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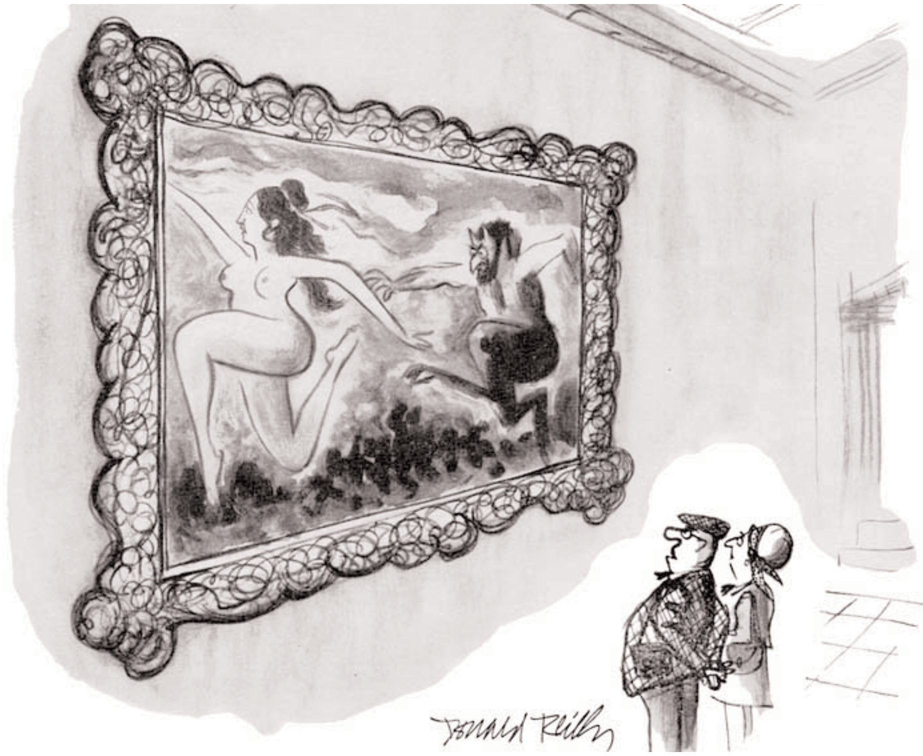
Reliance, Arthur Levitt, 1969 Senate Hearings

Bonfire of the Conglomerateurs, Part 2



"Oh, damn! I forgot to mail in my proxy vote against Consolidated's takeover bid!"

In February 1969, the U.S. Senate Judiciary Committee's Subcommittee on Antitrust and Monopoly commenced hearings on the insurance industry. Topics covered included state regulation, solvency, non-renewal, and conglomerates. On the following pages we present edited excerpts from the hearings along with our comments. The primary players are Senator Philip A. Hart, Jerry S. Cohen, Arthur Levitt, Jr., Edward Netter, and Addison Roberts. Here are brief descriptions of each.

Philip Hart, a liberal Democrat from Michigan who had been wounded at Utah Beach on D-Day, was chairman of the hearings. The "Hart" in Hart-Scott-Rodino, he was a champion of civil-rights, consumer-protection, and environmental-protection legislation. Shortly before his death in 1976, the senate named its new office building for him. The entrance bears the following inscription: "This building is dedicated by his colleagues to the memory of Philip A. Hart with affection, respect, and esteem. A man of incorruptible integrity and personal courage strengthened by inner grace and outer gentleness, he elevated politics to a level of purity that will forever be examined to every elected official. He advanced the cause of human justice, promoted the welfare of the common man, and improved the quality of life…His humility and ethics earned him his place as the conscience of the Senate."

Jerry Cohen, staff director and chief counsel to the Senate Judiciary Committee, went into private practice after the hearings and subsequently wrote two best-selling books, *America, Inc.: Who Owns and Operates the United States*, and *Power, Inc.: Public and Private Rulers and How to Make Them Accountable.* Over the years he was involved in a number of prominent cases and was one of two lead attorneys who represented 34,000 plaintiffs in a class-action suit against Exxon after the Valdez oil spill in 1989. He died in 1995.

Arthur Levitt, who was named a special advisor to AIG's board of directors last week, is best known as chairman of the SEC from 1993 to 2001. In 1969, he was president of the Wall Street firm Cogan, Berlind, Weill & Levitt (the Weill was Sandy Weill), which represented Leasco. He left the firm in 1977 (by then it was called Shearson Hayden Stone). He served as president of the American Stock Exchange from 1978 to 1989.

