I raised two thousand dollars—twenty-five hundred at the outside, and principally my own money, to defray the expenses—the legal expenses of this bill.

Q. You have known Buckley for twenty years? A. No, sir.

Q. How long? A. I think I have known him ten years.

Q. He has represented you in Albany before in real estate matters? A. That is the only case I ever had. I knew him socially, only.

Q. Did you pay him $2,000? A. I think it was in the neighborhood of $2,000.

Q. Was that by cash or check? A. I think it was a check. I will look it up.

Q. When did you pay it to him—after the bill was passed or before? A. My impression is it was during the time when I engaged him, as a retainer. I can get the check and look it up and find out for you.

Q. Did he report to you what had been done about it? A. The first I knew I read in the paper that the bill had been passed.

Q. Did anyone suggest to you that you should go and see him about it? A. Absolutely.

Q. Did you know what he was engaged in doing at Albany? A. I imagined he was an attorney up there.

Q. Connected with matters of legislation? A. Not any more than a regular attorney at Albany. That is the only business I ever had with him; I have known him fairly intimately for fifteen—ten years I think.

Q. You understood there was opposition to that bill? A. I knew there was opposition; I did not hear it from him. I heard it from Mr. Mott's attorney, who came down and told me the bill could not be passed.

Q. In what House? A. That I don't know.

BY THE CHAIRMAN:

Q. Who was the attorney for Mr. Mott who came and told you that? A. I don't know his name, but I can let you know in an hour by going to my office?

Q. I wish you would.

BY MR. HUGHES:

Q. Is there any question but what that was a piece of legislation that went right through on its merits and did not require any money at all? A. Absolutely on its merits and nothing at all——

Q. Then why did you put up $2,000? A. The first place, I thought $2,000 was not a very big fee to have a lawyer take care of the case for me.

Q. To take care of a case that did not need any attention and was going through on its merits? A. There are a great many cases that don't go through on their merits that should go through on their merits.

Q. You had not heard of any opposition in this case of that kind? A. Not anything particular; no, sir.

Q. When you talked to Mr. Buckley—did he suggest he wanted $2,000? A. No, sir; he told me—said "I will see what I can do; I am very busy." I said it was a matter that interested me very much and meant thousands of dollars to me if these men could go and pull all my plumbing out. If he had charged $10,000 I would have paid it.

Q. Here was a perfectly good piece of legislation, ought to go on the books, and according to our information did go upon the statute books without any opposition at all. The point is, why you should have to pay $2,000 for any legal services? A. I think it is customary to have a lawyer represent you, without you go to Albany yourself.

Q. Whether you need him or not? A. I think it good policy.

Q. If you can get us any additional information about it, Mr.

Potter, we should be glad to have you do so. A. Tell me anything you want to know and I will try to find out. I will find out Mr. Mott's attorney that came to me.

Q. Find out if you will just what you did pay? A. I will, sir.

Q. And when you paid it? A. It was in the neighborhood of $2,000.

Q. And if you find on your files anything which shows there may be a mistake on our part as to the condition of affairs there as to whether there was opposition or not, we should be glad to have that. Our impression is it was a matter that did not require the expenditure. A. My experience was—I know we tried to get the bill through for three years and did not get it through. That was enough information for me there was an opposition. This was the third crack.

BY THE CHAIRMAN:

Q. We would like the names of any other persons who came to you and told you there was opposition to the bill? A. Mr. Chairman, the only thing I knew was that it didn' go through.

Q. There might have been opposition to it outside of the Legislature? A. It is possible it was outside of the Legislature. It did not go through for three years.

Q. It is quite possible that you might have been buncoed in other respects? A. It was a pretty light bunco, $2,000 to get a very important bill through.

BY MR. HUGHES:

Q. You would have paid ten thousand dollars if you had been asked for it? A. I would have, very readily, and any real estate man in New York would if he had any large interests.

Q. Were you at all concerned at the time of the passage of the Mortgage Tax Bill last year? A. Very much so.

Q. Did you attend a meeting at Mr. Ely's office at which suggestions were made that a fund should be raised to fight the bill? A. I was at that particular meeting, I was at several meetings, and never heard of any suggestions except to employ an attorney.

Q. Well, I mean did you know how much was raised for that purpose? A. Oh, I imagine a couple of thousand dollars.

Q. Was it not twenty thousand or twenty-five thousand? A. No, sir.

Q. What? A. I do not think it was any amount like that.

Q. What information have you as to the amount? A. Well, I am not on the Committee, so I don't know, sir.

Q. Do you know who was on the Committee—do you know who were on the Committee? A. All the prominent real estate men of New York. I could give you the list. It is published. I suppose five thousand.

Q. Who had the handling of the funds, and took care of the matter of the getting in of the subscriptions from insurance companies and others? A. I don't know. I gave a check to Mr. Ely; eight or ten of them were in it; as I understood it, every dollar in that particular case was used for hiring halls here and causing some agitation and advertising. For several men there said they would not pay—including Mr. Sands, of Bowers & Sands—said he would not put up a single dollar for any kind of a bribe or anything of that kind in Albany. He says, "We are going to run this on the merits, hire halls, and advertising it all over the city." And they sent out thousands of circulars against the bill, which was the most outrageous thing that ever happened.

Q. In this lien matter of the year before, did you have a number of contributors to the two thousand dollars; was it pretty well distributed? A. I think there were only two or three or four. There was not a single institution that put up a dollar. I thought that they ought to, but they did not, and I paid the difference myself, because they were all absolutely interested in the building loan business.

BY THE CHAIRMAN:

Q. When you say there was not a single institution—— A. Outside—that came through Mr. Mordecai, so you will pardon my making that statement. Mr. Mordecai gave five hundred dollars, and two hundred and fifty dollars came from the Germania Life, but I received Mr. Mordecai's check.

BY MR. HUGHES:

Q. If you will look up your data on the subject, and if you can find anything in regard to the status of the bill or any correspondence bearing on it, and the exact amount you paid, I would be glad to have it? A. I think it was $2,000; it was within one hundred dollars of it, one way or the other.

THE CHAIRMAN: The check will be good evidence.

THE WITNESS: Yes, sir; I can get that.

MR. HUGHES: You can get the check book or the check itself.

BY THE CHAIRMAN:

Q. I wish you would, if you will, bring Mr. Hughes the names of any persons who handled funds for the live real estate interests on the Mortgage Tax Bill? A. I can do that. If I will find out who the treasurer was, that will settle that.

THE CHAIRMAN: The Committee will now take a recess until 2:30 o'clock sharp this afternoon.

AFTER RECESS.

E. C. POTTER, resumed.

BY MR. HUGHES:

Q. Have you looked up the matter of the Lien Bill of 1904, so you can tell us whether that was the year in which it was passed, and you paid Mr. Buckley? A. Yes, sir, May 17th, 1904.

Q. Have you the check for that payment? A. I have.

Q. Will you produce it, please? (Witness produces paper.)

Q. That is a check for thirty-five hundred dollars? A. Yes, sir.

Q. Payable to the order of cash? A. Yes, sir.

Q. Under date of May 17th, 1904? A. Yes, sir.

Q. Did you give that to Mr. Buckley? A. No, sir, I had it cashed myself and gave Mr. Buckley twenty-five hundred dollars, not thirty-five hundred dollars.

Q. Why did you draw it for thirty-five hundred dollars? A. It is a long story. Will I tell you the whole story?

Q. Yes, go ahead. A. We were trying to have this bill passed for three years, and I understood there were certain interests—for instance, Jordan L. Mott was very much opposed to it. I rang up Jordan L. Mott Company and was referred to the Treasurer. He told me to communicate with his attorney, Mr. Hugo Mack. Mr. Hugo Mack came down and saw me, and said that that particular bill could not go through, his clients all objected to it, and he said he would draw a compromise bill that could go through. I said that is perfectly satisfactory to me, and he drew up a compromise bill that I accepted. He then told me that his fee, his lawyer's expense, would be seven thousand dollars, and he said, "Now, my advice to you is, if you want me to help you out, my fee will be seven thousand dollars." After he left I rang up Mr. Buckley on the wire, and he said, "Don't you pay a cent." He says, "That bill ought to go through straight, absolutely, and don't you put up a dollar." And I went to certain friends of mine and raised what I supposed was thirty-five hundred dollars. A short time afterward one of the gentlemen said that he would be very much obliged if I would excuse him from putting up one thousand dollars for certain reasons, and I said all right. And after I had received notice that the bill had been passed, I rang up Mr. Buckley on the wire and told him the first time he came down to stop in the office. He never sent me a bill. And I intended then to give him the sum of thirty-five hundred dollars, and when he came in some days later I explained the matter to him, and he said, "That is all right, I do not feel like charging anything." I said, "I insist upon it. These gentlemen that have put up this money, it is of great importance to them," and I said it would have cost us more money if we had had our own lawyers go up and fool around with this bill.

Q. Why did you take subscriptions for thirty-five hundred dollars if Mr. Buckley told you it would not cost a cent? A. Because I thought he was entitled to one-half of what Mr. Mack would charge me for the compromise.

Q. You were going to pay Mr. Buckley anyway? A. I was, yes, sir.

Q. That is the reason you got these subscriptions? A. That is the idea.

Q. Did you not tell Mr. Buckley that? A. I told him—no, sir, I did not.

Q. What did Mr. Buckley do for you regarding the matter? A. Nothing, except that I sent the proposed bill up there and asked him to have it introduced, as I did not know anybody up there.

Q. Did he have it introduced? A. I imagine he did. I don't know anything to the contrary.

Q. What did you tell him you would pay him? A. There was no agreement made.

Q. Without the making of any agreement did you tell him you would see him out of it? A. No, at that time Mr. Buckley was very friendly disposed to me and most of the conversation was over a long distance telephone, and at one dollar per three minutes; it was not very lengthy.

Q. Did you see him afterward before the bill passed? A. I think I met him once.

Q. Did he know you were getting money on subscriptions? A. I told him. I said: "I want you to give your time to this matter and I will see you paid."

Q. You told him that? A. Yes. He said, "Now don't talk about that at all."

Q. That was before the bill passed? A. Yes, sir.

Q. Before it was introduced? A. No, I think it was after. I will not say that.

Q. Did you tell him what you would pay him? A. I did not.

Q. At the time you drew the check for thirty-five hundred dollars did you understand this gentleman did not want to put up the thousand dollars which was part of the subscription? A. No, it was just at that time. I drew the check for thirty-five hundred dollars with the intention of explaining the matter to Mr. Buckley, and if he objected to taking twenty-five hundred I would have given him thirty-five hundred. I wanted him to thoroughly understand the thing. I said, "This is not all my money."

Q. How long was it after you drew the check that you paid him? A. I think it was a couple of days afterward.

Q. Why did you pay him in cash? A. Well, I don't know any particular reason for it, except that I wanted to have it in cash so to fix it instead of drawing two checks, one for twenty-five hundred dollars and another for thirty-five hundred dollars.

Q. Do you mean you drew out $3,500 in cash and had it in cash a couple of days waiting to see Mr. Buckley? A. Yes, sir.

Q. Why didn't you wait until he showed up before drawing the money? A. Because he might have come down after three o'clock.

Q. Did you have an appointment with him? A. No, I telephoned him and asked him if he would stop in the first time he came down.

Q. You had the money all ready for him? A. Yes, sir.

Q. Why would it not have been a simple matter to wait until he came down and see what he wanted before drawing the check? A. Well, that would have been a good way.

Q. That would have been the ordinary way? A. Yes, sir.

Q. Why was this made an exception? A. I don't know any good reason for it except I drew the check.

Q. Were you influenced by the fact that you did not want any record of the matter? A. Not particularly.

Q. Partly? A. No, I would not say it. I simply drew the check and had the money there.

Q. Did you find the name of the Treasurer of the fund? A. Yes, sir, Mr. Benjamin Sands was the Treasurer up to a short time ago.

Q. That is up to a couple of months? A. Within the last month.

Q. He was the man who collected the moneys last Spring in connection with the mortgage tax matter? A. Yes, and now Mr. Edmund L. Baylies is the Treasurer.

CORNELIUS DOREMUS, resumed.

BY MR. HUGHES:

Q. Do you desire to correct your testimony in any particular? A. Yes. This morning I said that I understood there had been twenty, perhaps twenty-five thousand dollars raised. That is a mistake. As I recollect, cudgeling my memory, and talking to others with whom I had spoken about it at the time, we had two meetings at Mr. Ely's office, at the first of which I think about seven or eight thousand dollars had been raised. That was not sufficient. Another meeting was called—at the first meeting I subscribed five hundred dollars. At the second meeting another paper was circulated to which I did not subscribe anything in addition, at which I think about $6,500, $6,000 or $6,500 additional was raised, making fourteen thousand to fifteen thousand dollars, the whole thing was. My friend Potter was mistaken about the amount. I would not contribute about 25 per cent. of the whole cost of the thing. He spoke of $2,000.

Q. This is the payment to which you refer? (Handing paper.) A. Yes, sir. At that meeting some of the title companies, to my knowledge, subscribed one thousand dollars each.

Q. What did the insurance companies subscribe? A. I don't know that. It did not come to my knowledge, sir.

Q. I mean others than yourself? A. No.

Q. What was the money used for or what did you understand that it was to be used for? A. Well, they had had several eminent counsel, who did not happen to be known to me, but they enjoyed the confidence of those who did know them, at Albany again and again, before committees and otherwise.

Q. Did you know of any moneys being expended except through the employment of counsel to appear before committees? A. I did not.

Q. Is this a statement of your scale of commissions on policies? (Handing paper.) A. It is.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 815.)

Q. (Handing paper). Is this a statement of all the disbursements of your company for legal expenses during the past ten years? A. It is.

MR. HUGHES: I will have it marked for identification.

(Paper marked Exhibit 816 for identification.)

Q. Have you paid any moneys to Mr. Andrew Hamilton? A. We have not, sir.

Q. Or to Mr. A. C. Fields? A. Never.

Q. Or to William H. Buckley? A. We have not; no, sir.

Q. What steps have you taken to be posted on matters of legislation with reference to insurance companies or other interests with which your company was concerned? A. None whatever, beyond the newspaper reports.

Q. Beyond what? A. Oh, the daily reports in the newspapers of what had been introduced.

Q. You mean reading in the newspapers the information? A. That is all.

Q. You have never employed anyone for that purpose? A. We have not.

(Handing paper.)

Q. This is a complete statement of all your collateral loans for ten years? A. Yes, sir.

MR. HUGHES: I will have it marked for identification.

(Paper marked Exhibit 817 for identification.)

(Handing paper.)

Q. Is this a complete statement of all your securities owned? A. It is.

Q. That is of what date? A. It is down to date.

MR. HUGHES: I will have that marked for identification.

(Marked Exhibit 818 for identification.)

(Handing paper.)

Q. Is this a complete statement of your monthly cash balances in bank? A. Yes, sir.

MR. HUGHES: I will have that marked for identification.

(Paper marked Exhibit 819 for identification.)

MR. HUGHES: From this it appears your average total bank balances in January, 1905, were \$822,000; February, 1905, \$977,000; July, 1905, \$436,000; August, \$582,000; September, \$402,000; October, \$182,000.

Q. Your balance for October is about half the balance which had obtained previously; why is that? A. Due, Mr. Hughes, to the remarkable Mortgage Tax Law.

Q. And what is that? A. That took effect on July 1st, last. During the first six months of this year there was voluntarily paid to us over the counter in discharge of mortgages by people who either got larger loans elsewhere or terms which suited them better, $2,354,000. Since the 1st of July up to date that figure is $76,000. That is the difference.

BY THE CHAIRMAN:

Q. What was the first figure? A. $2,354,000. So as to get the new mortgage in before the 1st of July, so they would not have to bear the burden of the tax. And since that, $76,000.

Q. Why should they have paid that money in to get new mortgages before the 1st of July? They paid off old mortgages and made new ones? A. Exactly. They got larger loans as a rule, they got loans which suited them better elsewhere, and by getting them before the 1st of July they got them without the imposition of the half per cent. tax.

Q. In other words, the competition incited by the going into effect of the Mortgage Tax Bill deprived you of some of your loans? A. Yes, sir.

BY MR. HUGHES:

Q. That does not quite meet the point I had in mind. From January 1, 1903, to September, 1905, your lowest bank balances, that is, the total of the amounts in bank were upwards of $400,000, and for the most of the time greatly in excess of $400,000. Now, they appear in October, 1905, to be reduced to $182,000. What is the explanation for that? A. Well, for instance, last year, 1904, there was very little new building going on. We make almost entirely a building and permanent loan, combined. The advantage is inasmuch as we get it in advance of the beginning of the construction for less amounts than the party could borrow upon the market if he waited until his building was completed, because few institutions make such loans. At times we have engagements ahead which necessitate our keeping considerable funds on hand. Now we have not, we have few engagements ahead now, because there is little re-investing to be done. We invest several millions in bond and mortgage two or three times the excess of our income over our disbursements. The re-investment of funds which are paid off to us for various reasons.

Q. If there is little re-investment now why should not your bank balance be larger at the present time? A. There is no re-investment, we have not the receipts from that source. We have only received in five months $576,000 as compared to $2,334,000.

Q. But in July your bank balance was $436,000, in August $582,000, and in September $402,000, and in October $182,000? A. Yes. We engage these building and permanent loans in advance of the completion of the structure.

Q. How many bank accounts have you? A. Three here in this country.

BY MR. COX:

Q. I don't understand yet that last point of Mr. Doremus'—

that is, you reduced your bank balances in October of this year? A. They reduced themselves because that source of income, the discharge of mortgages, paying us off has ceased because of the mortgage tax law.

Q. But that ceased last June? A. Exactly, but then we always engaged ahead. Of course a builder before he buys the ground—our regular customers come to me to know what we will do for them; that is an engagement; it will not result in anything for three or more months, until he has advanced far enough to make a payment—when the first three tiers of beams is up.

BY MR. HUGHES:

Q. Your point is, as we understand it, that since the first of July you have had less money coming in for investment? A. Almost none.

Q. The other moneys you did have for investment had been engaged ahead? A. Exactly.

Q. So that the result was that your balances have fallen off. What I did not understand was why they should have fallen off in October the year before? A. I have no doubt a multitude of payments coming due at that time. These transactions frequently take a year.

Q. Is it a fact you have reduced the amount of free money that you carry intentionally? A. No.

Q. With the idea of keeping a large amount invested? A. No; it is only in the course of our regular transactions. Just happens so, by reason of the beginning at July 1 of the Mortgage Tax.

Q. Do you furnish estimates to agents for use in obtaining insurance? A. We do not.

Q. Have you ever done so? A. I do not think estimates. I think we have furnished actual results, but years and years ago.

Q. How many years ago? A. Fifteen I would say—twelve or fifteen.

Q. You know that the agents use estimates, do you not? A. I believe they do.

Q. What book do they use? A. I do not know. It is a book gotten up by them. We have nothing to do with it.

Q. Have you prohibited its use? A. We discourage the use of estimates. We have not prohibited it.

Q. Have you one of the big books that they use? A. I have not.

Q. Has your company? A. I don't think the company has.

Q. Have you a statement of the actual results on your deferred dividend policies? A. No. I think the last tables of actual results we published were on the old tontine policies—full tontine, where everything—dividends, surrender values, and all advantages except the face amount of the policy——

Q. What proportion of your business is annual dividend business? A. A very small proportion.

Q. Most of your business is deferred dividends? A. Yes.

Q. Do you do a deferred dividend business in Germany? A. I refer to our actuary for that. There is some action just being taken by the German Government; I don't know exactly what it is; in regard to that I would rather have you call him a little later.

Q. I notice that your expenses in 1904 were 114.31 per cent.

of your loadings. What is the explanation of that? A. That it costs much more to get business to-day than it is worth almost.

Q. How long have you been running ahead of your loadings in your expenses in getting business? A. I could not tell you.

Q. Was last year an exceptional year? A. I think it was—the excess over 100 per cent. was greater last year than ever before.

Q. What was the reason for that? A. No special reason.

Q. Did you pay more money last year than you had previously? A. Yes, and did more business.

Q. Your new business in 1903 amounted to $13,961,000, and in 1904 to $14,485,000. Did that account for an increase in your expenses? A. The two were certainly connected—the fact of doing more business.

Q. Did you exceed your loadings in 1903? A. I think quite surely.

Q. Did you in 1902? A. I am again quite sure we did.

Q. In 1901? A. I would not want to say as to that; I cannot remember.

Q. What have you done to correct that state of affairs? A. Oh, we have taken hold of the items which seem to be excessive and have pared them down.

Q. To what extent have you made economies in the last three years? A. I was thinking particularly of this year.

Q. Well, this year, have you made any economies in 1905? A. We have.

Q. Not previously? A. No. The result shows that.

Q. How recently have you introduced the measures to reduce expenses? A. Oh, during the current year.

Q. What have they been? A. Mostly the cutting off of allowances for traveling expenses.

Q. To whom were those allowances made? A. To the managers who have a territory.

Q. To what extent have you saved in that way? A. That I could not tell now.

Q. What is the total result of your efforts of economy during this year? A. That we can hardly tell until the year is closed.

Q. Have you any idea about it? A. No, I have not.

Q. What are the salaries paid by your company? A. To whom?

Q. To the officers? A. The President, $18,000; the Vice-President, $12,500; Second Vice-President, $10,000; the Actuary, $6,000; the Secretary, $5,000.

Q. Has there been any change in the salaries paid in recent years? A. Yes. The President's salary was increased from $15,000 to $18,000 on the first of January last.

Q. On January, 1905? A. Yes.

Q. How long had it been $15,000 previously? A. Oh, some years.

Q. About how long? A. Three or four years.

Q. And what was it before that? A. $12,500.

Q. And how long had it been $12,500? A. Oh, I think during my time and the previous President—possibly altogether ten years.

Q. Had there been any increase in other salaries prior to January 1, 1905, say within five years? A. A little, possibly, the Vice-President from ten thousand dollars to twelve thousand five hundred. I think that was a change made within five years.

Q. Was there any increase of salaries, other than in the President's salary in January last? A. No.

Q. Then the salaries for this year in other respects remained what they have been? A. Yes, excepting—you mean officers only?

Q. Yes. A. Of course the clerks have been increased.

Q. Well, apart from allowances for expenses to agents, what economies have there been—isn't the fact that you cannot get your expenses down within your loadings without changing the commissions paid to agents? A. I fear that is the case, Mr. Hughes.

Q. Have you taken any steps in the direction of reducing commissions? A. No, we have not, to my recollection.

Q. Do you think that you should take such steps? A. It would result in our losing our business.

Q. Then the reason that you do not take them is because you fear competition? A. Our scale—any good man can get more than our scale almost anywhere else.

Q. That applies to a number of small companies, doesn't it—I mean relatively small? A. Yes—yes.

Q. In other words, does the extent to which the larger companies compete with you, and companies of similar size, require you to keep commissions at a point where you are bound to exceed your loadings? A. It is about that at the present time, yes.

Q. And if you keep your loadings where they are you have got to make inroads upon your surplus unless you get it through an increase in your premium income? A. I would ask that question again.

Q. I will change the form of it if that is vague. As you are now, you cannot increase your premiums without losing business? A. Surely not—premiums—no.

Q. And if you do not increase your premiums you cannot keep your business without keeping the loadings as they are? A. Exactly.

Q. And you cannot keep the loadings where they are and keep your expenses within them under the present press of competition? A. No, we have not been able to do so; but as I say, we are making efforts in that direction, Mr. Hughes.

Q. So that you have got to make gains to offset the loss on your loadings, through your gains in mortality or otherwise, to keep your surplus intact? A. Yes, and on interest.

Q. If, however, your actual mortality should come up to the rate which you have expected it in making your calculations, and your interest gains should be in accordance with your estimates, your expenses are so high that your surplus would be gradually depleted? A. That would be the case with any company, Mr. Hughes.

Q. Any company that exceeded its loadings? A. Exactly, and almost every company does—almost every company, and those two events are almost impossible of occurrence. In the first place, the expectation table is based, not upon selected lives, but upon lives at large. Our experience is based upon the lives selected by examinations.

Q. Last year you made on the expected mortality cost a gain, as your percentage of actual to expected mortality was 73.73 per cent. A. Yes, about 73 per cent.

Q. Your gains for the year were $251,602 from mortality, $185,466 from surrendered and lapsed policies, $231,392 from surplus interest, and you lost $146,978 on your loadings, which gave you a total realized gain of $521,057 A. I have no doubt those figures are correct.

Q. Those are taken from the blue book? A. Yes, I have no doubt; yes, sir.

Q. Now, is it true that there is no accumulation of surplus to the credit of deferred dividend policies until they are four years old? A. I would refer that question, if you please, to the actuary too.

MR. HUGHES: Will you please withdraw for a moment.

JOHN FUHRER, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. You are the Actuary of the Germania Life Insurance Company? A. Yes, sir.

Q. How long have you been Actuary of that company? A. About seven years.

Q. Will you state the difference between the reports which you are required to make to the German Government and those you are required to make to the State of New York? A. The German Government asks for more details.

Q. To what extent does the German Government ask for more details? A. Especially the dividends, the tontine dividend and deferred dividend.

Q. What information does the German Government require with reference to dividends? A. They want a complete statement of the dividends accrued in different classes.

Q. And you refer by classes to what? A. As they have been formed, assuming the year of issue and years of tontine periods.

Q. Do you separate your policies into classes according to the year of issue and the distribution periods? A. Yes, sir.

Q. Do you do that because the German Government requires you to report accordingly? A. We have done that before we had to make these reports.

Q. Do you calculate the dividends on those classes, or the policies of those classes separately? A. Every year.

Q. And you make those reports to the German Government accordingly? A. Yes.

Q. Do you make similar reports to the State Insurance Department? A. Something like it, yes.

Q. In New York? A. In New York, yes, but not in such detail as to Germany.

Q. Are you required by the German Government to take each class of policy showing the number issued in a given year, the distribution period and the way in which you annually determine the amount to be apportioned from your surplus to that class? A. Yes, sir.

Q. You give them the figures? A. Yes, sir.

Q. In detail? A. In detail.

Q. How do you calculate the dividends for that purpose? A.

We set apart the dividends for the different years as they are declared by the Board of Directors.

