THE SHERMAN BLOCK—Built in 1856, by Hoyt Sherman, at Northeast Corner 3rd and Court Ave., Des Moines.

The Equitable Life Insurance Company of Iowa, Iowa's first life insurance company, occupied rooms on first floor as Home offices.

Commenced business January 25, 1867, with P. M. Casady as president, Wesley Redhead, vice president, F. M. Hubbell, secretary, B. F. Allen, treasurer, and Hoyt Sherman, actuary.

Casady served as president from 1867 to 1871, Allen in 1872 and 1873, Sherman from 1874 to 1887, and Hubbell from 1888 to 1907.

Annals of Iowa

ESTABLISHED 1863

VOL. XXXIII, No. 6 DES MOINES, OCTOBER, 1956 THIRD SERIES

Safeguarding Insurance in Iowa

By EMORY H. ENGLISH*

IN TWO PARTS—PART II

In the preparation of Part I upon this subject, which appeared in the October, 1954, number of the ANNALS the progress in establishment of insurance underwriting institutions in Iowa was outlined, together with the character of their supervision by state officials. The compulsion to explore original sources of information available in continuing the study has been time-consuming. But, a desire to complete the research and get the writing done possibly may have contributed to haste and overlooking of some valuable materials relating to persons in positions of responsibility that might further enlighten those interested in the subject, without any intent to abridge full presentation of essential data.

Effort was made and now continued to generalize somewhat, however, in presenting the record of development of the supervision of the business, as stated at the outset, and not by any means to write a complete history of its inception, unfoldment and expansion to the extent since accomplished. Here and there some color

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and animation has illuminated the recounting of events and recalling of personalities. The mention of these is historical only, as individuals once active and accountable long since passed from the scenes of their endeavors.

In the periods now to be treated, the writer knew personally many of those mentioned, and as there is some natural hesitancy to appraise or compare their standards or qualities, the record must be relied upon to reveal merit of individual service. This article seeks to present only their degree of helpfulness in safeguarding the provisions of insurance policies sold, as well as quality of companies selling them to the people of Iowa.

With correct underwriting principles wisely required in Iowa, many strong insurance institutions have developed and prospered here. Substantial reserves and surpluses, coupled with able and honest management, have enabled them to grow and stand second to none anywhere for reliability. But, as late as the 80's, there were still some weak, not to say unreliable concerns transacting insurance business in Iowa, for one reason or another not worthy of public confidence. Unstable financial structures, inadequate premiums and evasive claim settlement practices often characterized this latter type, as well as inexperienced underwriting, tending to affect the reputation of the business. As an example, it was the claim resistance practices of some types of organizations that fostered the enactment of the "valued policy law" dealing with fire insurance coverage.

Larrabee Favored Home Companies

Some assessment fraternal associations, riding through temporarily upon low current cost, were challenging the higher premiums of legal reserve level premium companies either mutual or stock. It was then, when urging preference for home companies, in his first inaugural address, that Governor Larrabee said in January, 1886, in support of lower insurance rates:

> Home companies, being entirely under our control, should

be encouraged to do this business at a reasonable rate of compensation. The character of the property in our state is such as should entitle the insured to lower rates than are at present obtained. Many abuses are perpetrated upon unsuspecting policy-holders, who only learn of the imposition when it is too late to correct it. Home companies are more likely to do justice to their patrons, being nearer to them, and feeling therefore a greater sense of responsibility.

Actually, insurance premiums may have been too high; but, if so, was Governor Larrabee's questionable method of rate reduction the right one? Naturally, there were many factors involved. Of course, lower rates is not the remedy to obtain more stable insurance institutions. It is the loss ratio that largely determines the rate for service and indemnity afforded, as the insured truly pay their own losses, but divided and distributed among the many, each bears a small fraction of financial responsibility.

Governor Larrabee was a sincere, honest and capable man; his analysis of the evils that harassed the administration of insurance supervision was accurate, but his remedy of lower rates, to meet the evils complained of, would only tend to multiply difficulties. Proven losses must be paid, as well as expenses of administration, commissions, taxes, salaries, with building of reserves, and there are no other sources from which the companies obtain funds except policy holders' premiums and interest on reserves. Extremely low rates undoubtedly would contribute to reduced claim settlements and incompetent management.

In Governor Larrabee's biennial message to the legislature in January, 1888, at the close of his first term, he said further:

The state auditor (ex-officio insurance commissioner) has been as vigilant in his examination of the affairs of insurance companies as his other duties would permit, and has done all in his power, under present laws, to place the business upon a sound basis. Iowa affords a good field for legitimate insurance companies, but has no room for fraudulent concerns. No companies of doubtful standing should be permitted to do business. Home companies should be encouraged. Authority should be given the auditor and means placed at his disposal

to enable him to exterminate illegitimate companies, and to compel legitimate ones to do a strictly lawful and safe business. Co-operative associations are furnishing cheap insurance and generally giving good satisfaction . . .

The legislature undertakes to protect the people from the imposition of worthless insurance companies, and it should, both by its laws and supervision it secures, make that protection as perfect as possible. In these particulars much yet remains to be done. An insurance department should be created at the present session of the general assembly.

The Valued Policy Law

While the enactment of a "valued policy law" in 1880, by the Eighteenth General Assembly, provided that in a suit in court "the amount stated in the policy shall be construed to be received as *prima facie* evidence of the insurable value of the property at the date of the policy," the law also provided that "nothing herein shall be construed to prevent the insurance company or association from showing the actual value of the property at the date of the policy, and any depreciation in the value thereof before the loss occurred."

And it will be remembered, that during the administration of Governor Shaw a decade or two later, attempt was made to remove the latter proviso, which was vetoed by him, the bill being Senate File 69, passed during the closing days of the Twenty-eighth General Assembly. He held the bill for almost the statutory period and made investigation as to its merits, finally saying in part in witholding his approval:

We already have a law which makes the amount of the insurance presumptive evidence of the value of the property, and the burden is placed upon the insurance company to prove affirmatively that the property is worth less than this amount; and in no instance, I think, has a jury ever failed to find adversely to the company on this proposition. I believe this provision goes to the limit of safety. There is no escaping the proposition that the insured must pay all losses, and any law that has the effect to increase the hazard must necessarily increase the rate. In my judgement the state that secures the minimum rate will be that state that provides a uniform policy, to be used by all companies, and that limits the amount of recovery to three-fourths of the actual loss.

True insurance is indemnity. Nothing in excess of actual

loss should ever be collectable. In order to reduce the loss to a minimum, there must be some inducement for the owner of the property to throw water rather than oil on incipient fires. He should be made to realize that carelessness, defective flues, and piles of inflammable rubbish are not wholly at the risk of his underwriter. I would promptly sign this bill if I were not convinced of its evil effect, and if I were not quite sure if once placed upon our statute books it would remain forever.

Life Reserves Valued

Recurring to the Twenty-first General assembly legislation in 1886, it was then that the auditor of state was authorized and directed in Chapter 169, to ascertain the value of all life insurance policies in force in Iowa, and requiring deposit with him of securities representing same, of a character as authorized by the state, and to employ an actuary for that purpose. That assembly also re-wrote the provisions of law governing the investment of funds of Iowa insurance companies, further restricting same, but permitting loans upon life insurance policies of policyholders.

First Anti-Discriminative Law

No reference to the subject of insurance was made in the inaugurals of Gov. Horace Boies during his two terms as executive, but in 1890, the Twenty-third General Assembly enacted as Chapter 33, the first anti-discrimination law, and it was applicable to life insurance. It was a sweeping act prohibiting any distinction or discrimination in favor of individuals between insurants of the same class and equal expectation of life in amount or payment of premiums or rates charged for policies of life or endowment insurance, or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of the contracts.

The Twenty-fourth General Assembly, also with approval of Governor Boies, passed three acts of importance, one authorizing the writing of insurance against loss by operation of steam boilers, another exempting from debt funds realized from life insurance and one amending and enlarging the limitations of investment of assets of insurance companies.

The formal inaugurals and biennial messages of Governors Jackson, Drake and Shaw likewise are devoid of any reference to the subject of insurance. However, the Twenty-fifth General Assembly, with the approval of Governor Jackson, enacted a law making it the duty of the auditor of state to examine the form of all fire insurance policies to be issued covering property in Iowa by companies authorized to transact business in the state, and conferring upon the auditor authority of refusal to authorize the transaction of business in Iowa by any company including in any policy being sold here provisions or stipulations that the assured shall maintain insurance upon any property covered to the extent of eighty percent on the value thereof, or to any extent whatever, or that the assured shall bear any portion of the loss on the property insured. Another law enacted in that session authorized insurance coverage for employers against loss in consequence of accidents or casualties to employees or other persons, or to property, resulting from any act of an employee or operation of machinery.

Governor Jackson Used Veto

Governor Jackson vetoed Senate File 212, the statement being filed with the secretary of state after adjournment of the assembly. It was a bill amendatory of the law upon fraternal insurance tending to loosening of administration in operation of fraternal societies and specifically providing for disallowance of claims upon any policy where a beneficiary under any policy or membership certificate should pay a member's assessment or dues, holding that the provision would defeat the object of fraternal life insurance. The bill sought to define what would constitute fraternal beneficiary associations and regulate their incorporation and organization. Jackson characterized the bill as "incomplete and uncertain and ought not become a law, repealing existing laws which were complete and certain."