Edward Netter, who accompanied Levitt, was senior vice president of Cogan, Berlind, Weill & Levitt, and specialized in the insurance business. He left the firm in 1971 and went into the reinsurance business and, later, into the life-insurance business. He is now chairman and majority owner of Independence Holding Company (NYSE: IHC).

Addison Roberts joined Reliance Insurance Company in 1938 and became president in 1964. He opposed Leasco's attempt to take over Reliance, telling shareholders that Leasco was "speculative," and brought a lawsuit accusing Leasco and Cogan, Berlind, Weill, & Levitt of conspiring to manipulate Reliance's stock. Soon afterwards he endorsed the takeover. Unbeknownst to Reliance's shareholders, he had been promised a big raise, a five-year contract, and a pile of options (from which he would make a large profit). In 1972, following a lawsuit, Judge Jack Weinstein found that Roberts had "abandon[ed] his duty to shareholders in return for personal benefits." Roberts was president of Reliance until 1974, and a member of the board until 1977.

Hearings before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, United States Senate

Senator Philip A. Hart: Our opening witness is the distinguished son of a very distinguished father. I think the committee is fortunate that we are able to begin this portion of the hearings by hearing from Arthur Levitt, Jr. He has the national distinction of being sought after by companies who seek to acquire these holding companies.

Mr. Arthur Levitt: [*Prepared statement*] Thank you very much. I am president of the investment banking firm of Cogan, Berlind, Weill & Levitt, Inc., which was formed in 1960. The firm participates in all phases of the investment banking business.

Because CBWL and its research staff were attuned to companies in special high-growth areas and aware that superior investment opportunities exist in stable, well-known companies operating within established industries, the research staff focused on the fire and casualty insurance industry in 1966 and 1967. It was the view of our research staff then that investments in companies within this industry could produce substantial capital appreciation with limited downside risk exposure.

The research efforts produced a report by Mr. Netter in August 1967 on "The Financial Services Holding Company," which discussed in considerable detail the developments taking place in the fire and casualty insurance industry, and concluded that "all the evidence indicates that a new era is emerging for the historically moribund fire and casualty industry. A new economics for the industry has evolved through a new breed of company—the financial services holding company."

It was our feeling that unparalleled opportunities existed in the holding company structures. The day was ending when one company could write only property and casualty insurance and another company sell life insurance, a third offer premium financing, the fourth mutual fund investments—and all compete effectively for the consumer dollars.

Mr. Fred Merrill, president of Fund America Company, now a subsidiary of American Express, expressed the belief that the broadest possible range of financial services could be combined in an integrated marketing effort by the successful company of the future. The holding company's structure could become the dominant corporate organization of financial service institutions, a view to which we wholly subscribe.

With the aid of computers, these financial service organizations would be able to furnish the agent force with all data necessary to establish and maintain a well-rounded financial program for the client. As a result, the agent would be more productive to himself, to his client, and to the company. The corporate complex would undoubtedly service the consumer's needs in such diverse areas as mutual funds, insurance of all types, investments, premium-auto-and-mortgage financing, consumer and sales finance, variable annuities, business services (travel, collections, etc.), banking and/or savings and loan.

Our studies in the fire and casualty insurance field resulted in many inquiries from a wide variety of sources. We acted as a consultant to Leasco Data Processing Equipment Corp. and National General Corp. in connection with the acquisitions by those companies of Reliance Insurance Co. and Great American Holding Corp., respectively.

Senator Hart: Mr. Levitt, thank you very much. I am asking a question which, if I were in a potential buyer's position, I would be subject to—and properly so—a very substantial fee for the answer. I will relate it to one of those acquisitions that you did mention and concerning which you gave some counsel. What was the basis on which you would recommend that National General buy Great American or Leasco buy Reliance?

Mr. Levitt: The basis was the premise that was established in the financial-services-holding-company concept. We looked upon the fire and casualty group as an area representing undervalued assets, and that the merged entity could represent a new entity which could make better use of the combined assets. That the legitimate marriage between a data-processing company and a fire and casualty company was by no means unique.

Senator Hart: Specifically, what cost savings would result from the marriage that would not be available without the marriage?

Mr. Levitt: I would like to refer that to Mr. Netter. I think he can go into greater detail.