Q. What do you do in calculating the dividends for the different years? A. In October we ascertain what will be used the next year or what we expect to have ready for distribution next year.

Q. That is in October, 1904, you determine what will be distributed in 1905? A. Yes, sir.

Q. And you do that upon the basis of the estimated results for 1904? A. Yes, sir.

Q. How is it possible for you to know in October, 1904, what the gains for 1904 will be? A. We make a complete statement of the year and we can judge from that what will be the gain, the earnings in the next year.

Q. How can you make a complete statement for the year 1904 in October of that year? A. We make an exact statement—we ascertain the assets and liabilities of the company and see what the surplus is, see what the gain is, what the earnings are in that year or for the nine months.

Q. Then you take what it would be for twelve months at the same rate? A. Yes, sir.

Q. How do you ascertain what the dividends shall be on the deferred dividend policy, or what shall be apportioned to it? A. We make a deduction from what we expect the surplus earns the next year, a certain per cent., and the balance is recommended to the Board for a declaration of dividends for the next year.

Q. What percentage do you deduct? A. That depends on what we think necessary.

Q. You mean you take out of the gains for the current year what you think should be reserved for contingencies? A. Yes, sir, for further contingencies, yes.

Q. Then you find a surplus then for distribution? A. Yes, sir.

Q. Now, how do you deal with the amount which you determine as available for distribution with reference to deferred dividend policies, whose periods have not yet expired and are not to expire the next year? A. It makes no difference whether they are deferred or annual.

Q. You make the same determination of dividends? A. Exactly.

Q. What factors do you use in reaching that determination? A. We have for a number of years a certain proportion of figures, meaning that for instance if we assume that we have to declare about $500,000 worth of dividends, we know exactly, or think we know exactly, how much each policy has contributed to that fund, and in that proportion we issue a smaller or larger amount.

Q. Suppose a policy is not to mature until 1910 and in October, 1904, you are determining what will be distributed in 1905. How do you deal with the amount to be apportioned to that policy? A. We make the distribution for 1905 the following year; we credit each policy at the end of each year with the dividend from that year.

Q. Then you keep a separate account with each policy? A. Yes, sir, to some extent.

Q. But in New York you do not treat them as a legal obligation? A. As a legal liability we do.

Q. You do not include it among your liabilities? A. We do.

Q. You do? A. Yes, sir.

Q. Is your surplus over and above the amounts held awaiting distribution to deferred dividend policyholders? A. We make our report to the New York Department, treating the tontine surplus as a liability.

Q. As a liability? A. Yes, sir.

Q. So that in your statement of liabilities in 1904, aggregating $29,360,065, there is included dividends? A. No, sir, not in these figures.

Q. Not in those figures? A. No; that is not a copy of our report.

Q. Will you point out in your reports the item which you say represents the deferred dividends on the deferred dividend policies not yet matured and held for subsequent distribution? A. Unassigned funds—that would be the general surplus.

Q. That is the general surplus? A. Yes.

Q. Then you included it as a liability in the sense that every one puts in the unassigned funds or surplus under the head of liabilities in order to make the account balance? A. That is the general surplus.

Q. But you treat it in the reports as a liability in any other respect? We do it in our report, in our published statements, in our report.

Q. You do not in your report show to the New York Insurance Department that you have set aside anything on deferred dividend policies? A. That is here (indicating). "Dividends apportioned payable to policyholders subsequent to 1905."

Q. Is that the amount? A. That is the amount, yes.

Q. Then it is not in unassigned funds? A. No; this is the general surplus.

Q. Now, the amount which you have apportioned payable to policyholders subsequent to 1905 is in the $1,662,822? A. That is right.

Q. Now, the result is that in 1904 you made a gain including your gains from all sources of about $521,000? A. Something like that, yes.

Q. And in that year you set aside as dividends apportioned to policies which would have their dividend period mature subsequent to 1905 the sum of $1,662,000? A. No, sir; only the increase between this fund and the fund the year before.

Q. That was the amount then standing? A. Yes, sir.

Q. Now, how much of that was apportioned in 1904? A. I should say about $200,000.

Q. So that you gave for dividends on deferred dividend policies something less than half of the gains of the year? A. Yes, sir.

Q. Is that a typical case? A. Well, that is only as much as belonged to the deferred dividend policies.

Q. I mean is it typical that you take about half your gains for the year? A. That does not take account of the annual dividends which we have distributed.

Q. The annual dividends are in addition and where do they appear—just in the item before, in your report—"Dividends apportioned payable policies during 1905" or is that for the tontine policies maturing in 1905? A. Part, and part for annual dividends. I should say we paid about $200,000 in annual dividends.

Q. About $200,000 in annual dividends in addition? A. Yes, or perhaps for the tontine $250,000 and for the annuals $200,000—that would be about right.

Q. Then did you distribute all your gains for the year with the exception of fifty or sixty thousand dollars? A. Yes, sir.

Q. Either in the form of payments or credits? A. That is what we did.

Q. Is that the usual case? A. Yes, has been for some years.

Q. So that as a practical matter you only reserve of your gains for the year about 10 per cent.? A. Yes.

Q. As a contingency fund? A. Yes, sir; have done for some years.

Q. How long has that been the case? A. I should say for something like ten years.

Q. Now, as I understand your testimony, you gained last year net about $520,000? A. Yes.

Q. Now, you declared annual dividends and dividends upon deferred dividend policies maturing in 1905 and apportioned dividends on polices with deferred dividend periods subsequently to mature to an aggregate of about $450,000? A. Yes, sir.

Q. So that your surplus only increased over and above the reported liabilities about $50,000 for that year? A. Something like it, yes.

Q. Well now, according to the blue book it appears that your surplus at the end of 1903 was $4,506,000 and at the end of 1904 $4,744,000. Those figures are not made up by you? A. No, sir.

Q. Your surplus according to your report to the State Department under December 31st, 1904, that is your unassigned funds exclusive of these dividends you have mentioned was $2,538,832. Do you remember what it was at the end of 1903 according to your report? A. No.

Q. But it would be about $50,000 less? A. I should say it was.

Q. Is it a fact that there is no accumulation of surplus to the credit of deferred dividend policies until they are about four years old? A. On our policies we do not make any difference between deferred dividend and annual dividend.

Q. You declare the same dividend? A. Yes, sir.

Q. I mean taking the actual results of your business is it a fact that you do not actually have an accumulation upon deferred dividend policies until it is about four years old? A. Yes, sir.

Q. That is because of the expenses of the business? A. Yes.

Q. But despite the fact that you have no accumulation theoretically applicable to a deferred dividend policy until it is about four years old, you do in fact each year apportion the same amount to a deferred dividend policyholder as you do to an annual dividend policyholder? A. Yes.

Q. And you put it to the credit of the policy? A. Yes.

Q. And the difference is it remains unwithdrawn? A. Yes.

Q. And it is suffered to accumulate for the period? A. Yes.

Q. And then at the end of the deferred dividend period you take the aggregate of the amounts declared as annual dividends? A. Yes, sir.

Q. So accumulated? A. With interest.

Q. With interest, and you distribute that money to the policyholders of the class then surviving? A. Yes.

Q. Now, if you will look at your report to the German government under date of 1904, does that state the amount paid out in dividends that year on the deferred dividend policies then maturing—is that it (pointing to entry)—take for example the ten year class? A. No, sir; it is only the accumulation.

Q. It is only the accumulation? A. Yes, sir. That shows how much has been assigned to that class in that year.

Q. Does this mean an amount maturing in 1904, or what are the policies mentioned in the table I now show you? A. That is the addition to the fund in 1904.

Q. Am I not right in supposing that table in your report of the year 1904 as to ten year policies means the policies that run from 1904 to 1914? A. Yes, sir.

Q. And does it show the amount paid out on deferred dividend policies maturing in 1904? A. Yes, sir.

Q. And what amount was that? A. It was in that year 78,000 marks.

Q. 78,000 marks in the particular class stated? A. Yes.

Q. Now, do you put at the time when the dividend period is about expiring, either at that time or in the year preceding, an accumulation to the credit of those policies which had not been before placed to their credit? A. Only that for the year —for the year 1904.

Q. Then you do not make a practice of waiting until the year before the dividend period expires and then put in a gross accumulation to meet the necessities of distribution at the end of the deferred dividend period? A. No, sir.

Q. That amount that you put in the year of distribution and the year before are simply the gains for those years? A. That have been accumulated.

Q. And you then make your aggregate of the amount that has been credited year by year during the deferred dividend period? A. Yes, sir.

Q. Now, I wish you would take as an illustration a policy maturing in 1904, with a deferred dividend period of ten years, according to your reports to the German Government, and show—I am speaking, of course, of a class of policies—I am speaking of a class of policies, and I want you to take a class maturing in 1904 with a deferred dividend of ten years, and tell me what amounts had been credited annually to that class according to your reports to the German Government? A. These are only the figures which belong to that year for the whole class.

Q. Have you got in those reports before you the data so that you can give me that? A. We can give you the amount that had accumulated for policies maturing in 1905 on a ten-year class.

Q. Can you give me by year? A. Not from these statements.

Q. Have you got other statements that you can use? A. They are all alike.

Q. In other words, it is not so important, so far as your company is concerned, perhaps, but to get an illustration of the way that is done when dividends are apportioned annually in order that we may have data for comparison. I would like to know just how you have done it in a particular class of policies. Do you understand what is desired, Mr. Fuhrer? A. Yes, sir. You want to know what was added to the fund each year.

Q. Yes, taking the ten-year class maturing in 1904, and tell me, during the period of ten years, what was annually apportioned to that class? A. I cannot give it from these reports, because there is not enough of them.

Q. How far back can you go with those reports? A. The year 1903, I do not find.

MR. HUGHES: Suppose you withdraw for a moment.

EDMUND L. BAYLIES, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Were you or are you the Treasurer of an association known as the Allied Real Estate Interests? A. I was the Treasurer of that association when it was first formed, I think in March, or early in April, 1905, in the form that it then existed, simply an association; and I acted as Treasurer so long as I was in this country. I went away in May, or about the middle of May, 1905, for my vacation, and after that time the payments were attended to by Mr. Alfred E. Marling, under Power of Attorney from me. And to complete my answer, I am the present Treasurer of a corporation which has been formed, known as the Allied Real Estate Interests, organized under the Membership Law of this State, and I am its Treasurer.

Q. What was the purpose of the association? A. The purpose of the association was to stimulate public interest and arouse discussion in reference to the bill known as the Mortgage Tax Bill, which was then pending before the Legislature, with a view to having its provisions fully discussed, and, if possible, understood, and to arouse public interest in the dangerous nature of some of the provisions of the bill as introduced.

Q. What amounts were collected for that purpose? A. I cannot give you the exact figures, but it was over twenty thousand dollars, and I think not over twenty-two thousand dollars, somewhere between those figures.

Q. Did insurance companies contribute to the fund? A. I cannot answer that of my personal knowledge. The checks were handed to the Treasurer by various members of the Committee, who constituted themselves a soliciting body; as we had to act very promptly, the various members of the Committee went to their various friends, people interested in real estate, and got checks and sent them to me, and I deposited the checks and paid out the moneys so received.

Q. You had nothing to do with the soliciting yourself? A. Except in one instance, I went to one insurance company and that company declined to contribute.

Q. So you did not get anything from your own efforts? A. I personally received nothing from any insurance company.

Q. Who has the books of the association? A. Of the old association, it has closed up its books. I presume they are in the hands of Mr. Marling, of H. S. Ely & Company.

Q. What disbursements were made for the purposes you have mentioned? A. The disbursements are of several sorts. Perhaps the heaviest disbursement was in advertising; advertising in the papers of this city, in Brooklyn, and very generally throughout this State, to arouse public attention and attract it towards the fact that this bill was pending. I think we advertised in almost every county of the State. Then there were further——

BY MR. COX:

Q. What kind of an advertisement, Mr. Baylies, did you insert? A. Calling attention to the dangerous provisions of the bill as this association knew it from the point of real estate owners and loaners on bonds and mortgages. We thought that it would interfere with the character of the mortgages, which had a very well established value under the decisions and laws of this State, and that this was an attempt to change the law which would create great confusion in the minds of loaners and borrowers, and we thought it would disturb the mortgage market very seriously and deter many people from making loans.

Q. They were display advertisements urging people to oppose the bill? A. That was their character.

BY MR. HUGHES:

Q. They were not in the nature of reading notices? A. Oh, no.

Q. They were straight advertisements? A. Clearly, paid for as such.

Q. Then what disbursements were there in addition to those?

A. In addition there were disbursements for traveling expenses. We employed men to go out to Buffalo and other leading cities in the State. We paid the expenses of the people who went to Albany to oppose the bill and we paid some attorneys' fees, chiefly to men in this city.

Q. And who represented the interests as attorneys? A. The President at that time of the association was Mr. Edward Van Ingen, who did the major part of the work. He has since died. Most of the disbursements of that character were made through him.

Q. And the entire $20,000 or $22,000 was disbursed in the manner you have stated? A. Yes.

Q. What proportion would you say was disbursed for advertising? A. I could give exact figures, but my impression is that very nearly one-half was paid for advertising.

BY THE CHAIRMAN:

Q. You are the legal custodian of the books now? A. I suppose that I am, in a certain sense, and I am ready to produce them for the Committee's inspection if they wish them, although they are not in my actual custody.

Q. You stated that the old books were in Mr. Marling's possession. Are the present books in his possession? A. No; the present books of the new association are subject to my order.

Q. And you said these were display advertisements? Were they not accompanied many times by reading notices also to be published in connection with them? A. Well, I cannot speak of that as of personal knowledge, but my impression is that we paid for nothing but display advertisements. If any reading notices were given, I think they were given without pay. There was a great deal of editorial comment by the newspapers who received these paid advertisements.

Q. But I mean matter accompanying the advertisements sent out under the auspices or by your association which were designed to supply the papers with arguments or with matter for publication as reading matter besides the display advertisements? A. I think that was so, sir, but I cannot speak from my personal knowledge.

MR. HUGHES: Is there anything further?

THE CHAIRMAN: Except that we would like to know how much was collected from insurance companies.

BY MR. HUGHES:

Q. Yes, I think I asked Mr. Baylies that. Can you tell how much was collected from insurance companies? A. I have not said that I knew anything was.

Q. No, I understood you to say so. Perhaps we had better have the books? A. It would be an insignificant fraction of the whole.

BY MR. COX:

Q. What corporations then mainly would you say these subscriptions came from, if not from insurance companies? A. They were in part from trust companies and very largely from individuals who were interested in estates that were loaning on bond and mortgage, and that thought their interests would be prejudiced by the passage of this bill; in part from attorneys who represented loaners of money from other States, who had been in the habit of loaning money here, and who felt that if this law was enacted they would be unable to continue in this State, and were therefore opposed to the bill.

THE CHAIRMAN: We had better have the books.

MR. HUGHES: I think that if you can control the production of the books showing the amount received, and disbursements in connection with the Mortgage Tax matters last Spring, we should be glad to have them.

JOHN FUHRER resumed.

Q. Now, this is a statement of the surplus, added annually on policies maturing in 1904, and also a statement of the total surplus to the credit of those policies in each year from 1896 to 1904, inclusive? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 820.)

Q. And that is in accordance with, and taken from, your reports to the German Government? A. Yes, sir.

Q. Dealing with the policies of the class described? A. Yes, sir.

Mr. Hughes then read Exhibit No. 820.

Q. And that total of 78,691.80 marks was the total amount distributed among the surviving policyholders of that class in 1904? A. Yes, sir.

Q. Now, is it the fact that in connection with your other deferred dividend policies of ten-year classes, maturing in other years and of periods other than ten years, say, for example, fifteen or twenty years, you have had the same method of apportionment? A. Yes, sir.

Q. And you have shown in your reports to the German Government annually the surplus added according to the amounts which you set aside in each year? A. Yes, sir.

Q. And those amounts in each case corresponded with the annual dividends declared that year? A. Yes, sir; plus the interest.

Q. Have you had any controversies with the German Government? A. No, sir.

Q. Never? A. Never.

Q. Always got along easily? A. Yes, sir.

Q. The question was asked of President Doremus a little while ago as to the comparative mortality in Germany and America. What has been the experience of your company? A. Our experience has been more favorable in Germany up to several years ago.

Q. Up to about what time? A. A few years ago.

Q. Four or five years? A. I should say, perhaps, two or three years.

Q. What is the general American experience as compared with general German experience? A. I should say, generally speaking, the mortality in America is better, more favorable, than in Germany.

Q. How do you account for the exceptional experience of your company in that respect? A. It may be the acceptance of a great many risks that were aliens to this country, that were not born here, perhaps, that were not acclimated enough.

Q. You had a large business ——? A. Among the German population.

Q. Among those of German parentage? A. Yes.

Q. And you think that possibly that operated against your company? A. Yes.

Q. You have the estimate book which has been used by your agents, have you not? A. No, sir; we never authorized that at all.

Q. Well, you can get one of them, can you not, so we can examine it? A. The agents may have some.

Q. You can get one from your agents. And I would like to have you make up a statement of your actual results, if you have not one here, on your annual dividend policies? A. Yes.

CORNELIUS DOREMUS resumed.

BY MR. HUGHES:

Q. Mr. Doremus, has the Germania Life Insurance Company been a participant in any syndicate transactions? A. It has not.

Q. Has any officer of the Germania Life Insurance Company participated in any syndicate where the Germania Company has acquired in any manner securities floated by the syndicate? A. Not to my knowledge, and I do not believe so.

RICHARD MORGAN, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Mr. Morgan, what is your business? A. Life Insurance.

Q. With what company are you connected? A. The Bankers' Life.

Q. In what capacity? A. Well, as adjusting policies and a director.

Q. Are you a director of the company? A. I am.

Q. Do you hold any office with the company? A. No, sir.

Q. Did you ever hold any office with the company? A. I did.

Q. What office did you hold? A. President.

Q. From what time? A. From about 1891 to 1902.

Q. When was the Bankers' Life Insurance Company organized? A. Originally organized in 1869, and known as the Bank Clerks' Mutual Benefit Association.

Q. When did the Bank Clerks' Mutual Benefit Association organize? A. I think it was March, 1869.

Q. How long did it continue in business under that name? A. Until June, 1893—June or July.

Q. And what change in the business of the company took place in 1893? A. It re-incorporated, I think, under the Laws of 1887, and started in to do a general life insurance business under the assessment plan.

Q. As an assessment company? A. As an assessment company.

Q. It had previously done business as an assessment association, had it not? A. Well, no; it was more on the fraternal order.

Q. More on the fraternal order, doing business among those connected with banking institutions? A. Solely, just in New York and vicinity.

Q. Did it change its name in 1893? A. I believe it did.

Q. What name did it then assume? A. The Bankers' Life Insurance Company of the City of New York.

Q. What was done with reference to the policies which had been previously written while it was the Bank Clerks' Association? A. A provision was made in the constitution, which was voted upon on changing to the assessment plan, whereby one dollar for each one thousand dollars insurance in force on the 31st day of December each year, should be set aside in order to reduce the cost of those old members and to waive the assessments.

Q. Where was that one dollar per thousand to be obtained? A. From the contributions of Class B and the premiums.

Q. And what was Class B? A. Class B consisted of all new members who entered the association, I think—well, after they re-incorporated and started into do a general business, I think that commenced along in the early part of 1893, or 1892, it might possibly be.

Q. Then you had two classes, Class A, consisting of the assessment policies which had been issued when the order was more or less a fraternal one, and then Class B, of all policies issued after your re-incorporation, as a general assessment company? A. That is right.

Q. And by a provision in your constitution on your re-incorporation the members coming in under Class B were to contribute one dollar per thousand to reduce the expense to the old members continuing as Class A? A. That is right.

Q. And those two classes were kept distinct? A. Distinct.

Q. And the cost of the business was separated in order to ascertain the results as to each class? A. Yes. No more were admitted to Class A.

Q. What sort of business did the new concern do in 1893, what policies did it write? A. Only ten-year term.

Q. When did it commence to do business on a reserve basis? A. Well, although we set aside a reserve, we kept it intact ourselves. We were not required by the Department to maintain a reserve other than the amount of one assessment on all policy-holders, that constituted our reserve.

Q. That was the reserve under the law? A. Yes.

Q. In other words, while under the law you only had to have a reserve as an assessment company, equal to the amount of one mortuary call? A. That is right.

Q. You, in effect, established a reserve for your own purposes? A. Yes, and in some instances it was larger than what would be required by a regular company.

Q. Well, it was larger than what would be required by an old line company? A. Yes, it was in many instances, where a policy was written annually.

Q. You established that reserve for what purpose? A. Well, the company did it for its own protection as a matter of safety.

Q. What was your scale of premiums at the time that you established that reserve? A. Well, the scale of premiums was made up very oddly. It was not according to actuarial science whatsoever. It was taken from the mortality table. Whereas the number dying in each year on a ten-year term basis, for instance, the number of deaths at each age on each one thousand lives insured. And it was Mr. Townsley who was connected with us at that time—instead of taking the actuary's tables on a ten-year term basis he simply took that percentage and just scratched off the last two figures and put down $8.91, whereas it was $891.

Q. What Mr. Townsley is this? A. The president of the Life Association of America.

Q. What had he to do with the Bankers' Company at that time? A. He was general manager. He came to us when we started to do a general business.

Q. That is 1893? A. 1893, I think it was, or perhaps 1894.

Q. Was he actuary of the company? A. He was everything pretty much.

Q. Did he fix the rates in the manner you have stated? A. Why, he assured the board, we were then all bank men, and we practically took them on his assurance that they were adequate and right.

Q. This was at what time, 1896? A. Oh, no.

Q. Earlier than 1896? A. It was along in 1892 or 1893.

Q. Did you make any change subsequently? A. Yes, we found that those rates were inadequate.

Q. When did you find it out? A. We found it out in 1895.

Q. How was it brought to your attention? A. Why, we commenced to get insurance books that we never had access to before, and we saw that the rates were inadequate right straight according to the net premiums. For instance, you take an age 60 on a ten-year term, we were charging $10.90 per thousand, whereas the ordinary premium, I think, is somewhere in the neighborhood of fifty or fifty-one dollars.

Q. What justification did Mr. Townsley have for this method, or suggest? A. Well, he claims, that, I think it was the Provident Savings, had worked along on those figures there, and they had been successful, and I don't know perhaps but what he brought one of the Connecticut companies—the Aetna, or one of those companies which did a term business, and they were able to carry the policies at about the figure he indicated for a period of twenty-five or thirty years without raising the rate.

Q. Why did not that satisfy you? A. Well, we consulted actuarial advice and we were informed after taking regularly established tables, the American Experience table there, we were well satisfied that those people knew more than Mr. Townsley.

Q. Who was the actuary that you consulted? A. I think—I don't know as we consulted any one particularly. Mr. W. D. Whiting.

Q. Did you consult Mr. Whiting or did he become consulting actuary? A. Yes, Mr. Whiting was actuary along in 1897, after Mr. Townsley had been dismissed from our employ.

Q. When did Mr. Townsley leave? A. March 26th, 1897.

Q. Under what circumstances? A. Dismissed by the Board.

Q. For what? A. Well, for deception of policyholders.

Q. In what way? A. In trying to get control of the company by asking for proxies and sending out a circular that purported to come from the Board, whereas as a matter of fact the Board had no knowledge of it, neither did the officers give any consent to it.

Q. What was done in or about 1896 when you elevated your scale of premiums? Did you approach the premiums charged by the old line companies? A. Yes, sir.

Q. Pretty closely, practically the same premiums? A. The net premiums were exactly the same.

Q. In other words, although not a level premium company, and although operating under the assessment law, you tried to put your premiums on a level premium basis and to maintain outside of any legal requirement, the necessary legal reserve? A. Yes, sir; and I guess we are the only companies that are doing it.

Q. Did you in your policies provide for cash values and cash loans and paid-up insurance and so forth? A. Well, we did, I think; the policies issued by Mr. Whiting under his supervision, we did provide for it, but they were estimates.

Q. They were estimates? A. Yes, sir.

Q. What authority had you for issuing policies of that description as an assessment company? A. Well, there was a provision of law there that gave the right; we considered we had the right, provided it was only an estimate, to do it.

Q. That is you estimated what you thought you would be able to pay, but you did not make an absolute guarantee? A. No.

Q. Did you submit your policy forms to the Insurance Department? A. Yes.

Q. To whom did you submit them? A. I cannot say for all of them.

Q. What individuals? A. But when they went up there they went to Mr. Appleton.

Q. You were President of the company during this period from 1891 on? A. Yes.

Q. And before you issued the payments substantially equivalent to the premiums charged by legal reserve companies and made these estimates of returns in cash surrender values and paid-up insurance you asked Mr. Appleton's approval? A. I won't say certainly for that, Mr. Hughes, on those policies, but I know subsequently we did not dare issue anything without going up to Albany.

Q. When you say subsequently you mean at that time? A. I should judge it was in the latter part of 1898.

Q. Well, were you called down by the Insurance Department for issuing these policies? A. Decidedly so.

Q. About what time? A. I should judge about the latter part of 1888.

Q. And how long had you been issuing them at that time? A. I should judge for about a year and a half or a year.

Q. Had you during the year and a half had any approval from the department of your course? A. That I cannot say.

Q. Had the department been aware of the policies you had been issuing for a year and a half prior to the time of their objection? A. Yes, sir.

Q. How do you know that? A. Because we were written to on several occasions there, that agents of ours had been representing that the Bankers' Life was an old line company and the numerous other agents of other companies had also——

Q. Well, did you send up copies of these policies to the department when you first adopted them? A. That I cannot say, Mr. Hughes. We adopted those policies under the guidance of Mr. Whiting.

Q. The first you heard of the refusal of the department to permit these policies to be issued was about the latter part of 1898? A. I think it was the latter part of 1898 or the first part of 1899.

Q. And what was the attitude of the department taken at that time? A. Very antagonistic.

Q. Well, definitely, what did they do? A. They told us we must stop the issuance of those policies, and we were compelled to issue a policy which Mr. Dawson drew up for us, that really did not put in any cash value whatsoever, but under the law we had a right to put in a loan value; therefore, if a man wanted to get his cash value he would take out a loan and need not pay his loan, and therefore could get his cash value. He had the right under the law.