The trend to organization and operation of new assessment insurance associations and fraternal insurance

societies for many years had been strong in Iowa, as as in other states. The demands for lower cost insurance had really pressured this course. The payment of their losses incurred, particularly of life members, depended upon the receipt of funds from acquisition of new members of younger years. Supervisory officials sought to standardize the operation of these organizations, assist in making them more reliable and secure their future in the field of insurance. Of this nature was Chapter 47, Acts of the Twenty-seventh General Assembly, in 1898, being House File 157, amendatory to a code section requiring a certificate of the auditor of state to permit operation of a newly organized fraternal insurance society or association only when same shall have actual applications upon at least 250 lives for at least $1,000 each.

Inquiry Into State Officers' Affairs

In a communication to the House of Representatives of the Twenty-eighth General Assembly, dated May 5, 1900, Governor Shaw, one of Iowa's abler executives, replied to a resolution adopted by that body in which attention was called to a report current at the time in various parts of the state that "the governor, secretary of state, auditor of state and treasurer of state hold important offices in building and loan associations and insurance companies doing business in the state of Iowa," which the attorney general is alleged to have declared to be "oppressive upon persons whose only crime is their inability to pay."

In the House communication the governor, secretary of state, auditor of state and treasurer of state were requested to "report to the House of Representatives as soon as possible, in what, if any, such organizations they hold official positions, the name of the company or association, together with the salary they receive; and wherein the committee on compensation of public officers is directed to report a bill prohibiting members of the executive council from holding any official position in any building and loan association or insurance com-

pany doing business in the state of Iowa during their term of office or within one year after their term of office shall have expired."

Governor Shaw's reply was categorical and direct, without denying the right of the general assembly to make the inquiry and receive the information sought. He said:

I have the honor to report that I hold no official position in any building and loan or savings and loan association, nor am I a stockholder in any such organization, nor have I any connection with or interest in any institution over which the governor of the state of Iowa, or the executive council has any oversight or supervision whatsoever.

Conceding to the general assembly the right to inquire into the private business affairs of such persons as may have been elected to the several offices of this state even in matters over which such officers have no supervision or jurisdiction, and having no objection to such inquiry, I have the honor to state that I am a stockholder and director in the National Life and Trust company, a legal reserve insurance company doing business in the state of Iowa, which stock I purchased at par, and paid therefore exactly as reported in the articles of incorporation long since made public. I have received, since the organization of said company, $35 for services rendered as such director and as a member of the committee on loans.

It is unnecessary to call the attention of this honorable body to the fact that neither the governor nor the executive council has any supervision whatsoever of insurance companies; and the criticism that such institutions "are oppressive upon persons whose only crime is their inability to pay" might be predicated with equal force against banks, landlords, lawyers and persons engaged in many other branches of legitimate business.

The state of Iowa enjoys a most enviable reputation throughout the nation; her financial institutions have the confidence of the people at home and have heretofore stood well abroad. No legal reserve company organized within this state, so far as I am able to learn, has ever failed, or violated its contracts or insurance. The Iowa companies now have in force over $200,000,000 insurance, about two-thirds of which has been written outside of this commonwealth. They have thus demonstrated their ability to sustain themselves in the home field against all comers, and to make quite a respectable showing on their merits in other states.

I do not understand that anyone has presumed to criticize

any Iowa insurance company from a legal standpoint, and the wholesale semi-official criticism, from a personal point of view, ought not so much as raise a presumption that they are pursuing methods which are impracticable, reckless or unsound, or that the insurance written by these home institutions is essentially different from policies sold by older eastern companies which are permitted to do business within this state.

Persons can doubtless be found who are willing to animadvert upon the banks of Iowa and the banking laws of this state, but such criticisms generally rest upon personal grounds or are caused by a lack of experience in the actual operations of such institutions. The proceeds of life insurance, as well as all forms of endowment and investment policies, are in this state exempt from execution, and from the payment of claims against the estates of deceased, and it has never heretofore been considered a breach of official ethics to be associated with financial institutions wherein the people of this state have thus been encouraged to invest their savings.

For many years it has been quite generally claimed at home, and conceded abroad, that the insurance laws of Iowa are among the best and most conservative of any in the United States, and yet I voice the sentiment of all good people when I express the hope that if they are found defective in any essential feature, you will promptly correct and strengthen the same. I have no word to say in behalf of the newer companies. It is relatively immaterial what becomes of them, but the older Iowa companies that have struggled for so many years, and with such honor to themselves and to the state, ought not to be expelled either by indefinite criticisms, or by hasty adverse legislation incited thereby. It is easier to tear down than to build up. It is easier to drive out than to invite back. Therefore, if your honorable body shall deem it wise to amend this branch of our laws, I respectfully recommend that you consult disinterested experts, for insurance, like banking, and many other lines of business, is sufficiently complicated to render it somewhat doubtful whether inexperienced persons, whatever their professional training or good intentions, are competent to give opinions of any considerable value as actuaries.

Personally, I have no objection to the proposed legislation prohibiting state officers from being identified with insurance companies or building and loan associations within one year from the expiration of their term of office; but I see no reason for such restriction that does not apply with equal force to all persons holding official positions in the state, and likewise prohibiting the embarkation in banking, renting

land, practicing law or medicine, or any other business or profession which, under certain circumstances, may become "oppressive upon persons whose only crime is their inability to pay."

The governor's analysis of the matter is quoted at length because of his admirable treatment of the legislative inquiry based upon the attorney general's criticism and comment, and to illustrate just how silly individuals and public bodies sometimes can get. Persons who are in the position of "inability to pay" insurance premiums quite naturally cannot hope to enjoy the advantages of protection. The incident indicates, further, that men who have knowledge of governmental functions, fitness for administrative positions and demonstrated integrity, when sought for public positions, are often deterred from giving consent to so serve by the clamor of those who apparently seem rather to desire selection of individuals for official service from the ranks of the inefficient or the unemployed.

Authority Granted Slowly By State

From the territorial grant in 1838 of authority to organize the first insurance company in Iowa, until 1857, when the Kirkwood bill granted general authority to transact insurance business in the state and set up supervisory provisions in connection therewith, scant authority was accorded the conduct of such class of enterprises.

Following this period came an era when from time to time Iowa general assemblies enlarged the scope of both the operation of companies and supervision over same by the auditor of state. Insurance legislation was important, though not extensive; but, as the home companies grew in size and volume of business transacted, with similar outside organizations also increasing their business in Iowa, both restrictive as well as permissive regulations came from legislative sessions. Some of it was experimental and eventually repealed; much remained and was amended from time to time to meet developing conditions, and a considerable portion yet remains as the law today. In the late nineties and

since, a considerable volume of new insurance legislation was enacted.

Merriam and Carroll Active

During the administrations of State Auditors Frank F. Merriam and B. F. Carroll, a lively interest was taken in the insurance division of that office. The Twenty-eighth General Assembly, in 1900, in several bills passed, broadened the coverage of casualty companies, authorizing insurance against loss from burglary, or robbery, or attempt thereat, and against the loss of money and securities in the course of transportation. It also authorized life companies to transact certain casualty lines.

A lengthy enactment of the Twenty-eighth General Assembly related to stipulated premium life insurance associations, providing for their incorporation, regulation, and government. Also there was another act to authorize determination of amount of loss by appraisement. There were others defining and regulating loans on life insurance policies, and an act rewriting provisions of law relating to the taxing of insurance corporations.

Auditor Merriam in his 1900 report to the governor, submitted a review of various types of life companies that had changed their status or ceased to transact business in the state. Also, through examinations, there had been revealed, according to his report, a group of Iowa mutual assessment associations either insolvent or in an impaired condition, or which had not conducted their business in accordance with law, causing him to revoke their certificates to transact further business, some of which were placed in receivership; also a number of out-of-state companies, some of which withdrew from transacting business in Iowa or were liquidated. A feature of this report pointed out the evils of over-insurance, and commended the governor's veto of the "valued policy" act.

In the Twenty-ninth General Assembly, convened in 1902, the insurance legislation enacted largely applied

to "other than life" organizations and subjects, some of which was urged by Auditor Merriam. Insurance upon the health of persons was authorized, and deposit of notes given as a part of the capital stock of a stock company provided. New lines of coverage not previously allowed to be written in Iowa were authorized, one being the insuring of plate glass against breakage from accident; another to guarantee and indemnify merchants, traders and those engaged in business from loss and damage by reason of extending credit.

Merriam Retained Fees

The chief examiner under Auditor Merriam was Max Beehler, who with Merriam, made many personal trips on out-of-state insurance company examinations, that caused some criticism, reviving the old "fee" controversy over retention by the auditor of payments made to him by a large number of insurance companies for services certified as having been rendered in those examinations. Covering this incident, Johnson Brigham's *History of Iowa and Its Foremost Citizens,* Vol. I, p. 586, states:

> In his message of 1904, Governor Cummins told in plain terms the story of State Auditor Merriam's exhorbitant charges for unauthorized examinations of foreign insurance companies. The auditor had retired from office without complying with the governor's request for a statement of moneys so collected. Merriam's successor, Auditor B. F. Carroll, learned by correspondence with the companies that for 116 examinations an aggregate of $23,267.03 had been charged. The governor urged that the reputation of the commonwealth demanded an investigation, and, if it should be found that the power of the state had been "used by unworthy officers to coerce payments for which no honest service was rendered," he recommended reimbursement to the companies. In this connection the governor recommended that a law be enacted providing that all fees of all departments and boards be paid directly to the state, and that examiners be paid by the state.