Mr. Edward Netter: [*senior vice president of Cogan, Berlind, Weill & Levitt*] I would say that the backbone of most insurance operations today is related to setting up of advanced computer systems and, as a result of that, I think the technology and managerial skill which is now national—and international in the case of a company like Leasco Data Processing—should and would appear to me to be most advantageous.

Senator Hart: Yes, but if there had not been that marriage, the insurance company could at least have bought the service that you are talking about.

Mr. Netter: Is there a specific question? I think you made more of a statement.

Senator Hart: Is that not true?

Mr. Netter: Yes. That would be true.

Senator Hart: Mr. Cohen?

Mr. Jerry Cohen: [*chief counsel to the Senate Judiciary Committee*] As I understand it, you feel that this kind of merger is going to be beneficial from the point of view of management in terms of cost savings, but you caution us that we cannot think of cost savings in the narrow or short run. We have to look at it only in terms of what might happen in the long run, is that correct?

Mr. Levitt: No. I say that is only part of the total picture. I think it is an important part. Certainly, it was one of the initial factors which the acquiring companies must seriously consider.

Mr. Cohen: The only cost saving that you mentioned is the availability of Leasco's expertise in the computer field, as it would affect the insurance company. But as a matter of fact, is it not true that many insurance companies have completely computerized without the necessity of merging and, as a result, they have got cost savings without merger? In fact, they have had one other advantage. They have been able to shop many leasing companies and get the best price they could in order to achieve those cost savings.

I take it once Leasco owns Reliance that Reliance has to then rely on Leasco and cannot go into the market and possibly save more money by getting some other company to do the job for it more cheaply. *continued*

Mr. Levitt: It does not necessarily have to work that way. The financial talents brought to bear on the new company were considerable, and I think the merged company is in the business of making money and utilizing its funds to the maximum degree possible.

I do not think the acquired company [Reliance] demonstrated any farsightedness in terms of its objective and in its development. I do not believe that the merger preempts the merged company from seeking the very best possible advice and assistance and counsel from companies which might appear to be competitive with the Leasco data processing operation.

Mr. Cohen: Now, what does the management of a leasing company know about running an insurance company in terms of efficiencies?

Mr. Levitt: You know, that is a very difficult question to answer specifically. I think in order to relate what one businessman specifically knows about another man's business would be very difficult, but I can recite to you a complete history of mergers and instances where a man schooled in particular business skills has done quite successfully in a seemingly unrelated business endeavor.

I would say that the management of Leasco Data Processing Equipment Corp. represents some of the most astute business minds in the United States today. I think that such management could act with equal effectiveness in managing a fire and casualty company as it might in operation a retail endeavor or a heavy equipment manufacturing operation, and I have no question as to the ability of such management to be transferred with equal effectiveness.

It is ironic that Levitt expressed such a high opinion of his client, Saul Steinberg, because Leasco (which subsequently changed its name to Reliance), was a master at funny accounting—something that Levitt would publicly deplore as chairman of the SEC.

Levitt's firm received a $750,000 fee from Leasco as a "finder" for Reliance.

Mr. Cohen: Now, one reason I suspect Leasco is interested in Reliance is that Reliance is an old-line company; a substantial company. It had assets of approximately $700 million when it was acquired, and had established a good reputation in the casualty business. Is this one of the considerations that goes into your judgment as to whether a merger makes sense or not?

Mr. Levitt: I think that is a factor, yes.

Mr. Cohen: Now, another area you talked about was you felt this would be good for the policyholders of the insurance company. How could this merger, in your opinion, help the policyholders?

Mr. Levitt: In general, I would say a merger which results in a better managed and more progressive company is good for the stockholders *and* the policyholders because increased efficiencies which would result from such benefits might very well result in savings passed on to policyholders.

I would say that I made a general observation that an improved economic entity would act in the best interests of all concerned. My observation was more theoretical than specific. When we considered the Reliance-Leasco merger, we did not take into consideration the kinds of saving that might result to the policyholder's advantage.

Mr. Cohen: How much stock of the insurance company was involved in this transaction?

Mr. Levitt: How much Reliance stock was acquired by Leasco?

Mr. Cohen: Yes.

Mr. Levitt: About 96% of the company's stock, or 5,300,000 shares.

Mr. Cohen: What was the measure of exchange?

Mr. Levitt: Well, it was a combination of factors.

Mr. Netter: Under the exchange offer, each share of Reliance received one share of $55 par convertible preferred with a $2.20 dividend, and half a warrant with a maturity, I believe, of 20 years, with an exercise price of $87 per share.

