

**MARINE INSURANCE:
HEARINGS BEFORE THE
COMMITTEE ON THE
DISTRICT OF COLUMBIA**

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649342549

Marine Insurance: Hearings Before the Committee on the District of Columbia by Various

Except for use in any review, the reproduction or utilisation of this work in whole or in part in any form by any electronic, mechanical or other means, now known or hereafter invented, including xerography, photocopying and recording, or in any information storage or retrieval system, is forbidden without the permission of the publisher, Trieste Publishing Pty Ltd, PO Box 1576 Collingwood, Victoria 3066 Australia.

All rights reserved.

Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

This book is sold subject to the condition that it shall not, by way of trade or otherwise, be lent, re-sold, hired out, or otherwise circulated without the publisher's prior consent in any form or binding or cover other than that in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

www.triestepublishing.com

VARIOUS

**MARINE INSURANCE:
HEARINGS BEFORE THE
COMMITTEE ON THE
DISTRICT OF COLUMBIA**

COMMITTEE ON THE DISTRICT OF COLUMBIA.
HOUSE OF REPRESENTATIVES.

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

BENJAMIN K. FOCHT, Pennsylvania (*Chairman.*)

JAMES E. WHEELER, Illinois.

STUART F. REED, West Virginia.

FREDERICK N. ZIEHLMAN, Maryland.

FLORIAN LAMPERT, Wisconsin.

ANDERSON H. WALTERS, Pennsylvania.

OSCAR E. KELLER, Minnesota.

ROY O. WOODRUFF, Michigan.

ELLIOTT W. SPROUL, Illinois.

CHARLES L. UNDERHILL, Massachusetts.

WARREN I. LEE, New York.

ROY G. FITZGERALD, Ohio.

FRANK C. MILLSPAUGH, Missouri.

JOE BROWN, Tennessee.

JAMES P. WOODS, Virginia.

CHRISTOPHER D. SULLIVAN, New York.

THOMAS L. BLANTON, Texas.

RALPH GILBERT, Kentucky.

WILLIAM C. HAMMER, North Carolina.

CHARLES F. X. O'BRIEN, New Jersey.

STANLEY H. KUNZ, Illinois.

Miss M. B. LADY, Clerk.

MARINE INSURANCE.

COMMITTEE ON THE DISTRICT OF COLUMBIA,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Friday May 6, 1921.

The committee met at 10 o'clock a. m., Hon. Benjamin Focht (chairman) presiding.

The CHAIRMAN. The committee will come to order. The object of this special meeting of the committee this morning is to have gentlemen who are represented by Mr. Edmonds address the committee on bill H. R. 175, which has reference to marine insurance; and in order that the committee may have better comprehension of the purpose of this legislation, being interested here in the District, Mr. Edmonds requested that he be given a hearing; and hence we called a special meeting of the committee for the purpose.

Therefore, Mr. Edmonds, if you will kindly make whatever introductory statement you may desire and proceed to introduce witnesses, the committee will be obliged to you.

I wish to say that at the last meeting of the committee it was decided that witnesses when they testify on matters involving questions of importance will be sworn. Hence, you will understand I am following the direction of the committee when I swear the witnesses when they take the stand. Mr. Edmonds, you may proceed.

STATEMENT OF HON. GEORGE W. EDMONDS, MEMBER OF CONGRESS FROM PENNSYLVANIA.

Mr. EDMONDS. In the first place I wish to say that this bill yesterday was indorsed by the Merchant Marine and Fisheries Committee. Their subcommittee has looked into the matter and has unanimously approved of this bill. For 15 months the representatives of the Shipping Board and a subcommittee of the Merchant Marine Committee and the Merchant Marine and Fisheries Committee itself have been looking into marine insurance, it being one of the vital factors in the carrying on of the merchant marine, and the necessity of having a facility of this kind confined as nearly as possible to this committee was apparent to everybody who investigated the matter.

We had as an expert for the committee and for the Shipping Board Prof. S. S. Huebner, of the University of Pennsylvania. The professor has made a study of this subject and all I could say in regard to it would be probably again spoken of by himself. So I am going to ask you first to hear Prof. Huebner and let Prof. Huebner explain to you why this bill was drawn, how it was drawn, and why it is necessary for the shipping business.