Q. Did this take the form of correspondence with the department? A. Oh, my, yes.

BY MR. COX:

Q. Was that in effect borrowing the money, and not paying it back, if he took advantage of the loan value? A. If a party for instance wanted to get what would be really due him, which we had charged him for in his premium, the same as an old line company would, and would establish, say a cash value at the end of the third year, the end of the fourth year, the end of the fifth year, the sixth year and so on, which is an increasing amount providing he pays his premium under the law, we were allowed to give a man a loan value. Now, all a man had to do if he wanted to get a surrender value, he could get a loan value, a loan equal to that value, and pay us for instance a month's interest. He need not pay his loan at the end of the one month; he could drop his policy, and therefore he has had his cash value.

BY MR. HUGHES:

Q. Why would he not be bound to repay his loan? A. He was not bound. You cannot make a man pay his loan if he does not want to.

Q. Well, that may be true of some men, but not necessarily of all. A. No, the policy provided that if he did not pay his loan the policy would be forfeited.

Q. So it was a provision of the agreement that the only consequence of not paying the loan was the forfeiture of the policy? A. That is right.

Q. In consequence of this attitude of the department towards the forms of policies you had been issuing, did you offer to reincorporate? A. Yes, along I think it was in the middle of December, 1898.

Q. Before that time had you offered to put up any money under the assessment law? A. That is so that we could give cash values?

Q. Yes. A. Yes, and we were given to understand that we could not do it; that that law was practically only passed there to cover certain policies which had been issued by the Mutual Reserve Fund.

Q. What law are you referring to now? A. That I don't know. It is a provision in the Insurance Law. It was a separate act.

Q. A separate act passed in 1898? A. I do not know when it was passed.

Q. Was it what was called the stipulated premium law? A. No, it was before that.

Q. It was before that? A. Yes, but before that we understood we had the right to deposit securities with the department to the amount of one hundred thousand dollars, and then we could put cash values in our policies.

Q. Who told you that that was for the Mutual Reserve? A. Why, I think Mr. Appleton told me.

Q. Tell us fully what took place about that, so we can identify the law and understand the transaction. A. Well, we were given to understand that the department up there, the Insurance Department, had discretionary powers whether or not it would approve the security we put up.

Q. Did you offer to put up one hundred thousand dollars? A. Yes, we were desirous of so doing.

Q. To whom did you make that offer? A. It was to Mr. Appleton.

Q. What amount of securities did the Bankers' Life Company have at the time you made that offer? A. I should judge in the neighborhood of from four hundred dollars to five hundred dollars.

MR. DAWSON: No, two hundred and seventeen thousand dollars.

THE WITNESS: Two hundred and seventeen thousand dollars, was it?

Q. What was the character of the securities that you had? A. Of the highest order.

Q. What do you mean by that? A. Gilt-edged bonds and mortgages.

Q. Was there any question between you and the Department as to your being able to put up any securities required? A. No, sir.

Q. What information did you get from the Department as to what would be their requirement? A. Well, we were practically given to understand that there were no requirements, that we would not be permitted to do it.

Q. Who gave you to understand that? A. Mr. Appleton.

Q. What did he say? A. That I cannot remember, the exact conversation.

Q. Well, in substance. A. Well, in substance just what I have related to you.

Q. Did he say it did not make any difference how you put up the one hundred thousand dollars, that you would not be permitted to issue policies with cash values? A. Practically so, yes.

Q. Did he say that this provision of law to which you had referred was not applicable to you? A. He gave me to understand that, that we could not come in and take advantage of it.

Q. Did he explain why? Was it because the law in its terms was not applicable to you, or because the Department had a discretion which it would not exercise in your favor? A. Well, he did not put it as broadly as that. I was given to understand that.

Q. Did he tell you the law, according to its terms was not applicable to you? A. That I cannot remember.

Q. Did he say you could get the approval only by procuring a mandamus? A. Yes, I think he said something to that effect, that they would have to be mandamused, and then it was doubtful whether or no it could be done.

Q. Was not his objection really based on the ground that the law did not embrace you? A. Did not what?

Q. Did not embrace you, did not apply to a company such as yours? A. That is the impression that I gained from my conversation with him. You must remember, Mr. Hughes, that it was pretty hard for an assessment company to go up to Albany.

Q. Well, why? A. I don't know.

BY MR. COX:

Q. What do you mean by that? A. Why, I went up there with Mr. Julien T. Davies, and we were treated very coldly, and I went up there with Mr. Dawson once and was treated the same way.

Q. Did they refuse you any information you wanted? A. Oh, no.

Q. In what way were you treated coldly? Let us have an idea of what is in your mind. A. Well, you know as well as I do that you can be treated very chilly in going into a man's office.

BY MR. HUGHES:

Q. The matter is too serious, Mr. Morgan, to be regarded simply as one of atmosphere. Did you request anything that you were entitled to that you didn't get, or did you want to do anything which you were entitled to do which you were not allowed to do? A. Why, we wanted to re-incorporate under the stipulated premium law; that was in December, 1898. We asked for an examination of the affairs of the company and were promised that they would come down in a few weeks, two or three weeks, and examine us.

Q. You mean you wanted to re-incorporate under the stipulated premium law? A. We did.

Q. Of 1898? A. 1898—I think it was 1898 that law was passed.

Q. Go on. A. We waited, and asked again, and I went to Albany with Mr. Davies and while we were up there he asked me why we did not re-incorporate as a regular old line company and not go halfway about it.

Q. Who asked you that? A. Mr. Julien Davies made the suggestion to me, and coming back to New York I considered the matter over night, and the next day I took steps to re-incorporate as an old line company, and we had correspondence with the department after that, but could not get them to come and examine us. We were willing to be examined and were anxious to get in as an old line company on account of our policies, as I have stated, having been cut under the supervision of the department so they were practically unsalable. We were anxious to become an old line company as rapidly as possible and as soon as possible, so as to get away from that odium.

Q. What was the reason given for not examining you? A. That the department was busy.

Q. Had you any reason to doubt that that was the actual fact? A. Well, I don't know, but it seemed very strange when they kept putting us off there.

Q. How long were you put off? A. From December until about July.

Q. December, 1898, to July, 1899? A. Yes, sir, about that

Q. December, 1898, to July, 1899? A. Yes, sir, about that

Q. Did you have any talk with Mr. Appleton, or any one else in the department with regard to your re-incorporation under the stipulated premium law? A. Yes.

Q. What was that conversation, or the substance of it? A. That I cannot recollect at the time, but I think Mr. Appleton himself suggested that we would become an old line company.

BY THE CHAIRMAN:

Q. Did he state any reason why you should not re-incorporate under the stipulated premium plan? A. No, he did not. We could have re-incorporated under that, but when I came back from Albany with Mr. Davies there we made up our minds to go right in as an old line company. We thought it was better for the simple reason that under the stipulated premium law if we once got in there we could not get out. We saw no loophole if we once got in.

BY MR. HUGHES:

Q. The Mutual Reserve Fund got out very quickly? A. They were not a stipulated premium company, the Security Mutual of Binghamton is the only one that has taken advantage of that.

Q. I intended to say the Security Mutual and not the Mutual Reserve. A. I don't know how they did it.

Q. They did it under the terms of the law, did they not? A. I don't know.

Q. That is a matter you have not made a special study of? A. No, I have not.

Q. Did the Department urge you to re-incorporate under the stipulated premium law? A. No, they did not.

Q. Did you finally procure an examination? A. We did sir.

Q. In or about the middle of 1899? A. About that time.

Q. Did you have, prior to that examination and your re-incorporation as an old line company a sufficient reserve for the purpose? A. We did.

Q. Did you have? A. No, we had to have the one hundred thousand dollars capital.

Q. You had to have the $100,000 capital? A. That added, gave us sufficient reserve to meet the requirements.

Q. Did you have a reserve in excess of what was required under the stipulated premium law? A. Yes, sir.

Q. It is a fact that at this time toward the end of 1898 there had been a good deal of criticism of the stipulated premium law? A. Well, there was only—I don't know as the Security Mutual had even re-incorporated under that law at that time, but there was quite a little discussion among insurance men as to that method of procedure. I did not think as far as myself, that it was secure enough for a policyholder.

Q. Well, it was more secure than the assessment law? A. Yes, as the law went, but not as regards what we were doing.

Q. But as you were not confined to the requirements of the law as an assessment company so far as maintaining what you thought was a sufficient reserve, you would have been in equally as good a position under the stipulated premium law? A. Yes, we would have.

Q. Was not the real point that you wanted to get the advantage if you put up one hundred thousand dollars, of being an old line company, and did not want to stop under a law, the purpose and scope of which was a good deal attacked? A. Yes.

Q. When were you re-incorporated? A. I think it was October 26th, 1899, about that date, or October 24th.

Q. Had you previous to that been allowed by the Department to promise cash loans not exceeding the actual reserve and also dividends? A. Yes, sir.

Q. Did you put up $100,000 for that purpose. A. No.

Q. Why had not you secured that before? I do not understand why you should have been able to get that privilege at that time, and not have been able to get it earlier? A. Well, we had the estimated cash loan and surrender values in the policies and they made us withdraw those policies, and then these policies—we agreed to give a loan to the amount not exceeding the loan on the policies. It was substituted along, I think, in February, 1899, pending the examinations.

Q. And that was the change to which you referred a little while ago when you referred to the substitution of loans for cash surrender values? A. Yes, sir.

Q. How was the money raised for the one hundred thousand dollars capital required when you became an old line stock company? A. Paid in cash by the subscribers.

Q. Did you put up any part of it? A. Yes.

Q. How much? A. $51,000 or a little over.

Q. And where was the balance obtained? A. From other Directors and some policyholders.

Q. Who were they? A. Well, there was Mr. A. B. Hepton, Mr. William A. Nash, Charles H. Fancher, E. D. Butler, E. C. Elder—do you want any more? I cannot remember them all.

Q. Did you raise any on loans? A. We did.

Q. From whom, or from what bank? A. I got the Corn Exchange Bank, and then afterward split up with different banks, four or five other different banks, or six.

Q. Did you get any from the Irving National? A. I did.

Q. That was the bank of which Mr. Fancher was President, was it not? A. Yes, sir.

Q. When you changed to a regular company how did you overcome the difficulties which you had in the way of procuring an examination so that you could re-incorporate, who was your counsel? A. Oh, that represented us at Albany? General John W. Hoagland.

Q. Of Syracuse? A. Yes, of Hancock, Hoagland & Ryan.

Q. Did he represent you there? A. Yes.

Q. Had he been your attorney previously? A. No, he had not.

Q. Was he employed for this purpose? A. He was, sir.

Q. When was he employed? A. I cannot tell the exact date; it was some time either in June or July.

Q. Can you tell just when it was when you had the examination? A. Well, it took several weeks; I should say in August.

Q. Of 1899? A. Of 1899. It was during the summer of 1899.

Q. When was it that you retained General Hoagland? A. I think in July.

Q. 1899? A. 1899.

Q. When was it that you first requested an examination? A. In December, 1898.

Q. Who was superintendent of insurance at that time? A. Mr. Payn.

Q. How long did he remain superintendent? A. Well, now, that I cannot tell. But I should imagine it was close to 1900. I do not know whether Mr. Payn was superintendent at the time we re-incorporated or not. He went out of office there about—

Q. Did Mr. Payn go out of office about the spring of 1899? A. That I cannot tell you; I think the Insurance Journal here will tell you, the report.

Q. What change was made when you reorganized to a regular level premium company with regard to the forms of your policy? A. Why, then, we issued policies there such as all the companies do, giving fixed guaranty values, and guaranty rates which we are compelled to do under the law, that is as regards the rates, and charged practically the same premiums that we had been charging. I don't know whether we altered the rates at all.

Q. Did you adopt a preliminary term policy at that time? A. We did.

Q. What kind of a preliminary term policy was it? A. Well, it is somewhat different from what most companies used. The whole—— For instance, take an ordinary life policy, that was our preliminary term rate. That policy was valued for the first year as one year term. In subsequent years they were valued right straight for the face of the policy; that is, the full amount of the premium, just the same as any old line company. When we came to a twenty payment policy—I guess you know what a twenty payment policy is by this time—there was an excess deposit. For instance on an ordinary life the premium would be one hundred dollars; on a twenty payment life, perhaps the premium would be $130. We only charged for the preliminary time on that on the ordinary life basis. Our commissions were based entirely on the ordinary life rate. That extra thirty dollars was put aside as a deposit to the credit of that policy. Therefore, on a twenty payment policy we only paid on the ordinary life rate the commissions, just the same as on the ordinary life. On a twenty payment policy the premium, $130, we would only pay commissions on one hundred dollars of it, so it made the percentage less on a twenty payment than it would on an ordinary life.

Q. How does that form of preliminary term policy differ from the one ordinarily in use at the present time? A. Why, they take the whole of the first year's premiums. For instance, they would take the whole $130.

BY THE CHAIRMAN:

Q. In order to get those dates straightened out, does Mr. Morgan remember who was superintendent when they examined in 1899?

BY MR. HUGHES:

Q. Who was superintendent when you were examined? A. I am inclined to think it was Mr. Payn.

Q. Are you not mistaken about that?

THE CHAIRMAN: Yes, he must be.

THE WITNESS: The records down at the office will show whether it was Mr. Hendricks or Mr. Payn. I don't know who.

Q. How did you happen to go to Syracuse for an attorney? A. We did not go there, but we heard of Mr. Hoagland through a Mr. Dexter, one of our policyholders and a friend of one of the employes of the company, and we heard that Mr. Hoagland was a very good man, and that he would be listened to at Albany.

BY MR. COX:

Q. Did you ever have occasion to appear before the Department with Mr. Hoagland as attorney? A. Yes.

Q. Was your treatment any different when you had him as attorney than it was before? A. Yes, sir.

Q. The atmosphere had changed? A. Very decidedly.

BY MR. HUGHES:

Q. When was that? A. I was summoned up to Albany I should judge—we expected to get our certificate along in October, and I was summoned up there over the phone by Mr. Appleton, that there were some tangle up there that they could not seem to straighten out; so when I telephoned to General

Hoagland at Syracuse to meet me at the Department on the following day and I went up on the Empire State. At that meeting there was Mr. Appleton, there was Mr. Patterson, an actuary of the Department; Mr. Vanderpoel and Mr. Payn—he was Mr. Payn's personal counsel, and his name was Judge Cady Herrick or Rider Cady.

Q. D. Rider Cady? A. Came from down Hudson somewhere —Mr. Payn's personal counsel. So Mr. Payn was in there at the time I got the summons.

Q. What did you accomplish at that time you hadn't been able to accomplish before? A. I was told we would have to take up all of our old policies, assessment policies, and issue fixed policies for them. I said that would take over a year to get them all up; perhaps we would never get them up again. I proposed that inasmuch as our premium rates were sufficient with the exception of a few of the ten-year term policies issued between the ages of fifty-eight and fifty-nine, that we would be willing to guarantee the rates on every policy which we had issued and send out a waiver on behalf of the company, stating to the policyholder that, becoming an old line company, we hereby waive the right to any additional assessments otherwise than those stated in the policy.

Q. Was that satisfactory? A. It was.

Q. Apparently the position of the Department was well taken, wasn't it? A. On that point?

Q. Yes. A. On that particular point, yes; but they did not broach that to me until they summoned me up there that day.

Q. Was it their suggestion that you should do this? A. No, I suggested it myself.

Q. If you had not suggested it, then their objection would have remained a valid one? A. I suppose so. They did not see a way out of it. I did.

Q. Do you think it was their business to find a way out of it? A. I should think they might have made a suggestion.

Q. The real point is that the objection that they made was a proper one, and you found a way to meet it? A. That is it. There was no antagonism on their part as regards it, not at all.

Q. How much did you pay General Hoagland? A. For that and for another matter where there was a complaint made, I think from Mr. Townsley's cousin, we paid General Hoagland $2,000 in all.

Q. How many times did General Hoagland go to Albany for you? A. That I could not tell you; he was there a number of times, and was down here to the city also.

Q. He represented you as attorney for some time? A. Yes, sir.

Q. For how long? A. Oh, I guess, for a year.

Q. You paid him $2,000 all told? A. $2,000 all told.

Q. Was your right to issue preliminary term policies questioned in any jurisdiction? A. Yes, in Vermont.

Q. Did you have a litigation over it there? A. We did.

Q. And what was the result? A. We opposed the decision of the Insurance Department in the Supreme Court there, and they declared that our contention as regards the preliminary term was correct.

Q. That was on the modified preliminary term that you first mentioned? A. That was it.

Q. When was that decision in Vermont? A. I think it was in either the latter part of 1901 or the early part of 1902.

Q. Now, having reincorporated in 1899, the loans which had been obtained for the purpose of enabling you to put the $100,-000 required to acquire the stock became payable when? A. It was a demand loan.

Q. When was the demand made? A. Well, I cannot say exactly.

Q. About 1902? A. Somewheres in that year. There was a demand made by the Corn Exchange, I think, prior to that—1901 we paid off part of that.

Q. How much of the stock was up as collateral? A. All of it.

Q. The whole thousand shares? A. No.

Q. What was the amount of the stock? A. $100 a share; what I had was 520 shares—something between 526 and 530.

Q. Was that sold out? A. It was.

Q. When was it sold? A. I sold it myself.

Q. Wasn't it sold for non-payment of the loans? A. Not exactly.

Q. What was the transaction? A. I sold it at private sale to Mr. Fancher.

Q. Mr. Fancher, president of the Irving Bank? A. The Irving Bank.

Q. Was he an officer of the company? A. No. I won't say it was Mr. Fancher. He made the bargain. It was Mr. Fancher or Mr. Demarest.

Q. Was Mr. Fancher connected with the company at that time? A. He was.

Q. Was Mr. Demarest connected with the company? A. He was not.

Q. What was Mr. Fancher's relation to the company? A. I think he was first vice-president.

Q. At what price did you sell it? A. 120.

Q. Did they resell it? A. They did.

Q. Within what time? A. I should judge it was within sixty days—something like that.

Q. At what price? A. 300, I believe.

Q. To whom? A. To the Knickerbocker Investment Company, I believe it is.

Q. Why did you sell at 120? A. Well, I didn't want to make any profit on it other than to just get me out whole on it. Of course, we had not paid any dividends on the stock there, and during the Townsley litigation I had to go in debt.

Q. What was the Townsley litigation? A. We dismissed him, as I told you, for that proxy business, and then he sued us for $365,000.

Q. What became of that suit? A. He got a verdict for $50,000; judgment was arrested, tried before the Appellate Division, and it was unanimously turned down—reversed.

Q. What happened then? A. Well, he sued over again for $500,000, but after his testimony was all in he had forgotten to amend his complaint, and I think it was Judge Bischoff there said he could only sue for the $365,000, inasmuch as he had not amended, so the jury gave him a verdict for $10,000, which the company paid promptly, because the Appellate Division there cost us more than that in the first case.

Q. When did you retire as president? A. September the 1st, I think it was, 1902.

Q. And who succeeded you? A. Mr. Charles H. Fancher.

Q. That was after the purchase of the stock? A. Yes, sir.

Q. How long did he remain president? A. Why, I think until the 1st of January that next year.

Q. Who succeeded him? A. Mr. Foster M. Voorhes, ex-Governor of New Jersey.

Q. That was after the sale to the Knickerbocker Investment Company and after the stock had been put in a voting trust? A. Yes, sir.

Q. The stock that you sold with other shares were put into a voting trust, under which they still remain? A. Yes.

Q. That voting trust was a compromise after the transfer of the shares of stock to the Knickerbocker Investment Company, occasioned by the fact that the purchasers had not taken the precaution to procure a resignation from the Board of Directors? A. Well, that I don't know; I was not in the board at that time.

Q. Wasn't it a result of the objection of the minority interest represented in the board to the transfer? A. Yes.

Q. And they did not resign, but continued in office? A. They did.

Q. And the result was a voting trust? A. Was formed?

Q. Was formed, and Mr. Voorhes represented the purchasers of the stock and Mr. Sherer represented the minority represented in the board, and they nominated Governor Stokes? A. No, I think it is just the other way. I think that Governor Stokes represented the Knickerbocker people——

Q. We have the papers, I think, which show that? A. And then between the two of them, Mr. Voorhes—I don't know.

Q. You are not sure of that? I think that is fully covered by the report of the Referee already in evidence? A. Mr. Odell's report, yes.

Q. Now since that time what has been your connection with the company—have you had active charge of any part of this business? A. I have—that is, the adjustment of its ten-year term policies—those ones I told you about with the inadequate rates.

Q. Have you had anything to do with the general management of the company? A. Only as a Director.

MR. HUGHES: Will you withdraw? Mr. Stokes, will you take the stand?

HOWARD K. STOKES, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Mr. Stokes, what is your connection with the Bankers' Life Insurance Company? A. Third Vice-President and Treasurer.

Q. How long have you held those offices? A. Since some time in June, 1903.

Q. Have you the management of the company? A. No, sir.

Q. Who does take charge of the general affairs of the company? A. The Executive Committee, Board of Directors and Executive Committee.

Q. And who is the active man in the direction of affairs? A. At the present time?

Q. Yes. A. I presume I am at the present time, yes, sir.

Q. Is this a list of the securities now owned by your company, a complete list? A. I assume that it is, Mr. Hughes. It was made up by our Secretary who has those matters in charge.

MR. HUGHES: I will have that marked for identification.

(Paper marked Exhibit 821 for identification.)

Q. Is this a complete list of the purchases and sales of securities during the last ten years (showing witness paper)? A. Yes, sir.

(Paper marked Exhibit 822 for identification.)

Q. Is this a complete list of your collateral loans for ten years last past (showing witness paper)? A. Yes, sir.

MR. HUGHES: Mark that for identification.

(Paper marked Exhibit 823 for identification.)

Q. Does your company invest in stocks? A. It has a few stocks, stocks in the Consolidated Gas Company, in the Chicago, Milwaukee & St. Paul Railroad and the American Telegraph & Telephone. That is the only three stocks we hold according to my recollection.

Q. Out of the total of securities of $1,035,668.74 in book value, what is the amount of stocks which you hold? A. About $38,000—they are not separated here.

Q. Has your company participated in any syndicates? A. Not that I know of, sir.

Q. Has any officer of your company entered into any syndicate or participation in any underwriting where the company has purchased any of the securities floated by it? A. No, sir, not to my knowledge.

Q. Has your company made any contributions for political purposes? A. No, sir.

Q. To any party? A. No, sir.

Q. Or in any campaign, State, national or local? A. No, sir.

Q. Has your company made any payments in connection with matters of legislation? A. No, sir.

Q. Have you ever paid any money to Andrew Hamilton? A. No, sir.

Q. Or William H. Buckley? A. No, sir.

Q. Or A. C. Fields? A. No, sir.

Q. Have you made any payments whatever as contributions to any organization or association for the purpose of facilitating legislation or opposing it? A. No, sir.

Q. What proportion of your business is written on the deferred dividend plan? A. I cannot answer that question.

Q. Who would be able to answer that—your Actuary? A.

The Secretary and Actuary, he is prepared to answer on matters of that kind.

Q. Is he here? A. Yes, sir.

MR. HUGHES: Will you withdraw a minute, please?

EDMUND L. BAYLIES, resumed.

BY MR. HUGHES:

Q. Have you produced the books showing the receipts and disbursements in connection with the mortgage tax matter last spring? A. I have the book here before the Committee. It covers the entire period, both while I was Treasurer and while Mr. Marling was Treasurer when I went away in May, as I have already testified.

Q. How much of the money contributed was contributed by insurance companies? A. $1,000.

Q. Which were the companies that made those contributions? A. It was contributed $500 by the Germania and $500 by the Comptroller of the Metropolitan Life.

Q. What institutions, not giving the names, but what classes of persons or institutions contributed the residue? A. They were trust companies who were interested in that clause of the bill relating to trust mortgages, and builders who were interested in building operations and who thought that their rates would be put up by the tax bill if passed, real estate brokers who feared that the bill would injure their business and then also the classes of whom

I have already spoken; that is, the individuals who were lenders of money and individuals who were borrowing money.

Q. What was the total amount?

THE CHAIRMAN: You forgot the one important class of banks and bankers who, I notice, were largely interested.

A. I should have stated that and the reason why that class contributed was that the committee, as a substitute for the Mortgage Tax Bill, proposed a bill in which the bankers of this city were very vitally interested, which was a bill to tax all securities, whether issued in this State or elsewhere, and secured by mortgage or not—that is the class of railroad bonds that are generally dealt in in the New York Stock Exchange, it was proposed in a bill that was presented to the Governor, the passage of which was urged, that a tax should be imposed on those securities, the amount of which was very large, going into the hundreds of millions, and it was thought that securities issued by companies in other States should pay a tax of one-half of one per cent. so that the securities would not be declared taxable; for that reason we appealed to the bankers.

BY MR. HUGHES:

Q. What was the total then? A. $22,580.

Q. How much of that was disbursed for advertising? A. I make up the advertising, postage and postal cards together $9,369.09.

Q. How much was paid for legal expenses? A. Some ten different attorneys in New York City and in the western part of this State and some in Albany—only two a few hundred dollars in Albany—received $5,065.17. I would say that the members of the Committee who had charge of this matter made no charge for their services except in the case of Mr. Van Ingen, who practically spent some four months of his time to the exclusion of all other business traveling over the State and being in Albany.

Q. How much was he paid? A. There passed through Mr. Van Ingen's hand $7,818.37. I think that his personal participation in that amount would be between four and five thousand dollars that he received for his personal services.

THE CHAIRMAN: The witnesses who have been requested to be here and have not been called will kindly be here sharply at half past ten in the morning, to which time the Committee will now adjourn.

Adjourned to 10.30 A. M., December 21st, 1905.

ALDERMANIC CHAMBER,

CITY HALL, NEW YORK CITY.

December 21st, 1905.

The Committee met pursuant to adjournment, Senator Armstrong in the chair.

HOWARD K. STOKES, resumed.

