

## INSURANCE INVESTMENTS

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The investments of our life insurance companies are attracting more and more attention among students of finance. The marvelous growth of the funds held and invested by these companies leads us to make inquiries about their volume, their character, safety, and earning power.

To a full understanding of these questions it would be necessary to discuss insurance as an economic institution, to explain the various kinds or classes of policies, so as to show how the funds are made up and classified, and to whom in the last analysis they belong. But this would lead us into too many technical questions that lie beyond the scope of the present paper. Suffice it to say that a company which issues a large amount of endowment insurance, or one which has a large proportion of its policies near maturity, must necessarily have a larger amount of assets in proportion to the amount of insurance in force than a company which is comparatively new, or one which is making a specialty of "ordinary life" or "term policies." Likewise, a company which has a large amount of deferred dividend, or "semi-tontine" policies on its books, must necessarily show a higher ratio of assets to liabilities than a company which makes a specialty of annual dividend policies. Between these extremes there are all sorts and grades according to the amount of investment in the majority of the policies issued. That is to say, a company which issues a large amount of investment policies will have a larger proportion of its income coming from interest and rents than a company which issues a large amount of "ordinary life" and "term policies."

This being true the following propositions may be stated as facts which demand careful consideration in any study relating to insurance investments:

1. The assets are trust funds which bear absolutely no fixed relation to capital stock, or to the amount of insurance in force.
2. The income, either gross or net, into which the premiums enter, *cannot* be called *earnings* in any proper sense of that term, because the premiums are not income either *from* money invested, or

for services rendered, but are deposits that are to be held in trust for the policyholders.

3. Dividends are of two kinds: 1, dividends to stockholders, in stock and mixed companies, and 2, dividends to policyholders in all companies, the latter being, in most cases, nothing more than the return of an overpayment.

In the selection of investments, the companies are guided to some extent by State laws relating thereto. Among the most concise, yet comprehensive laws on this subject are those of Iowa. They provide substantially as follows:

"The funds required by the law to be deposited<sup>1</sup> with the auditor of State by any insurance company—organized under the laws of this State—shall be invested in the following described securities and no other:

1. Bonds of the United States.
2. State bonds (if at or above par).
3. Bonds, mortgages, etc., being first liens on real estate.
4. Bonds, etc., of counties, cities, towns and school districts.
5. Stock of solvent national banks (but not more than 5% of the assets of the company can be invested in such stock).
6. Loans upon the company's own policies, but not to exceed the net terminal reserve and not until the policy has been in force for at least three years.
7. Such real estate as may be necessary for office buildings for its own business, but rooms for rent may be added.

Similar provisions are found in the laws of most of the States and they have, no doubt, aided the companies materially in winning the confidence of the insuring public. The extent to which this confidence has been won is shown both by the rapid growth and the great magnitude of the life insurance business in recent times. To illustrate, the following paragraphs from a well known authority on the subject may be quoted.

"In 1860 all the American life insurance companies together had on an average about \$5.00 at risk for each person in the United States; in 1901 the amount per capita at risk had increased to somewhere near \$85.00; in forty-one years the average had been multiplied

<sup>1</sup> These deposits are increased from year to year to correspond with the obligations of the company.

by seventeen. This is one of the factors that explain the future of our life companies.

"The second factor is the rapidity with which assets overtake insurance in force \* \* \* We can illustrate this in a striking way by citing the experience of the three great American companies:

"On January 1, 1886, the New York Life, the Mutual Life, and the Equitable had about \$986,000,000 of insurance at risk. On January 1, 1902, sixteen years later, the same companies will have in cash assets not far from the same total. In other words, cash assets will approximate in 1902 what the insurance in force aggregated in 1886. Does it follow that sixteen years hence these three companies will have in cash assets a sum equal to the present outstanding insurance—probably \$3,500,000,000? Does it follow that to this will be added an increase in the amount of insurance per capita?

"We need not speculate on what may happen. We have only to deal with what is certain to happen, and we are forced to the conclusion that our life insurance companies during the next decade will play a part quite different from what they have hitherto undertaken.

