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SENATE

{ REPORT
No. 1171

CODE OF LAW GOVERNING LEGAL RESERVE LIFE INSURANCE BUSINESS IN THE DISTRICT OF COLUMBIA

JUNE 30, 1926.—Ordered to be printed

Mr. SACKETT, from the Committee on the District of Columbia, submitted the following

REPORT

[To accompany S. 4182]

The Committee on the District of Columbia, to whom was referred the bill (S. 4182) to provide a code of law governing legal reserve life insurance business in the District of Columbia, and for other purposes, having considered the same, report favorably thereon with the recommendation that the bill do pass with the following amendments:

Page 6, line 16, strike out the words "upon said trust and."

Page 7, line 7, strike out the period, and insert in lieu thereof a colon and the following words:

Provided, That an accounting shall be rendered to the General Accounting Office by the superintendent for all funds and securities received and surrendered, in such form, manner, and time as may be prescribed by the Comptroller General of the United States.

Page 12, lines 9 and 10, strike out the words "except surrender values and matured endowments."

Page 12, line 12, after the word "policyholders," insert the following: "except surrender values and matured endowments."

The object of the bill is to establish a code of law governing legal reserve life insurance business in the District of Columbia. The present insurance laws of the District of Columbia, with the exception of those applying to marine insurance, have not been revised for many years. In the meantime, as a result of the growth in importance of the insurance business, and the discovery of the need of efficient regulation in the public interest, practically all the States have adopted codes of insurance law governing not only insurance companies but their agents and solicitors as well. The lack of regulatory insurance provisions in the District of Columbia has resulted in an influx of unfit companies and agents, who are able to carry on their operations practically unhampered, to the detriment of the public as well as to the injury of reputable companies and agents.

The code contained in the bill hereby reported is the result of conference and agreement among the leading insurance experts of the country, and is in substantial conformity with the laws governing the legal reserve life insurance business in many of the States. There has been no opposition to its provisions, and the amendments recommended by your committee are the result of suggestions from the Secretary of the Treasury and the Comptroller General of the United States. They relate to minor matters of accounting.

The proposed code has the approval of the Commissioners of the District of Columbia, based upon the favorable recommendation of the corporation counsel and the superintendent of insurance of the District, both of whom have given the bill careful study from a legal and technical standpoint.

As evidence of the need for the proposed legislation, quotation is made below from the testimony before your committee of one of the foremost insurance lawyers of the country, who spoke with reference to a previous bill containing practically the same provisions:

During the past year I was asked by the American Federation of Labor insurance committee to make an examination of the laws of the District. They had under contemplation at that time the formation of a large, national in scope, life insurance company. I did so, and was astonished to find the lack of authority in the insurance department, the lack of necessary, as it seemed to me, statutory requirements in the District laws as they exist.

There are three or four essential points in insurance practice with which I am sure most insurance executives would agree: First, that companies in their formative period should be supervised and regulated and their expense limited by statute or some proper supervisory authority. The laws of the District are entirely silent on that subject. They are an invitation, as they exist, or do not exist, at the present time, to unscrupulous promoters to come here and make this District their headquarters. * * * The proposed code covers the subject fully and carefully and fairly. It will not prevent the organization of real, worth-while and meritorious insurance companies. In passing, also, I might say that the Union Labor Life Insurance Co. was obliged to go elsewhere for its domicile. It would have much preferred to organize under the District, but the lack of regulation, the lack of definite Federal policy, congressional policy, in regard to many important points deterred them.

The next point on which the public has the right to insist upon protection is in the use of liberalized and up-to-date * * * provisions in the policy. * * * While the companies generally employ the same provisions in the District that they do elsewhere, in other jurisdictions, it is perfectly a matter of option with them, and in such branches of the business as industrial life and the industrial casualty business there are still many policies written in the District which discriminate unjustly against District residents. * * * In general it (the code) brings the law of the District up to within a few years of all the thought and conception of the business elsewhere. * * *

Another feature which the present law is absolutely wanting in, and which is very important, is the question of provision for adequate reserves. It has been demonstrated through the entire history of the business that in order to succeed and endure permanently insurance organizations of every kind must build upon a reserve basis. * * * But there is no requirement in the District Code to-day for any provision, either its competitive basis or its enforcement. * * * The public should be protected and should know when they die that the necessary funds, which can only be built through the creation of adequate reserves, will be there to fulfill that contract. * * * That again is an invitation to a company operating in the District alone (they could not operate outside of the District without building up a reserve) to run any sort of a company that they please and your District superintendent is practically without authority in the matter.