BY MR. HUGHES:

Q. Your company was recently examined by the Insurance Department? A. Yes, sir; examined the latter part of last year.

MR. HUGHES: I will offer in evidence the report of the Insurance Department or rather the chief examiner under it of March 13, 1905.

Report marked Exhibit 824 and read in evidence by Mr. Hughes.

Q. What is the amount of the salary paid your President?

A. We have no President just now. The President of the company resigned the 1st of November. We have no President.

Q. Who is the acting President? A. I am.

Q. What was the salary of the President prior to his resignation? A. $8,000 a year.

Q. How long had that been the case? A. Since he came with the company in January, 1903.

Q. What was his interest in the company personally—was he a stockholder? A. Yes, sir.

Q. Holding how many shares of stock? A. I think he holds ten—I am not positive, but I think it is ten.

Q. Was he a policyholder in the company? A. Yes, sir.

Q. To what amount? A. $5,000, I think.

Q. What are the other salaries paid by the company? A. We pay the medical director $4,500. I may say, Mr. Hughes, that the salaries have recently been slightly changed.

Q. Well, if you can give me a statement of what they were and what they now are? A. The salary of the medical director was $5,500, and changed to $4,500 from the 1st of November. The general counsel, salary $3,500; the secretary of the company, salary $2,700. Those are all of what we call the official force.

Q. Those are all the executive officers' salaries? What is your salary? A. I don't have any salary.

Q. You have none at all? A. No.

Q. You never have had a salary? A. I had a salary until November 1st.

Q. What was your salary? A. $4,000.

Q. That was relinquished entirely? A. Yes.

Q. What was the reason of the reduction in the salary list

November 1st? A. The President resigned and it was thought advisable to make some other changes in the way of economies.

Q. To what extent did you introduce economies at that time? A. Discharged some of the employees in the office and have reduced the amounts of money usually advanced to agents and various other economies, amounting I should think, maybe five to eight hundred dollars a week altogether.

Q. Your expenses apparently in 1904 were $283,586. What do you estimate that amount to be in the year 1905? A. I have not estimated that, Mr. Hughes.

Q. You estimate that it will be considerably less? A. Yes, sir, it will be less—I cannot say.

Q. What rate of commissions do you pay to agents? A. We pay 65 per cent. of the first year's commissions, 15 per cent. second year and 7½ for the life of the policy on three chief forms of policies, that is the ordinary life, twenty year life and twenty year endowment, and other commissions are graded and are less than that.

Q. Can you tell me if those are the correct amounts of the new business written by your company since 1898 (showing witness Blue Book)? A. No, sir, I cannot tell you that they are. I have no way of verifying them except by the books of the company.

Q. You have not a statement here? A. I think probably the secretary has in those technical matters.

Q. How did you or how do you estimate the amount which can be profitably expended in the obtaining of new business? A. I can estimate it by taking the amount on the average which it will be probably necessary to set aside as reserve, and take the remaining sum.

Q. Be necessary to set aside as reserve out of what? A. Out of the first year's premiums.

Q. Do you do that, as a matter of fact—is that your general method? A. Yes, sir.

Q. And you take into consideration the probable gain in mortality on the first year's business? A. Yes, sir.

Q. Have you practically proceeded in accordance with what is known as the selected and ultimate method? A. I don't know what you mean by that.

Q. Have you estimated that you could profitably expend for getting new business the amount of the first year's premiums after deducting what could be set aside for reserve upon the valuation of the business for the first year as term business? A. Yes, sir.

MR. HUGHES: I read from the Blue Book the amounts expended from 1899 in all to 1904 inclusive:

1899	$223,743
1900	231,009
1901	256,498
1902	300,933
1903	283,879
1904	283,586

That is the expenses, as distinguished from the amounts paid to policyholders. I will read the amount of new business written during the same period:

1899	$6,859,000
1900	5,366,326
1901	8,229,167
1902	5,427,338
1903	3,752,054
1904	4,582,272

MILES M. DAWSON, resumed.

BY MR. HUGHES:

Q. Have you computed the net earnings of the Bankers' Life Insurance Company from the reports for the years 1899 to 1904 inclusive? A. Yes, sir, I have.

Q. Is this a correct statement (handing paper)? A. I think it is.

MR. HUGHES: I will read it.

1900	$95,501
1901	33,290
1902 a loss of	25,528
1903 a loss of	49,715
1904	58,655

Q. Have you made a comparison of the valuation of the policies of the Bankers' Life Insurance Company by the Insurance Department of Massachusetts under its method of dealing with preliminary term policies as compared with the valuation of the same policies in New York. A. I can give an explanation of that, too. I have.

Q. Is that a correct statement of it (handing paper)? A. Yes, sir, it is.

Q. Please state it upon the record. A. New York, the policies valued as written, being on the modified or non-discriminating preliminary term plan, as to certain of the policies, $1,182,876; Massachusetts, all policies valued as preliminary term for the whole first premium, all plans under the provisions of the Dewey Law, $173,842; larger reserves charged by New York, $109,992.

Q. What is the explanation of that? A. The policies issued by the Bankers' Life Insurance Company from 1899 to 1902 were on the modified preliminary term plan, which means that they had but one preliminary term rate, equivalent to the ordinary life rate after the first year; and that all the additional premiums on limited payment and endowment policies were guaranteed to be returned as a cash value if called for in addition to the ordinary life reserves and was put up in the reserves. The New York Department valued these policies as they were written, charging proper reserves. The Massachusetts Department disregarded the terms of these contracts and valued them as if the whole first premium had been made term insurance.

Q. You referred in your statement to the Dewey Law in

Massachusetts. What was that law? A. The Dewey Law was passed, I think, in 1897 and provided that certain companies, some of them domiciled in Massachusetts, and others already doing business in that State, should be given the privilege of having their policies valued for five years as preliminary term. That law was afterward renewed for three years as applying to those same companies.

Q. Did the Bankers' Life Insurance Company come under that law? A. It did.

Q. And it secured the advantage of that valuation? A. It secured the advantage of that valuation.

Q. Are there any other New York companies under that law that you know of? A. The Mutual Reserve.

Q. How about the Security Mutual? A. The Security Mutual was entitled to the provisions of the law, but by being qualified by making out its report under a different form, the ruling of the Department put it under the regular old line law as to valuation in that State.

Q. Does a company, which is an assessment company and which was not doing business in Massachusetts at the time of the Dewey Law come under its provisions? A. No further companies except those then doing business have ever been admitted to the advantages of the law.

Q. What is the difference in the valuation in Massachusetts under the Dewey Law and outside of it? A. Outside of it they value policies without regard to how they are written, as if they are not preliminary terms. Under it they value the policies as preliminary terms without regard to how they are written.

HOWARD K. STOKES, resumed:

BY MR. HUGHES:

Q. Since the report to the Department under date of March 13, 1905, have you made any changes in the amounts paid for getting business? A. Since March 13, 1905?

Q. Since the date of this report of Chief Examiner Vanderpoel to the Insurance Department. A. No, sir.

Q. Your efforts to come within your loading have been to the extent mentioned in the cutting down of salaries? A. Yes.

Q. And office expenses? A. Yes, sir.

Q. I think you did mention the matter of advances to agents. To what extent have you reduced your advances to agents? A. They have been reduced from about eight hundred dollars a week to about two hundred and fifty.

Q. How did that leave the outstanding agents' balances at the present time as compared with last December? A. I think they are just about the same as they were last December.

Q. I notice an investment of May last, Pere Marquette Railroad Consolidated Mortgage. Who authorized that investment? A. The Finance Committee.

Q. Who were on your Finance Committee? A. William Scheerer, Mr. William B. Reed, John G. Hanrahan, Alva Trowbridge; I think there is one other, whose name I do not just now recall.

Q. Are you on the Finance Committee? A. No, sir.

Q. Did you have anything to do with the matter of this investment I refer to? A. No, sir, except making the purchase at the recommendation of the Committee.

Q. Do you know what efforts the Committee made to ascertain with regard to the propriety of such a purchase? A. There was one other member of the Committee I would like to suggest, Andrew T. Sullivan. They consulted, I think, among themselves, as to the value of it.

Q. That was a security subordinate to many liens was it not? A. Yes, sir.

Q. And it is not in a very fortunate position at present? A. The last quotation I knew of, it showed a very slight loss.

Q. Are you prepared to furnish any reasons for justifying that investment at that time? A. Nothing; except that the Committee thought it was a good investment.

Q. Did they look up the data upon the subject at all; did they make any examinations to ascertain the condition of the property and prior liens upon it? A. No, sir, I think not.

Q. Has a receiver recently been appointed? A. Not that I know of. That road is one of the roads connected with the Cincinnati, Hamilton & Dayton. The receivership, as I understand it, does not apply to the Pere Marquette, only to the Cincinnati, Hamilton & Dayton.

THE WITNESS: I would like to add in regard to the Pere Marquette, the purchase of those bonds, that immediately upon the disturbance which arose over the Cincinnati, Hamilton & Dayton, I secured from the brokers from whom they were bought a guarantee from them that they would pay the interest coupons at par, and that they would pay within three points of the price we paid for them, so the total loss to the company in case we closed them out would be less than three hundred dollars.

JOHN FUHRER, resumed:

BY MR. HUGHES:

Q. What is this book that I now show you? A. That is an estimate for dividends made by the agents.

Q. Made by the agents? A. Well, I don't know, from whom it came, it has been made by some of the agents.

Q. By the agents of the Germania? A. Yes, sir.

Q. It has reference to the expected results on Germania policies? A. Yes, sir.

Q. Have you presented a statement of your dividend distribution in 1905, showing the actual results on the policies issued? A. Yes, sir.

Q. That is a correct statement? A. Yes, sir.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 825.)

Q. Now, according to this book of estimates at age thirty-nine, the estimate of fifteen payment life on one thousand dollars, that is the estimate of cash profits and fifteen year accumulations, was how much per thousand dollars? A. One hundred and forty-five dollars.

Q. And what was the actual result on such a policy at fifteen years, maturing in 1905? A. One hundred and two dollars and thirty-three cents.

Q. Now, take the case of an ordinary life policy with a fifteen year accumulation, the estimate according to this book at age fifty-four is what? A. Two hundred and twenty-three dollars.

Q. And what was the actual result in 1905? A. One hundred and fifty-four dollars.

Q. Life fifteen year period? A. That is in 1904.

Q. Well, what was the acutal result in 1905, age fifty-four, life fifteen year period? A. That is in 1904.

Q. Well, the result in 1904? A. $114.72.

MR. HUGHES: I will have this book marked for identification.

(Book marked Exhibit 826 for identification.)

Q. In each case the figures you have given are on one thousand dollars of insurance? A. Yes, sir.

FRANCIS HENDRICKS, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. You are the Superintendent of Insurance? A. I am.

Q. When were you appointed Superintendent? A. I took office about the middle of February, 1900.

Q. How many are employed in the office? A. I cannot tell you that.

Q. Have you furnished a complete list of your office staff? A. I have.

Q. Showing their salaries and the time of their appointments? A. I have.

MR. HUGHES: I offer it in evidence.

(Paper marked Exhibit 827.)

Mr. Hughes then read Exhibit No. 827.

Q. I assume that that last is the compensation for each of the appraisers named? A. Yes.

Q. What is the total amount, or what was the total amount expended by your department in 1904? A. Is the report here? I think about $137,000—I think it is about $137,000.

Q. About $137,000. What amount was received in fees or in payments upon examinations and turned over to the State? A. In fees and examinations and all?

Q. Yes. A. $281,726.95.

Q. And that amount was turned over to the State Treasurer? A. Yes, that is, that amount was turned over to the State Treasurer—that is right. All of our fees go into the State Treasury.

Q. Well, are we to understand that your department disbursed in all last year $137,000 approximately, and received in all $281,726 approximately, which latter amount was turned over to the State Treasurer? A. Yes; the $281,000 was paid out. We only paid over our appropriations.

Q. It would appear from this list that you furnished that during your term of office you have appointed only three examiners? A. I think that is all.

Q. Mr. A. S. Martin, Mr. F. Bulkley, Mr. C. H. Gardiner.

Did those appointees take the places of others who resigned or were they additions to the working force of the Department? A. They took the place of those that had resigned or died.

Q. And who have gone out of office—I refer to examiners—during your incumbency? A. I can get you that information, but I cannot give it to you now.

Q. Cannot give it offhand? A number? A. I think our examining force is eight less than when I got into office.

Q. Eight less? A. I think so. Perhaps Mr. Vanderpoel could tell me just what amount, but I think it is seven or eight, I think. Am I right?

Q. On January 5th, 1903, you appointed Mr. A. S. Martin. What was his residence? A. City of New York.

Q. Who recommended him for appointment? A. Well, I am not quite sure, but I am inclined to think he had a number of recommendations.

Q. Did he have any recommendations from people connected with insurance companies? A. I think not.

Q. Had he been connected with any insurance company? A. I think not.

Q. Where did Mr. Frank Bulkley live? A. I don't know, here in the city.

Q. New York City? A. Yes.

Q. Who recommended him for appointment? A. I cannot tell you that.

Q. Was he recommended by anyone connected with any insurance company? A. I think not.

Q. Mr. C. H. Gardiner's residence was where? A. I think he is New York City.

Q. What has been Mr. Bulkley's business prior to his appointment? A. I cannot tell you that.

Q. How did you come to appoint him? A. From recommendations.

Q. Had you know him previously? A. No, but I sent for him, and he was appointed on approbation; that is, if he was equal to the work he was to stay, otherwise not. The first name there, Mr. Martin, I will say I should think among the other recommendations for Mr. Martin's appointment was Senator Platt—that is my recollection of that.

Q. Do you recall who recommended Mr. Bulkley? A. No, I do not.

Q. Or Mr. Gardiner? A. Yes, I recollect who recommended Mr. Gardiner—Mr. Graham recommended Mr. Gardiner.

Q. Had you any previous acquaintance with Mr. Gardiner? A. No.

Q. Do you know what his business had been previously? A.

Well, I think he had been connected—as I said before, with no life insurance—I think he had been connected with either the Home Insurance Fire Company—no, I think he had been with Weed & Kennedy.

Q. Has his work been exclusively in connection with fire insurance matters? A. Yes, exclusively.

Q. Had Mr. Martin's been in connection with life or fire? A. I don't think he had heretofore, with either.

Q. During his work in your department has Mr. Gardiner been connected with matters pertaining to fire insurance companies exclusively? A. Both, I think.

Q. Both life and fire? A. Mr. Vanderpoel will have to answer that.

Q. Is there a division in your department so that certain of the examiners devoted their attention to one kind of insurance companies, and others to another kind? A. I think not.

Q. Then all your examiners at one time devoted their attention to one kind of insurance, and at other times to another? A. Yes.

Q. Who recommended the appointment of the appraisers appointed by you? I refer to Mr. William Cowey, Mr. C. H. Mowry and Mr. W. G. Taggart? A. Two of those appraisers are my own appointees—my personal appointees.

Q. Those two are whom? Mr. Cowey and Mr. Mowry.

Q. And who recommended the appointment of Mr. Taggart? A. I think Governor Odell did.

Q. Where does Mr. Taggart reside? A. I think at Newburg.

Q. Has he had any relation with any insurance company? A.

Not as far as I know of. I think he had been County Clerk of that County.

Q. It would appear that you have appointed here one assistant Actuary during your term of office, Mr. Robert D. Kennedy? A. Two, I think.

Q. Two? A. Yes.

Q. Mr. Heath is put down as a clerk? A. They all worked—the clerks worked in the actuary's room.

Q. Mr. Robert D. Kennedy is assistant actuary, and Mr. Charles E. Heath, who, I understand, works in the actuary's room? A. Both of them.

Q. Who recommended their appointment? A. They are Civil Service appointments.

Q. Mr. Frank Clifford Willis, Jr., clerk, appears to have been appointed by you. How did that appointment happen to be made? A. That is Civil Service.

Q. Are there any other appointments made by you that are outside of the Civil Service Law than those that have been named? A. Yes.

Q. What are they? A. Mr. Shanahan, my deputy, was outside of the Civil Service.

Q. Yes, and was that a personal appointment? A. Yes, sir.

Q. Not upon anyone's recommendation? A. No.

Q. Anyone connected with any insurance company? A. No, sir.

Q. Had he been in the insurance business? A. No, sir.

Q. Are there any other appointments outside of the Civil Service? A. Yes, the next one is Miss Hendricks.

Q. Miss Kate Hendricks, Confidential Clerk? A. Stenographer.

Q. That is a personal appointment without anyone's recommendation? A. Yes. There is more, I think.

Q. If you will go on and complete the statement. A. John T. Wilkin, Cashier and Tax Clerk.

Q. Are those personal appointments? A. That is a personal appointment, yes.

Q. Now, we have mentioned the names of all who have been appointed by you, I believe? A. Yes.

Q. The rest of your staff has been continued? A. Yes.

Q. Now, when you came into office did you make any inquiry to ascertain what the affiliations of any members of your staff had been with insurance companies? A. Well, I am not sure that I did right away.

Q. Have you since that time? A. I did later.

Q. Have you come to any results in your examination? A. Why, I have only found one man that I had upon my staff early, that had some affiliations with an insurance company.

Q. Who was he? A. That was Mr. Buckley.

Q. William H. Buckley? How long was he on your staff? A. A year, I think.

Q. And when did he leave the Department? A. Early in 1891.

Q. 1901? A. 1901, yes.

Q. With what company had he been connected? A. I am inclined to think—I cannot tell you he was connected with any company—I don't think he was.

Q. But apart from any direct connection, you understood he had some relations with some company? A. Yes.

Q. Has he since his retirement from the Department appeared before the Department as an attorney? A. I think he has in one case.

Q. Only in one case? A. So far as I know.

Q. And that means appearing before you as Superintendent? A. Yes.

Q. And when was that? A. Sometime within the last year.

Q. What was the case? A. He made an application for the admission of a life company.

Q. To be allowed to do business in the State? A. Yes.

Q. What life company was that? A. Mr. Appleton—what was that?

MR APPLETON: The Prussian Life.

Q. Oh, the Prussian Life—Mr. Buckley represented that, did he? A. Yes.

Q. And they were admitted? A. Yes. He may have appeared for something else, but I don't recollect him.

Q. Not brought to your personal attention? A. Oh, well, my memory is treacherous; it might have been brought to my personal attention, but I don't recollect of it now.

Q. Your mention of the Prussian Life brings a matter to my recollection which we may at this moment take up. I refer to the following provision, Section 33 of the Insurance Law:

"Whenever it shall appear to the Superintendent of Insurance that permission to transact business in any foreign country is refused to a company organized under the laws of this State, after a certificate of solvency and good management of such company has been issued to it by the said Superintendent, and after such company has complied with any reasonable laws of such foreign country, requiring in deposits of money or securities with the Government of such company, then and in every such case the Superintendent shall forthwith cancel the authority of every company organized under the laws of such foreign Government and licensed to do business in this State, and shall refuse a certificate of authority to every such company thereafter applying to him for authority to do business in this State, until his certificate shall have been duly recognized by the Government of such country."

Do you recall the circumstances attending the passage of that measure, or was it before you were connected with the Department? A. Before I was connected with the Department.

Q. Have you learned of the reason for the passage of that act from anyone? A. I have not.

Q. Is there any other Prussian company doing business in this State, or that has applied for license to do business in this State during your incumbency, other than the Prussian Life? A. I don't think so.

Q. Were you aware, at the time the Prussian Life applied for permission to do business in this State, that there were companies organized under the laws of this State who had certificates of solvency and good management, from you, which were not permitted to do business in Prussia? A. Why, no, I do not, not if they complied with the laws of Prussia.

Q. Has the question been raised with you as to the propriety of your exercising your power under the Section 33 of the law, at all, by any company? A. No, it has not.

Q. And the fact that companies of New York had been excluded from business in Prussia, although they had certificates of solvency and good management, and were ready to comply with the reasonable laws of the foreign country, requiring deposits of money or securities with the Government of such country, had not been brought officially to your attention? A. No, but I understand that whenever any of our companies complied with the laws of Prussia they are to be admitted.

Q. Yes, of course; on that understanding, legislation of this sort would not be at all required, because if they complied with the laws of the foreign country it is hardly necessary for this suggested retaliation in order to procure the privilege to do business, but the point of this statute was that if the Superintendent of Insurance certified that a New York company was solvent and well managed and that New York company was ready to put up money or securities required by the foreign Government, and then the foreign Government did not allow it to do business, the Superintendent of Insurance was bound to exclude from the State of New York any company chartered by that foreign Government? Now, did you refer the question of the admission of the Prussian Life to do business here to the Attorney General? A. I did.

Q. Did you receive an opinion from him upon that? A. I did.

Q. I should be glad to see the opinion. Have you got it in your files (to Mr. Appleton)?

THE WITNESS: I referred the charter of that company to the Attorney General, as required under the section.

Q. Did you request any opinion from the Attorney General as to whether the provisions of this section were mandatory? A. No.

Q. Now, isn't it a fact, Mr. Hendricks, that certain insurance companies having procured the enactment of that legislation when they came to the time to enforce it by asking you for a mandatory action, did not do so? A. No.

Q. Did not care to raise the question? A. Well, I know they did not raise the question there:

Q. So that the fact of the exclusion upon the terms stated or under the conditions stated in the statute were not brought before you officially to compel your action under the law—that is the real situation, isn't it? A. Yes.

Q. And we have injected here into the statute regulating insurance companies a provision of law which no serious attempt has ever been made to enforce? A. Yes.

Q. And there is no doubt but what that statute was enacted with special reference to the Prussian situation, is there? A. That is right.

Q. Now, passing that, which was suggested by the retainer of Mr. Buckley in connection with the Prussian company, and coming again to the circumstance of Mr. Buckley's appearances, what was there about the Prussian Life application which required the retainer of counsel? A. Simply brought the application there.

Q. There was no opposition? A. No opposition.

Q. Now, it would be of assistance to the Committee, Mr. Hendricks, if you would state briefly what in practice you have regarded as the duties of the Superintendent of Insurance under the law? A. I don't know whether I can state that fully.

Q. Well, I am referring now not to any question of theory or statutory construction, but what in practice you have regarded as the fair limits of your duties? A. Well, first, the admission of companies, as to whether they have complied with the statute and made the necessary deposits, in which case we always make an examination as to whether they do or not.

Q. You are now referring to companies chartered under the laws of other States or countries? A. Yes, and the same is true as to companies making application to do business—domestic companies.

Q. That is, companies that are about to organize and who present their certificates or charters to you for approval? A. Yes; they are referred to the Attorney General, and when they are reported to be as in legal form, we send our examiners down and see that they have the necessary funds, and then they are required to make the necessary deposits or otherwise.

Q. Well, what, apart from the beginnings of business—take growing concerns—what do you do with reference to them? A. Concerns that are growing?

Q. Yes. A. We require a report annually.

Q. Yes, and what else? A. See that they comply with the laws so far as—see that they comply with the statutes regulating their investments and manner of doing business.

Q. Do you examine them from time to time? A. Yes.

Q. What governs you in determining whether or not you will subject a company to examination? A. An examination of their report to see whether it is necessary in order to ascertain their solvency.

Q. Then you are governed by what is presented in their annual statement? A. Very largely.

Q. And if you think there are matters there requiring further attention you investigate. A. Yes.

Q. And if you think on investigation that a full examination should be had you have a full examination? A. Yes.

Q. I have asked you to prepare a statement of the number of the examinations that have been made by the Department in the years January 1, 1895 to December 1, 1905. Is this the complete statement? A. Complete statement, I think.

MR. HUGHES: I will offer it in evidence.

THE WITNESS: Of life companies.

MR. HUGHES: Of life companies, yes.

Paper marked Exhibit 828 and read in evidence by Mr. Hughes.

Q. What effort did you make or do you make to ascertain the nature of the circulars or advertising matter sent out by the various companies? A. I do not think I have ever made any effort to find out.

Q. Do you make any requirement that the companies should furnish you with specimens of what they call their literature? A. I do not think so.

Q. Has it been the practice of the Department to make any inquiry for the purpose of protecting the people from deceptive statements in the form of circulars issued by insurance companies? A. I have no recollection of it.

Q. You understand Mr. Hendricks, do you not, that you have authority under the law to require in the statements furnished you by the various companies a statement of the circulars which they send or the representations which they make in order to procure insurance? A. My attention has never been called to it.

Q. It is fair to suggest that you have in regard to that followed the traditions of the Department? A. I have.

Q. But as you understand it you have absolute authority to require any insurance company to give you any information that you wish regarding the conduct of their business? A. I think that is true.

Q. You have in connection with the examinations conducted by your department had largely in view the question of solvency of the companies? A. Altogether.

Q. That is, to determine whether they maintain the reserves required by law and whether they were in a position to fulfill the contracts in which they have entered? A. That is true.

Q. You have also been aware of another function of your department, and that was to acquire information regarding the affairs and practices of insurance companies in order that the same might be transmitted to the Legislature in your report? A. Yes.

Q. That is one of the reasons why you are clothed with ample power to require information as to the condition and practices of companies so that you may in your report advise the Legislature of the situation? A. Yes.

Q. And to that end you may send for persons and papers; you may require an examination of books; you may examine witnesses, or take any proceeding in reference to the company, its documents, books, officers and employees you may think necessary in order to procure the information? A. I understand it only as to the employees of the company.

Q. Yes. You do not understand that you have a right to call A, B, C and D, who have no connection with the companies, to tell what they know about the insurance business? A. No.

Q. But so far as the companies themselves are concerned, their officers, employees, books, records, literature and policies, you are in a position to get full information regarding all the details of their business and report it to the Legislature? A. Yes.

Q. Have you taken any action in order to procure information as to the estimates given out by companies in regard to terms, which they expect will be made upon different forms of policies? A. I have not.

Q. Have you made any comparison or required through your actuaries any comparison of actual results with estimates furnished by companies? A. I have never required it. I may have made it.

Q. Have you taken any steps to have the department informed as to the nature of the policies written? A. Oh, yes.

Q. Do you mean the various kinds of policies? A. I think so

Q. The multiplication of forms? A. Yes.

Q. The use of designations and so forth? A. I think they are all filed in our department.

Q. You have required the filing of any policy which any company proposes to issue? A. They are all filed, I think.

Q. Does anyone connected with your office examine the provisions of the policies with reference to their lucidity and their propriety? A. I think they are all referred to our actuary, Mr Patterson.