Mr. Cohen: So, it was both stock and warrants, is that correct?

Mr. Netter: That is correct.

Mr. Cohen: What is a warrant?

Mr. Netter: What is a warrant? A warrant is a privilege which permits the holder to call the common shares of a security at specified price for a specified period of time.

Mr. Levitt: The right to purchase stock.

Mr. Cohen: Do warrants have to be registered with the SEC? Does the company just issue warrants when they want to, or is there some kind of regulation that governs it?

Mr. Netter: In this particular case it was a registered offering, so, therefore, the Securities and Exchange Commission would have had to approve the issuance of those securities.

Mr. Cohen: We hear a lot about convertible debentures and warrants being exchanged for stock, and I just wonder if you could tell us generally, where do convertible debentures come from and where do warrants come from?

Mr. Netter: They are various forms of securities which are used in the investment banking field.

Mr. Cohen: Can a board of directors get together and say, well, we will issue, say $100 million in warrants or $100 million in convertible debentures?

continued

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Mr. Netter: I would assume if the bylaws and charter so provided.

Mr. Levitt: There is considerable dilution represented by printing paper of this kind, so that I do not think it is an open-ended situation. There are some practical limitations.

Mr. Cohen: At that same meeting that Senator Hart alluded to earlier, one of the agents mentioned that *Chinese money*—by which I suspect he was talking about these warrants and debentures—was being issued for the very substantial existing assets of the companies involved, in this case Reliance. I wonder if you might comment on that.

Mr. Levitt: In the case of the Reliance situation there was substantial equity behind it in terms of the preferred issue. I do not think it was relevant in this instance.

Leasco did not have substantial equity or earnings power, as the results over the ensuing decade would prove. Reliance had substantial equity, and essentially, Leasco did a leveraged buyout of Reliance, albeit one in which it paid in securities rather than in cash.

Mr. Cohen: As you know probably better than anyone else, casualty companies generate a great deal of cash flow from premiums. The holding company's concern primarily is, is it not, using that cash flow where it is going to benefit the holding company?

Mr. Levitt: No. I don't think that is completely so. I think their concern would be utilizing that cash flow, not necessarily to benefit the holding company, but quite conceivably also to benefit the fire and casualty company which has generated that cash flow.

Mr. Cohen: As I understand it, one of the reasons that you look upon casualty companies as such good investments is they do have these large reserves and these large surpluses—which I think the president of Leasco in this case referred to as "redundant capital"—which Leasco as a financially-oriented company might be able to put to better use than the use it is being put to now.

Mr. Levitt: I think that is a fair statement; yes.

Mr. Cohen: So what they are really concerned about is better utilization of the total holding-company operation; aren't they?

Mr. Levitt: Not entirely.

Mr. Cohen: Aren't they?

Mr. Levitt: Not entirely, because I think the utilization of capital and maximizing the earnings of that capital, a considerable part of which can be conducted within the constraints of the fire and casualty company itself. I think it is part and parcel of the same package.

Mr. Cohen: But if they say, for instance, that they could take cash flow or take that net surplus and make more money with it in another one of their entities other than the casualty company, wouldn't that just be good sense for them to do that?

Mr. Levitt: That is a very theoretical kind of question which I don't think I can answer.

Mr. Cohen: This is really one of the reasons that you find casualty companies are good investments, isn't it: because they have the capital, they have that surplus, they have those earnings, or at least they have the cash flow, which can be utilized wherever it would best serve the corporate entity?

Mr. Levitt: Yes. I think that is true.

After Reliance came under Steinberg's control it declared a huge dividend to shareholders—$52 million, versus $10 million the previous year.

Mr. Cohen: You must think state insurance regulation is pretty old fashioned because most state insurance regulators say that insurance companies ought to just be in the insurance business. We were told that one reason the holding company concept was begun in the first place was to get around state regulations.

Mr. Levitt: I don't think I would necessarily subscribe to that notion. I think by and large the state regulatory agencies are conscientious and effective protectors of the people they serve. I speak with some intimate knowledge of New York State, and I think that the insurance commissioner [Richard Stewart] is extremely effective, and the department does a competent job. As to whether they are old fashioned or not, I am not prepared to make a judgment on that.

Mr. Cohen: Well, certainly every state regulator and practically every state law prohibits insurance companies—casualty companies—from going into other forms of business. They think that makes good sense and that is what is necessary to protect the policyholders. You certainly don't agree with that or you wouldn't be involved in the kind of business you are in.