Governor Cummins' message to the Thirty-first General Assembly on January 12, 1904, included a statement that

> No man should be judged without a hearing and these men have had no hearing. It may be that they can explain what

they have done so that all adverse criticism will be unwarranted. I think it is your duty to give them an opportunity to do so. Upon the face of the papers that I have, and upon the information that I have received, it appears that many of these examinations were not in good faith, were without value, and that the farce was enacted for no other purpose than to collect money which had not been earned. It seems from the *ex parte* inquiry that we have been able to make, that all the insurance companies paid what was demanded of them, simply because they knew that the auditor held a power which he could exercise to their injury. It is due to these men, as well as to the reputation of the commonwealth that these matters be investigated by a committee having authority to ascertain the whole truth; and if it be found that the power of the state of Iowa has been used by unworthy officers to coerce payments for which no honest service was rendered, I recommend the reimbursement of the sums so unjustly exacted.

Through the newspapers former Auditor Merriam made demand that he be furnished with specific charges, and issued a statement relating to same, setting forth his defense that neither himself nor employees had received funds to which they were not entitled, and that the statutes provided that the fees are required to be paid to the state auditor, but there was no requirement that he in turn should pay them to the state. No hearing or investigation resulted, and Merriam having moved to California, was elected to the legislature out there, made speaker of the house of representatives, later lieutenant governor, and upon death of the governor, became governor of the state, was re-elected in a turbulent campaign, and recently passed away at Long Beach, at the age of 89 years.

Carroll's Vigorous Course

Merriam was succeeded as state auditor by Sen. B. F. Carroll of Bloomfield, who assumed office January 5, 1903. He appointed as his deputy Amos W. Brandt, who had retired as auditor of Polk county and unsuccessfully competed with Carroll for the Republican nomination for state auditor. Ole O. Roe, a Des Moines attorney, was named as chief of the insurance division. These were aggressive individuals and the situation con-

fronting them relating to insurance supervision occasioned their quickly ascertaining the status of those affairs.

Mr. Carroll especially resented the criticisms made of Iowa insurance supervision and learned the facts inciting same. It was from him that the governor received information upon the subject prompting demands for restitution to companies of sums paid Auditor Merriam and Examiner Beehler, if unlawfully retained by them, and Carroll was bent on restoring the state's prior reputation for honorable dealing.

Legislative sessions then were held in the even years and the auditor had a full year in which to become thoroughly acquainted with his task and formulate plans for the corrective legislation later obtained. He stated in his 1903 report that "fire companies" had enjoyed "a prosperous year and were in healthy condition, with substantial increase in volume of business." He called attention to statutory provisions for organization of stock and mutual companies other than life, being intermingled and confusing, and recommended that separate chapters be enacted to apply to each. He was critical of some state mutual associations which he stated "have been extremely extravagant in expenses and especially as to the salaries of officers, the latter item in some instances exceeding the entire amount paid to the policyholders for losses incurred, making assessments unnecessarily high," recommending legislation be had to limit the amounts paid for salaries and expenses by these associations.

Likewise, he criticised the practice of reinsurance of risks in total by Iowa companies and fraternal societies without consulting the department or advising it as to what is being done, such procedure not always being for the best interests of the assured, and recommended corrective legislation.

It also was recommended that a law be enacted defining the character of contracts that may be written in Iowa by life insurance companies, to the end that

the state may be better protected against undesirable insurance, pointing out that in the past there had been little restriction, it being left largely to the companies to determine the kind of contracts they would place, some of which he considered of a very questionable character.

Discriminated Against Iowa Companies

Referring to non-resident assessment life and accident associations paying no taxes into the state treasury, while Iowa associations are taxed at the rate of one percent per annum upon the gross amount of premiums received, after deducting the amount paid for losses and for premiums returned, Mr. Carroll held there was no reason to exempt the non-resident concerns from like payment. He likewise expressed belief that a large number of non-Iowa companies were using agents in Iowa that were unlicensed and in some instances the companies operating an unauthorized business here. He recommended that not only should all agents be licensed but their licenses be required to be registered with the clerks of court in each county where they desire to write insurance.

With respect to the examination of insurance institutions, he outlined a course and recommended payment of salaries and expenses of insurance examiners by the state and reimbursement to the state from the companies and associations examined for such funds advanced. The foregoing with other recommendations indicate how quickly Mr. Carroll had grasped the growing needs of the state in the supervision of insurance business transacted within its borders, as well as the necessity of enlarging the facilities for satisfactory service.

As to the establishing of a separate insurance department, which had met with some consideration by the legislature, he made no direct recommendation. He did point out that the importance and volume of the insurance business transacted in Iowa and its rapid growth here properly required the time of one executive and

several assistants to do the supervising work necessitated; also that the time of the auditor of state was so occupied with other matters pertaining to duties of his office, he was unable to give proper attention to insurance matters. Presenting at length the situation existing at the time and the necessities involved, and stating that the rapid development of supervisory requirements of the insurance business had exceeded the preparation for taking care of same, Mr. Carroll expressed belief that the legislature would provide ample means to care for handling of duties involved. As he anticipated, this resulted in action by the legislature a decade later, in 1914, establishing a separate department, and likewise shortly after also separating the banking department from the auditor's jurisdiction.

Carroll Improved Practices

In many respects Mr. Carroll's administration was outstanding and commendable in supervision of insurance affairs in Iowa. Being convinced of needs of that division and in consultation with Governor Cummins, a legislative program was decided upon. There was quite general feeling among legislators that George W. Clarke of Dallas county, a seasoned legislator, should be elected speaker of the House. As the summer shadows lengthened there also was mention of Representatives Kendall, Temple, Cummings and others. Word reached the governor that Clarke was becoming a bit uncomfortable, not knowing how the situation was developing. Cummins asked the writer hereof to go up to Adel and spend a few hours visiting with Mr. Clarke, during the course of which he be assured there had been no change in plans for his being named speaker, to allay any further anxiety on his part. It was a pleasant mission, Clarke was reassured and no opposition developing, he was unanimously elected speaker the following January.

In the meantime, Mr. Carroll had conferred with the attorney general, and with Mr. Roe had outlined their desires as to a group of insurance bills to be drafted to obtain the reforms in administration hoped to be ac-

complished. The governor conferred with Speaker Clarke and it was planned that the writer should be placed in the chairmanship of the house insurance committee and Senator Whipple of Benton county in similar position in the senate. The appointments were made, and with strong committees behind them a joint meeting of the two committees was held at which Messers Carroll and Roe announced their recommendations and presented to the committees the group of bills intended to obtain reforms in practice relating to insurance. The bills were unanimously approved by the joint meeting and the two chairmen directed to introduce same in the respective houses and secure their passage as early in the session as possible.

Approved Bills Introduced

Following introduction, the bills quickly reached the calendars in both bodies, action being secured earlier in the house than in the senate. They were all passed in the house and messaged to the senate, where the house bills were substituted for the senate duplicates upon the senate calendar and eventually also passed by the senate and signed by the governor, becoming law, as enacted by the Thirtieth General Assembly. Too much space would be required to quote them in detail, but they were comprehensive and embraced the following:

Chap. 56 (H.F. 144). To provide for the examination of insurance companies, appointment of examiners, compensation and expenses of same paid by the state as approved by the Executive Council, the state to be reimbursed by companies examined; revocation of certificates to transact business.

Chap. 57 (H.F. 393). To provide for the licensing of agents of insurance companies and associations.

Chap. 58 (H.F. 145). To provide for the consolidation or re-insurance of the risks of insurance companies or associations or by other companies or associations authorized to transact business within this state, and providing a plan for such consolidation or re-insurance.

Chap. 59 (H.F. 389). To provide for the approval of policies or contracts of life insurance companies.

Chap. 60 (H.F. 319). Providing that all sums collected for expenses of stipulated premium or assessment life insurance

companies and associations and not used for that purpose may be transferred to the benefit, emergency or reserve fund.

Chap. 61 (H.F. 331). To provide for the examination of fraternal beneficiary associations. (Payment of examiners for salaries and expenses same as in Chap. 56).

Chap. 62 (H.F. 226). Rewriting of law providing for the organization of fraternal beneficiary associations.

Chap. 63 (H.F. 256). To provide for consideration or reinsurance of the risks of fraternal beneficiary societies with or by other societies or organizations and providing a plan therefor.

The chairmanship of the committee handling the above legislation was an arduous task including the securing of information, answering of queries both in committee hearings and upon the floor of the house when bills were on passage. Happily, insurance men co-operated and assisted rather than opposed the legislation sought by the governor and the state auditor, who commended the thoroughness of the work involved. In reviewing and summarizing the accomplishments of the session, in his 1904 insurance report, Mr. Carroll indicated his satisfaction, saying, "I am firmly of the opinion that no more important and beneficial legislation has been enacted in recent years affecting insurance matters than these measures."