STATEMENT OF PROF. S. S. HUEBNER, EXPERT IN INSURANCE TO THE UNITED STATES SHIPPING BOARD AND THE COMMITTEE ON THE MERCHANT MARINE AND FISHERIES, PHILADELPHIA, PA.

The witness was duly sworn by the chairman.

The CHAIRMAN. Go ahead with your statement, Professor.

Mr. KUNZ. Pardon me just a moment, Mr. Chairman. What is your business and address?

Prof. HUEBNER. My address is Philadelphia, and I am connected with the University of Pennsylvania as a teacher, and in this marine insurance investigation have served as an expert to the United States Shipping Board and the Committee on Merchant Marine and Fisheries.

Mr. KUNZ. You have no interest in the insurance business at all?

Prof. HUEBNER. Absolutely no interest in it in any shape, form, or manner, except to see the business grow.

The CHAIRMAN. How do you happen to be here, by whose request?

Prof. HUEBNER. At the request of Mr. Edmonds.

The CHAIRMAN. The author of the bill; and he is acting in behalf of the interests?

Prof. HUEBNER. Mr. Edmonds asked me to be here and explain the reasons why this bill was framed and the main ideas in the bill.

Mr. Chairman and gentlemen of the committee, the sole purpose of the bill under consideration is the fostering of the development of an American marine insurance business. The purpose of the bill is to place American underwriters on a parity with their foreign competitors by removing legislative obstacles which now stand in the way of the progress of American underwriters and which their foreign competitors are not obliged to contend with. There is nothing radical or visionary about this bill. It simply aims at the adoption of practices and principles which have been used by our leading competing nations for many, many years, with eminent success, and with great benefit to their own companies and incalculable harm to our own.

The bill proposes to modernize our legislation as it relates to marine insurance and thus give our companies a chance. The sole purpose of the bill is to bring about conditions of fair play in our own country for our own people.

As Congressman Edmonds has stated, this bill is the outgrowth of a comprehensive investigation which was conducted for a period of some 15 months or more, jointly by the United States Shipping Board and the Committee on the Merchant Marine. As a result of that investigation three things were shown, I think, beyond denial: The first is that marine insurance is an absolute necessity to the maintenance of a merchant marine and the securing of our foreign trade opportunities; secondly, that marine insurance as we had it a short time ago was of very limited proportions; and, thirdly, that unless we change existing conditions by legislation it seems impossible to have any progress in the further development of the business.

I will now take up each one of the three points I have mentioned:

Marine insurance differs from most other forms of insurance in that its service extends far beyond the protection of property and credit. Marine insurance is also much more than a source of large

national revenue. We should not forget that marine insurance is a national commercial weapon. Our competitors have used it as an important branch of commerce, employed jointly with the shipping business and the banking business, to further their foreign commercial interests.

Our competitors have used marine insurance as a means of preempting leading lines of trade; and nations that possess important marine insurance facilities are in a position, when occasion requires, to deny those facilities to the citizens of other countries which do not possess independent marine insurance facilities, or if they do grant them, grant them under conditions which are not favorable.

And then it should not be forgotten that an independent marine insurance institution is highly desirable as a means of safeguarding our commercial information. Information is probably nine points in success in foreign commerce, and we ought therefore to always bear in mind the fact that when an American insures his cargo with a foreign underwriter he makes available to that underwriter necessarily a lot of very valuable information—the underwriter becomes acquainted with the consignee and the route of travel, the methods of doing business and the financial terms of the trade transaction. One of the very first things our President did at the commencement of the Great War was to close down on the German insurance and reinsurance companies in this country. Beyond question they had the means of obtaining an immense amount of very valuable commercial information. It does seem strange, therefore, that we should have given up so willingly this very important branch of commerce; that we should have opened up our books of business record so willingly, and that for so many years we should so ungrudgingly have allowed tens of millions of dollars to flow to our foreign competitors.