Mr. Netter: I think the report submitted by the New York State Insurance Department, I believe, in February of 1968, specified numerous areas that were defined as ancillary to the business of insurance, all of which have been enumerated here this morning.

Mr. Cohen: But this is not the law in any of the states that I know of. We are talking about present law. It may well be that present law is old fashioned, I don't know. But certainly you would not agree with at least the fifty state laws to date which are premised on the concept that casualty insurance companies, in order to protect their policyholders, should be only in the insurance business.

Mr. Netter: Innumerable industrial companies own—wholly or partially—fire and casualty subsidiaries, which means that they are holding companies.

Mr. Cohen: Of course, this is one way of moving around state regulation or state law—forming a holding company and diversifying that way. As I take it, you certainly don't agree with the concept that is implicit in the fifty state laws that insurance companies should restrict themselves to the insurance business.

Mr. Netter: I think insurance companies should restrict themselves to the insurance business with those assets which are necessary to support the insurance business, and should be supervised on that basis.

Mr. Cohen: But you don't agree that is the only business they ought to be in?

Mr. Netter: I agree that fire and casualty companies should be only in that business if their assets are just sufficient to keep them in that business.

Mr. Cohen: But you wouldn't restrict them only to that business?

Mr. Netter: As far as an overall complex, no, I wouldn't.

Mr. Cohen: [*Addressing Levitt*] You said that investment within this industry can produce substantial capital appreciation with a limited downside risk exposure. What does that mean?

Mr. Levitt: In effect, what that means is that the selling price of the security is in some instances lower than the book value of the underlying company, and the likelihood of the security going down is much less than the likelihood of the security going up. We tend to evaluate companies in terms of the risk opportunity factor. In our judgment at that point in time, this particular industry represented a very limited risk.

Mr. Cohen: The reason I asked, of course, is we have been told by a number of insurance companies that they need higher rates. This is one of the big problems. And the reason they need higher rates is that they have been suffering underwriting losses.

We were told that on one hand. On the other hand you see financially alert companies moving with great rapidity into buying up these same companies who have been complaining they have been suffering underwriting losses and, therefore need higher rates. On the face of it there seems to be conflict there. I wonder if you might help us resolve that.

Cohen's question touched on a paradox: insurance companies were complaining that rates were too low for them to make a satisfactory return, yet the companies were the targets of takeover offers from companies outside the insurance industry.

Mr. Levitt: I think it is the same answer that I tried to develop before—that the totality of the merged components creates a much greater opportunity than any of the individual components. That the managerial talent and diversity of corporate effort would result in considerable benefits to the merged company.

Levitt, of course, is espousing the view that is used to justify most mergers and acquisitions. History has not borne out his contention. Leasco and Reliance eventually separated, as did National General and Great American, ITT and Hartford, City Investing and The Home, and Teledyne and its insurance subsidiaries.

Mr. Cohen: What you are saying is that the holding company can make better use of most of this surplus than the insurance companies are doing at the present time.

Mr. Levitt: No. I don't want to restrict myself to the surplus. The holding company makes a great deal of sense from every point of view. The holding company brings to bear a measure of direction and managerial talent and utilization of assets, all of which contribute to a better financial entity.

Mr. Cohen: You know, the only real difference a holding company makes is that the surplus, the cash flow, the present assets of the insurance company—which the insurance company, no matter how well managed, could only use in the insurance business in most cases—is then available for investment opportunities in other aspects of the holding company's operations.

Mr. Levitt: That might well be the case. That might well be the case.

Mr. Cohen: You said with the aid of computers we will be able to keep up-to-date information on the individual's family, his income, place of residence, and other pertinent personal details. How is this going to help the consumer?

Mr. Levitt: In terms of being able to service the consumer—being able to understand his objectives—it would enable us to diminish superfluous selling efforts and offer them the kind of service that fits into their total financial picture. If you know that an individual has certain requirements and certain needs that go beyond his insurance requirements, I think that you can do a much more effective job for him.

To relate to that to our [securities] business, I would never endeavor to advise either an individual or institutional client without a pretty thorough knowledge of what their total picture might be.

I think, once again, this relates to cost savings.

Mr. Cohen: I understand how this would help a salesman to sell services, but is that necessarily going to be good for the consumer?

Mr. Netter: I think it could be obtained if assets were employed in areas which tended to reduce the cost of doing business. I think the computer service or technology would tend to reduce the cost. I think—

Mr. Cohen: What you are saying is you need fewer agents.