First Actuary Installed

Announcement was made of the appointment of Dr. John M. Emery, of New York, to be the first actuary of the insurance division, the position newly created. The new law applicable to organization of fraternal beneficiary associations was characterized by Mr. Carroll as one that would "assure greater permanency in this class of associations, and no doubt discourage promotion schemes in fraternal insurance (in Iowa), and thus eventually result in much good." Likewise, he commended the authority given the auditor to approve of life insurance policies before companies could write them in the state, saying:

One year ago there was much comment and criticism of Iowa companies because some of them had issued and were issuing what are known as "gold bond" contracts. At least six companies were then issuing these contracts in some form.

The department did not believe that it was possible to sell these contracts upon their merits and therefore discouraged the issuance of them. I am not aware that any Iowa company is now issuing any form of the "gold bond" contracts, nor do I believe that such policies or contracts could be issued in compliance with the laws recently enacted.

As a whole, I believe that the insurance legislation enacted by the Thirtieth General Assembly will prove very beneficial to the insurance interests as well as to the people of the state.

In his 1905 report, Mr. Carroll recommended a separate chapter of insurance law dealing with hail insurance and re-writing and enactment of a more comprehensive chapter on other state mutuals, which he believed would have favorable assistance of many company managers. He favored the expansion of provisions of law governing state mutual associations to meet conditions involving necessities arising from year to year when volume of both their writings and losses widely vary, being light one year and heavy in other years, particularly in hail insurance business.

Although his general attitude was favorable to mutual insurance, he became critical of manner of management of some of the Iowa associations. The development of this class of coverage had been successful here through a long period. The farm mutuals, or as usually called, county mutuals, in organization dated back to about 1875. They eventually were to write above 90 per cent of the farm risks in the state, and today carry fully that amount of coverage. The first small mutual was organized in Scott county in 1849 by a group of German neighbors, calling it the Duetsche Brund Gilde, and like all county mutual assessment fire associations was operated for the exclusive benefit of its members, the cost above actual losses incurred being small. These have always been successful here and are so conducted today, operating in all but six Iowa counties, which are listed as Clarke, Davis, Lyon, Mills, Monroe and Union. Their annual reports continue to show their strong financial condition and satisfactory management.

But the record of some of the early state mutuals was not so satisfactory, their business not being con-

fined to the smaller areas. During many administrations of Iowa insurance matters, certain ones gave the department concern. Mr. Carroll encountered this and while he strongly favored low cost insurance, he desired trustworthy and economical management. In one report he advocated limiting the accumulating of surplus beyond a certain point by life companies. He said:

> There is a growing sentiment, especially with the policy holders, against the accumulation of a large surplus, and wisdom would seem to suggest that companies make more frequent distribution and carry only such surplus as is necessary to protect them against an emergency.

This might indicate his natural tendency at first to deal leniently with the low-assessment fraternals.

Eventually the law governing state mutuals and their organization was rewritten, authorizing a basis of operation enabling such of them as desired to charge level premium rates, set up reserve and accumulate a surplus, thereby developing strong mutual companies in Iowa; but this came long after Mr. Carroll's service as auditor.

Standard Fire Policy Urged

It was in 1905, also, that Mr. Carroll reported a growing sentiment for a new standard fire insurance policy, saying "that currently in use" was "not entirely in harmony with the laws of the state," pointing out advantages that could be secured by a change.

As a member of one of the fraternal societies, Carroll knew from direct contact, the inadequacies in rates of these organizations, and shared with other insurance supervisors the desire to correct their weaknesses. Eventually this resulted in many such being re-insured or reorganized as legal reserve insurance companies. He co-operated in this movement and became second vice-president of the National Convention of Insurance Commissioners. He was critical of some of the investments made by Iowa fraternals and recommended a general rewriting of Iowa statutes regarding these societies, urging that the requirements be made the same as governed Iowa legal reserve life companies.

Also, he suggested the advisability of legislative con-

sideration of either permitting life companies to invest reserve funds in state and savings banks as well as national banks, or discontinuing their investment in bank stocks of any kind. He favored use of a limited amount of assets of life companies in home office buildings, but suggested a growing sentiment in the state against companies accumulating large surpluses.

Supporting his position upon advisability of approval by the state auditor of forms of life contracts sold in Iowa, Mr. Carroll said:

> A few forms of special (life) contracts have found their way into the state, but as soon as discovered, the companies writing them were required to discontinue the same, so that no such contracts now are being placed in Iowa. In my opinion, there has been too much of a disposition in recent years upon the part of many companies to place upon the market attractive forms of investment contracts to the exclusion of the more common and better forms of life and endowment insurance policies.
>
> I believe, however, that among the more conservative and substantial companies there is a tendency toward the more plain and simple forms of policies, such as can be understood by the average policy holder and that the necessity for discontinuing the writing of contracts which carry a minimum of insurance and a maximum of investment and contracts which can be understood only by the insurance expert, is generally recognized.

New York Inquiry Revelations

The extravagance and dishonesty revealed by the Armstrong investigation of New York insurance institutions had appalled the public. Governor Cummins in his message to the Thirty-first General Assembly of Iowa said, "the public mind is engrossed with the inquiry, 'What can be done to insure fidelity and protect those who have contributed the immense sums now in the possession of the insurance companies?' . . . nor would it accomplish anything to repeat the condemnation we all feel for the flagrant breaches of trust which have been exposed."

He commended the Iowa law requiring each local company to deposit with the auditor of state approved securities representing an amount not less than its legal

reserve for the protection of policyholders, thus guarding from exchange or substitution, except under the vigilant supervision of an arm of the state, and from manipulation or use for private profit. He therefore advocated similar requirement for all outside companies licensed to sell life policies in Iowa, covering their writings here. He condemned the class of life business generally called "deferred dividend policies," stating his belief that the "whole scheme of deferred dividends has a tendency to lead the business away from the field of indemnity into the field of investment, which should be checked."

He recommended that the surplus of companies to be credited or paid to participating policyholders should be ascertained and paid every year, at least an annual accounting be had. Mr. Cummins commended the wise investment laws of Iowa and recommended some specific enlargement of the field of securities available for investment of insurance funds. These and other matters were discussed at length, indicating the prominent position the state was taking in supervisory functions.

Iowa Insurance Investigations

Growing out of the general interest in insurance affairs generated in the state, a bill was introduced by Senator J. L. Warren of Pella, Marion county, and enacted as S.F. 13, creating a legislative commission to examine the subject of insurance, the practices, character and policies of all insurance companies and agents selling same in the state. It also required a report thereon to the Thirty-second General Assembly, and directed the appointment of two members by the president of the senate and three members by the speaker of the house to serve thereon. Senators J. H. Jamieson and John L. Bleakly, and Representatives N. E. Kendall, T. C. Clary and F. F. Jones were named upon the commission, and C. S. Byrkit elected secretary. This action resulted in many long hearings during the period prior to December 1, that year, when the report was to be filed with the state auditor.

A considerable volume of insurance legislation of general character was enacted by the Thirty-first General assembly. It largely applied to lines of insurance permitted written by other than life companies, and their capitalization for the separate lines authorized. One of these was an act prohibiting organization after July 4, 1908, of any mutual company for the purpose of transacting business specified in sub-sections 1 and 4 of Section 1709 of the supplement to the code; another authorizing the insurance of live stock, the accidental discharge or leakage of water from automatic sprinkling systems, with the repealing and rewriting of many sections. The state auditor was authorized to publish notices in papers of the state of statements made up from annual report to his office of every insurance carrier writing other than life business in this state whether organized in Iowa or any other state.

Another act was to authorize life companies so empowered to also write health, accident and employers liability insurance. Also, the law relating to assessment life insurance associations was repealed and a substitute therefor enacted styling same associations, "and any corporation under the chapter which provides for the payment of policy claims, accumulation of a reserve or emergency fund, the expense of management and prosecution of the business, by payment of assessments as provided in its contracts, and wherein the liability of the insured to contribute to the payment of policy claims is not limited to a fixed amount, shall be deemed to be engaged in the business of life insurance upon the assessment plan." This act was accompanied by a repeal of portions of the law relating to stipulated premium and assessment life insurance associations.

The legislation passed in this session also included an act rewriting the investment provisions applicable to life insurance companies. The foregoing legislation of the Thirty-first session was handled in the house by the committee of which the writer was chairman, along with some bills proposed that failed of passage.

Carroll Approved Investigating

Auditor Carroll in his 1906 report commended the act creating the legislative insurance investigating commission. He was intent upon discovering any weaknesses in the law as well as irregular practices of insurance companies and their agents in Iowa, and to correct same. Thus, his administration can rightfully be regarded as a turning point in this respect. Although, in the execution of official duties, he was an upright man of high ideals and rigid integrity, he often exhibited some prejudice in consideration of a subject, and was always determined in his attitude, not easily conferred with, but full credit must be accorded his course in office.

He reported that the Federal court in the Southern Iowa district had upheld the constitutionality of the so-called Blanchard anti-compact law as applicable to insurance companies, and dissolved the temporary injunction issued in a district court restraining the auditor of state from enforcement of same. In this connection he recommended and urged enactment of a law authorizing a uniform fire insurance policy.