"If no new insurance were written, if palsy should suddenly seize the tremendous activities of these companies, the contracts that are now outstanding and well established, in the very nature of the case would bring in such sums of money that the companies would be compelled to become an active factor in the investment world."<sup>2</sup>

The above paragraphs, coming as they do from a man who has had many years of experience in the business, and is thoroughly familiar with the facts, are full of meaning.

The total amount of money in circulation in the United States has been estimated at \$2,002,931,791, and the total assets of the life insurance companies alone, January 1, 1902, was estimated at \$2,263,000,000 or about \$260,000,000 more than the total amount of money in circulation in the United States. The total market value of all taxable property in the State of Wisconsin in 1902, including railroad property, was \$1,724,687,950, or \$438,312,045 less than the amount of property held by these companies.<sup>3</sup> The four largest life insurance companies alone have sufficient assets to pur-

<sup>2</sup> Darwin P. Kingsley, Third Vice-President, New York Life Insurance Company, *New York Independent*, December 19, 1901.

<sup>3</sup> See Wisconsin Tax Commission Report, 1903, p. 216.

chase all the railway property in Wisconsin and pay for it five times over, and this is all the more significant when we consider the rapid growth of these funds.

Let us now consider these investments in detail. Our best source of information is the State insurance reports. From the facts there given it appears that on January 1, 1902, the \$1,773,916,359 of assets held by the twenty-eight leading life insurance companies were distributed among the various classes of securities as follows:

1. Bonds.....	\$728,919,287	or	41.1 %
2. Mortgages.....	490,632,508	or	27.7 %
3. Real estate .....	154,409,242	or	8.7 %
4. Policy loans .....	92,388,507	or	5.2 %
5. Cash in banks and office.....	83,987,628	or	4.7 %
6. Loans on collateral.....	57,590,295	or	3.2 %
7. Stocks owned.....	51,541,185	or	2.9 %
8. Miscellaneous.....	114,447,707	or	6.5 %
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Total.....	\$1,773,916,359		100.0 %

One important thing to be noted in the above table is the high rank given to bonds, being over 41% of the total. It is equally noticeable that stock falls to the lowest rank in the classified list, being less than 3%.<sup>4</sup> Mortgages hold an important place—27.7%, being second in the list. Then comes real estate with only 8.7%; policy loans, 5.2%; cash in banks and office, 4.7%, and loans on collateral, 3.2%.

As far as the individual companies are concerned, the statistics show a great variety of holdings. Real estate does not rank very high in any company except one which has 60.1% of its total assets in this class; the next highest being 36.3%, 31.4%, 24.8%, etc., down to a trifle less than 1%. The larger companies as a rule have only a small portion of their assets in real estate. The largest amount held by any one company is that of the Equitable of New York, which is \$38,293,092, or 11.6% of its total assets. The smallest amount, as well as the lowest percentage, is that of the Union Central, \$292,590, or less than 1% of the total. Mortgages show a relatively high percentage in all companies—there being but two below 10%. Fourteen are above 30%, ten above 40%, four above 50%, and two above 75%. Stocks show the greatest variety, nine of the

<sup>4</sup> In fire companies this item is considerably larger than in life companies.

twenty-eight companies having no such investments, and one reaching as high as 23.6%. The largest amount held by one company is that of the Mutual Life of New York, \$34,570,685, but this is less than 10% of the assets of that company. Bonds show a high percentage in nearly all the companies. Four of them, however, are low, three being below 3% and one slightly above 3%. Three have between 10% and 20%; six between 20% and 30%; ten between 30% and 40%, and three between 40% and 50% of their assets in this class. "Loans on securities pledged as collateral" are relatively unimportant, both in amount and in character, for they represent no distinct form of securities or class of investments, except insofar as they may be called "quick assets," that can be converted into cash to meet extraordinary demands. Policy loans, on the other hand, form a distinct class by themselves. They are of two kinds: 1, policy loans proper, *i. e.*, loans on policies that have an accumulated reserve and on which a part of that reserve is loaned; 2, "premium notes and loans" which are only temporary loans to assist policyholders in keeping their policies in force when they are unable, or when it is inconvenient for them to pay the premium when due. The highest percentage shown in this class is 29.8%. Three are between 10% and 20%; ten between 5% and 10%; and ten below 5%. "Cash in banks and office" ranges from 1.1% to 13%. By far the larger part of this is in banks and is drawing a low rate of interest, being kept in different parts of the country to facilitate the business operations of the companies. The "miscellaneous" are unimportant except in two cases where they reach 12% and 19.2% respectively. The larger part of these consists of the one year's premium which is reported as assets. The reason why the two companies rank so high in this class appears to be that they are comparatively new, or because they are issuing a large amount of low premium policies so that the accumulations are still small in proportion to the annual premium collected.