Q. Do you exercise the veto power over the issue of policies by giving or withholding your approval of various forms? A. I do not think—we have, but we have never exercised it, I think.

Q. With regard to that, you ask for the production of the policy forms? A. Yes.

Q. If you see anything in those policy forms to criticise you bring it to the attention of the companies? A. We do.

Q. So that the companies assume in the absence of objection that the policy forms they are using are satisfactory to the department? A. I think that is right.

Q. How careful has the department been in examining these forms and determining whether a wayfaring man, not absolutely destitute of common sense, is able to understand the contract made with him as a policyholder? A. I think Mr. Patterson has examined all of them and passed upon them; that is my understanding, I may be wrong about it.

Q. We have had before us here a large number of policy forms, and some very ambiguous and doubtful provisions. A. They are misleading, I think.

Q. And misleading. And I want to get at simply the practice of the department, not confined to your own operations simply, but what is done to protect the people as to the forms of policies. Can you state fully? A. I cannot.

BY THE CHAIRMAN:

Q. There is some one in your department who can give that information, I assume? A. Well, I should think Mr. Patterson or Mr. Appleton could answer that.

Q. Mr. Patterson or Mr. Appleton? A. Yes, sir, I think so.

BY MR. HUGHES:

Q. You have referred in your list of employees to Mr. Hunter as first deputy. What does Mr. Hunter do? A. He has charge of the examination department.

Q. And Mr. Appleton is mentioned as second deputy; what are his duties? A. He has charge of the office, sir.

Q. Then would matters of approval of policy forms and examination of reports, and preparation of suggested amendments to forms of reports come under Mr. Appleton's department? A.

The examination of reports I do not think would come under Mr. Appleton. That would go to our statistician.

Q. The statistician? A. Yes.

Q. But Mr. Appleton has general charge of the office? A. General charge of the office, yes.

Q. And with the exception of Mr. Patterson and Mr. Behan and Mr. Cross he is the oldest employee of the office? A. I think so.

BY THE CHAIRMAN:

Q. Well, even in the case of a report, I presume, Mr. Hendricks, that the report may be received by whoever was in charge of the office, and referred to the appropriate officer? A. It would go to the statistician.

Q. Still some one in the office would receive it and send it to the statistician? A. Yes.

Q. Who would that be? Whoever opened the mail? A. I should think Mr. Appleton would be the man likely to do that.

BY MR. HUGHES:

Q. Has your department taken any steps to ascertain the nature of the contracts with agents? A. Not generally.

Q. How has the matter been handled? A. I think the company—do you mean the agencies of the insurance companies?

Q. Yes. A. I think they are handled by the company, I think.

Q. I mean what action has the department taken at all in the matter. You said not generally. A. A few cases, I think, that something has been brought to our attention, and we inquired into it. Otherwise not. We have left that to the management of the company.

Q. Has the department exercised any supervision over the amount paid by the companies or any of them to general agents? A. I think not.

Q. The department has been satisfied with the showing of solvency? A. Yes; or in other words, we have not undertaken to manage the companies.

Q. No, you have not undertaken to manage them, nor have you undertaken to criticise their management. A. Sometimes.

Q. That is on examination? A. On the examinations made of them.

Q. But suppose you did not find that there was danger of insolvency at the time but there were facts calling your attention to extravagance in management and reduction in returns to policyholders; did you take such matters under advisement? A. Why, not if the company were absolutely solvent and had a large surplus.

Q. For the purpose of advising the Legislature as to insurance conditions did you endeavor to ascertain whether apart from the mere question of solvency the companies were so managed that they could give the policyholders the returns to which they were justly entitled? A. Why, Mr. Hughes, I think we have left the management of the companies in the hands of the officers of the companies.

Q. Well, is it fair to say, Mr. Hendricks, that if the department was satisfied that a company was solvent it paid virtually no attention to the question whether the management of the company was economical or extravagant? A. Not unless they were on the—they were likely to impair their solvency.

Q. Well, if a company, for example, had a surplus apparently of $40,000,000 or $50,000,000 then would it make no difference to the department how extravagant its management was? A. I do not think—since I have been in there I have never attempted to manage the companies. I have believed that it would not be wise for the State to undertake to manage the companies; that that must be left to the directors of the company, necessarily. And——

Q. Don't you draw a distinction between the active management of a company and supervision and criticism of the management? A. Yes, I think there might be.

Q. Did you understand that it was your duty as Superintendent of Insurance if you came across irregularities in management to report them to the Attorney General? A. Yes.

Q. Did you not think it proper in order that remedies might be involved that extravagance or malversation of funds should be brought to the attention of the proper officers of the State? A. Yes, if we found them.

Q. But did you look for them? A. As I have said, we have never found them. It would be almost impossible to find them if we tried in any of the large companies; that is if the Insurance Department is to undertake the management, the only way they could do it in my opinion would be to have the power to appoint their officers and remove them at will. I do not think we could in any way manage a company without.

Q. You do not ascribe then as much virtue as some do to publicity? A. Why, I think publicity would be helpful. I think publicity would be helpful.

Q. Yes. A. But what I am going to say is this, what you have developed is dishonesty in these companies. Now I do not believe that you can make men honest by any amount of examination. If you could, why then the national banks, supervision would make the banks. They have two examinations a year and file reports, and yet the amount of dishonesty that is in sight is a good deal more than you have developed in this examination. The trouble is, you know, in the business morals of the people.

Q. It is a great aid, however, to have exposure of irregularities? A. Oh, I think so. I think that does good.

Q. You think that almost every one needs something of a check? A. There ain't any doubt about that.

Q. And the more likely it is that concerns will be exposed to the light of day, the less likely it is that they will be dishonestly managed? A. Yes, but, Mr. Hughes, may I talk just a minute?

Q. Certainly, I would like to have your views fully, Mr. Hendricks. A. Why, we will take the Equitable. Unless we had had help from the inside, we would not have got anything; that is we could not have got it from the books, because it was not on the books. We would have had to be mind readers to have gotten it. If we had gone through and examined that company as carefully as it was possible to do it, we would have discovered very little except that we had inside information that was helpful.

Q. You do not think that with a power to put officers and employees on oath, with authority to examine records and vouchers, with authority to put in accountants and go through the details of all accounts, you would be in a position to detect and expose irregularities? A. Oh, some of them.

Q. Yes. You might not discover all. A. Oh, no.

Q. That is a limitation which we all feel. Now, the point I was driving at was this, that in actual practice, however extensive your powers and whatever may be thought of your ability to use them to advantage, you have not gone beyond the question of actual solvency unless some specific irregularity was brought to your attention? A. Unless we discovered it in the examination.

Q. Unless you ran across it? A. In the examination.

Q. But you did not specifically look for extravagance in management apart from the prospect of insolvency? A. Well, we criticised them for their extravagance in management.

Q. Well, let us look into matters in detail a little. According to your statement you have examined the Mutual Life Insurance Company three times; in 1895, in 1899 and in 1903. I am informed by the Mutual Life of a payment to you as Superintendent for the expenses of an examination under date of September 24, 1902, of $9,480.12. Was there not an examination in 1902? A. There was.

Q. I do not see that mentioned on the list that I have been furnished. There is probably some error in that? A. Well, the filing of it was September 21, 1903.

Q. There apparently was another examination in 1903, for there is a payment under date of July 31, 1903, of $15,607.30. A. I think that is the same examination, is it not?

Q. They are in two different years.

MR. APPLETON: May I explain that to you?

MR. HUGHES: Certainly. (Mr. Hughes then consulted with Mr. Appleton.)

Q. It is suggested by Mr. Appleton that an examination will sometimes extend in the case of a large company over a considerable period, and that one branch of the business, as for example, titles, will be examined at one time and another branch, such as securities at another time, and payments will be made as bills are rendered from time to time. A. I think that is so. This was one examination.

Q. So this was one examination stretched over a period of two years? A. Yes.

Q. It appears that in 1902 and 1903 the Mutual Life paid to you as the expenses of its examination about $30,000. A. Whatever the amount is there.

Q. That was a pretty full examination, was it not? A. We thought it was.

Q. Just what did you do in that examination? A. Well, you will have to ask Mr. Vanderpoel. He made the examination.

Q. Mr. Vanderpoel? A. Yes.

Q. Who assisted Mr. Vanderpoel in making the examination? A. I could not tell you that. He takes his own force.

Q. And that force is from your staff? A. That force is from my staff.

Q. As detailed here? A. Yes.

Q. Now, what do you personally, Mr. Hendricks, have to do with an examination of that description? A. Nothing.

Q. Well, do you advise with Mr. Vanderpoel during its progress, does he report to you from time to time what he is discovering? A. Yes, if he is——

Q. I mean aside from the formal report at the conclusion? A. Well, he usually talks with me some about it.

BY THE CHAIRMAN:

Q. Is it your habit to visit the New York office of your department at stated intervals? A. Our department?

Q. Yes. A. Yes.

Q. And that is for the purpose of consultation, I assume, with Mr. Vanderpoel? A. And Mr. Hunter, yes.

Q. And how frequently do you make those visits on an average? A. Oh, I cannot tell you that.

Q. As frequently as is necessary, I suppose? A. Yes.

Q. How often, on an average, should you say those visits were? A. Oh, perhaps once in two or three weeks.

BY MR. HUGHES:

Q. Now, carrying your mind back to the time of this examination of the Mutual, which extended over a year, what did you personally do in connection with it? Did you go to the offices of the Mutual Life? A. No.

Q. Did you put any of its officers on oath? A. No.

Q. Or any of its employees? A. Not personally.

Q. Not personally. I am referring now to what you personally did. A. I did not.

Q. Did you examine any records or papers? A. Personally?

Q. Yes. A. No.

Q. The whole matter was in the charge of Mr. Vanderpoel? A. It was.

Q. And whatever examination was made of papers or books or vouchers was made by him and his assistants under his direction? A. It was.

Q. Now what in connection with that examination was brought to your attention with reference to the Mutual Life? Did you learn from Mr. Vanderpoel or from any one connected with that examination that there was any extravagance in the management of the Mutual Life? A. No.

Q. What? A. No.

Q. Did you learn of the salaries paid to the officers of the Mutual Life? A. I do not think so.

Q. Did you inquire into those matters? A. I do not think so.

Q. Did you learn as to the existence of commission contracts with Charles H. Raymond & Company or with Robert H. McCurdy? A. No.

Q. And the nature and amount of the payments made under them? A. I did not.

Q. You had no interviews with Mr. Vanderpoel regarding those matters? A. No.

Q. Did you ever know Andrew C. Fields? A. No, never seen him.

Q. Did you know that he had any relation to the Mutual Life? A. Never heard of him until this examination.

Q. Then in Albany you never came in contact with him? A. No.

Q. Did you know of the size of the bills paid by the supply department of the Mutual Life? A. No, not personally. I don't know whether Mr. Vanderpoel knew it.

Q. I am talking of your personally. I will examine Mr. Vanderpoel later. I merely want to know what you personally knew about these matters? A. Not anything.

Q. When the report of the Mutual Life came in at the end of the year did you personally examine it? A. Yes.

Q. Did you look at the items of disbursements? A. It is very likely; I examined the reports.

Q. Was not your attention attracted to the fact that it was disbursing a great deal more for advertising, printing and supplies than any other insurance company? A. My attention was not called to that.

Q. You did not notice that yourself? A. I did not compare it with the others.

Q. Is the explanation of that the fact that you were looking to see whether that great institution was solvent? A. Yes, that is true.

Q. And you were not concerning yourself with the question whether the policyholders of that company were getting the returns through economical management that they were entitled to. You did not look at that at all, did you? A. No, I did not look at that at all.

Q. What led you, Mr. Hendricks, to put that large part of insurance conditions out of your view. Why did you confine yourself to the matter of solvency? A. Why, I went on the theory that what the Insurance Department ought to do was to see that the companies were able to pay their policy obligations.

Q. Did you not understand that it was a very important duty of the Superintendent of Insurance to collect data to inform himself as to conditions, in order that he might report to the Legislature any legislation that might be advisable or necessary to correct abuses? A. Well, I—yes.

Q. Section 46 of the Insurance Laws in connection with the statement of what you shall report concludes by saying, "Any amendment to the Insurance Law which in his judgment may be desirable." From time to time you have suggested amendments? A. Yes.

Q. And it was, as has already been suggested, in connection with that duty that you were empowered to insist upon reports and statements that you might require? A. Yes. Mr. Hughes, I have supposed these companies were very successfully managed, these great companies.

Q. Well, was it not really your duty to find out whether they were or not, and advise the Legislature if existing laws were inadequate to enforce that management upon which the policy-holders had a right to depend? A. Oh, possibly.

Q. In other words, has not the Insurance Department come into a relation to these matters which practically ignores the function of recommending remedial legislation and being in a position through giving information to the State of protecting those who are interested in these institutions? A. Well, I think we protected them as far as their policy contracts were concerned.

Q. So far as the sufficiency of the company to pay the liability fixed? A. Yes.

Q. According to the legal reserve? A. Yes.

Q. But not with regard to the returns which would have been made had they been more honestly and economically administered? A. Well, I am tempted to say something, but I guess I won't.

Q. Well, you can answer the question. Not with regard to that part, you have not sought to protect them. A. What I was going—I was going to say something which of course—but I think I won't. No, I have not done that.

Q. The theory of the law is in effect, that given an insurance department collecting all the information with regard to insurance conditions that can be obtained from the employees and the officers and directors of the company, and the suggestion of remedial legislation from time to time, there would not be really any need of a Legislative Committee, would there? A. Well, I do not know about that.

Q. Unless it was for the purpose of taking the testimony of those who were outside the insurance companies. But so far as the people who were inside, and the books and papers, there is no reason why the Insurance Superintendent should not do the same work at his leisure which we are doing under pressure? A. May I make a statement, Mr. Hughes?

Q. Certainly, Mr. Hendricks. A. If the Insurance Department was to take one of these great companies and examine them as to their management he would have to go through every letter that they had written; he would have to examine every record there was there. I do not think the Insurance Department with ten men could examine—take the Equitable Life—and find everything there was in reference to their management of it in less than a year. And after we had got through and the chief examiner had made an affidavit of the result and he had got out, you know, why they could take a million dollars and pay it on some loan or do anything else, and we would not know anything about it. The fact of it is, that I think you must leave the management of the companies in the hands of the directors. If they do anything wrong, punish them.

Q. Yes, and expose them. A. And expose them, yes, for it. You see, about half of the things that have been discovered here would not be possible for us to discover.

Q. Well, it seems to me that a great deal more might be. Now, for example, you can put in accountants on the books of the New York Life, or the Equitable, or the Mutual, and keep them in for three months before you need to take a bit of testimony. You can examine all their vouchers; you can go through every one of their accounts quietly in your office, and you can put the employees on the stand? A. Well, we would have to have the books up to our office.

Q. Well, quietly in their office, then, to make the necessary amendment. The point is, has not the Insurance Department, through the traditions which have governed its practices, lived, as the saying is, far below its privileges and opportunities? A. Possibly, and we have followed the traditions of the office.

Q. Yes. But with regard to the Mutual I understand you did not become personally aware either of the salaries or of the irregularities in the supply department, or of the irregularities in connection with the commission contracts? A. No.

Q. Or of the syndicate operations? A. No.

Q. Or of any of the matters which have engrossed our attention here? A. No.

Q. And was your first information as to those matters your reading of the reports of the testimony before this committee? A. I think that is right.

BY THE CHAIRMAN:

Q. Do I interpret your answer correctly, that one of your suggestions is that it is impossible with the force under your command to attempt even the thorough examination of one of these large companies? A. Oh, no. Now, I said that if we were to examine as to its management thoroughly, it would take five or six men a year to do it; that is, if you were going through every paper and every voucher you would have to examine every letter, because you take the Equitable, the only liability that the

Equitable had on that Turner loan was a letter, which we would have had to find on the letter book, and could not find it anywhere else, you see.

Q. Well, your department is limited by the legislative appropriations, is it not? A. Well, yes; I think we get thirty thousand dollars for examinations.

Q. But you cannot spend that money in hiring help to do it? A. No.

Q. That is to say you are limited in the employment of assistants to the amount appropriated by the Legislature.

Q. And that is an absolute limit? A. That is an absolute limit.

BY MR. HUGHES:

Q. Have you ever tried to get a larger appropriation? A. I think I could. I have not tried. They almost always cut it down.

Q. If you are getting in $281,000 and spending $137,000, approximately, of your appropriation, you could expend $144,000 more without trenching upon the funds of the State? A. Yes.

Q. If you got an adequate appropriation? A. Yes, sir. But I will tell you I have never made an application to the Appropriation Committee that they did not cut down.

Q. How many did Mr. Vanderpoel have assisting him when he made this examination of the Mutual? Was that intended to be a thorough examination? A. It was.

Q. Apparently it lasted a considerable time? A. It was intended to be very thorough.

Q. And you relied upon him for the thoroughness? A. I did.

Q. Suppose it had been brought to your attention that there were contracts outstanding giving relatives of the president extravagant returns for their services, would you have thought it your duty to do anything about it? A. The only thing that I think I could have done under the law would have been to have made it public.

Q. And referred it to the Attorney General? A. Well, yes.

Q. For action to recover whatever funds of the company had been wasted? A. Well, I am not prepared to say that. I am prepared to say that it could have been made public if we had known it.

Q. Now, I notice that in the case of the Security Mutual there have been, according to your statements of examinations, an examination at the beginning of 1903, 1904 and 1905? A. I think that is only a verification of their statement.

Q. How did it happen that you went in there to verify their statement annually? A. That was at their own request.

Q. Is that the only company that has requested that? A. I think so.

Q. Then did you certify that you had verified their statement and found it correct? A. I presume so, I presume so.

Q. Is it a fact that they requested that action upon your part in order that they might have an official certificate annually of the correctness of their statement? A. I think so.

Q. Yes. A. Why, I should think so.

Q. Now, going to the New York Life Insurance Company, it appears from your statement that there was an examination on October 16, 1899, and another on August 2, 1904. What led to the examination of 1904? A. I am unable to tell you now. I think that we make an examination once in three or four years, along about that time.

Q. Is that your regular practice, once in three or four years? A. Yes, I think about that time.

Q. Who had charge of the examination in 1904? A. Mr. Vanderpoel.

Q. And he selected his assistants? A. Yes.

Q. And had complete charge of the matter? A. Complete charge.

Q. Was that a full examination? A. Why, yes, I think so; but perhaps not as full as the Mutual.

Q. It appears that the New York Life, according to this statement, paid you, as Superintendent, for that examination, upward of twelve thousand dollars, and that the examination continued from January to August. Is that in accordance with your recollection? A. It is my recollection.

Q. Did you personally go to the office of the New York Life to make an examination? A. I did not.

Q. Did you personally put any of its officers or employees on oath? A. I did not.

Q. Or examine any books or papers? A. No.

Q. So that the matter was entirely in the hands of your chief examiner? A. It was.

Q. What did your chief examiner report to you from time to time as to his discoveries? A. Oh, I have no recollection what he reported to me from time to time.

Q. Did he bring to your attention anything which indicated extravagance of management? A. I do not think so.

Q. Did any question come up which was the subject of discussion between you and Mr. Vanderpoel? A. Why, it is difficult for me to recall.

Q. Well, I am assuming, of course, that anything of such a nature as the matters here brought out would have remained in your memory. A. I think it would, if there had been something like that.

Q. So we may assume that nothing was said to you in regard to any irregularities in management? A. I do not think anything was said.

Q. Do you know Andrew Hamilton? A. I do not.

Q. Did you ever learn, prior to reading the testimony here before this Investigating Committee, that the New York Life was paying in the neighborhood of one hundred thousand dollars a year to Mr. Hamilton for matters pertaining to legislation? A. No.

Q. Or any sum? A. No. I knew Mr. Hamilton—I heard that Mr. Hamilton represented some insurance companies, but I had never met him.

Q. Do you require the companies to present a detailed statement of their legal disbursements showing the names of the lawyers who have had the money? A. No, sir.

Q. And what they have had it for? A. No.

Q. Has the department ever required that? A. No, I do not think so.

Q. Why should information of that sort be furnished to Prussia and not to the New York State Department? Here, for example, I have a statement of the legal expenses of the New York Life for 1898, giving in detail the amounts paid, aggregating $171,725.88, and the names of the recipients as furnished to the Prussian Government. Now, did the New York State Department ever have a statement like that? A. No.

Q. From the New York Life or any other company? A. I think not. It is pretty complete.

Q. It is, isn't it? Suppose you had had a statement like that in your hands, you would have done something about it, would you not? You would have made it a subject for official comment, at least? A. Yes, I suppose so.

Q. I am referring to Exhibit No. 488. It appears from this statement, for example, that Andrew Hamilton received in the year 1898 $88,705.50. If such a payment as that for a legal expense were brought to the attention of the Insurance Superintendent he would want to know what that was for, would he not? A. Lawyers come pretty high.

Q. Yes? A. We got what we supposed were the legal expenses of the Equitable, I am not sure that they were.

Q. Well, you got a total here in the case of the New York Life, and the point is that it had not been the tradition of the department or the ordinary practice to require anything more than so much for legal expenses? A. No.

Q. And as long as they had enough left to meet their liabilities and such a margin that in the ordinary expectation of life would not be exhausted, why, you would not take up the question of the details of their disbursements? A. Why, I do not know what report they made. Of course, I am not accurate. It is possible they did not put them all in the legal expenses they reported.

Q. I am inclined to think they did. They put in the whole statement. But you did not have the details of it, so you were in a position to put your finger upon anything that would mark an irregularity or an abuse which should be corrected. Now, what was your practice in regard to reports that came in, did you look them over yourself, the annual reports? A. Well, not all of them. If there was anything that the statistician, —— he would bring it to me.

Q. Then the reports went, as you have already said, I think, to the statistician in the first instance? A. In the first instance.

Q. What was his duty with reference to such report? A. Why, he examined all the reports and, I guess—— I did the securities part of the time myself, as to the value of the securities.

Q. Did you look through the collateral loans? A. I did not.

Q. Did you take up the statements to make a personal examination of them with reference to the securities, or did you simply take such matters as were referred to you by the statistician? A. Well, in some cases I took up myself as to the securities, not in all cases, but in some years.

Q. Here, for example, is the list of collateral loans of the Equitable. Did you examine the sheets of collateral loans prior to the examination you made this year? A. I think the collateral loans were examined by our department.

Q. Who has charge of that matter? A. Mr. Vanderpoel.

Q. Was it his duty apart from the conducting of an examination to go over the collateral loans? A. Oh, I suppose.

Q. Did you, in examining the collateral loans or other statements submitted by the companies, endeavor to ascertain whether the companies were getting the best of you in what is called window dressing. A. Well, I presume not.

Q. Did anyone in the department endeavor to ascertain whether there had been any shifting of securities or temporary arrangements made which would indicate that the department report was not true? A. No, we took the report that was made to us.

Q. Pardon me? A. We accepted the report.

Q. When you got the report at the end of one year and got another at the end of another year, you took those as of respective dates without inquiring for transactions in the course of the year to see whether they modified the results? A. That is right.

Q. Unless, then, you had an examination you would not detect whether the securities reported at the end of a given year were changed in the beginning of the next year? A. I think not, without an examination.

Q. Don't you think it was important from time to time to make a test examination to see whether anything of that sort was going on? A. It did not occur to me.

Q. As far as you know the practice of the department, had it been the custom to make such examinations? A. I think not.

Q. When was it first that you learned that Kuhn, Loeb & Company, for example, were taking alleged collateral loans at the end of the year either in their own name or in the names of their clerks without any real loans being in existence or intended to be? A. I have seen such a statement in the newspapers. I learned it.

Q. Did not you learn that in the course of your examination this year? A. I do not think so.

Q. Who conducted the examination this year? A. Mr. Vanderpoel. Now we may have learned it, but I do not think they had those loans at that time.

Q. Well, now, let us see, here, for example, on December 30 and 31, 1901, we find collateral loans to Kuhn, Loeb & Company by the Equitable Life of a half-million dollars? A. Yes.

Q. At the end of 1902 we have collateral loans to J. J. Hanauer, S. Siegman, E. S. Steiner and S. Siegman, of about nine million dollars. At the end of 1903 we have collateral loans to Kuhn, Loeb & Company of about nine million dollars. At the end of 1904 we have collateral loans to Simon Siegman, Herman Woog, Siegfried Heimann, Eugene H. Pall, of about the same amount. Now, on looking over the collateral sheet, didn't that attract your attention? A. I have never seen it.

Q. That was not brought to your notice? A. No.

Q. And so far as you know the inquiry was not made to ascertain who Messrs. Hanauer, Siegman and Steiner were? A. No.

Q. And whether they were employees of Kuhn, Loeb & Company? A. So far as I know, no. Were those repaid on the 1st of January?

Q. I don't know whether we should use the word "repaid;" the transaction was disposed of the 1st or 2d of January. The loans had a popular designation, I understand, as "End of the Year Loans," and their obvious purpose was to reduce the cash balances on hand, substituting in the report collateral loans. Now, has that wholly escaped the attention of the department, so far as you are aware? A. Yes, sir.

Q. It would seem that the Equitable was examined in 1902, referring to the examination prior to the one of this year. Who had charge of that examination? A. Mr. Vanderpoel.

Q. He has charge of all your examinations, has he? A. All the important ones.

Q. All the important examinations? You yourself have conducted the examination of the Equitable in 1905 to a considerable extent, have you not? A. Only as to its management.

Q. In making these examinations, is testimony taken quite frequently? A. I think so.

Q. Had you not, prior to the time of making your examination in 1905, discovered any of the facts alluded to in your report of that examination? A. I had not.

Q. Take, for example, the leases made to the Mercantile Safe Deposit Company and their extraordinary terms, to which you called deserved attention in your report. Had you not learned of that in any way prior to that time? A. No.

Q. How is it that that was not disclosed in the examination of 1902? A. I could not tell you; I don't think those leases were in the possession of the company at that time, I think we found the leases in the possession of—well—a private safe. I have forgotten now.