He had now become convinced that a firm stand upon the inadequacies of the fraternal orders as relating to insurance must be taken, and he indulged in a critical discussion of their methods and policies, recommending adequate rates and honorable practices in their organization and management, saying in part:

> The chief distinction between fraternal beneficiary associations and assessment life associations is that fraternals are required by law to have a lodge system, with ritualistic form of work and a representative form of government, which assessment life associations are not required so to have. Each secures its funds by means of assessments upon its members. With fraternals, assessments are usually required to be paid monthly, while with assessment life associations they are generally paid quarterly.
>
> From the first organization of fraternal beneficiary associations there has been an erroneous idea as to the rates of assessments necessary to insure permanency. So universally has this been the case that it may truthfully be said that

few if any such associations have ever been formed or organized upon adequate rates. However, it may be assumed that ignorance as to the rates that should be charged is not wholly responsible for the inadequacy of assessments. Doubtless, in many instances, the rates were intentionally made low for the purpose of attracting a large membership to the association before the death rates make an increase in rates of assessment necessary. The older associations have already reached a period where a change of rates must be made, or failure must ensue. In some instances where associations have changed, or endeavored to change, to adequate rates, there has been a loss of from thirty to forty percent of the membership.

Feared for Fraternals' Future

Present conditions both in Iowa and the country at large are such as to demand the most careful consideration of the question as to the future of fraternal insurance. There can be no good excuse for permitting associations to continue upon an unsound basis until the membership, or a part thereof, is carried along to such an age that when a change in rates comes, the older members are driven out of the order, at a period in life when they are unable to procure insurance elsewhere, or are required to pay rates which are practically prohibitive.

A number of states have enacted laws fixing the minimum rate that shall be charged for fraternal insurance. Thus far our state has not succeeded in enacting such a law. The history of these associations in Iowa has been far from encouraging. During the last ten years there have been thirty-five fraternals organized in this state and at present but thirteen of them remain, in other words, twenty-two of them have gone out of existence. Of those that have ceased to exist, some have reinsured their members with other organizations, others have closed up and quit business, and still others have failed outright.

I think it might truthfully be said that in some instances associations have been organized for the sole purpose of speculation, or for the purpose of making places for individuals, but I cannot escape the conclusion that the real cause of the rapid disappearance of concerns of the kind above referred to, is that they have been organized on rates so low that their continuance for any considerable length of time could not reasonably have been expected.

Life insurance companies and associations ought not to be organized simply for a day. It would be better that associations be not permitted to organize at all than they should organize in the future as in the past, upon rates known and

proven to be insufficient. There is certainly a legitimate field and a wide-spread demand for fraternal insurance, but the method of organizing and the rates to be charged should be so safeguarded that a policy, or certificate of insurance, issued by a fraternal beneficiary association has equally as much promise of fulfillment as has a policy issued by a legal reserve life insurance company. Such has not been the case in the past and in my judgment will not be in the future, until such time as by law fraternals are required to adopt adequate rates of assessment.

I believe that a law should be enacted providing that no more fraternals shall hereafter be organized in this state whose rates are not at least equal to those of the National Fraternal Congress Tables and it would be much better if existing fraternals were, within a reasonable time, required to increase their rates bringing them to an adequate basis, the necessary rates to be determined by the age and condition of the association. It is doubtful whether the National Fraternal Congress Tables are sufficient for a society that has been in existence for any considerable length of time. The American Experience Table would be much safer. This matter was called to the attention of the last session of the legislature and a bill with reference thereto was introduced by Senator Saunders, but was not acted upon by either branch of the legislature.

I am a firm believer in fraternal insurance, not only because of the beneficial effect of the organization and association of people together in fraternities, but because it is possible, with proper management, for fraternals to furnish insurance at a lower cost than has ever been furnished or probably can be furnished by old-line companies. The existence of fraternals also tends to keep the cost of other forms of insurance down.

Recommendations on Fraternals

In my opinion, experience has sufficiently demonstrated the fact that fraternals cannot of themselves be depended upon to reorganize and bring about a condition that can be looked upon and regarded as permanent. There are various reasons for this conclusion. Chief among them is the fact that the membership of fraternals has not come to realize that the rates are insufficient and that it is only a question of a few years at most until absolute failure must come to the low rate society. Another reason is that the officers and managers who have taught the membership to believe that rates are sufficient are slow to admit the error of their teaching and honestly and frankly advise the membership as to actual conditions. Still another reason is that officers fear the loss

of position and of salary should they attempt to re-organize and re-adjust rates. It would look like either a matter of cowardice or of intentional deception upon the part of managers and officers of fraternals to continue to educate the membership to believe that existing rates are any guaranty of permanency, for whatever may have been the belief in the past, it certainly is well known to all intelligent officials of fraternals at the present time that one of two results awaits all low rate associations, viz., re-adjustment upon an adequate basis, or certain failure. Another reason why individual societies hesitate to change rates is because their competitors which remain upon the lower basis raid the membership and cause unnecessary loss.

To my mind the only solution to the problem is:

First. To provide by law that hereafter no association shall be organized in or admitted to the state with inadequate rates.

Second. That existing fraternals shall after a given date, not too far distant, adjust their rates to an adequate basis either by an increase of rates of assessment, or by a corresponding decrease in the amount of insurance, giving the member the option.

Third. As suggested by the insurance commissioner of Wisconsin, associations might be required, after a given date, to collect from new members adequate rates, leaving the old members in a separate class on present rates, allowing members to pass from the inadequate to the adequate class at attained age without medical examination. Such members should be required to exercise this option within a given time or the medical examination should be required; otherwise there is added danger of adverse selection. The all-important matter is to bring about the change to adequate rates, and in doing so the law might be so framed as to permit associations to work out the details as to methods.

Assessment Life Insurance

Similar treatment was recommended for the assessment life insurance concerns which were much like the fraternals in operation, the greatest difference being they had no lodges in connection, but levied grossly inadequate assessments. The auditor criticized their their inadequacies, citing that their ten-year record had been no better than the fraternals, and pointing out that eighteen had been organized in Iowa, of which only four remained. He advocated either a law establishing for

them a minimum rate or prohibiting their further establishment in Iowa.

In discussing life insurance legislation enacted by the Thirty-first General Assembly, he regretted its failure to pass a bill introduced fixing minimum rates to be charged by fraternals, another providing for annual distribution of surplus by life companies, and one prohibiting the issuance of deferred dividend policies. These subjects were particularly important in his judgment and were favored by commissioners in other states.

He indulged in exhaustive discussion of these subjects to the extent of many pages, including quotations from the Armstrong committee report, as well as from other supervising officials. He analyzed the evils of the deferred dividend contract and the consequent piling up of surpluses, the payment of extravagant agents' commissions to get this business, denounced the so-called "profits" accruing and the consequent disappointment of the policyholder upon eventual disillusionment.

Then he discussed the question whether a life company should be permitted to write both participating policies, and non-participating policies, holding that a company carrying both lines does so at the expense of the principle of mutuality . . . Also, he devoted some discussion to the four life companies having what they termed a "guarantee fund," two of them being at Davenport, which funds the attorney general had held to be a liability. Mr. Carroll said that "if the law of the state is to be construed as permitting the establishment of a guaranty fund, it ought to provide the manner in which the same may be created, how it shall be used and treated and how and when it shall be retired."

Examinations and Publicity

The auditor also discussed the value of publicity and the publication of examination reports, saying that "every insurance company and association in the state, both of life insurance and insurance other than life, has

been given a careful and thorough examination since the first day of January, 1904, and some more than once. Many of the reports have been published, most of them by the companies or associations and at their own expense." The subject with its varied implications was dwelt upon at length.

Investigation Commission Divided

A report of the Legislative Investigation Commission authorized by the Thirty-first General Assembly to examine the subject of insurance and the practices of insurance companies doing business in the state of Iowa and make recommendation concerning same, was filed with the state auditor on December 22, 1906. The majority of the commission, being Senators Jamieson and Bleakly and Representative Clary, stated that if their recommendations were enacted into law, it would lead to the improvement of the insurance statutes of Iowa, more clearly define the rights of insurance companies doing business here and better preserve the equities of policyholders.

Two other members of the commission, Mr. Jones and Mr. Kendall, did "not concur in the recommendations in regard to deferred dividends and limitation of company expenses to the loading charged, and reserved the right to file a minority report upon those two subjects."

Innumerable hearings were held and many witnesses examined by the commission, which had the help of Mr. Carroll, Mr. Roe, his insurance clerk, and F. S. Withington, actuary of the insurance division. Many other experts were called and examined and almost a continuous series of meetings held from April 26 to December 21, 1906, seeking facts, as to systems, practices and details of management of the business. The commission report filed consisted in total of 293 pages, all but 88 embracing the abstract of testimony heard, and including ten pages covered by the minority report.