In the selection of investments the companies should be, and are, guided primarily by two things—*safety* and *profit*. Safety is of first importance. This settled, the question of profit should be the best guide. But in practice, other considerations play an important part, and it is often a matter of "pride" or "policy," or convenience, or business connections that leads them to invest in one class of

securities in preference to others. Taxation is also considered, but not to any great extent.

On the question of safety the authorities differ, and the reports of the companies differ in many respects. They all agree, however, that policy loans, *i. e.*, loans on policies pledged as collateral have the best possible security. Bonds are so diversified that no definite rule can be laid down that will apply to all. Naming them in their order of security, they may be placed substantially as follows: Bonds (1) of the United States, (2) of the State governments, placing Eastern and Central States first, (3) counties (in well settled regions), (4) cities whose credit is good, (5) towns, villages and school districts, (6) bonds issued by private corporations, placing first those of well-established railroad companies, and last those of new corporations entering upon hazardous and untried undertakings. The bonds of some private corporations should undoubtedly be placed above the bonds of some towns, cities and villages, or even counties and States, but it is safe to say that, as a rule, the bonds even of the small governmental jurisdictions are superior to those of private corporations.

Real estate mortgages are looked upon by some companies with great favor while others claim that they are subject to foreclosure and loss by expense. One company which has over 77% of its assets in mortgages claims that they are of unquestionable security.

Hon. F. L. Cutting, Insurance Commissioner of Massachusetts, says:

"The reserves should be held in best earning, sure investments, and among these there is no better model or one more generally unobjectionable than well-selected mortgages, one great advantage of which is the absence of market fluctuations; another the better average rates of interest; and another, the unlimited amount of them always to be obtained by a respectable exertion on the part of the financiers."

But, like bonds, the mortgages are of such variety that no single rule can be laid down that will apply to all, save this, that the safety varies (1) with the amount loaned (and we have seen that some States limit this to 50% of the value of the land); (2) with the character of the property and its general surroundings, and (3) with the character and ability of the owner of the property. The latter, which is sometimes called the *personal equation*, is also considered in connection with some classes of bonds, but to a less degree than in the case of mortgages.

The security of farm mortgages is highest in the well settled regions of mixed farming and uniform climate, and poorest and lowest in newly settled regions and in regions subject to extreme climatic changes. As climatic changes affect the security of farm mortgages, so commercial prospects often affect the security of mortgages on city property. But they are also affected by the general character of the population, and location with respect to money centers, etc., so that no definite rule can be laid down with reference to mortgages any more than with respect to bonds.

Stocks form a distinct class by themselves, and it is a question if the companies that invest in stocks are not acting beyond the scope of their authority, for such companies are chartered to conduct an insurance business, and not to engage in railroad, banking or manufacturing enterprises. Such investments, however, have been, as in the case of Massachusetts, specifically allowed by law. Nor would it be wise to prohibit such investments on mere technical grounds, for the funds are accumulating so rapidly that safe and profitable investments sufficient to meet the demands can be found only by the exercise of the greatest diligence on the part of the managers, and there are numerous corporations whose stability and dividend paying ability can scarcely be questioned.

The earning power of the different classes of investments varies greatly. For a period of ten years (1892-1901) the average rates have been as follows:<sup>5</sup>

Mortgages.....	5.30 %
Bonds and stocks.....	4.70 %
Real estate.....	4.67 %
All other securities.....	4.31 %

While the mean rate was 4.86%. In the last four years of this period, however, real estate has earned a higher rate than that of stocks and bonds.