Q. You, of course, had the books showing the income and the outlays? A. Yes.

Q. And the large amounts disbursed for maintenance and repairs and the small relative returns, and you were in a position to ascertain from the examination of the officers the terms of the leases? A. I don't know whether anyone could have got that out of the officers or not, at that time. Somebody made a suggestion to me that there were such leases, and when I inquired of the officers of the company they said they didn't know where they were, and it was some time before I could get track of where the leases were or what they were. I know it was several days before we could find the leases, and then they came out of somebody's private safe.

Q. We will take the transactions with regard to the increase of stock of the Equitable Trust Company—had you known those prior to the examination of this year? A. I think not.

Q. They had not been brought to your attention by any one in or out of the department? A. No.

Q. Of course the existence of accounts that were not kept on the books of the company did not have your attention directed to in any way? A. No, sir.

Q. It has been mentioned here by one of the witnesses that for a considerable period of time the cashier kept a memorandum of a very large sum carried on a cash or memorandum ticket or in a book that corresponded to it in lieu of cash in possession, and balanced his cash by treating this ticket as the equivalent. Did you ever know of that? A. I did not.

Q. Well, now, what examination was made under your instructions to verify the cash returns of the cashier as to cash on hand? A. Why, Mr. Vanderpoel made it; I did not give any instructions.

Q. How could a cashier for a long period carry over a memorandum for a very large amount of money in cash without the department's knowing it? A. I cannot answer that question.

Q. You are in the position of a superintendent who relied upon your subordinates? A. Yes.

Q. But in looking over your reports or the reports furnished you from time to time, was not your attention attracted to the very large amounts expended by the Equitable, by the Mutual, by the New York Life for legal disbursements? A. I thought they were large; I did not know what they had hid away in them.

Q. Did you suspect that those men or those companies were interested in maintaining a Legislative watchguard?

THE CHAIRMAN: I think we had better suspend until conversation in the room shall cease. We have extreme difficulty in hearing you, Mr. Hendricks, and we want to hear your testimony, and we would be obliged to those in the room if they would assist in maintaining silence. Mr. Hendricks does not customarily speak very loud, and we are anxious to hear his testimony.

Q. Did you ever have any suspicion, to repeat the question, that those companies were disbursing large amounts in connection with matters of legislation? A. No, not large amounts. I had supposed, as I had always known, that they had some men retained up there to look after their legislation. I never knew that they disbursed any money.

Q. Well, why didn't you look into the matter of their disbursements in that connection, to find out how they did and, if possible, to the end that any legislation that could be recommended which would prevent that sort of thing, could be proposed by you. A. Why, I did not know that they had expended money up there. I knew that they had always had some people come up to represent them.

Q. Has your department ever thought it advisable to compel the companies to submit something which show exactly how their business resulted in gains or losses for the year? A. I think that question has been taken up by the Insurance Commissioners several times.

Q. The Board of Insurance Commissioners? A. Yes, sir.

Q. The Wisconsin department has for many years required what is called a gain and loss exhibit. Has the New York department ever required that or any gain and loss statement? A. I do not think so.

Q. Has that matter been brought to your attention during your term of office? A. No.

Q. Have you thought yourself of the wisdom of requiring such a statement? A. I have heard the statement made by those whom I think are better qualified to speak on that that it was a pretty difficult statement to make.

Q. To make up—were you advised that the insurance companies opposed making such a statement? A. No.

Q. Isn't it a fact that they have opposed? A. If they have I don't know.

Q. You don't know anything about that? A. No, sir.

Q. Don't you think that it is important that they should be compelled to exhibit just what they had gained on mortality and what they had gained on investments, and how their expenses compare with the loadings on their premiums, to the end that the department would know whether they were running ahead or behind on their insurance business A. I am not prepared to answer that question any further than this, as an off-hand opinion, I say yes. After making an examination I might change it.

Q. The gain and loss exhibit has been of a good deal of service to the committee and counsel, as we find it in the data taken from the Wisconsin reports, and the inquiry is necessarily suggested as to the attitude of the New York Department toward that, and whether you as Superintendent do not think it is a good thing to have it. A. Well, I am inclined to say yes, offhand.

Q. Have you asked during your incumbency for any information from insurance companies additional to that which was previously required? A. I don't think so.

Q. Haven't you amended your form of report—I mean of required report from the companies? I was under the impression that a new form had been introduced about 1900 or 1901.

MR. APPLETON: At the Columbus Convention, about four years ago.

Q. Mr. Appleton suggests that the Columbus Convention—I suppose he refers to the convention of Insurance Commissioners—made some recommendation. Do you recall that? A. Yes.

Q. And did that result in the adoption of a new form? A. Of a uniform blank.

Q. What is this organization of Insurance Commissioners—

is it a regular organization which holds stated meetings? A. They hold annual meetings.

Q. And do they compare notes as to the operations of the various departments? A. Well, yes, I think so.

Q. Mr. Dawson suggests that it is not as to actual operations, but as to methods of operation that they compare notes. Do they make suggestions with reference to reforming legislation from time to time? A. I have only attended one of those meetings.

Q. What reforms, if any, in the insurance law have you proposed? A. That is quite a problem.

Q. You have made recommendations from time to time, have you not? A. Oh, yes.

Q. Have you made recommendations at the request of any of the companies? A. I think not.

Q. Have you made recommendations against their opposition? A. I do not think so.

Q. Well, do you recall any particular line of legislation that you have requested in the direction of reforming conditions? For example, have you made recommendations with regard to assessment corporations? A. Yes.

Q. What have they been? A. I made a recommendation, I think, to prohibit their further incorporation.

Q. To prohibit assessment incorporation? A. Hereafter.

Q. Hereafter being organized under the laws of this State? A. Yes, I think I did.

Q. And that would carry with it the prohibition of others from other States coming in? A. Yes.

Q. Which are not already here? A. Yes.

Q. That is, that was a part of your claim? A. Yes.

Q. What happened to that legislation? A. The Legislature did not look favorably on it.

Q. The Legislature did not act on it? A. I say they did not look favorably on it.

Q. When was the bill introduced? A. We have had two bills there, last year and the year before.

Q. 1905 and 1904? A. That is my impression; I am not sure.

Q. And were those department bills? A. Yes.

Q. Were they introduced at the suggestion of any insurance company? A. No.

Q. Were they opposed by any insurance companies? A. They were opposed by the assessment companies.

Q. You draw a distinction, or rather the law draws a distinction, between what is called an assessment corporation and a fraternal organization? A. Yes.

Q. Roughly, in the latter case, there is an organization somewhat on the lodge system? A. Yes.

Q. Which is not so in the case of an assessment corporation? A. No.

BY THE CHAIRMAN:

Q. Mr. Hendricks, I would like to ask you whether within your recollection the Insurance Committee of either house of the Legislature passed a bill against the department's recommendation? A. I cannot recall of any now.

(Recess until 2.30 P. M.)

AFTER RECESS.

FRANCIS HENDRICKS resumed.

BY MR. HUGHES:

Q. We were speaking at the close of the morning session of the powers of the department and its attitude with reference to assessment corporations. What does the department do with reference to the supervision of such companies? A. They cannot do a great deal except inquire on the making of their annual report.

Q. Is there any test of solvency or insolvency under the law with reference to assessment corporations? A. There is none.

Q. Has the superintendent any power to prevent an assessment company from continuing its business? A. I think under the law that we got passed last Winter which was a compromise that wherever a company exceeded 35 per cent. of the cost of management it was referred to the Attorney General.

Q. Is that of any real value? A. Yes, I think that would be helpful.

Q. In what way would it be helpful? A. Well, if they were to continue business they would be likely not to expend as much money—would be a little more careful in the expenditure of money.

Q. The provision to which you refer is found in Article 207 of the Insurance Law as follows: "Whenever it shall appear to the superintendent of insurance on investigation or examination that the actual expenses of management of any corporation, association or society to which this article is applicable, whether heretofore or hereafter authorized or permitted to do business within this State, for the year preceding the year in which such investigation or examination is made, were more than thirty-five per centum of the cash income actually received from premiums, assessments and membership fees, the authority or renewal of authority, if it be a foreign corporation, association or society shall be revoked, and the superintendent shall cause notice of such revocation to be published for four weeks in the State newspaper published in the County of Albany, and no new insurance shall thereafter be written by such corporation, association or society within this State; and if it be a domestic corporation, association or society, it shall be the duty of the superintendent of insurance to cause to be served on the president or other officer of such corporation, association or society, a notice in writing to immediately cease the transaction of new business and in the event of their failure so to do, he shall report the facts of such investigation and examination and his proceedings thereunder, which shall be prima facie evidence of the facts therein stated, to the attorney general," etc. You really think that that is of some importance? A. I think it is of some importance.

Q. Now we have had before us the case of the Empire Life Insurance Company. It appears that its total income receipts for 1904 were about a thousand dollars less than its disbursements; that its balance of ledger assets brought over from 1903 were about $11,000. That it had unpaid mortuary liabilities, including contested claims of about $45,000, and yet its income from premiums or assessments was in the neighborhood of $78,000 and its expenses were comparatively small. This provision of law did not affect that company, did it? A. Not under that statement.

Q. No. Have you had the facts in relation to that company brought to your attention (handing witness letter). Let us see whether that company has not come within the provision of the law. I find it appears from the Blue Book here that it received in 1904 in premiums $78,043; that its total income was $78,335; that it paid to agents and medical examiners $4,323 and expenses of management $18,034, making a total of $22,356, so that it was a little under, according to those figures, 35 per cent. To recur to my question again, have you had that brought to your attention? A. Yes.

Q. Now, has the Superintendent of Insurance under the law as it now stands any way of dealing with that company on those facts? A. I don't think that it has.

Q. It would appear from that that a provision limiting expenses to 35 per cent. of the premium income is practically a mockery as to the control of assessment companies? A. I think you will find that there are a number of assessment companies that will have to, in my opinion, go out under this law.

Q. Is that so? A. I think so.

Q. Then there are a number of other assessment companies operating on the same unsatisfactory basis than the Empire? A. I think so, some small ones.

Q. Is it your judgment that a company should be tolerated to do a business of assessment insurance under such conditions as are indicated by the facts stated in my question? A. I am very sure they ought not to.

Q. And yet the law of the State is such that the superintendent is powerless to prohibit it? A. It is.

Q. Are you familiar with the circulars that have been sent out by that company? A. No, I am not.

Q. Have you taken supervision of that company to the extent of requiring them to submit to the department specimens of the circulars they were issuing? A. We have not.

Q. Now, in one of the circulars which this company has issued, produced here in evidence we find the statement: "It furnishes life insurance at cost with a sufficient reserve fund to guarantee the payment of its claims," and when we inquired as to this reserve fund we found that it resided in the capacity to assess its members. That has not been called to the attention of the department? A. No.

Q. The issuance of such circulars? A. No.

Q. Now, in a case where you are not able to prevent a company from doing business because of the limitation of the law, do you not think it would be advisable for the department so far to supervise their business as to prevent the issuance of misleading circulars? A. Yes, sir, that is right, probably.

Q. I asked you a moment ago as to whether there was any test of solvency or insolvency provided by law in such cases. In the concluding clause of Section 207 of the Insurance Law we find the following: "When the superintendent on investigation shall be satisfied that any corporation organized under the laws of this State doing business in this State of the character defined in this article is insolvent because of matured death claims or obligations due and unpaid exceeding its assets and death or disability assessments or periodical calls made or in process of collection at the date of such investigation, or has exceeded its powers, failed to comply with any provision of the law, or is conducting business fraudulently, he shall report the facts to the attorney general, who, if he shall be of the opinion that the facts require such action must thereupon apply to the Supreme Court at a special term thereof within the judicial district in which the principal office of such corporation or association or society within the State is located, for an order requiring the officer of said corporation or society to show cause," etc. The test of solvency under that provision is whether its matured death claims or obligations at the time or unpaid exceed its assets and death or disability assessments or periodical calls made or in process of collection at the date of such investigation? A. Yes.

Q. Now, before you have a chance to complete the report upon such a company the company can make another assessment, can't it? A. Yes.

Q. Upon its members for any amount that it is necessary to provide the moneys to meet the matured claims? A. I think so.

Q. So that as a practical matter that is not any aid to the departmen, is it? A. I don't think so.

Q. That part of it. But there is another part of it where the Superintendent finds on its investigation that the company is conducting its business fraudulently, that then it may report the matter to the Attorney General. Now, what is conducting business fraudulently in the case of an assessment company, according to your idea? A. Well, possibly a misstatement might be that.

Q. Misleading statement? A. I say they might be.

Q. Deceptive circulars? A. It might be possible, sir.

Q. The practice of agents in deluding policyholders into the idea that they are dealing with substantially level premium policies. All that would come under that head? A. Yes.

Q. So that really this provision with regard to conducting business fraudulently puts it within the power of the Superintendent to elicit facts showing such conduct for the purpose of reporting to the Attorney General? A. I think that is true, but what the Attorney General would decide, I don't know.

Q. The duty of the Superintendent would be discharged in ascertaining the facts, and reporting to the Attorney General? A. Yes.

Q. Now, has the Superintendent referred any matters of assessment companies to the Attorney General during your incumbency? A. I am not sure about that.

Q. Have you taken steps to close up any assessment companies, or to prevent their continuance in business by the use of this power? A. I don't think so. I supposed that we were helpless.

Q. I understand that that provision about conducting business fraudulently has been in the law for some time? A. Yes.

Q. Now, we have also had evidence here that by holding back an approval of a death claim for a certain time, the maturity of the claim under the claims of the policy can be postponed. That would be another way of evading this provision which attempts to supply a test of solvency? A. Yes.

Q. In other words, if the matured claims are coming along too fast the assessment companies under their policies can hold back approval, or if they have too many death claims, as compared with their assets they can issue another assessment? A. Yes.

Q. And as a practical matter the Superintendent cannot do anything unless their expenses are 35 per cent. more than their premium income in the year before, or unless he has evidence that they have conducted their business fraudulently? A. Yes.

Q. That is the state of the law on that, is it not? A. I think so.

Q. Now, when a company which has been doing an assessment business gets into a position where it finds that its rates have been insufficient and desires to scale its policies or to put liens upon its policies, does the department require that the matter shall be submitted to it for its approval? A. I think not.

Q. In your supervision of assessment companies do you endeavor to ascertain whether or not their liens are put on equitably? A. Why, I think in the case of the Mutual Reserve we did go into that question, sir.

Q. There they had claimed that the rate of mortality made it essential that there should be an increase of rates to attained age.

THE CHAIRMAN: Mr. Hendricks, the stenographer claims that he cannot record your answers unless you make them clearly.

THE WITNESS: I will endeavor to.

Question repeated as follows:

Q. There they had claimed that the rate of mortality made it essential that there should be an increase of rates to attained age and that the conditions were such as to require on certain exchanges of policies, the imposition of a lien. Do you recall whether the department made an examination to ascertain whether in fact the rate of mortality had increased? A. I think that has been gone into by Mr. Vanderpoel in the case of the Mutual Reserve.

Q. The question of the Mutual Reserve was also in Mr. Vanderpoel's charge? A. Yes, sir, it was.

Q. Is an insurance company under the law, as you practically interpret it, empowered to take over the business of another organization without the department's approval? A. Why, I am not sure about that.

Q. Take, for example, the case of the acquisition of the business of the Northwestern of Chicago, an assessment association, by the Mutual Reserve, some years ago; did the department approve that? A. Why, I cannot tell that.

Q. Was that before your day? A. Was it before my day? Afterward, I think so.

Q. It was during your term of office? A. My impression is that that was taken over without——

THE CHAIRMAN: Inasmuch as we only desire to get at the facts, Mr. Appleton, or any of your other assistants, are at liberty to answer through you, if you choose to adopt their information. We only want to get at the facts, and there is no harm in your seeking information from them in order to answer questions.

Q. I want to know whether it was known to the department that the Mutual Reserve was paying out in commissions under one contract two hundred and seventy-six thousand dollars, and under another contract an additional one hundred and nine thousand dollars, in consideration of that business? A. Not at the time. I think Mr. Vanderpoel learned it at the time of the last examination.

Q. Now, in the last examination, or the report upon such examination, which is under date of July 6th, 1905, I find on page seven a reference by the chief examiner to the premium paid by the Northwestern Life Assurance Company to the Mutual Reserve, as a consideration for the latter's assuming such liability as may have been transferred to it by the former company, amounting to $290,647.21; and that subsequently a commission was paid by the Mutual Reserve of $277,666.67 to certain parties for delivering it such portions of the membership of the Northwestern Life as the Mutual Reserve took over by way of so-called reinsurance; and the chief examiner criticises the transaction. I see no mention there of an additional one hundred and nine thousand dollars that was paid in commissions under a supplemental contract, the commissions being paid to the assignee of the person to whom the original contract was made, one Storm. Did that ever come to the attention of the department? A. I do not think it did.

Q. You are not conversant with that in any way? A. I am not conversant with that.

Q. Were you conversant with the circumstances under which the Mutual Reserve was permitted to treat the investments in its leasehold as an asset against its reserve liabilities? A. I think so.

Q. Was that done by the department upon its own opinion, or was the matter referred to the Attorney-General? A. I think—

it was carried in that way in a former—in an early examination, by advice of counsel, I am told.

Q. By advice of counsel of the department? A. Of counsel of the department.

Q. Who was the counsel of the department that—— A. I cannot tell you that. Will I finish?

Q. Certainly. A. When the 1892 examination was made——

Q. Nineteen hundred and two? A. Nineteen hundred and two, I asked the opinion of the Attorney-General on that question and he said it was properly carried; that it was, I think the words were that it was a real chattel.

Q. A real chattel, or a chattel real? A. A chattel real, and it was carried by the company.

Q. And being a chattel real it was to be carried as real estate? A. I think that was it.

Q. What Attorney-General was that? A. It is my impression that it was Mr. Coman who was the Attorney-General.

Q. Did he file a written opinion to that effect? A. No, I do not think he did.

Q. Was that an informal statement? A. When it came in I questioned whether it was real estate, whether it should be put in as an asset, or as real estate, and I asked Mr. Coman to go over it, and he said it was all right, whether it was Mr. Coman or not I am not certain, but it was one of the Attorney-Generals, and he said it was a chattel real, is that the term?

Q. Yes, that would be a correct description of the leasehold. But did his remark or opinion go beyond the opinion or statement that it was a chattel real, to wit, it was real estate under the law prescribing the form of the investment of the moneys representing the legal reserve? Did he tell you it was real estate that could be treated by you as an investment of their reserve? A. I so understood him.

Q. At all events, you acted upon his advice in treating it in that way? A. I did. I think there was also, if I am not mistaken, I think there was also an opinion filed by an attorney with the department, by some counsel, to that effect.

Q. You mean counsel retained by the department? A. Yes.

Q. What is the practice of the department in retaining counsel, does it do that from time to time? A. I have only retained counsel in the examination of the Equitable Life, except that I have had counsel examine the title of some of the mortgages and realty. Not other lawyers.

Q. You referred just now to the retainer of counsel in connection with this Mutual Reserve matter. But that was before you were Superintendent? A. That was before I was Superintendent.

Q. Had you made a change in the practice of the department as to retaining counsel? A. I don't know about that. I have never retained any except the Attorney-General, except as in the case of the examination of the Equitable, when I had other counsel.

Q. That was this year? A. That was this year.

Q. Are you acquainted with the action of the department in requiring or not requiring the Mutual Reserve to charge itself with its contract reserves under its policies as liabilities? A. No, I am not.

Q. That matter has not come before you during your term of office? A. No.

Q. Did you know that one of your actuaries had been employed by the Security Mutual Insurance Society of Binghamton? A. Not until it developed here.

Q. Have you any rule in your department as to permitting actuaries or others connected with the department to serve insurance companies? A. We have never had any rule, I have never known any one to do it except in this case, and I did not know it at that time.

Q. You did not know during the time of his employment he was so employed? A. No, not until it was developed in this examination.

Q. Do you regard it as a proper thing for an actuary of the department to give advice to one of the insurance companies for pay? A. If that question had been referred to me I should have advised against it. I want to say, though, that when I brought the matter to the attention of Mr. Patterson, who is our chief, he said that Mr. Kiefer had come to him and had said to him that the Mutual or the Security Life wanted him to do a little work outside of business hours and he said to him that he could not see any objection as long as he did it outside of business hours. So that he consulted his chief about it. I told him he ought to have consulted the head. I never heard of it until after it was developed.

Q. So far as you know is any one now employed by the department under retainer or employment in any manner by any insurance company? A. I do not think so. Of course, I cannot tell.

Q. When the Security Mutual sought to be incorporated as an old-line company was it examined by your department? A. I presume so. I do not think that was during my term of office.

Q. That was what I had in mind. This will probably show (referring to paper). No, that was in 1899, December, 1899, just before you took office? A. Yes.

Q. So that you had nothing to do with the examination of its contracts with the Agency and Investment Company. Since you have been in office those matters have been treated as accomplished facts? A. Yes.

Q. With which your department was powerless to interfere? A. Yes.

Q. You have not examined the Provident Savings Life Assurance Society during the time that you have been Superintendent. Why is that? A. I cannot tell. I supposed it had been until I looked at that list.

Q. Have the reports of that society been brought to your attention? A. I think so.

Q. Have you personally made an examination of them, that is, a comparative examination? A. I have not.

Q. Has any one other than the statistician of your company been charged with the duty of such an examination? A. No.

Q. Has it ever been brought to your attention that their gains were increased by marking up the values of their real estate? A. No, I never examined them.

Q. Did you know that they took the profit on their books on real estate in the same year in which they acquired it? A. No.

Q. You have not had that personally in charge at all? A. I have not examined them, I think. From that report, we have not examined them.

Q. Who has charge in your office of the real estate reports of companies, any particular person? A. No, I think not.

Q. Then you have not been advised at any time while you have been Superintendent of the condition of the Provident Savings Life Assurance Society, except in a general way to the extent that you knew reports were on file? A. That is all.

Q. But you made no personal examination of them? A. I do not think I have.

Q. What examination have you made of the Life Insurance Company of America, the Life Association of America? A. I think we have made one——

Q. It was examined apparently on organization in 1903 and again in December, 1904, and April, 1905. Were those examinations in charge of Mr. Vanderpoel? A. They were.

Q. Did you personally have anything to do with the examinations? A. Not with the examinations.

Q. It appears by your report in 1905, as I recollect it, that it was ascertained by your examiner that some $50,000 had been paid over to officers of the company as compensation for their services in its organization. I said that it appeared by a report of 1905. As a matter of fact that appears in your report of December, 1904, does it not? A. Yes.

Q. Was that brought to your personal attention? A. Yes.

Q. What did you do about it? A. Why, I think I consulted the Attorney-General about it.

Q. You at once submitted it to the Attorney-General? A. I did.

Q. That would indicate that when you did detect any extravagance or improper payment of moneys you were ready to call the matter to the Attorney-General's notice? A. I did in that case.

Q. Was there any reason why you should have done it in that case and not in other cases? A. Why, it seemed to me that it was illegal, there was no authority at law for paying that amount.

Q. Yes. Well, was there any reason for calling the Attorney-General's attention to such an unauthorized payment that did not obtain equally in the case of payments by other corporations? A. I do not think there was ever any one of the kind brought to my attention.

Q. Well, that is the real reason, is it not? A. That is the real reason.

Q. That you had not discovered the other matters. Here we have a circular issued by the Life Association of America in which it says that the Life Association of America issues annual dividend policies and pays larger dividends to policyholders than any other company. And it sets forth a couple of illustrations which, according to the evidence embraced practically all the policies that that company had on which annual dividends were paid or credited, and those dividends it appears were arbitrarily arrived at. Now, hadn't that been brought to the attention of the department? A. I do not think so, not to mine, at least.

Q. Suppose a matter of that sort is called to the attention of the department, what can the department say about it under the law, as you interpret it? A. I do not know, except that I might refer to the Attorney-General, I don't know what he should say about it.

Q. You can at least elicit the facts and memorialize the Legislature as to their existence, to the end that any necessary legislation can be introduced to stop it or practices of that description? (No answer.)

Q. Apparently you examined the Metropolitan Life Insurance last in 1900. A. Yes.

Q. How has it happened that it has not been examined since? A. Well, I do not think that we have been able to get around to it. We were going to do it just as soon as possible.

Q. How many examinations can you conduct with your present staff in a year? A. Well, that depends upon what companies they are.

Q. Yes. A. Well, take the companies as they actually exist in New York? A. I think I have got a memorandum here. There is a report every year in our report giving the number of those. (Producing paper.) I made this memorandum that during my administration there has been an examination of twenty-six life companies; eighty-five fire insurance companies, of three marine companies. Of sixty-four United States branch foreign fire companies; of ten United States branch foreign marine companies; of four United States branch fire and casualty companies; of nine fidelity and surety companies; of twenty joint stock casualty corporations; of three credit and indemnitv corporations; of eighteen title and mortgage guaranty companies; of eighteen fraternal orders, and eleven assessment associations; a total of two hundred and seventy-one companies.

Q. How many of those examinations have been full examinations or intended to be complete examinations? A. I should think the majority of them.

Q. I referred to that because in connection with the Security Mutual you mentioned you had made examinations at the beginning of the year to verify their annual statements? A. Yes. I am not sure, but I should think that was the case; I am going to make a guess, that is all, that sixty per cent. of them were full examinations.

Q. That sixty per cent. were full examinations? A. Yes, sir.

Q. What enlargement of your staff would it require to double the number of your examinations? A. Oh, I should think we would have to have—it would depend upon whether we were going to make an examination as to management.

Q. Yes. A. You would want a very large staff.

Q. Well, we would like to have your judgment on it? A. Well, I could not make an offhand statement, but we would have to have a large staff.

Q. Of course, I am not assuming that you would discover everything which could be turned up by access to papers and accounts not disclosed by the records of the company, but I mean a full examination so far as the records of the company enabled you to make it complete. A. To double the examinations, you mean?