The state auditor and his staff were praised, the report stating that "every phase of the work is well in

hand and receives careful attention. . . . The work of the department has been conducted in a manner that reflects credit on all connected therewith." As to conditions in the life insurance business generally, it said:

In the mad race for precedence in building up powerful business organizations during the past decade of years, the great insurance companies have ransacked the field of Human thought for advance ideas that might afford them advantage or prestige in the field of their activities. In view of this strained condition of affairs, it is not remarkable that the bounds of strict integrity may, in some instances, have been overstepped, or their practice at least questionable. The finding of irregularities in the conduct of a business so extensive in its ramifications, controlling a vast accumulation of money, as custodian for the people; its hundreds of resources, far reaching in their possibilities for formulating and influencing legislation, are not, on mature thought, so marvelous as that under existing circumstances the irregularities were not vastly greater, and we believe it is not only a forceful encomium upon the morals of the American people, but a splendid commentary upon the efficiency of our laws.

Abuses in The Fraternals

In this connection, the story of life insurance is but the history of many another meritorious institution for the betterment of humanity. Many people have recognized and treated it as a worthy benevolent instrument in shielding the weak and dependent against misfortune and adversity; indeed, its influence for good has been so potent and far reaching, that it seems almost to tower alone, a lofty tribute to the uplifting power of human genius. Others have seemed to regard it as a convenience, valuable only so far as it was adaptable in furthering the selfish purpose of enriching themselves and their family relations. But all great philanthropic movements in all ages have met with the same impediments.

Life insurance is not, as so often stated, "a money indemnification for the destruction of a valuable human life." Viewed in that light it assumes a commercial aspect not intended by its founders, and is stripped of that fraternal relation which should exist between the company and the assured, and when either party to the contract becomes forgetful of this important fundamental principle, the strife for advantage enters. Life insurance in its simplest form is easily comprehended, it is based upon certain well established principles.

A man may have but a limited income, yet however strong hope for the future springs within him, he realizes that life is uncertain, and that with his death income through his efforts

must cease, and the ideals of the future become as a tale that is told. It is this that prompts him periodically to contribute a portion of his income, and pooling the sum in connection with that of his friends and neighbors, through co-operative effort along well established lines, provide that in event of his death (for which however, there can be no adequate indemnification), a stipulated sum of large proportions, the result of the composite contribution, shall accrue to his living beneficiaries.

Just how much he shall pay in order to meet his ratio of all obligations incumbent upon the society, has long since been determined through approved tables in general use, which were prepared from actual experience in years gone by. Add to this an element called loading, necessary to meet the current expense, incident to carrying on the business, and the essentials of the system have been practically covered.

This is life insurance pure and simple, stripped of modern innovations, dealing with one of the few certainties of human experience, and the system has long since assumed rank as a scientific proposition.

Iowa Deposit Law Praised

In praise of Iowa insurance laws, the report pointed out that "many safeguards from time to time have been thrown around the policy-holder for the better protection of his interests . . . One of the most important factors in the protection of the insured is found in the wise provision whereby Iowa old line companies must deposit with the state securities representing the legal reserve; this applies also to Iowa assessment companies where they provide a reserve. . . Another precaution for the safety of this reserve is the provision of law designating the kinds of securities in which the reserve may be invested, those of a speculative nature being eliminated. . ."

Surpluses and Dividends

In discussion of the accumulation of reserves by the life companies the report traced with careful detail the operations of the business leading up to "possession (by the company) of a large sum of money received from its policy-holders in excess of the actual cost of their insurance, an unavoidable overcharge, really representing the difference between actual and theoretical

cost. Just what to do with the surplus has long been one of the problems of life insurance. . . The stupendous sums accumulated by the leading companies of this country . . . have startled the country and led to legislative investigations, revealing the most glaring irregularities, reckless expenditures and wanton depletion of this fund, gathered in the name of humanity and squandered in personal luxury and selfish greed by the dissipated few who happened to be in control."

The report tells further that "the unprecedented and probably unearned salaries, employment of family relations at large compensation and 'extra' commissions, bolstering up tottering or insolvent banks and floating bond schemes, playing the stock markets, influencing legislation, contributing to campaign funds, maintenance of private palace cars and payment of large retainers to a United States senator, are but a few of the details in crime and mismanagement, which has brought down a torrent of criticism upon the surplus and the system."

Nine pages were devoted to the discussion of deferred dividends, to justify the holding of the majority, which read in part:

> In order that annual and deferred dividend policies may be written on their merits and without discrimination against either class of policies, and for the purpose of allowing free and uninfluenced choice among prospective policyholders, the commission is of the opinion that the companies should not be allowed to pay higher compensation to agents for writing deferred dividend policies than for annual distribution contracts.
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> Prohibiting the writing of the deferred dividend contract after a certain date, while perhaps a protection to the policyholder in future or prospective business, leaves the hundreds of thousands of deferred dividend policy-holders already in, in as bad or worse condition than before, the management still unaccountable to them; and as nothing further can be expected of them in making a good showing on the final settlement day, there is little question but that their surplus may be abused to almost any extent, especially through its use in securing additional business under the new condition of affairs. We believe the principal evil growing out of the deferred dividend contract, is in permitting the company management to be wholly unaccountable for the surplus contri-

buted by the policy-holders, and it is strongly recommended that a statute be enacted which shall hold the companies to the strictest accounting for all dividends accumulated upon policies issued by them.

The Minority Report

Going to the meat of their dissenting from the majority report quoted above as to deferred dividends and surpluses, the minority members said:

The fundamental principles involved in this style of contract, and many of the objectionable features peculiar to this class of business, are fairly and truthfully set forth. The difference of opinion occurs, not on recounting the evils chargeable to deferred dividends, but upon the proposed remedies. . . The adequate protection and equitable distribution of the surplus, are the vital questions at issue between the management and policy-holders at this time. It is upon this question of protecting the interests of the insured, in this surplus, that the most serious rupture in the commission occurs. The minority is of opinion that the report goes to an unnecessary extreme in emphasizing the difficulties in the way of life insurance reforms, and that it ignores the evidence in assuming that little need for legislation exists. We (the minority) do not agree with the report in its position on deferred dividends and consider its mild "belief" in publicity as evasive and totally inadequate to the demands of the occasion. As the object of the minority is to afford some protection to the surplus, we are led to a discussion of those factors that are its greatest menace. . .

Now the most "popular" and "progressive" companies scarcely profess, with any seriousness, to transact a life insurance business, as it was formerly understood. They do not so much propose to provide "indemnity for the benefit of the family," as returns for the enrichment of the investor. Their argument, plausible and deceptive as it is, is addressed not to the sense of responsibility, but to the sense of cupidity. In a word, they have transformed life insurance from a simple provision for the weak and helpless, into a complex composite of plans, schemes and features, for the alleged profit of the policy-holder.

It's no violation of literal truth to affirm that nine-tenths of these devices are fallacious and fraudulent. The most casual investigation will disclose that of every dollar collected by the average insurance company, at least thirty-five cents is disbursed in operating expenses. Manifestly the remainder cannot be safely "invested" to yield satisfactory returns, and it is an interesting fact, as disclosed by the New York com-

mission, that of those buying insurance, one-third abandon their policies before the expiration of two years, and two-thirds of the remainder surrender theirs before the termination of the policy period. In other words, only about twenty per cent avail themselves of the insurance protection; the other eighty per cent yield to the temptation of large profits, and then forfeit them.

It is worth while to deliberate upon the fact that for the year 1905, the total premium income of the seven domestic companies in this State was $2,870,831.20, and that the total disbursements to policy-holders and beneficiaries was but $879,462.28. These figures are somewhat amazing, and illustrate with peculiar force the meager returns which the people who contribute premiums are receiving upon their policies of insurance. For the same year the same companies reported a surplus of $863,375.37.

Some Company Practices Discreditable

In this connection it ought not to be forgotten that the surplus of any honestly administered insurance company, is not an asset, but a liability. It represents an amount which the company has collected from its policy-holders in advance of the actual cost of their insurance. It belongs, not to the management, but to the people who have paid it into the company treasury. Instead of being "invested" for the benefit of those who own it, conclusive evidence is available that it is misappropriated to the payment of fabulous salaries, extravagant expenses and to numberless other reckless and corrupt uses.

Let it be remembered that if the primary purpose of insurance were preserved and nothing beyond the actual cost of insurance collected, no surplus would be accumulated to become the plaything of profligate or dishonest management.

The principal area of controversy is comprised in the above statements, the remainder of the long majority report upon a variety of subjects being concurred in by all members, covering fraternal societies, fraternal accident assessment associations, industrial coverage, agent's commissions, salaries, assessment life associations, uniform policies, mortality tables, co-insurance, fire marshal and separate insurance department recommendation.

The total cost of the project covering per diem and expenses of members, salaries of employees, printing, supplies, typewriters, etc. was $8,674.21. Its value was

questionable, for no specific bills were recommended for enactment although as a result several were introduced by members at the following legislative session. Eventually the offices of an insurance commissioner and a fire marshal were created.

Cummins Restates Position

In his message delivered in person to the Thirty-second General Assembly upon its opening January 14, 1907, a restatement was made by Governor Cummins of his attitude upon current insurance questions previously outlined by him, quoting some recommendations already outlined herein, and stating that the developments of the year had not changed his opinions with respect to life insurance. Reference was made to the subject of surplus accumulations, distribution of same and deferred dividends, "a scheme having a tendency to lead the business away from the field of indemnity into the field of investment—a tendency which is altogether too prominent, and which should be checked by such reasonable regulations as can be prescribed without injuring the legitimate enterprise of insurance." He recommended annual accounting to policyholders, who should be notifed each year of their respective shares in the surplus of the company.