The trend of these rates from year to year is extremely interesting. During the ten year period under consideration, the rate on mortgages fell from 5.58% to 4.87%, a decline of seventy-one points; stocks and bonds fell from 5.01% to 4.50%, fifty-one points; and the rate on all other securities, except real estate, fell from 4.25% to

<sup>5</sup>B. F. Brown, "Complete Digest of Interest Rates," etc. See also Walford's Handbook, p. 69.

4.05%, a decline of twenty points; while the rate on real estate rose from 4.25% to 5.38%, a rise of one hundred and thirteen points.<sup>6</sup>

Judging from these facts, we would naturally expect that the companies would increase their holdings most rapidly in the investments that yield the largest returns, and especially those on which the rate of return is increasing. That, however, is not the case. The total assets of the twenty-eight leading companies, in the ten year period under consideration, increased 101%. But, taking the different classes separately, it will be seen that the increase was far from uniform. Stocks and bonds increased 155%; "loans on collateral, policy reserve," etc., 151%; "cash in banks and office," 148%; real estate, 72%; and mortgages, only 50%. Thus, with one exception, the class yielding the lowest returns shows the greatest increase in the amount invested, and the class yielding the highest returns shows the smallest increase.

Real estate is an extremely interesting class. Being the only class that shows an increase in earning power, we should naturally expect to see a rapid increase in this class. We should also expect that the amount invested would increase most rapidly in the periods when its earning power has increased most rapidly. But, so far as our statistics show, the exact opposite is true, for in the first half of this decade, (*i. e.*, 1892-1896), the amount invested increased 41% and the earning power increased .8%, while in the second half of the decade (*i. e.*, 1896-1901), the amount invested increased 11.65% and the earning power increased 12%.

But the earning power of real estate cannot be measured by these figures alone. The real estate held by these companies consists largely of office buildings, only a small part of which is used by the companies for their own business, the larger part being rented to individuals and corporations. The returns shown by the above figures are the cash rental values only, and from these there must be deducted something for depreciation, repairs and taxes. Depreciation and repairs are important items in this class, the others being only slightly and remotely affected. Taxes are also of much greater importance to real estate investments than to the other classes, as can be seen from a comparison of statistics. In 1902, the twenty-eight life companies before referred to, had \$154,414,417 invested in real estate on which they paid \$1,878,211 in taxes. This is equal

<sup>6</sup>B. F. Brown's "Complete Digest of Interest," etc.



to an *ad valorem* rate of .012162. All other assets amount to \$1,619,419,655, and all taxes and fees, except taxes on real estate, amount to \$4,754,406. If this be considered as levied upon such "other assets"<sup>7</sup> it would be equal to an *ad valorem* rate of .00293, or less than one-fourth of the rate on real estate.<sup>8</sup>

The continuous prosperity of late years in causing a great demand for office room, thus enabling the companies to keep their buildings fully and continually occupied, has, no doubt, had considerable influence on the earning power of such real estate, and this fact accounts in part for the rise shown in the rates. But a large part of this apparent rise in the earning power is due to the fact that the real estate holdings have been most liberally scaled down in the reports, and the great increase in the amount invested during the first half of the decade may have been due, in part at least, to the foreclosure resulting from the panic of 1893.

Real estate in the form of office buildings yields one form of income, which is unique, and that is the advertising value of such buildings. It has been stated that one of the principal features of all advertising is to keep continually before the public mind the fact that the thing advertised is in existence and that it is in the market. For this purpose, such buildings are admirably adapted: first, because they are usually such imposing structures that they are sure to attract attention, and second, because a great many of the tenants use no other street address on their stationery than the name of the building, such as "Home Insurance Building, Chicago," "New Insurance Building, Milwaukee," "Equitable Life Building, New York," etc., etc., thus continually reminding the public that such companies are in existence. They also serve the purpose of satisfying a class of people who think they must have some "visible, tangible and unquestionable security" to make good their contracts. Although this advertising value cannot be expressed in an exact number of dollars and cents, it is safe to say that if the companies should publish literature of equal advertising value it would cost them many thousands of dollars.