Despite the importance of marine insurance, our investigation showed that the volume of business transacted by our own companies was of a very limited character. A few statistics, I think, will make that clear. The records are for the year 1918, because the investigation was conducted in 1919 and those were the latest records available. But 1918 is a good, fair year for purposes of comparison. Two-thirds of all the marine insurance originating in the United States during 1918, cargo and hull insurance combined, was either sent abroad to nonadmitted companies, or was written by foreign companies admitted to this country. In other words, two-thirds of all American marine insurance was under foreign control. If we limit our view to hull insurance, the figures would indicate that about 75 per cent of the hull business originating in the United States was under foreign control.

One-half of the reinsurance placed by American companies was placed with foreign underwriters, and many of the companies advised the committee that the large proportion of reinsurance which they placed with foreign companies was allotted not through choice but necessity. Our reinsurance facilities were so limited that nothing else could be done. Furthermore, while our marine insurance companies were large in number, some 86 in all, only 62 wrote marine insurance directly, and of those 62 companies, only a few of the larger ones did nearly all the business. Five of the companies, for instance, transacted four-tenths of the total American marine

insurance written by all American companies, and 10 companies transacted two-thirds of the total. I mention these figures to show that the great mass of the companies were comparatively unimportant.

Mr. KUNZ. Where did you get these figures?

Prof. HUEBNER. These figures were obtained through questionnaires. An elaborate questionnaire was prepared and submitted to all companies transacting marine insurance in the United States, American as well as foreign admitted companies. The returns were all filed under oath, and that information was supplemented with all the information that could be obtained from State insurance records.

All the data, by the way, to which I have been referring has been published in two reports, one labeled "The status of marine insurance in the United States" and issued under date of February 26, 1920, and a later report on "Legislative obstructions to the development of marine insurance in the United States," published under date of December 11, 1920.

The CHAIRMAN. May I ask you, before you proceed further, how it happened that you have this legislation introduced in respect of the District of Columbia, where they have no companies whatever that might take insurance of this kind, and it is purely a State matter under the charters of the States, and, furthermore, the total amount of insurance that has been paid on premiums abroad, and whether there are now in this country companies capable of carrying this enormous liability?

Prof. HUEBNER. The content of what I intend to say, Mr. Chairman, will cover your question, although it will probably take five minutes to give the answer.

In view of the situation as I have explained it—that is, the very limited amount of marine insurance facilities in the country and the desirability of having an independent marine insurance business—the committee and the Shipping Board devoted much time to the remedy. Now, the remedy could be along one or two lines: We could have Government insurance or we could have private insurance.

After very careful thought, the unanimous conclusion was that it would be most desirable to have the Government get out of the insurance business as soon as possible and to encourage private initiative. It was felt that that was the only way in which to have a lasting marine insurance institution to serve this country.

Mr. KUNZ. By whom were these conclusions arrived at?

Prof. HUEBNER. By the entire personnel of the subcommittee of the Committee on Merchant Marine and Fisheries, which had charge of this investigation. They issued a committee report outlining what I am just now stating, and they decided in favor of private marine insurance rather than Government marine insurance.

Having decided in favor of private insurance, the next problem arose as to how to bring that about. Time was the essence of success. Our opportunity is right now. If we miss this opportunity, we may probably never have another, or probably not for half a century. Hence it was decided to do as much as could possibly be done at once, and then pave the way for more gradual progress through proper legislation.

Therefore, at the instigation of the Subcommittee on the Merchant Marine and Fisheries, and with the approval of the Shipping Board,

the marine underwriters of the country were induced to cooperate, get together, and form syndicates. Three such syndicates were formed, and are known as syndicates A, B, and C.

Syndicate A is purely a service syndicate; that is, it does not do any underwriting. It tends to the making of maintenance inspections and loss surveys. It helps syndicates B and C by rendering services. It operates on a cost plan, and its purpose is to do for the United States what the London Salvage Association is doing for England.

Syndicate B is an underwriting syndicate, consisting entirely of American companies. Some 50 companies, if I recall the number, have joined in this syndicate. It insures the Government's equity on vessels sold by the Shipping Board; that is to say, the unpaid portion of the purchase price. It guarantees an underwriting capacity of \$2,000,000 on a single steamer.

Syndicate C is also an underwriting syndicate, which insures American steamships owned by private interests, and has an underwriting capacity of two and a half millions on a hull. Two-thirds of the underwriting capacity of syndicate C belongs to American companies that are members, and a one-third interest belongs to foreign admitted companies, provided they choose that much.