Asserting "there is more fraud and deception, sometimes intentional and sometimes unintentional, practiced upon policyholders by reason of the variety in the forms of life insurance contracts than in any other way," he said, "There are hundreds of these forms, differing sometimes but slightly, and these differences are in many instances, created for no other purpose than to enable the agent to found upon them an argument, the fallacy of which cannot be detected by the unskilled mind, and the effect of which is to create an atmosphere of mystery about the entire business. There are but few kinds of legitimate life insurance contracts. You can certainly number them on the fingers of your two hands. There is no sense in the almost infinite multiplicity of forms. I believe that there should be stand-

ard forms of policies. They should be uniform with all companies. They should be plain, simple and direct. The obligation should be understood."

In his inaugural address three days later, Governor Cummins dwelt upon a variety of subjects, briefly including insurance. He said the safe and sure way for Iowa to lead all other states to such eminence "is to better guard the interest of the policyholder here than anywhere else in the Union," stating at length:

> You have the insurance problem to solve. The business in Iowa has attained tremendous proportions. We are all gratified to witness the prominence that the growth of this interest has given our State. Additional regulations are required, and some are proposed. Instantly, the cry goes up from the companies: "If you touch us we will perish." What I have said about the Constitution, I repeat here. It is this persistent command, "Hands off," and the feeling of danger that it implies, that retard much needed reforms. It goes without saying that nothing should be done that will hurt our insurance companies. After all, there is no great mystery about the business. It is simply an agency to collect money, keep it for a time, diminish it by expenses, increase it by interest, and pay it out again in equitable proportions. Your predecessors made the law under which these companies were organized. They made it to help them, and if you amend it you will amend it to help them.
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> I do not disparage the assistance that men who are engaged in the business can give you through fact and argument; but I do deprecate the idea that the interests involved are imperilled simply because changes are thought to be necessary. In all progress there is some risk of going wrong, but you are not more apt, indeed your are less apt, to go wrong than those who have gone before you, for you have the light of further experience. The officers of insurance companies and legislators are trustees for the policy-holders, and their welfare should be a common object. I would like to see Iowa lead all the other States in the extent of its insurance business, and the only safe and sure path to this eminence is to better guard the interest of the policy-holder here than anywhere else in the Union.

Uniform Fire Policy Secured

The outstanding act of this legislature relating to fire insurance was the uniform policy so long overdue. This enactment was a satisfaction to Auditor Carroll

who commended the General assembly in his 1907 report issued following adjournment of that body. Two acts relating to taxation of insurance companies also were passed, one providing for deduction by companies doing a fire insurance business from gross amount of premiums received the amount of premiums returned upon cancelled policies issued on property in this state, and the other requiring fire companies organized in Iowa to pay the treasurer of the state a sum equivalent to one per centum upon the gross receipts from premiums, assessments, fees and promissory obligations for business done within this state, including all insurance upon property situated within the state, after deducting the amount actually paid for losses on property located within the state and the amount returned upon cancelled policies and rejected applications.

The law enacted with regard to the use of proxies was of general application and included all companies and associations, whether life insurance or insurance other than life, excepting fraternals. It provided that no proxy shall be valid unless signed and executed within two months prior to the date of the meeting at which it is to be used and all proxies expire thirty days after the date of the meeting for which their use was intended. Soliciting proxies by agents or expending any of the funds of the company or association in procuring proxies are forbidden.

Another law of general application to all stock insurance companies was enacted providing that hereafter no stock insurance company shall be organized with less than $100,000 of paid up capital. The further taking of stock notes is not permitted and no company could thereafter advertise or publish an authorized capital in excess of the amount that is actually paid up in cash and invested according to law. Companies previously organized, by January 1, 1910, were required to have paid up at least $50,000 of their capital stock. The remainder could be represented by stock notes as here-

tofore provided, but such notes must be deposited with the auditor of state subject to his approval.

Another measure applying to life and fire insurance companies operating upon the stock plan, was enacted providing that holders of a minority of the stock of such companies in an amount not less than 20 per cent of the entire capital shall hereafter be entitled to representation upon the board of directors of such companies in the proportion which their stock bears to the whole amount of stock issued.

A law also was enacted with regard to misrepresentations and provides that, "No life insurance corporation doing business in this state and no officer, director or agent therof, shall issue, circulate, or use, or cause or permit to be issued, circulated, or used any estimate, illustration, circular or statement of any sort misrepresenting the terms of any policy issued by it or the benefits or advantages promised thereby, or the dividends or share of surplus to be received thereon, or shall use any title of any policy or class of policies misrepresenting the true nature thereof."

Other laws enacted by this session applied to a single kind or class of insurance companies or associations. Of these, two apply to level premium companies, one of which provides that no domestic life insurance company shall make any disbursement of one hundred dollars or more unless the same be evidenced by a voucher signed by or on behalf of the person, firm or corporation receiving the money. Another provided for the approval of articles of incorporation of level premium companies by the auditor of state and attorney-general. Laws had previously been enacted requiring all other kinds of insurance companies and associations to submit their articles for approval.

Assessment Life Companies May Change

An important act provided that after its taking effect, no assessment life association, other than fraternals, could be organized in or admitted to the state. Associations having authority to transact business in the

state at the time of the taking effect of the act were permitted to continue and were entitled to a renewal of their authority, provided such associations value their policies on a basis at least equal to yearly renewable term policies and maintain a reserve such as would be required of level premium companies valuing their policies upon the same plan. It also provided a method by which such associations may transform themselves into legal reserve or level premium companies.

Several laws were enacted with regard to fraternal beneficiary associations, two of which are of great importance and had much bearing upon the conduct of fraternal insurance in Iowa. One provided that no fraternal beneficiary association not then transacting business in the state shall be organized in or admitted to the state unless its mortuary assessment rates are at least equal to those provided for by the National Fraternal Congress Tables. The other measure limited investment of funds of fraternal beneficiary associations to practically the same as the securities previously provided for the investment of the funds of old line companies, except of course, that they not make loans upon their own policies. This law also required fraternals organized under the laws of this state to deposit their invested funds with the auditor of state.

A most praiseworthy act prohibited the making of false or exaggerated statements or publications of or concerning the affairs, pecuniary condition or property of any corporation or joint stock association, intended to give or have a tendency to give a less or greater apparent value to the shares, bonds or property of same than in fact possessed. This could apply to shares of insurance corporations.

There was a re-writing of the chapter of the law applicable to mutual assessment associations. And permission was given to fraternal beneficiary associations to employ up to 10 per cent of funds held in trust as

reserves in erection or purchase and use of home office buildings.

Interest in Insurance Lagged

The termination and reports of investigation commissions as regard life insurance, both in Iowa and elsewhere, had turned the attention of the public to other matters, apparently. Auditor Carroll stated in his 1907 life report:

> There is nothing in the insurance situation in this state that demands any particular comment. The agitation and unrest which existed in the minds of the people last year as to old line companies have in a measure ceased, and the business is assuming a normal condition.

Auditor Carroll's comment in the 1908 report was brief and only indirectly applicable to insurance. He had become absorbed in a candidacy for the governorship, and was nominated and elected that year. Turning to consideration of fire prevention, he advocated more attention be given by proper authorities to construction of fire-resisting buildings in the cities of the state, saying:

> One poorly constructed building not only endangers all buildings located adjacent to it, but necessarily increases the rate that must be charged for insurance upon other buildings and their contents. . . . Also better attention should be given to wiring of buildings for lighting and other purposes.

Perhaps two main factors influenced the result favorable to Carroll's governorship candidacy in the Republican primary election—his popular record as auditor of state in contrast to that of his predecessor in that office, and his candidacy being linked in common with that of Senator Allison who sought and obtained the nomination for another term as United States senator. Two years later, in a speech mentioning the status of insurance supervision by Iowa when he came into office as state auditor, he said:

> The insurance division was regarded as inefficient, and was without standing either at home or abroad. Its reputation was such as to injure the entire insurance interests of our state. Forms of life policies and methods of business were permitted that other states would not tolerate. These matters were corrected and such laws were enacted as were nec-

essary to protect the interests of our people and of the state, as well as the companies organized and operating within our borders.

John Bleakly's Administration

After service upon the legislative insurance commission, which to some extent had ended in a stalemate, with conflicting reports, Sen. John L. Bleakly became auditor of state, having enjoyed some experience in the mutual insurance field. His 1909 reports contained little insurance comment and no recommendations, and the acts of the Thirty-third General Assembly referred to but two subjects—limitation of risks and investment of insurance funds. During the following two years there was more activity, particularly in the field of casualty insurance, and his report of 1910 contained the following:

> During the past year many casualty companies writing business in Iowa have been very insistent that under the provisions of sub-division 5 of Section 1709 of the Code, covering employers' liability, they were justified in writing contracts whereby the owner of automobiles would be indemnified against liability imposed by law for accidents to the person or property of others, caused by the assured's automobile.
>
> The legality of such insurance was denied by this division, and after a careful review of the question, the attorney general held that the owner of an automobile could only insure against injury to others when his machine was driven by another than himself and employed and operated as contemplated by the said sub-division 5, which undoubtedly covers only such machinery, wagons or vehicles as are essential to, or used exclusively in the promotion of and in direct connection with his general business activities, and not when the automobile is used for pleasure.