Another question deserving attention in this connection is that of taxation. Lengthy dissertations have sometimes been indulged

<sup>7</sup> The personal property of insurance companies is generally exempt from direct taxation.

<sup>8</sup> The rate on gross assets would be .00373. The average rate on two hundred and twenty electric light companies was .01097, and the average tax rate in the State of Wisconsin in 1901 was .012176.

in to show that the tax on intangible securities is *always* shifted by the lender to the borrower. Some writers even go so far as to claim that there is added a profit to cover the expense of shifting. Professor Plehn, of the University of California, takes this view. As proof of his assertion, he cites statistics gathered from the banks of San Francisco<sup>9</sup> (1880-1898) to show that the interest rates on "taxed real estate loans," *i. e.*, mortgages, are higher than the interest rates on "bonds and first-class commercial paper" which is untaxed. He does not point out, however, that according to his statistics the interest rate on real estate loans fell considerably from 1880 to 1898, while the rate on bonds, etc., which were untaxed, actually rose in that period. We are led to believe that, in the first place, his statistics have not been gathered with any great degree of care, and, in the second place that the statistics gathered have not been fully digested or correctly interpreted. Knowing, as we do, that interest rates have fallen considerably in the last twenty or twenty-five years<sup>10</sup> we are led to believe that if bonds of the same class or quality had been selected for each year, in Professor Plehn's compilation, the statistics would not have shown an increase in the rate of interest. Likewise the decline in the rate on mortgages shows that either the rates have fallen with the increased supply of money and the increased stability of values resulting from further settling and improvement of the country, or there has not been sufficient care exercised in the selection of mortgages. If we compare the interest rate on mortgages with that on stocks and bonds of the twenty-eight life companies before referred to, for a period of ten years, thus making two hundred and eighty comparisons, we find that in fifty-four cases or 19.25%, the stocks and bonds show a higher rate than do the mortgages; while in the remaining two hundred and twenty-six cases, or 80.75%, the mortgages show a higher rate, and this cannot possibly be due to taxation, for the stocks, bonds and mortgages owned by these companies are all taxed alike insofar as they are taxed. But what shall be said of the fifty-four instances where the mortgages fall below stocks and bonds? An examination of the investment schedules gives us the answer. From a cursory examination of such schedules it appears that the companies whose mortgage rate falls below that of stocks and bonds have a considerable

<sup>9</sup> See *Yale Review*, May, 1899.

<sup>10</sup> The average rate of interest earned by twenty-nine leading life insurance companies fell from 5.54% in 1883 to 4.42% in 1902. (See *Insurance Year Book*, 1903, p. 179.)

amount invested in large mortgages on city property,<sup>11</sup> running for long terms so that the investors are willing to accept a lower rate on that account. It is also seen in some cases that those companies have comparatively large holdings in the securities of corporations whose stocks and bonds, on account of either inferior security or of monopolistic conditions, yield a higher rate than ordinary.<sup>12</sup>

The reason why mortgages earn a higher rate than stocks and bonds must, therefore, be sought in some other place than in the tax laws. The principal reasons may be stated as follows:

1. Investments in stocks and bonds usually require larger amounts than mortgages.
2. They run for longer terms.
3. They possess a higher degree of convertibility, being much more extensively quoted in the market.
4. They are less exposed to the risk of defective title, and have less of the hazard due to personal equation. Mortgages usually have to be carefully inspected and not only the title to the property examined, but the character and ability of the owner must be considered.
5. The ownership of bonds, and stocks especially, often gives the owner desirable business advantages and financial relations that do not follow with mortgages.

These facts must account in the main for the difference in the earning power of mortgages as compared with stocks and bonds, for they are all taxed alike, insofar as they are taxed. The statistics given above, gathered as they are from all parts of the country, involving in the neighborhood of two thousand millions of dollars invested in almost all kinds of securities and under the most varied conditions, should give us as reliable a basis upon which to rest our conclusions as any that have as yet been published. We do not deny, however, that taxes have some influence on the interest rates where one class is subjected to a higher tax than another, for it would seem self-evident that investors would weigh this question as carefully as they do all others and would attach to it the proper significance. This can be seen in case of mortgages in which the mortgagor agrees to pay all taxes on the mortgage premises, but we must say the

<sup>11</sup> Such mortgages are sometimes called real estate bonds.