It was emphasized by witnesses heard by the committee with reference to similar provisions of a previous bill that while the proposed code was not intended as "model" legislation, it was an attempt to

bring the legislation in the District up to a point where it will approximate the best legislative practices and procedure elsewhere in the insurance business.

The bill specifically provides that its terms do not apply to or affect fraternal beneficial associations, or associations of employees of the United States or of the District government, or associations of employees of any person organized among and operated for themselves exclusively; or any corporation, company, or association not engaged in the business of life insurance on the legal reserve plan; or the United States Veterans' Bureau and War Risk Insurance.

Briefly summarized, the bill covers these essential points, on many of which the present Code of Law of the District of Columbia is either wholly silent or grossly inadequate:

1. Provides for licensing of all companies, agents, solicitors, or brokers engaging in the business of legal reserve life insurance in the District of Columbia.
2. Vests powers of examination of companies in the superintendent of insurance.
3. Provides for deposits with superintendent to protect policyholders.
4. Provides for taxation of legal reserve life insurance companies.
5. Prescribes qualifications of agents, solicitors, and brokers; requires bonds for protection of the public, makes agents liable on unlawful contracts, and provides for suspension and revocation of licenses in cases of misconduct, with proper provision for court review.
6. Prescribes and regulates amount of reserves, requires annual statements, regulates valuation of securities, requires standard policy provisions, such as those relating to grace for payment of premiums, incontestability, misstatements of age not voiding policy, loans on policies, extended insurance after premium lapsed, etc.
7. Prohibits misrepresentations, rebates, and improper commissions; defines rights of beneficiary; prescribes penalties for embezzlement and false statements.
8. Prescribes method and form of organization and incorporation, regulates investments, limits real estate holdings, provides dividend restrictions, regulates reinsurance, regulates form of annual statement, prescribes methods of keeping books; provides for proceedings to protect policyholders when capital is impaired.
9. Provides for licensing of foreign and alien companies under proper restrictions and safeguards.

The effect of the legislation will be to protect the public of the District of Columbia against insecure and fraudulent life insurance companies, and at the same time strengthen existing legitimate local life insurance organizations. It will also serve to attract to the District of Columbia other legitimate insurance companies whose reserves will in part be available for investment purposes in the District, an indirect but exceedingly important public benefit.

The commissioners' favorable recommendation previously referred to is set out below.

WASHINGTON, June 23, 1926.

Hon. ARTHUR CAPPER,

*Chairman Committee on the District of Columbia,**United States Senate, Washington, D. C.*

SIR: The Commissioners of the District of Columbia have the honor to recommend favorable action on Senate bill 4182, Sixty-ninth Congress, first session, entitled "A bill to provide a code of law governing legal reserve life insurance business in the District of Columbia, and for other purposes," which you referred to them for report as to the merits of the bill and the propriety of its passage.

There is pending before your committee Senate bill 2983, the object of which is to provide a complete code covering insurance law in the District of Columbia. Hearings have been granted by the commissioners and by your committee on the bill, and it has been found impracticable at this time to secure agreement upon the provisions of the bill.

Senate bill 4182, however, covers legal reserve life insurance companies proposing to do business in the District of Columbia, and there seems to be no opposition to the provisions of this bill. The corporation counsel and the superintendent of insurance of the District of Columbia have given careful consideration to the various provisions of the bill, and they recommended to the commissioners that they endeavor to secure passage of the bill.

Very truly yours,

BOARD OF COMMISSIONERS OF THE
DISTRICT OF COLUMBIA,
By CUNO H. RUDOLPH, President.

