

April 12, 1939.

Memorandum to: The President
 The White House

From: William O. Douglas

Re: Insurance Investigation

Before leaving the Commission, I wanted to bring to your attention an agenda of an extremely interesting and significant program on which the staff of the Securities and Exchange Commission is prepared for public hearings. I wanted you to have this agenda in view of your great interest in the subject matter of the inquiry and in view of my strong feeling that the topics which we have developed justify continuous hearings.

In the latter connection, it has seemed to me that the appropriate procedure would be to set up a sub-committee with authority to designate a trial examiner to hear testimony on the insurance phase of the monopoly study. The subject matter is so voluminous and extensive that I feel certain the Temporary National Economic Committee would not have the time to hear it. Furthermore, if the TNEC undertakes to hear it, it must do so intermittently between other hearings on other subjects. The nature and extent of the insurance testimony are such that only by rather continuous hearings throughout the next year can it be hoped adequately to develop the subject.

I also attach hereto a confidential memorandum, dated March 10, 1939, written on a private and confidential survey conducted by J. Walter Thompson Company to determine the way the great mass of the population is thinking about life insurance. A poll and sampling interview procedure, similar to that followed by the Institute of Public Opinion, was undertaken. The results are enormously significant as indicating the public attitude towards life insurance companies in their relation to government, as well as towards their other problems.

Attachments

Douglas ew

1. Facts and circumstances surrounding the resignation of John C. McCall as Vice-President of the New York Life Insurance Company and subsequent payment to McCall of a retirement pension. We are prepared to establish that McCall stole securities valued at approximately \$160,000 from a private club of which he was treasurer; that this fact was known to at least two directors of the New York Life who in their capacities as bankers loaned to him funds sufficient to enable him to conceal his crime. These loans were partially secured by an assignment of McCalls' pension from the New York Life after arrangements had been made to qualify McCall for a pension for which he was not otherwise entitled and to provide for assignment of the same.
2. Relationship between the Metropolitan Life Insurance Company and the Chase National Bank. The Chase Bank has been the principal depository for the Metropolitan for many years and an extremely close relationship between the two institutions exists. We will be in a position to establish that the bank, through the influence of its inter-locking directors and otherwise, practically dictated to the Metropolitan many of its important banking decisions.
3. The election machinery of the Prudential Insurance Company of America. This is a Company which operates under New Jersey Law. It is our purpose to fill out our previous election testimony by examining the operations of the New Jersey election law in comparison with the operation of the New York Law. In the course of the testimony, it will be established that the agents of the Prudential forge ballots in a manner similar to that followed by the agents of the Metropolitan. This fact will be established through a statement from an officer of the Company without implicating any agents.
4. Carroll B. Merriam's conflicting position as a director of the Metropolitan Life Insurance Company and officer or stockholder of two firms acting as farm mortgage correspondents and bankers for the Metropolitan.
5. Inter-company agreements existing between the principal life insurance companies. These agreements are substantial and in many material respects control the day-to-day operations of the participating companies. It is perhaps not too strong to state that the testimony in this respect may serve as the basis for some appropriate anti-trust action and is clearly monopolistic in character. Among the subjects to be developed are the following:
 - a. The Replacement Agreement—This is an Agreement under which the companies pledge themselves not to switch a policyholder from another company until they have notified the policyholder's company and given it an opportunity to conserve its business. The Agreement has many non-competitive features.
 - b. Activities of the Association of Life Insurance Presidents -- This organization is the principal lobbying organization for the life insurance companies and the Commission is in a position to show a concentrated effort to defeat state legislation through many lobbying devices, both proper and improper, including campaigns to stir up a policyholder protest.

- c. The Medical Information Bureau--This Bureau serves as a central clearing house for information concerning all the policyholders in the United States and through it the companies exchange data on the insurability of individuals.
- e. The Group Association--This is an Association of the principal companies writing group insurance. It fixes rates, and by rules enforced through a Complaint Section, has eliminated practically all competitive features in the sale of this important type of insurance.
- f. The Agency Practice Agreement--This Agreement, as its name implies, is designed to establish uniform agency practices and continue provisions concerning the employment of agents from one company by another company.
- g. The "Little Entente"--This organization is a semi-secret organization of the presidents of the principal New England companies. Through its meetings, uniform rate policies are inaugurated and various competitive conditions between the participating companies eliminated.

In addition, we will be in a position to establish that 25 major companies have since 1932 entered into agreements fixing premium rates for annuities, surrender values, commissions on annuities and settlement options. We can also establish that the three of the principal non-participating companies located at Hartford, Connecticut, have entered into rigid rate agreements affecting the sale of all types of insurance. Further proof of rate fixing activities will be developed through an examination of the operations of the Group Association mentioned above and of an organization known as the "Little Entente".

- 6. A study of terminations reflecting the number and percentage of policies terminated by lapse, surrender, death, replacement, etc. This study will demonstrate that only a very small percentage of policies written are ever maintained to the point contemplated by the insured at the time the policy went into effect.