<sup>12</sup> See stocks of some fire insurance companies held by life companies; p. 23 *infra*.

claim that the whole difference in interest rate is due to a difference in taxation is surely not borne out by the facts.

So far we have considered the investments made by insurance companies and the earnings upon such investments. We deem it proper in this place to say something concerning the stocks of insurance companies, considered as an investment, from the standpoint of the stockholder. The popular supposition is that all the "old line" insurance companies are stock companies that are operated on a stock basis for the benefit of the stockholders. As far as the life companies are concerned, this supposition is incorrect, for they are all, except one, either mixed or purely mutual. Most of the fire, marine and casualty companies, however, are stock companies pure and simple. The stock of the life companies is put in as a "guaranty capital" to give the company a start, and is in many cases withdrawn when the company has been well established; in others the capital is allowed to remain, in which case it draws a regular or "standard" dividend, more in the nature of interest on bonds than dividends on stock. The dividends paid on the stock of fire, marine and casualty companies, on the other hand, is determined by the earnings of the companies as in other corporations.

That many companies, both stock and mutual, have failed to meet their obligations and have gone into the hands of receivers scarcely needs to be mentioned, and that a great many stock companies have failed to make satisfactory profits to the stockholders and have consequently combined with others or have voluntarily disbanded, is equally well known. In spite of these failures and of the loud outcry against "low premiums" and "excessive taxes" there is a considerable number of companies that are paying enormous dividends. As can be seen from the State insurance reports, and the Insurance Year Book<sup>13</sup> a large number of fire insurance companies have for a period of twenty years or more paid dividends of 10% or over; 20%, 25% and 30% are quite common. One company has paid 40% every year since 1876, and one company, from 1876 to 1896 paid dividends ranging from 80% to 120% on its capital stock. Such dividends, however, are not paid in life companies except in a very few cases. One company,<sup>14</sup> from 1875 to 1877, paid 55%; from 1878 to 1886, 40%, and in later years it has been paying

<sup>13</sup> *Fire and Marine*, published annually by the Spectator Company, of New York.

<sup>14</sup> *The Manhattan Life*. Some of those dividends may have been stock dividends, but there is nothing to indicate it directly.

from 16% to 20%. Two companies have paid 12% from 1875 to the present time; two have paid 10% almost every year since 1875; one has paid from 11% to 18.5%, and several are paying regular dividends of 6% to 10%. One notable case is that of the Phoenix Mutual, which paid 6% from 1875 to 1881, 12% in 1882, 24% from 1883 to 1888, and 12% in 1889, when the stock was retired by vote of the policyholders, leaving it to operate on the purely mutual plan. In 1902 the average dividend on the stock of the life companies was 7.44%.

The dividends paid to stockholders may be divided into three classes, viz: (1) those paid by proprietary stock companies upon declaration of the board of directors, in the same way as in other corporations; (2) the dividends paid to stockholders in "mixed" companies, which is usually a fixed rate resembling interest on bonds; and (3) the dividends resulting from the non-participating branch of the business. Concerning the last named, but little has ever been written, and very little can be found in the reports.<sup>15</sup> It has been stated, however, that the non-participating business affords considerable income to the stockholders in some companies. But, compared with the business as a whole, they are not of much importance, for this part of the business is comparatively small, and the stockholders that receive such dividends are few.

The price paid for such stocks often reaches a very much higher figure than it is generally supposed. Some knowledge can be gained on this point by a glance at the following table.<sup>16</sup>

Company.	Par Value.	Bid.	Ask.
Boston Marine.....	100	242½	...
Etna of Hartford.....	100	310	...
Connecticut.....	100	220	...
Hartford.....	100	650	...
National.....	100	310	325
Phoenix.....	100	233	...
Steam Boiler.....	50	200	...
Etna Indemnity.....	100	110	120
Etna Life.....	100	410	...
Connecticut General.....	100	175	...
Hartford Life.....	100	135	...
Travelers.....	100	675	...
American (Newark).....	5	440	...
Firemen's.....	50	300	...