The letter of Attorney General Byers was in the files when the writer assumed office as insurance commissioner in 1914. It indicated the caution exercised by this able lawyer who was unwilling to go farther than the letter of the legislative act, commenting that such liability coverage was not authorized to be written under the law, and moreover, would be contrary to public policy, as its operation would tend to make the operator of an automobile careless and unmindful of the risk in driving his car.

Kenyon's Election in 1911

Notwithstanding much interest being centered in election of a United States senator, joint sessions being held many days until the closing when Wm. E. Kenyon was chosen, insurance legislation was extensive by the Thirty-fourth General Assembly.

The most important act was that creating the office of a state fire marshal, and Governor Carroll appointed Ole O. Roe to the position.

A form for making application for co-insurance to be attached to fire policies was authorized. Another act related to the authority of companies operating under sub-division 5 of Section 1709, whose capital stock is not less than $500,000 to write in addition, surety and fidelity bonds, as contemplated by sub-division 2 of the same section.

A long list of other enactments, some of great importance and others less, comprised the remainder of the amendments and laws of this assembly, including bills prohibiting future organization of health and accident assessment organizations, provisions enabling them to become stock companies, numbering of standard fire policy lines, governing amount of capital and surplus of health and accident companies, tax upon premium receipts, investment of funds made compulsory, authorization of insurance against loss of rents, requiring reinsurance to be in authorized companies, cancellation of policies by company, approval of policy forms and permits, words "mutual" and "association" to be a part of name, term of agents license defined, discrimination by casualty companies defined, approval of assessment life policy forms, service of process upon foreign benevolent societies and permission to buy blank annual reports; also an act regarding appointment of insurance examiners and fixing their compensation.

In his subsequent inaugural and messages as governor, Carroll either mentioned the subject of insurance only incidentally or not at all, and Auditor Bleakly's comments in reports were perfunctory or limited to re-

cital of conditions. He told in two annual reports of the wide range of work done by his staff and the inadequacy of both personnel and appropriations, expressing decided belief that either a separate department should be created for supervision of insurance or the auditor be authorized to appoint a man qualified to have complete charge of that division of his responsibilities.

Insurance Department Created

Several general acts were passed by the 1913 session of the Thirty-fifth General assembly, one authorizing the writing of insurance against loss resulting from use of automobiles and other conveyances, with limitation of risks, another act providing for protection from loss resulting from sprinkler leakage, and one authorizing deduction of drainage assessments in relation to funds invested by life insurance companies.

Two notable pieces of legislation enacted at this session, became famous landmarks in Iowa insurance history. One created a state insurance department separate from the office of the auditor of state, effective July 1, 1914, with authorization for appointment by the governor of a commissioner of insurance. The other was that establishing the workman's compensation service and authorizing the governor to appoint an executive thereof to be known as the Iowa industrial commissioner, this office relating to employer's liability for personal injury sustained by employees in line of duty, fixing compensation therefor, securing the payment thereof and authorizing hearings and determination of rights. This law became operative by piecemeal,—Part I, on July 1, 1914, and Parts II and III, on July 4, 1913.

Both acts have definitely justified expectations. Employees, employers and the legal profession all have contributed to the successful operation of the workmen's compensation service and generally express satisfaction. In similar manner the Iowa insurance department has the confidence of the public and the co-operation of insurance carriers supervised. One possible

criticism has been voiced. That has to do with the qualifications of appointees to the position of insurance commissioner, which is in the hands of the governor and the state senate.

Qualifications for Supervisory Service

A state official with similar duties in supervision of state and savings banks, is appointed superintendent of banking under statutes providing that he "shall be selected solely with regard to his qualifications and fitness to discharge the duties of his office, and no person shall be appointed who has not had at least five years executive experience in a state or savings bank in the state."

But the statute governing the appointment of an insurance commissioner of the state of Iowa makes no such requirement for length of service in the insurance business, the provision being that he "shall be selected solely with regard to his qualifications to discharge the duties of this position."

Thus, the banking department receives the advantage in administration by a man experienced in the banking business, while the insurance department of the state has had only one man appointed since its establishment in 1914, who was an experienced insurance executive and engaged in the business, and he served but a short time, the appointment not being confirmed by the state senate as by law required. The men who have served in that capacity have had varied backgrounds, one being a newspaper editor and publisher, another a claim agent of a railroad, another a banker and insurance gent, still another a bank teller and statehouse office employee, and the remaining six have been attorneys.

Without discounting the ability of any of these and the fitness of their appointment, or questioning their success as administrative heads of the department, executive insurance experience at the moment of appointment, with the one exception, was lacking. There are those who advocate, and with some degree of force, that it is just as essential for an insurance commissioner

to have knowledge of and experience as an executive in that business as for a banking superintendent to "have at least five years experience as an executive in a state or savings bank in Iowa," even though the law requires that men appointed to both positions "shall be selected solely with regard to qualifications."

Fortunately, most of these former commissioners are still living, the writer being one of them. It is not his purpose either to review their administrations, nor the success of legislation recommended by them. Many readers will pass judgment from personal acquaintance and knowledge. This is a very good place to close the narrative, except to say, that a substantial volume of highly meritorious legislation has been enacted in Iowa in succeeding sessions of the general assembly, aiding materially in the efficient operation of companies, assuring policyholders of adequate and reliable insurance and assisting the department in satisfactory supervision, as provided in the law contained in our insurance code built up through the years, with great credit to the state.

In many states the situation is hardly so tranquil. A state in point—down in Texas, the press dispatches reveal that the reverse has been true. They have not been so fortunate, as insurance scandals have been rocking the Lone Star state, and they have not been trivial by any means. Twenty-nine company failures reported in three years is the record that has set off a tragic financial scandal. These reportedly have cost many persons long-time savings, dealt Texas underwriters a terrific blow, as well as loss of prestige, besides besmirching some political futures.

Life insurance has been almost free from the general situation, which has spelled disaster in the casualty insurance field. The collapse of three concerns making a specialty of writing liability insurance touched off charges against the Texas insurance commission, the industry, the legislature and the governor. The charges include negligence by officials, influence peddling, improper lobbying, conspiracy to commit fraud, bribery,

misappropriation of company funds, falsifying reports of financial condition, false affidavits by bank officials making loans to companies, and "milking" of assets before receivership actions. Some charged with oblique transactions have successfully defended themselves in court and at the last session of their legislature more than 100 amendments to insurance laws were enacted, ranging from increased surplus and capital requirements to more frequent and thorough examinations, as well as giving the insurance commission more power to look into company management competence and regulate insurance stocks and trust company securities.

Four insurance department examiners have been under suspension charging conspiracy to commit fraud on the public and policyholders. It is also charged that there is evidence of fraud, bribery, corruption or negligence in at least eight receivership records. These things have been talked about in Texas for years, and the situation finally uncovered. It may be said frankly however, that company officials have indulged too freely in entertainment of commissioners, their families and departmental staff members. This is too prevalent in all states.

Gov. Merrill's Confidence Justified

Iowa is fortunate, indeed, in the honorable conduct of its insurance companies by the men having their management. Here and there a man has been dropped, and there has been reinsurance of companies, but no wholesale scandal recently has sullied the name of the state or its institutions.

A random though thorough investigation of the state insurance department and practices of company officials, stock brokers and traders, by the Iowa senate in 1924, disclosed reprehensible transactions. A vigorous report revealed the situation and subsequent remedial legislation with recommendations in large part met the needs of the hour.

Iowa people have come to recognize the worth of their home companies and value the advice early given by

Governor Merrill to "build strong insurance institutions here in their home state, to whom millions in premiums may be paid, enabling them to build reserves and surpluses to be invested here and made to contribute to the upbuilding of our commonwealth."

Here, insurance as an institution not only has proved its worth as an economic necessity, affording protection from adventitious losses, but in the relief from want and the alleviation of suffering, it has been of immeasurable benefit to humanity. There really is no other business institution in the world so well calculated to deserve public confidence, being an easily available and reliable system by which people are enabled to provide with certainty for future necessities. In practically every instance, the men of vision who early established here these companies have been gathered to their fathers, but their accomplishments are still bearing fruit as a fulfillment of Governor Merrill's prophecy.

Stanton—The Halland Settlement

Through the courtesy of Hon. Claus L. Anderson, of Montgomery county, the Historical Library of the Department of History and Archives has received a copy of his booklet, "Gracious Bounty" or Stanton, the Halland Settlement, from the *Stanton Viking* press. It is the history of the prairie community and its first settlers—a band of faithful, courageous, industrious, God-fearing men and women who came to Iowa as pioneers to the Halland settlement, to whom the little volume is dedicated. These Swedish emigrants, like those of similar other communities, suffered some hardships and one winter were actually in peril from hunger. Led by young Bengt Magnus Halland, the pastor, suitable location was selected in Montgomery county between the West Nodaway and East Nishnabotna river as a site for the settlement. The story is an interesting recital and the booklet is well illustrated.