These syndicates are now organized and are functioning. But the creation of these syndicates, it should not be forgotten, is just a preliminary step. We might say it is only half of the problem. These syndicates must now be allowed to grow and thrive, and that is the other half of the problem. So, in answer to your question, Mr. Chairman, we were faced by certain difficulties, legislative obstacles that stood in the way of the successful operation of these syndicates.

Mr. KELLER. What is the difference in the amount of insurance of the two different syndicates?

Prof. HUEBNER. Syndicate C is a broader syndicate, greater membership, and therefore the underwriting capacity can be larger.

Mr. KUNZ. Might I ask you who are the foreign admitted companies, if you know?

Prof. HUEBNER. By far the majority of the foreign admitted companies belong to the syndicate. There are English companies and companies from other countries that belong to that syndicate.

Mr. KUNZ. Is Lloyds one of them?

Prof. HUEBNER. Lloyds is not a company; Lloyds is not a member of the syndicate.

The CHAIRMAN. What is Lloyds anyhow?

Prof. HUEBNER. Lloyds is an organization of underwriters where the individual subscribers to a policy assume a certain personal liability on a risk. Fifty, or even a hundred, individual underwriters at Lloyds may undertake a risk, but each individual signs up for the risk and only for a certain stated amount indicated after his name.

The CHAIRMAN. Do they have capital?

Prof. HUEBNER. A member of Lloyds is obliged to make a deposit at the time he becomes a member. I do not know just what the deposit is at present. Before the outbreak of the war it was \$25,000; it may have been enlarged since.

Mr. MILLSPAUGH. You stated that the facilities for marine insurance that the foreign governments possessed would give them access to knowledge of our Government plans in case of trouble with this

country. What would prohibit the foreign admitted companies from having access to that information if they were permitted to join in this proposition?

Prof. HUEBNER. The idea of this bill is not to bar foreign companies at all. The idea of the bill is to enable the American business of marine insurance to grow to such an extent and to write insurance on terms sufficiently favorable to enable American merchants and ship owners to place their insurance with our own underwriters if they so choose rather than be obliged to put so much of it on the other side.

Mr. MILLSAUGH. I gather that, but what is to prohibit the foreign countries from gaining information which you seek to stop them from getting through the provisions of this bill?

Prof. HUEBNER. If American merchants and shipowners adopt foreign policies, then foreigners naturally will have means of getting information.

Mr. MILLSAUGH. So that that feature of the bill would be practically operative as soon as you admit the foreign admitted companies to the syndicate?

Prof. HUEBNER. As far as syndicate C is concerned, yes. But not as regards syndicate B, nor as regards syndicate A. Those two syndicates are composed of American companies solely. But there is this difference, that the proportion, the allotment of business between American companies and foreign companies in the syndicate is two-thirds for American companies and one-third for the foreign admitted companies, whereas our figures indicated during the investigation that two-thirds of all American marine insurance was under foreign control.

Mr. FITZGERALD. Prof. Huebner, I do not understand what the obstacles are which are to be removed.

Prof. HUEBNER. I am coming to that right now.

Mr. FITZGERALD. Thank you.

Mr. HUEBNER. The legislation which we seek to eliminate is State legislation. Owing to the decisions of the United States Supreme Court, the supervisory control of insurance rests entirely with the States. The result of such decentralized control has been the development of a great mass of legislation which has purely a local viewpoint. It is provincial legislation. Forty-eight separate architects have built up that legislation, and a careful analysis of the laws indicates that the structure which has been erected in the different States was designed primarily to hold up as heavy a weight of taxation as possible. The national viewpoint, the importance of marine insurance as an instrumentality in developing commerce, has received little consideration in the individual States. Marine insurance has been regarded as a mere incident, was lumped together with fire insurance, and was subjected to legislation which was intended primarily for fire insurance, although the difference between those two kinds of insurance is very great.

The question is, how to make a change? The conclusion of the committee that had charge of the investigation was that the only way of accomplishing a change is to do by indirection what the law forbids us to do directly. This is a national measure, and consequently Congress should give a national expression. There is every reason to believe that if Congress adopts this bill the individual States will take to it very much more kindly than if Congress does not