<sup>15</sup> *Wisconsin Insurance Report (Life)* 1896, pp. 58, 183 and 208.

<sup>16</sup> *Commercial and Financial Chronicle Supplement*, July 4, 1903, p. 47.

Company.	Par Value,	Bid.	Ask.
Merchants' .....	25	110	...
Newark Fire .....	5	180	...
Prudential <sup>17</sup> .....	50	550	...
Continental .....	100	790	...
German American .....	100	640	690
Germania .....	50	340	360
Hamilton .....	15	110	115
Hanover .....	50	140	145
Home .....	100	....	345
King's County (Brooklyn) .....	20	185	190
Nassau (Brooklyn) .....	50	180	...
Niagara .....	50	280	...
North River .....	25	165	...
Phoenix (Brooklyn) .....	50	240	250
Westchester .....	10	380	400

The above list consists principally of fire companies, only a few life companies being included. These figures, however, are completely eclipsed by the price offered for the stocks of the Equitable of New York, whose stock is not quoted in the market. That company has \$100,000 of capital stock, divided into shares of \$100 each, and it pays a regular dividend of 7%. According to a New York correspondent of the *Philadelphia Press* an offer was made of \$7,500,000 for fifty-one (51) shares of this stock; or a trifle less than \$150,000 per share. The fifty-one (51) shares in question are now owned by the H. B. Hyde estate which is in the hands of trustees who are not allowed to sell.<sup>18</sup>

The question arises, what is it that induces financiers to offer such prices for stock that can never, according to charter provisions, pay over 7% annual dividends? It is evident that the profits resulting from the ownership of such stocks cannot be measured by the cash dividends alone. The profits are sometimes held over for a year or two, or for a longer period, and the stocks meanwhile rise in value with the increase in surplus. In many cases, the ownership of such stock carries with it emoluments and business advantages undreamed of by the uninitiated. Among these advantages may be mentioned the well-paid offices in the gift of the companies; the opportunity to arrange for ready loans on favorable terms when business exigencies demand it; and the opportunity for the exercise of influence in the financial world. It requires no argument to prove that men who have the power to say where the funds shall be deposited can,

<sup>17</sup> Par value taken from charts published by the Spectator Company.

<sup>18</sup> See *Western Underwriter*, p. 15, March 13, 1902.

in a private capacity, go to the banks where such money has been deposited and obtain loans on favorable terms. How extensively this is done it is difficult to say, but it is undeniable that the road is open and that such things are done.

A word may be added here concerning the amount invested in this class of securities, so that the influence they exert may be more clearly understood. As already intimated, the capital stock is of relatively greater importance in fire insurance than in life insurance. The capital stock in the life companies is generally put in to give the business a start and is sometimes withdrawn when the company is well established. In fire insurance the capital stock continues to be a working basis of the business. In this connection a few comparisons are interesting. The amount of stock in all the life companies reaches about ten millions of dollars; the total assets exceed two billions, making the stock less than one-half of one per cent. of the assets. The total stock of all the fire companies is about \$72,123,389; their total assets, \$394,947,651, making the stock 18.3% of the assets.

The largest amount of stock in any one life company is \$2,000,000, the Metropolitan and the Prudential<sup>19</sup> each having that amount. The largest amount of stock in any one fire company is that of the Etna, \$4,000,000; the next highest, that of the Home Fire Company, \$3,000,000. The proportion between assets and capital stock, and between capital and insurance in force is so variable in the different companies that comparisons are of little or no avail, being all the way from nothing up to nearly one hundred per cent.

This shows something of the nature, the extent and the complexity of the business. The conclusion is naturally drawn that our insurance companies are financial institutions of a very high order. The best financiers of the country are investing large sums of money every year in life policies, and wealthy men make provision in their wills that the trustees shall invest the funds in the same class of securities in which life insurance companies invest their funds. The stability of the companies is also shown by the fact that the recent slump in the values of securities had but little effect on their assets, and only a few of the companies sustained losses worth mentioning. The future of the business, therefore, promises to be even brighter than the past.

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<sup>19</sup> The Etna Life increased its stock from \$1,750,000 to \$2,000,000 recently.