Q. Yes. A. As to their financial standing?

Q. Yes, to get the complete information? A. I say as to their financial standing.

Q. Include that. A. As to their financial standing I think if you would add ten more examiners we could do it.

Q. That would be to get much the same report that you had had hitherto? A. Yes.

Q. Now, suppose you should attempt to get reports that would show the salaries that are paid, the commission contracts that are made, the moneys that are spent for legal expenses, the amount that goes out in connection with matters of legislation, would that entail any larger burden upon you? A. Why, I think as to the salaries I could get that without additional expense. That is, I could send out, make a blank, asking them to report their salaries? I think I could do that without any additional expense.

Q. And that would be true of itemization of various items of disbursements which are now grouped under general heads? A. I think of some of them at least.

Q. You could examine vouchers with regard to disbursements with very little additional clerical assistance, could you not? I think we examine the vouchers now.

Q. You do? A. I think so.

Q. Vouchers for expenses which enter into the total given in the report? A. Mr. Vanderpoel can tell you better than I, but I think he does.

Q. I would like to know just what you embrace in what you call a financial examination. Do you, for example, ascertain that the income is the same as stated in the report? A. Yes.

Q. That would be covered in a financial examination? A. Yes, sir.

Q. Do you ascertain that the disbursements are as stated in the report? A. Yes, sir.

Q. Do you go behind the disbursement stated to ascertain the component parts of the items? A. I do not think he does. Mr. Vanderpoel can answer that question better than I can.

Q. It would be your idea that he would have to, if he wanted to verify the total? A. I don't know whether he does or not. He will have to answer that question.

Q. Has it been brought to your attention that the Mutual Life made more money last year than it reported? A. No.

Q. Has it been brought to your attention that the Mutual Life for many years has made a great deal more money than is stated in its report? A. No.

Q. And has used an amount of money apparently to reduce its expenses and apparently to conceal its losses? A. No.

Q. You have not heard of that? A. No.

Q. No word of that has ever reached you, as the result of any examination? A. I think not.

Q. We have had in connection with the Equitable evidence here of officers of the company taking certain of the stock that they acquired and selling it to the company and making a profit and dividing it. Have those transactions ever been brought to your attention? A. I do not think so.

Q. Has it been your instructions to your examiners that they should take the purchases and sales and observe the movement of securities, the buyers and the sellers, in order that it might be ascertained whether the officers of the company were dealing with themselves, and making a profit out of the transactions of the company? A. I have never given any orders of that kind.

Q. That line of inquiry really had not been conducted by the department prior to the Equitable trouble? A. I do not think it had.

Q. The question whether officers were dealing with themselves or making improper profits was not regarded by the department as a matter for special inquiry as long as the results of the operations showed a condition of solvency? A. I think that is right.

Q. Comment has been made, Mr. Hendricks, on your report on the Equitable situation, your original report, in the fact that it omitted any reference to the loan to the Depew Improvement Company. Do you care to make any explanation of that? A. Nothing, except that that was ancient history to me, and I did not think it was very important.

Q. How long had you known of it? A. From the time of the former examination.

Q. Did you understand that it was a case where the property which was a security of the loan had originally been valued at an amount which would not justify the loan, and another appraisement was obtained which showed that there was a sufficient value to justify the loan? A. That I did not know.

Q. And were there circumstances about it, which led you to regard it as a negligible matter? A. Why, when we came to examine them we sent appraisers there to appraise the property.

Q. And what did you make the value of the property on that appraisal? A. I can't recollect.

Q. Well, what did you ascertain on that appraisal with regard to the sufficiency of the security? A. I found it was not sufficient.

Q. And what was the date of that appraisal? A. I cannot tell you that.

Q. It was at a time of one of those examinations? A. Yes.

Q. The examination of 1902 was it not? A. I think so.

Q. Do you recall how long the loan had been on the books at that time? A. No, I do not.

Q. Did you make that a subject of a public report? A. I think so. I directed them to call the loan.

Q. At that time? A. At that time.

Q. Do you know what took place after that—what was done about it? A. Why, I think the first request came—I think the first request that came to us was that they thought our appraisers had put the property—valued it too low, and asked for another appraisal.

Q. Was another appraisal made? A. I think I sent them up again to look it over.

Q. What was the result of that appraisal? A. They said if they did anything they would reduce the amount as the more they looked at it the more they thought so.

Q. What did you do about it? A. I directed it to be called.

Q. And was it called? A. I think so.

Q. Was it paid at that time? A. No, I think the property was sold under the mortgage.

Q. The matter was not closed up at that time? A. No, sir.

Q. We have evidence in regard to that here, and it is not necessary to review it. I referred to it because your failure to make reference to it in your report had been the subject of comment and I desired to elicit any statement that you made in regard to it.

Q. Now, you did not, in your report on the Equitable last June —you did not have the facts enabling you to report upon the matter of the Union Pacific Preferred Stock Syndicate, did you? A. No.

Q. Had you seen a copy of the syndicate agreement? A. No.

Q. Did you examine Mr. Hyde with reference to that? A. Yes.

Q. Did you elicit the facts as to the relation of the Equitable to that transaction? A. Well, I cannot recall just what his evidence was on that.

Q. Did you make that the subject of your report? A. I think so, at least—I am not sure about that; it is in the testimony. What I got out of that was I called Mr. Schiff on that question.

Q. Yes. Well, did you get at the facts? A. Why, yes, I think so.

Q. Well, did you report on that? A. I don't know, did I report on that?

Q. Wasn't that omitted from your report? A. Possibly.

Q. I want to be sure about it. If you will look over the report. A. Very likely.

Q. Why was it omitted? A. I did not find that the society had lost any money by it.

Q. That was the objective of your inquiry? A. That was what I was after.

Q. And you were not intent upon criticism with reference to the propriety of investments if the Society had sustained no loss? A. Well, of course, Mr. Schiff's testimony was that they had never sold the company—the Equitable, a dollar's worth of stock.

Q. And Mr. Hyde thought that Mr. Schiff was mistaken? A. I think he must have been mistaken.

Q. But the point of the present inquiry is this: That you were not then examining the transactions of the Equitable with the object of reporting upon the propriety or impropriety of the Equitable, directly or indirectly, going into a holding syndicate, but to find out what money it had lost? A. Yes. I found that there was no loss; they were authorized under the law to invest in the stock of companies and at that time when I made the examination they had quite a profit upon their investment in that stock.

Q. Did you think it would have been a proper thing for the Equitable to enter into a holding syndicate of that description in its own name directly, or as a participant? A. No, I would not think that was proper, but I do not—the testimony on that part was very conflicting.

Q. Did anyone request you to omit mention of that in your report? A. No, sir.

Q. You omitted it on your own judgment? A. Yes, sir.

Q. Because you thought it was not a matter which deserved attention on the part of the public? A. No.

Q. You knew that the Equitable had in fact put up the money and taken the stock? A. I hadn't any doubt of it.

Q. And that the dividends had been paid to the Equitable upon this stock? A. Well, I knew that and I knew there was a profit in that transaction, and I considered if they were going to hold any stock, that had as large a measure of safety in it as any stock they could buy.

Q. You mention a number of syndicate transactions in your report, but there have been a number referred to in evidence here that were not mentioned. What is the explanation of that? A. Probably I didn't find them.

Q. You reported all you knew of? A. We reported all we knew of.

Q. And did you examine into any other syndicate participations than those that had been mentioned in the correspondence between the officers? A. No, I think not.

Q. You mentioned in your report the method in which the Equitable had dealt with agents' balances. When did you first discover that—I refer to the practice of transferring agents' balances to a trust company and taking credit for cash on hand in the report, and thus in that way increasing the assets, inasmuch as agents' balances were not allowed by the Department to rank as assets? A. I think I had known of it—I think everybody knew that that had been done.

Q. Now didn't you understand that the Equitable really guaranteed the trust company to whom it transferred those balances, against loss? A. There were conflicting statements on that. I think that Mr. Frick in his testimony said he didn't regard—I say I better look at that testimony—but my impression now is that Mr. Frick thought that the Equitable were not liable. On the other hand the man who really managed those loans said he regarded the Equitable as liable for them.

Q. Well, did the department take any action to compel the insertion of a liability on the part of the company against increased assets represented by the cash obtained by the transfer of the agents' balances? A. In the last report.

Q. They have done that? A. Yes.

Q. What has been done by the department if anything to stop the evil of rebating? A. We have not been able to do much.

Q. Have you taken any steps to ascertain how far the officers of companies obtained rebates of commissions on their own insurance? A. I did not know that until the examination.

Q. The department really has not conducted any inquiry to ascertain the extent of the rebating evil? A. No.

Q. Has it ascertained how far the companies permit agents to remit in notes for premiums? A. No.

Q. Do you know whether or not it is a practice to permit agents to put in notes for premiums which in fact are not collected? A. I don't know that.

Q. We would be very glad, Mr. Hendricks, if you would suggest to the committee what from your experience is needed in order to make the work of the department more efficient in the way of power or amplification of existing statutes? A. Why, my view of it is, Mr. Hughes, that the department ought not to be given power to go any further than to examine companies as to their solvency—that they are able to pay—their financial condition. I believe it will be a very grave mistake if the department was authorized to go in and undertake to manage the companies. I think they must be left in the public interest to the officers of the companies and hold them responsible. In my opinion if the department was to be given that power it would be a great error—better go to paternalism and manage the company wholly—make a State insurance company—have the State assume the responsibility for it. I think it would be a dangerous thing to give the superintendent of insurance the power to say how much salary there should be or how much commission they should pay or what securities they should buy. I do not think there ought to be a divided responsibility. I think it ought to be left with the officers of the company and hold them responsible for it. That is my view of it. I may be wrong.

Q. Do you see any possible objection to the State's obtaining through the department full information as to what the companies really do? A. No. There are some things that ought to be done perhaps by the department.

Q. Don't you think that the business of the insurance company should be conducted in such a way that their transactions should be publicly known? A. I think the books ought to be kept so you can tell something about it. They ain't all kept in that way.

Q. And there is everything to gain and nothing to lose by having the utmost publicity in connection with a company like an insurance company? A. I think that is right; there ought to be more publicity.

Q. And don't you think that the State can avail itself of the insurance department to enforce absolute publicity by insisting upon a rigid inquiry into the operations of the company? A.

Why I don't think that the interference of the department into the question of investments, as long as they are along the line they are authorized to invest in, or in what they should pay their agents, or the salaries of the officers—I can conceive of an officer who might because he was a good investor be worth to a company more than $400,000 a year in the manner in which he made his investments. I can conceive of another man who would not be cheap at a dollar a year. I think there is a great difference. You must pay men who are really capable of managing a great corporation a fair salary and I know of no statute or no law that would allow the Insurance Department to ask or to suggest to a corporation that it should reduce the salary of the officers.

Q. You have something different in mind than was suggested by my question. I want to know whether there is any objection in your mind to have the Insurance Department find out and report all the facts in regard to the insurance companies. A. I am in favor of that.

Q. In other words if an insurance company is paying a salary let the public know what it is and then it may fairly be judged whether under the circumstances it is too low or too high. If a company is engaged in a certain class of investment let the facts appear and then the companies will deal with each other upon a basis of competition which will result according to their proved efficiency or inefficiency—you approve of that do you not? A. I do.

Q. Now what is there in the line of legislation which is necessary to equip the department to render the services of a complete and full exposure of the conditions of insurance companies? A. Why, if you deem frequent examinations—you would have to make frequent examinations, I should think you would have to double their force of examiners.

Q. Double their force of examiners? A. I should think at least that.

Q. How far increase their appropriation? A. Oh, I could hardly tell that; I should say fifty or sixty thousand dollars.

Q. Fifty or sixty thousand dollars. The department would still be within the amounts paid? A. Oh, yes.

Q. By the companies? A. Yes. I think we turned in since I have been there about $600,000, or very nearly that, more than the cost.

Q. That operates as a tax—indirect tax upon the insurance companies? A. Yes.

Q. I mentioned a moment ago the matter of rebating and referred to the practice of companies taking notes. Now, in most cases the companies themselves do not take the notes, but the agents take them—are you acquainted with that? A. I knew the agents take them.

Q. And then don't collect them. Is that according to your experience a frequent method of attempted evasion of the law? A. I do not think that is so. I have some question of whether that is true. I think they take some notes, and expect to pay them, but possible some that they do not get; but I do not think the company will stand for them. I think the agent has to lose that. I suppose so, as least.

Q. I mentioned one matter with regard to your report as to the omission of it, and I want to ask you the general question whether any one made any suggestion to you as to what you should include or omit with reference to anything in that report? A. I do not think any one dared to.

Q. And you acted there entirely on your judgment? A. I did, sir.

BY THE CHAIRMAN:

Q. Superintendent, do you know any objection to making public the names and addresses of policyholders of all companies? A. Of course that would give great opportunity for what is called twisting—that is the agent would be going for those people very soon; every one of those policyholders and endeavoring to get them away from the other companies.

Q. It would give equal opportunity to all, however? A. Possibly.

Q. Is that the only objection that suggests itself to you? A. Why, that is the only objection.

Q. No evasion of public rights, the humiliation of any one? A. I do not think so.

BY MR. HUGHES:

Q. You have mentioned the number of examinations that you have had. Can you state how many companies there are of various sorts of insurance companies, who are subject to the jurisdiction of your department? A. About 433.

BY MR. TULLY:

Q. How many? A. 433 companies.

Q. Of all kinds? A. Of all kinds

BY MR. TULLY:

Q. That includes casualty? A. Yes.

BY THE CHAIRMAN:

Q. Have you them there in detail, the numbers? A. I have merely made a little memorandum. I will say I think that the public got an impression that all the insurance department had to do is to supervise the large life companies. Now, the fact is that the amount of business done by the domestic life insurance companies in this State while I have been in office is $1,178,000,000 of insurance and they had over $7,099,000,000 of insurance in force. I have not got just the number of casualty companies, but the casualty companies received in premiums fifty-three millions of dollars and the domestic fire and insurance over $545,000,000 of premiums, and they had fifteen billions of insurance—that is besides all the other companies. I would say perhaps from good luck during all the time that I have been superintendent there has been only one fire company—only one company and that a fire company that has been in the hands of a receiver and that was mostly—the larger part of that was reinsured so there was very small loss to any policyholder.

BY THE CHAIRMAN:

Q. I gather from what you say that the life insurance business as large as it is, is yet smaller than some of the other classes of insurance which you have to supervise? A. Yes, I think it was smaller.

Q. You stated there were fifteen billions of fire and marine insurance? A. Yes.

Q. That is much more than the life insurance—nearly twice as much? A. Yes, and I want to say that during 1901, when we had those great conflagrations, our examiners were very busy looking up all the companies, and the foreign companies which were really our own companies located here, we watched them very close, and had to call on them for money on the other side for a number of times, so as to keep them in shape to pay the bills—pay the losses.

BY MR. HUGHES:

Q. Was your examination—did your examination of the Equitable this year differ in any respects from the examinations that you had made of the Equitable or of other companies previously—I mean in its method and proposed scope? A. It may have been a little more thorough.

Q. Was it your intention in that examination to go into the questions of management, extravagance, irregularities, profits made by officers? A. I did go into that in my examination, matters of management.

Q. Did you intend to make that complete? A. Why, yes, I did intend to make that complete, but after the appointment of this committee I did not think it would be proper for me to go into it.

Q. I see. Did you examine Mr. Jordan? A. No.

Q. Why was that? A. When we called him, we didn't get him.

Q. He had already gone?

MR. HUGHES: He had already gone.

BY MR. WEMPLE:

Q. Mr. Hendricks, how are the charges that the department made on these different companies made up for the examinations? A. How are they made up?

Q. Yes. A. How we get what we get?

Q. Yes. A. We charge them exactly what we pay our examiners.

Q. So much per day? A. Yes, just what we pay our examiners during the time they are engaged there.

Q. There are expense items go in that, traveling expenses, and such matters? A. I do not think there is very much traveling expenses. They are mostly located here, and the large companies are here.

BY MR. HUGHES:

Q. Mr. Hendricks, what was the attitude of the Department towards the proposal to repeal Section 56 of the Insurance Law—you know what I mean by Section 56? A. No, sir, I do not.

Q. Well, it is a provision that no order, judgment or decree providing for an accounting, or restraining, enjoining, or interfering with the transaction of the business of any domestic insurance corporation or appointing a temporary or permanent receiver shall be made or granted otherwise than on the application of the Attorney General on his own motion or after his approval of a request in writing therefor of the Superintendent of Insurance except in an action of a judgment creditor or in proceedings supplementary to execution. The question is as to the freedom of access of a policyholder to the courts to obtain an accounting if he for any reason thinks he has a grievance against the company in the distribution of surplus or otherwise—have you a conviction upon that matter? A. I have never expressed it if I have, I would not hardly know what to say about it.

Q. Well. I understand there was some effort made in the last session to repeal that law. Did the Department take any attitude in regard to it? A. None at all.

Q. Was the department asked with regard to the advisability of the repeal? A. I do not think so; I have no recollection of being asked.

BY MR. WEMPLE:

Q. What is your judgment about the repeal of that section, Mr. Hendricks? A. Well, I am not prepared to say what ought to be done with it.

BY MR. HUGHES:

Q. Have examinations been made of insurance companies under the department's supervision by others than the examiners of the department? Have clerks of the department been sent down at any time to make an examination? A. I don't think so. I think we have sent down occasionally a clerk from the actuary's department when we—in the business of the actuary—when we sent down an actuary down here we sent a clerk down to help him, to assist him.

Q. Well, have there been any pro forma examinations—examinations made by those who were not examiners, by clerks who wanted a furlough—anything of that kind? A. None.

Q. Nothing of that sort has ever occurred under your administration? A. No.

ISAAC VANDERPOEL, called as a witness, being duly sworn, testified as follows:

BY MR. HUGHES:

Q. Mr. Vanderpoel, how long have you been connected with the Insurance Department? A. Since 1870.

Q. How long have you been Chief Examiner? A. Since 1895.

Q. Have you since 1895 been in charge of all the examinations of life insurance companies that have been made by the Department? A. Practically.

Q. When you undertake a full examination of a life insurance company what do you do—what is your method? A. Well, I would examine it the same as a bank examiner examines a bank, take the condition on any date, ascertain their assets and liabilities under the law.

Q. Do you examine for the purpose of verifying the annual report? A. In the case of most life insurance companies that has been the case.

Q. Recurring to the examination of the Mutual Life Insurance Company in 1902 or 1903, how long did that examination continue? A. From January, 1903, to September, 1903.

Q. Did it not progress in 1902? A. Not in 1902.

Q. I asked that because of a statement furnished by the company showing a payment to the Superintendent in December, 1902, of some $9,000 and upwards in connection with an examination? A. That may have been for the appraisal of real estate. I am not aware that we did any examination work there otherwise.

Q. How many did you have with you in the examination of the Mutual Life in 1903? A. About twelve men.

Q. Who were they? A. You have their names there.

Q. The list has gone to the stenographer. Can you enumerate them? A. Do you want the full names?

Q. Yes. A. Silas C. Hay, Daniel F. Gordon, Frederick H.

Parker, Seth C. McArthur, Richard A. Elmer, Isaac Fuld and Mr. Mellen since dead. Well, I had, roughly speaking, a dozen men. The names of the other five I do not recall.

Q. Were all the dozen men examiners? A. Yes, sir.

Q. How much of the period you have mentioned were they actually at work? A. The entire period.

Q. Nine months? A. Yes, sir.

Q. What did you do in connection with the work personally? A. Well, in addition to supervising the work generally, I made investigations of the books, including the securities, the purchases and sales, the examination of all their books of final account, examination of vouchers, running the same through cash and subsidiary books, finally into the ledger, from which practically all their annual statements were made up.

Q. Did you verify the report of income by the company? A. I did.

Q. Did you find it to be as stated in their sworn report? A. I did.

Q. How did you verify that? A. In the manner I have stated, by making an examination of their cash book, check books—vouchers were not checked solid; the time occupied in doing so would be so long that our opportunities were somewhat limited in that direction, but I suppose we checked twenty per cent. of the vouchers at random.

Q. Did you call upon the treasurer to produce the results of the business of the year before? A. I have reviewed the purchase and sale of securities from the treasurer's books.

Q. Did you call upon the treasurer to produce his balance sheet showing the gains of the year before? A. I think I did.

Q. Now, are you prepared to testify, Mr. Vanderpoel, that your examination showed that the actual income of the company was as stated in the reports? A. So far as manifested by the books of account.

Q. You did not find that the income was greater than that stated in their report, and that they used parts of it to reduce their losses through their profit and loss account or otherwise? A. I did not.

Q. Is this the first suggestion to you of anything of that kind? A. It is the first suggestion of anything of the sort.

Q. Now, did you verify the disbursements of the company as shown in their report? A. I did.

Q. Take the matter of salaries—Did you find out what the salaries were? A. I found out the amount charged to salary account was as stated.

Q. Did you find out what the president's salary was? A. I did not.

Q. Did you try to find out. A. I did not.

Q. Why not? A. Well, the total salaries were checked. That had been the custom of our examinations, sir.

Q. How could you find out what the totatl salaries were without knowing what the salaries were separately? A. Well, it was the custom of the cashier to draw once a month a check payable to salaries. The check was made to the order of himself, and those salaries were paid without any detail memorandum being made except in the cashier's department.

Q. Wasn't it a part of your duty to ascertain that those salaries had in fact been paid? A. It was.

Q. What did you do to ascertain that? A. I ascertained that from the entries in the book.

Q. Did you find an entry in the book showing what had been paid to Mr. R. A. McCurdy? A. I did not.

Q. How did you ascertain then what had been paid to him? A. I did not then ascertain what had been paid to him.

Q. Then all that you had was that a cashier's check had been drawn for a certain amount and charged to salaries? A. That is it.

Q. And that amount had been carried forward, posted in the proper account under the head of salaries? A. Exactly.

Q. But whether that amount or half that amount had actually been paid in salaries you did not know? A. Not beyond what the books spoke.

Q. Did the books—all the books showed was a lump item of salaries for a month, we will say? A. Exactly.

Q. Posted under salary account? A. Yes.

Q. And you did not know whether that amount had actually been disbursed or not? A. Not beyond what the books showed.

Q. The books didn't show? A. It showed they were charged.

Q. A lump sum? A. Lump sum.

Q. It did not show individual salaries? A. No, it did not.

Q. Did you know what the salaries of any of the officers were? A. I did not.

Q. Did you inquire at any time? A. I did not.

Q. Did you inquire into the amount of commissions paid to Robert H. McCurdy? A. I did not.

Q. Did you examine the books which showed the account of the payments made to him? A. I did not, except in the examination of the foreign account there would be commission charges occasionally, which showed that Mr. McCurdy was getting a commission on the foreign business.

Q. And having ascertained that, did you endeavor to ascertain the amount of his commissions? A. In a general way I understood about how they ran from an inspection of the account.

Q. Did you inspect the account which showed the amount paid him? A. I did.

Q. Then you did ascertain the amount that he was receiving? A. In a general way.

Q. How could you ascertain it in a general way without ascertaining it exactly as it was—you saw the account, didn't you? A. I saw the account.

Q. Did you make a report on it? A. No, his commission was charged to commission account in the general commission item in all these statements.

Q. Was there a separate account kept with him? A. I never saw it.

Q. Then you did not know what he was individually receiving? A. I did not.

Q. You never knew? A. I never did.

Q. Then what did you mean a moment ago by saying that you examined it in a general way? A. I saw that the commissions so stated to have been paid in these accounts were paid.

Q. You saw there was a commission account. A. Yes, sir.

Q. Headed simply "Commissions"? A. Yes.

Q. Now, how did you verify the charges to that account to see that the business—to see that the persons—that any person had received the money charged to commission account? A. Well, all the commission charges were in the agents' monthly reports, so much on first business and so much on renewals.

Q. Then you compared the agents' reports with the commission account? A. Yes, with the commission account.

Q. Did you do that? A. Yes.

Q. Then you found out what was paid to Mr. R. H. McCurdy, didn't you? A. Well, Mr. McCurdy, as I understand it, would sometimes be paid his commissions by the home office, sometimes it would be charged in general commission account and foreign account. There I could not trace it.

Q. Why could you not trace it? A. Well, the percentage of commissions on the whole business was stated in the account, and I assumed that his emolument was included in the total commission.

Q. But you did not know what it was. You did not know whether he was getting one hundred thousand dollars or a hundred and fifty thousand dollars a year out of it, did you? A. I did not.

Q. Did you make any effort to ascertain? A. I did not.

Q. Did you call for an inspection of his contracts? A. I did not.

Q. Did you make any efforts to ascertain the amounts received in commissions by C. H. Raymond & Company? A. I found out what they were, yes; those were apparently part of their accounts.

Q. Was there any other account which was kept in such a way that you could not tell the commissions actually paid to the agent, except in the case of R. H. McCurdy? A. The only one.

Q. That being the only one, why didn't you insist upon information regarding it? Did not that attract your attention? A. No, it did not.

Q. It was kept differently from other accounts? A. It was.

Q. Did you learn whether or not there were any confidential books relating to that account? A. I did not, sir.

Q. Did you make any effort when you found that an account of the son of the president was kept differently from other accounts, to get at all the facts relating to it? A. I did not, beyond seeing that the commissions were paid as stated.

Q. How could you verify that without seeing Mr. McCurdy's vouchers? A. I could not verify what his emolument was under the contract.

Q. How did you know they were paid as stated? A. The books so stated.

Q. You mean by saying that they were paid as stated, that there was a certain amount charged to commission account? A. Yes.

Q. But whether it actually reached anybody you did not know? A. I did not.

Q. What Mr. McCurdy was making out of it you did not know? A. No, sir, I did not.

Q. Then you could not tell whether or not the disbursements account was accurate or otherwise, save as you found an entry in the ledger corresponding, taking them all together, to the items stated in the report? A. Exactly.

Q. Then did your examination simply mean that you would look at a ledger account and see if you found an item or an aggregate of items which would correspond to the amount stated in the report? A. I did, sir.

Q. That is what it amounted to? A. That is what it amounted to.

Q. Of what value was that? A. It verified the fact that the sworn statement was as stated.

Q. It verified the fact that there were no entries in books which corresponded to the sworn statement? A. Exactly.

Q. But it really would not furnish much security if anybody chose to practice a little irregular bookkeeping—I do not mean to say that was done in that case, but as a test in the method of examination, that would not be much of a safeguard, would it? A. Not as indicating what any particular individual might have been receiving.

Q. Or for that matter that the amounts were ever paid at all? A. Well, the amounts were stated to be paid by these monthly reports.

Q. Those you could verify by the agents' vouchers? A. Yes, sir.

Q. And the only unverified item, am I to understand, was that of Mr. R. H. McCurdy? A. The only one.

Q. And you left that alone? A. Well, I got it in these commissions, but I did not know how much he got out of it.

Q. Did you leave that alone because he was the son of the president? A. I did not.

Q. Why did you leave it alone? A. Well, I examined no contracts in the Mutual Life because in the majority of instances, if not all, the agents' monthly reports were practically photographs of the commission contracts.

Q. That was not so in Mr. R. H. McCurdy's contracts? A. There was nothing apparent from the books that Mr. McCurdy got the commission. The total commission charged was in the commission—the commission to him was in the total of commissions charged.

Q. You knew there was a commission to him, you knew he got a commission on the foreign business? A. I heard so.

Q. You did not verify it to see what it was? A. I did not verify anything beyond the total commissions item in those foreign reports.

Q. I know that, but why did you not, in order that you might know exactly what the condition of the company was, and the method of its management? A. Well, I did in this company as I do in all.

Q. Yes? A. To vertify the total amount of commissions paid.

Q. Were you endeavoring to ascertain whether or not the management was proper? A. In a general way.

Q. How could it be of any value to do that in a general way if you did not do it precisely and in detail? A. I knew the amount of commissions paid. I knew what the business was costing them. I could not assess the value of the services of the different individuals who obtained the commissions or salaries.

Q. You did not know whether he was getting $100,000 or $200,000, did you? A. I did not.

Q. Now, in the supply department, did you examine the amount paid out? A. I examined vouchers pertaining to the supply department.

Q. Had your attention been called to the fact that the outlay by the Mutual Life in the supply department was very much larger than the outlay for similar matters in the other insurance companies? A. I did not.

Q. I find in the report of the Mutual Life, of December 31, 1904, advertising, printing, stationery and postage, $1,134,833.76, and I find that in the New York Life the item advertising, printing, stationery and postage, $851,284.68. I find that in the Equitable the report of the same date the item, advertising, printing, stationery and postage was $772,645.50. Did you notice those items when the last report came in? A. The variation of the items as between one company and the other?

Q. Well, the comparison of the expense? A. I have noticed those, yes.

Q. Is it true that the Mutual Life's expense has been considerably larger than the expense of the New York Life and Equitable in those items for some years? A. Well, that is rather a hard question to answer.

Q. That is a general question. Well, was it brought to your attention at the time of making your examination in 1903? A. It was not.

Q. Did you know that the supply department was a matter particularly requiring investigation? A. I did not.

Q. Had you ever heard of A. C. Fields? A. I knew him.

Q. Had you ever met him? A. Very casually.

Q. Where did you meet him? A. I think I have seen him in the Mutual Life Building.

Q. Have you ever seen him in Albany? A. No.

Q. Did you know that he had a house in Albany? A. I did not.

Q. Did he ever come to the department? A. I never saw him there.

Q. Did he ever send any message to the department? A. Not that I know of.

Q. Did he ever concern himself with matters pertaining to the examination of the Mutual by the department? A. Not that I am aware of.

Q. Did he ever have any interview with you in regard to the examination of the Mutual? A. He did not.

Q. Did Mr. Cunningham assist you in this examination of the Mutual? A. He did not.

Q. Had nothing to do with it? A. Nothing whatever.

Q. Did you endeavor to ascertain whether or not the moneys charged to the department had actually been expended? A. Only upon the vise of the vouchers by the appropriate committee of the Board of Directors.

Q. You looked through the vouchers? A. I looked through the vouchers.

Q. Did you look through vouchers for legal expenses? A. With others.

Q. To what extent did you examine vouchers for legal expenses? A. Merely to see that the committee of the Board of Directors having cognizance of that matter had authorized the payment of the money and directed it to be charged to legal expenses.

Q. Then, whenever you found on a voucher the stamp showing the approval of the committee on expenditures, then you left it alone; that is to say, you were satisfied? A. I was.

Q. So that so far as the examination was concerned, they could have spent any amount of money for any purpose, provided it was authorized by the committee without awakening your criticism? A. They could.

Q. The result is that your examination was not at all directed to the propriety of expenditures, but to the fact of expenditures? A. To the fact of expenditures.

Q. As shown by the approval of the Committee? A. Exactly.

Q. But it really was not an audit of the expenses further than to require the production of the committee's stamp? A. Yes.

Q. Why did you limit it in that way? A. I always had done so.

Q. Has that been the practice in all the examinations? A. It has.

Q. That have been made of all the companies? A. It has.

Q. Never go behind the voucher? A. It has.

Q. Even though the voucher does not disclose the nature of the services rendered or any detail of the services rendered, provided it is approved by the appropriate committee or the appropriate officer? A. Yes.

Q. So if anywhere you have an official voucher, of any officer or of a committee, that closes your inquiry? A. That closes my inquiry.

Q. How long has that been so in the practice of the department? A. So far as I knew, always.

Q. From the very beginning? A. Yes.

Q. So that in fact the examinations of the department have been no check whatever upon waste in management, they have not been intended to be? A. Not been intended to be.

Q. There has been no effort to ascertain whether moneys have been expended properly or improperly? A. Not that I know of.

Q. Now, in your examination of the Mutual Life, in looking through the vouchers for legal expenses, did your eye catch payments which had been made upon vouchers of the chairman of the committee for large amounts? A. I recall vouchers that were for round sums charged to legal expenses.

Q. That is on the signature of the chairman of the committee on expenditures? A. The chairman or the entire committee.

Q. Yes, without disclosing the name of the recipient or recipients of the sum or sums embraced in the total? A. No.

Q. For example, Mr. Herrick, as chairman, $25,000, a voucher for that. Did you go behind that in any way? A. I did not.

Q. So that if they spent in a given year, we will say, $150,000 for legal expenses, if they had the vise of the committee on expenditures for $150,000, even though there were no vouchers signed by lawyers or persons receiving the moneys, the signature of the committee or the officer would be final, so far as you are concerned? A. It would.

Q. Did you originally inaugurate the system of examination, or was it put in force by some one who prededed you? A. By some one who preceded me.

Q. Where did you get your original instructions as to the way in which you should examine companies? A. I received no instructions.

Q. How did you get the idea that the examination was to be circumscribed in the manner suggested by your testimony? A. I did it on my own volition.

Q. Did you not think it important that there should be an effort to ascertain whether the expenditures were properly made as well as the fact that they had been made? A. I took the attitude that if the payment was authorized by the proper authority within the board of directors that I had no authority to go behind that.

Q. Then you looked at the blotter, the Mutual blotter, to see the run of the expenses and you would examine the vouchers at random and certain proportions of them, to see whether they had the stamp of approval or authority upon them, and that would complete your examination of the disbursements? A. It would.

Q. Did you make any examination with regard to the purchases and sales that had been made? A. Of securities?

Q. Yes. A. I did.

Q. Did you make any examination to ascertain whether any of the officers had been individually interested in any of the purchases or sales? A. I had no opportunity of doing so.

Q. Did you put any of the officers on their oath, to testify as to certain matters at any time? A. I did not.

Q. Did you in the course of this examination in 1903, examine any of the officers, that is, take their testimony? A. I did not.

Q. Did you examine any of the committee on expenditure as to the matters of expenses? A. I did not.

Q. Or the treasurer as to income? A. I did not.

Q. What sort of a certificate did you give at the end of this examination? A. I recited what had been done in the way of checking off the receipts and disbursements.

Q. Did you give a certificate praising or commending the management? A. Not beyond saying that I thought the interests of the policyholders were conserved.

Q. How could you say that, not knowing how their moneys had been paid out? A. Well, I knew the general condition of the company.

Q. You knew that they had a large surplus? A. That the integrity of their contracts was beyond question.

Q. You knew they had abundance to meet their obligations? A. Yes, sir.

Q. But you really did not know that the interests of the policyholders had been conserved, did you? A. In a general way, by reason of the condition of the company.

Q. They were conserved to the extent that a large accumulation conserved it? A. Yes.

Q. But not by reason of an economical and entirely trustworthy management A. Well, that was a hard case to try, but in a general way I thought their interests had been conserved.

Q. Did you make any endeavor to ascertain what their actual insurance gains had been, that is, did you endeavor to construct any gain or loss exhibit? A. I did not.

Q. Did you examine into the question of the rate of mortality or their gains on mortality? A. I had talks at various times with Mr. McClintock with reference to that matter.

Q. And did you make any examination of records for the purpose of making a report upon that point, or did you confine yourself to the balance sheet? A. To the balance sheet solely—do you refer to the gain and loss exhibit?

Q. Yes. A. I did not use that.

Q. When I said balance sheet I meant the balance sheet showing the assets and liabilities. A. Yes.

Q. And you did not go beyond an examination of the matters entering into that? A. I did not.

Q. You did not go into the question of what their expenses were, as compared with the loadings on their premiums? A. I did not, except that I knew that they were going beyond their loading.

Q. How did you learn that? A. That was evident from their report, not to speak of——

Q. Did that lead to any examination as to the wisdom or propriety of their expenditures? A. Well, all companies were practically going beyond their loading, I mean all those large ones.

Q. Well, did that lead to an examination? A. It did not.

Q. Of the propriety of their expenditures? A. It did not.

Q. Did you take up these matters with the superintendent? A. I did not.

Q. Did you make any examination of the results that had been reached on deferred dividend policies, or to compare them with the estimates or actual results of previous years? A. I did not.

Q. Was any examination made by the department during this period of nine months to ascertain whether the gains were properly divided? A. There was not—not beyond the fact of checking sheets, showing the segregated amounts of dividends each year.

Q. That is to show that the dividends stated to have been declared were actually credited or paid? A. Its percentage, yes.

Q. Yes. But whether or not the dividends that were declared were those that should have been declared, you did not endeavor to ascertain? A. I did not.

Q. Now, did the actuary of the department or any assistant actuary take up such matters? A. Not to my knowledge.

Q. Does the actuary of the department ever have anything to do with the making of an examination apart from the valuation of the policies that are outstanding? A. No.

Q. So that this whole matter of the distribution of gains to policyholders, whether they are annual dividend policyholders or deferred dividend policyholders, has not been inquired into by the department? A. It has not.

Q. In the case of any company? A. No, sir.

Q. Has it occurred to you as the result of your examination of insurance companies to suggest that a modification of your forms of reports in order to acquire more detailed information to make them more specific, or do you think that the forms are substantially complete as they had? A. The reports on examinations or——

Q. No, the reports made by the companies annually? A. I believe that you cannot have too much publicity within proper bounds. I think that it would not be a bad idea in the case of these life insurance companies to publish all salaries of officers or other emolument, whether by commission or otherwise. I do not see that that would be dangerous to their interests or welfare.

Q. Is there anything connected with the insurance business which in your judgment could not be profitably be made public? A. I see no reason why it should not be given all publicity.

Q. In connection with the submission of reports on the part of insurance companies, do you not think it would be well for itemized statements of legal expenses to be submitted? A. I do.

Q. Itemized statements of salaries? A. I do.

Q. Now, has that occurred to you before? A. It has.

Q. Have you taken this up with the superintendents in order to require additional data in that way? A. I have not.

Q. Why not? A. Those matters have usually been left to the commissioners of the various States, who settle upon the form of blanks which shall be used.

Q. Does not the New York Department take the initiative itself in suggesting reforms? A. We co-operate with the other States, not necessarily take the initiative.

Q. But you have now a form that is used by all the commissioners? A. By all the commissioners.

Q. Have they not a more elaborate form in Wisconsin than here; don't they call for additional data? A. I cannot recollect that; I am speaking in a general way.

Q. Did you make any inquiry when you were examining the Mutual as to syndicate operations? A. I did not, sir.

Q. You did not go into any participations of that sort at all, whether they were on behalf of the officers or the company? A. No, I saw the results of the company's syndicate operations. That was manifested by their books.

Q. And you simply looked at the amount which had been reported as a profit? A. Yes, sir.

Q. And endeavored to see whether the subsidiary books of account corresponded with the postings in the ledger and the report? A. Yes.

Q. That was the extent of the examination? A. Yes, sir.

Q. To recur to what I said a moment ago, the result is that even if you were a year instead of nine months on such an examination, you would not get behind an entry in the books.

Q. Did you examine the collateral loan sheets of the Equitable when they came in with their annual reports? A. Yes.

Q. What effort have you made when you have conducted an examination of a company to ascertain whether their reports have squared with the facts, or whether there have been substitutions of securities to make a more favorable showing at the end of the year? A. I have discovered they all do that.

Q. When did you discover that? A. I discovered it a great many years ago.

Q. In what companies did you discover it? A. Well, it is true in quite a majority of our fire companies, and also true of some of our life companies.

Q. Did you discover it in connection with the Equitable? A. I simply knew that those loans, amounting, I think, to some ten millions of dollars on December 31, were all paid off very shortly after December 31.

Q. Did you endeavor to find out how they were made and how they were paid? A. I simply saw the names of the borrowers, the collateral deposits for the loan and the amount of interest that the loan bore.

Q. When you saw the names of the borrowers, I refer to the loans at the end of the year, did you learn that in some instances there were clerks of Kuhn, Loeb and Company? A. I did not learn that.

Q. Well, did you try to find who these gentlemen were who were obtaining loans of several million dollars at the end of the year? A. I did not.

Q. Did it suggest itself to your mind that it might be a good idea to ascertain? A. It did not occur to me. I saw the makers of the notes, and their names, and also the security deposited, and did not go beyond that.

Q. Did you know that the security had been deposited? A. Yes.

Q. Well, were you sure of that? A. Well, as we commenced examining the Equitable, some time subsequent to December 31, of course, the collateral was not there.

Q. No, and the thing had been disposed of by that time? A. Yes.

Q. When you came to look back to see whether it had all been regular at the time, did you examine any one? A. No.

Q. Did you look into it to see whether these loans had been real bona fide loans? A. Not beyond examining the notes.

Q. Well, the notes had been given up by that time, had they not? A. Well——

Q. Were there any notes? A. I did not see the notes, that is, on these of December 31——

Q. How could you examine the notes? A. I did not on 31st of December loans.

Q. Did you examine the note of any of those end of the year loans? A. In the case of collateral loans, if you are examining a life insurance company lending very extensively on collaterals to brokers or others, if you start your examination a month or two subsequent to December 31, the borrowers and the collaterals are all changed.

Q. It has all gone, so you could not examine it? A. No.

Q. Unless you went to some officer or employee and put him on oath and asked him what it was? A. The only thing in this Mutual, in 1902, the examination having been made to December 31, there they take brokers' receipts for exchanged collaterals, and that is about the only thing you could trace.

Q. That is interesting. What do they do exactly? A. At the time I speak of the Mutual had a policy of loaning to standard brokers here who are reputable concerns money at six per cent. While they were in the nature of call loans, the broker, I assume—there was a tacit understanding with the broker that he could rely on that as almost time money. Those loans were practically permanent. There would be changes in collateral from time to time, but the receipts for the released collateral were given by the company and the new collateral substituted was also noted on these transfer slips.

Q. What connection had that with transactions at the end of the year to make a more favorable showing in the report? A. That had nothing to do with that.

Q. Was it not the determination of the department to break up the practice of making statements by substitution of certain securities? A. It certainly would have been if it had been cognizant of it.

Q. Well, you were cognizant of it to the extent that you knew of this practice for several years? A. Well, I speak, of course, in a general way—for the purpose of escaping taxation, I am quite sure that a great many fire companies, and perhaps life companies, in the years gone by may have purchased Government securities at the end of the year.

Q. I am alluding to practices, for example, disclosed in this Equitable transaction, of having loans made at the end of the year which are canceled in the early part of the succeeding year so as to have a smaller cash balance than could be otherwise shown in the report and a large number of collateral loans. You are quite sure, are you not, that was done when you looked at these loans? A. I could not say I was sure.

Q. But you had an idea that it was done? A. I had the impression that it might be done.

Q. Having that impression, why did you not follow it up and get the facts and stop it? A. Why, I assumed the transactions to be bona fide on its face. My impressions, of course——

Q. You were really there to find out whether what might look bona fide on its face was really bona fide? A. Yes.

Q. Having the machinery at your command, why did you not expose that method and end it? A. Well, I could not have said without an examination of various parties, and then it might not have been at all satisfactory, as to what right they had to borrow this money at the end of the year and why they paid it off.

Q. You probably in the course of a very brief examination of the officers of the company could have elicited the proof and reported it to the department and a publication of that would probably have put an end to it, don't you think so? A. It might have, yes, sir.

Q. Now, of course the system of reporting by the companies to the department depends for its value entirely upon the integrity of these reports. If securities can be substituted and various operations gone through with to make something appear which is not really in substance the fact, dependence upon the report can no longer be had. That is fully understood in the department, is it not? A. It is.

Q. Have there been any serious efforts made to prevent the practice which would make it result in a deceptive showing in the report or has that been ignored? A. I know of no effort that has been made to correct that difficulty, providing that it existed extensively.

Q. Now, did you, in examining the Equitable Life in 1902—was that the time of the examination? A. Yes, to December 31, 1901.

Q. To December 31, 1901, did you check its cash? A. I did.

Q. Did you find whether or not it had been the practice of the cashier to allow moneys to go out on cash tickets? A. Yes, they were advancing moneys on cash tickets.

Q. To officers? A. Not to officers. Some were to employees.

Q. Did you hear of any payments that had been made to Mr. Jordan on cash tickets, or to other officers? A. No, I did not.

Q. Did you have it brought to your attention that for sometime a considerable amount of money had been carried on a cash memorandum, or a cash memorandum book? A. Yes, they carried, I think, on December 31, 1904, it amounted to about a hundred and twenty-eight thousand dollars, composed of various items; those amounts were deposited in the Mercantile Trust Company and a cash credit is given for those items, they being reversed after December 31.

Q. When did you ascertain that? A. I ascertained that this year.

Q. Had you ascertained in the course of your prior examinations, any transactions similar to that? A. I had not.

Q. Are you now able to state just what the purpose of that was? The amount was very small, twenty-eight thousand dollars? A. Well, they were in the nature of advances upon the notes of employees, who wanted their salary in advance, and items of that character, principally.

Q. Did you in your examination of 1902 of the Equitable check over its disbursements? A. I did, sir.

Q. Did you adopt the same policy that you had in the Mutual, of examining simply to ascertain whether there was a warrant or the signature of an officer to authorize the payment? A. Yes.

Q. Did you examine into the proprieties of any payments? A. Not beyond the vouchers.

Q. If you had a voucher which did not disclose the purpose of the expenditure, did you go behind the voucher? A. I did not.

Q. So that your examination in the Equitable, as in the Mutual did not disclose, and was not in an effort to disclose whether the expenses had been legitimately incurred? A. No.

Q. But only whether, in fact, there was a voucher from some one in authority for the money? A. Yes, sir.

Q. Did you examine into the personal transactions of the officers of the Equitable, in relation to dealings with the company's securities? A. I simply checked the purchase and sale of securities.

Q. Did you make any examination to ascertain whether the company had bought from officers? A. There was nothing evident from the books at that time. My impression is that these transactions occurred subsequent to 1901.

Q. Well, did you at that time make any effort to ascertain whether anything of the sort had occurred? A. Oh, yes, we have very large sheets, showing the purchases and sales of securities, from whom bought and to whom sold, for a series of years.

Q. Did you examine into the Minutes of the Board of Directors, or of the committees? A. Yes.

Q. To ascertain the nature of their financial operations? A. Yes.

Q. Did you examine into their syndicate participations? A. No, I did not.

Q. Did you ascertain that having been allotted a certain participation in a syndicate, the Equitable had given to its officers a share of that participation? A. What year did that occur?

Q. 1901, I think, was a conspicuous illustration of that, the leading instance, in connection with the C., B. & Q.? A. I do not recall that now.

Q. Well, you say you do not recall—— A. I do not recollect anything on the books which would evidence it.

Q. On the minute book? A. On the minute books or otherwise.

Q. Well, were you looking for anything of that sort? A. No, I was not.

Q. Your examination there, as in the case of the Mutual, was in the effort to ascertain whether, granted the disbursements and liabilities, they had the assets which would be sufficient for them to maintain their reserve? A. Yes, sir.

Q. And a sufficient surplus? A. Yes.

Q. It appears that the New York Life Insurance Company was examined in August, 1904. How long an examination was that? A. It was commenced in January or February, 1904, and completed some time in August or September of that year.

Q. Apparently that company had not been examined since 1899? A. No, sir.

Q. Did you ascertain that the company had had assets not appearing on its books, that is, non-ledger assets? A. I knew that they might have had non-ledger assets.

Q. I do not mean non-ledger assets in the sense used by the department reports, such as accrued interest—— A. Agents' balances.

Q. And deferred interest and agents' balances. I mean real assets, such as stock, which did not appear upon the books of the company? A. I did not.

Q. Did you make an examination of the securities? A. I did.

Q. Did you count the securities in the vault? A. I did.

Q. Did not you find securities which were not on the books of the company? A. I did not.

Q. Who examined the securities with you? A. Mr. Parker and Mr. Gordon and myself.

Q. How do you count the securities? A. Well, in the case of the New York Life, the securities were in packages twined and sealed with a certificate of the committee of the board who had counted that package.

Q. Did you open the packages? A. Every one.

Q. Did you check off the contents? A. Every one.

Q. In accordance with the list? A. In accordance with the list.

Q. Now, did you not in 1904, when you made that examination, find stock interests among their securities? A. I did not.

Q. Did you ascertain on that examination that the New York Life had taken over from the New York Security & Trust Company certain New Orleans Traction securities? A. I did not. I did not ascertain that fact.

Q. When did you say you completed your examination of the New York Life Insurance Company, the last examination? A. Either August or September, 1904.

Q. It appears from their statement that they had taken over on March 7, 1904, securities New Orleans Traction syndicate, $2,500,000, New Orleans Traction four and a halfs, $1,500,000—did not you ascertain that? A. When was that?

Q. Under date of March 7, 1904? A. Well, that was three months after we examined them. We closed the books on December 31, 1903.

Q. Then you were making an examination as of December 31, 1903? A. Yes.

Q. You were not looking at any securities that they had acquired after that date? A. No.

Q. Nor any entries regarding transactions after that date? A. No, sir.

Q. Well, in counting the securities did not you come across the New Orleans Traction? A. I do not recall.

Q. What did you do in making such an examination as of a prior date when you would come across securities not in the list of securities owned at that time? A. I would go to the cash to identify their sale.

Q. Did you make any inquiries as to how they had obtained the securities? A. Which securities do you refer to?

Q. Such securities as you found in the vaults in 1904 which were not carried to their books on hand on December 31, 1903, which might have been acquired subsequently after the date at which you were closing the books? A. We counted the securities as per a list of securities as they stood on December 31, 1903.

Q. And if you found any others in addition to those you ignored them? A. I did not find any others—they were not presented to me because the statement did not call for them.

Q. Don't you go through the vaults and count all their securities in the vault, or only those which were pointed out to you as those on hand in 1903? A. 1903, sir.

Q. Then you did not count all the securities in the vault? A. Not beyond December 31, 1903.

Q. How could you draw the line? Here are a list of pigeon holes, I suppose, or cages, are there not? A. Yes, they are in packages placed in smaller vaults within a large one.

Q. You were going through the vaults counting securities. Was there any way to draw the line at December 31, 1903? A. Oh, yes.

Q. How did you do that? A. We took a list of securities as it stood on December 31, 1903, and if there had been any sales of those securities since December 31, 1903.

Q. Then you went to the sales? A. Then I went to the sales.

Q. In other words, you started with a list furnished to the department? A. Yes.

Q. Then you attempt to produce the goods corresponding to the list? A. Yes.

Q. And if they did not produce it, show you the record of sale—— A. Yes.

Q. In that way you went through the list? A. Yes.

Q. Of course, in that way you would not take something that was not on the list? A. No.

Q. There would be no disclosure of non-ledger assets, because you were simply verifying by inspection those mentioned on the list? A. Exactly.

Q. In that way you would not strike anything that was bought after the date you were making the examination because they were not on the list necessarily? A. Yes.

Q. Now, did you in the case of this examination find a navigation syndicate participation certificate? A. I did.

Q. How much did it call for? A. It called for—I cannot recall the figure now, but it was $3,200,000 or $4,200,000.

Q. It was four millions? A. Four millions.

Q. Now, their list showed December 31st, 1903, $3,200,000, didn't it? A. It did.

Q. And the certificate in their possession showed an interest of four millions? A. Yes.

Q. How did you square that with the list? A. Well, on December 31st, the account—the security ledger account, that security was credited, as I recall, by $800,000, the entry being by New York Security and Trust.

Q. Was it New York Security and Trust or J. P. Morgan and Company? A. My impression New York Security and Trust.

Q. The Navigation Syndicate Mercantile Marine? A. Navigation Syndicate Mercantile Marine.

Q. Well, the certificate in the possession of the company was $4,000,000, wasn't it? A. That I don't recall.

Q. Didn't you find that they had a certificate—I don't want to suggest that that was the fact—but I am asking whether it is the fact that there was a certificate for $4,000,000? A. That they had that participation?

Q. Yes. A. Well, I have no doubt we did, if the certificate was there to that amount.

Q. Here was an original participation and an entry in some book indicating a credit of $800,000 against it. What did you find when you looked at the document or instrument which showed the right of participation itself—what was its form? A. My understanding was they had applied for four millions and had received only $3,200,000 and subsequently were allotted $800,000 more.

Q. But I am asking whether you found any instrument which defined the extent of the company's participation. A. I cannot recall.

Q. In the vaults? A. I cannot recall at this time.

Q. Now, you were examining this in the summer of 1904, and did you prosecute your inquiry as to the Navigation Syndicate beyond the entry of December 31st, 1903? A. I did not.

Q. Did you endeavor to find out whether there had been any transaction in January, 1904, relating to that? A. I did not.

Q. Then you did not ascertain that the $800,000 had been retaken on January 2d, 1904, as the same price? A. I did not.

Adjourned to 10.30 a. m., December 22, 1905.