Mr. Netter: No. Computer technology would have no bearing on agents. I think the future agent, whoever it might be, would be in a position to meet with the consumer and sell far more services than are now sold today. We have duplication of talents.

Mr. Cohen: You are talking about duplication of talent. A lot of other people would refer to this as competition. What you are saying is that he can go to one agent or one party and he is going to have a total block of business to serve all this particular person's needs. And you talk about this as an efficiency. But the efficiency is only valid to the extent that it is going to help the consumer get a better product at a lower price. The consumer might be better off in shopping those duplicate sources of the product in order to see where he can get the best buy, rather than trying to tie everything into a convenience package, wouldn't he?

Mr. Levitt: I think the convenience package has always proved a more viable kind of economic entity than the notion that the consumer can conduct his own shopping expedition. In our judgment, this is a situation which does represent a saving in overhead, a saving in terms of duplication of effort, and a saving which will benefit every aspect of the chain of distribution here.

Mr. Cohen: And you are assuming that those savings are going to result in lower priced insurance, lower fees for mutual funds, lower fees for consumer finance, lower fees for variable annuities?

Mr. Levitt: I am saying they very well might.

Mr. Cohen: Except in so many of these areas the rates are already set by the regulator.

Mr. Levitt: I think this is quite correct, but I think we have seen over the past nine months a greater awareness of the new dynamics of this industry, and I think that rates can be changed and will be changed. From conversations with various agencies which have some bearing upon this question, I think a fresh look is being taken in this area, and I would expect them to be responsive to change, and I think it is our mutual responsibility to be responsive to new ways that may be found to develop this.

Mr. Cohen: You have talked about a supermarket approach to selling these kinds of products—the financial services—and you felt that in the long run the supermarket approach would probably, or could conceivably, save the consumer money, I suppose because of efficiencies you may achieve in your distribution system. Is that correct?

Mr. Levitt: That is part of it. I think there is enough relationship between various financial services that can be offered to the consumer to make a great deal of sense in terms of integrating those various activities. And I think that the economics and efficiencies that could result from such integration would work to everybody's advantage.

Mr. Cohen: I suspect that at the present rate of mergers by the time we find out whether you are right or not, it may be too late to do anything about it. Certainly in the insurance field some of the lowest rates have not been by conglomerate enterprises, but by single-line companies. So in fairness to the single-line companies, they might also have efficiencies that can make them competitive with even the kind of operation you describe here?

Mr. Levitt: Everybody in the industry is presently thinking in terms of efficiencies, and that is all to the good.

Mr. Cohen: Well, it might be interesting to see, a year from now, whether the rates that Reliance charges for its insurance now that it is a part of a holding company become comparable with some of the other writers in the field that are substantially below bureau rates. We might have a better idea of just how this is going to work.

At this point, a statement made by Sen. Peter Dominick of Colorado at a Senate hearing on "conglomerate takeovers" was submitted for the record. It discussed the "dangers facing investors in some of our oldest and most respected companies."

One danger cited was an attempted takeover of INA by a recently-formed company a fraction of its size, Townsend-Levin Computer Corp., which was in the computer leasing business and which would, the following year, run into severe financial problems from which it never recovered.

Another danger was an attempt to take over the Denver & Rio Grande Western Railroad by Carter Group, a "stock-market operator" and "raider." Carter Group, which was in the process of going public via a blind pool, was offering its shares at twenty times book value. Senator Dominick said that this "scheme" was "very close to being a fraud on the general public."

Curiously, no mention was made of the fact that Arthur Carter, head of Carter Group, was a founder of Cogan, Berlind, Weill & Levitt (it had originally been Carter, Berlind & Weill), and that he'd been Levitt's partner until the previous year.

Sen. Hart then addressed Kenneth Bialkin, counsel to Cogan, Berlind, Weill & Levitt. (Bialkin has had a long and successful legal career and is now a partner at Skadden, Arps, Slate, Meagher & Flom. He has been a long-time advisor to Sandy Weill, was a director of Citigroup, and is currently representing Hank Greenberg.)

Senator Hart: Mr. Bialkin, did you have anything you would like to add in view of the exchange here?

Mr. Bialkin: [*then a partner at Willkie Farr & Gallagher*] No, sir. I don't feel I ought to comment on any particular matters.

Senator Hart: It wouldn't be fair to ask you for your views when you are here with Mr. Levitt. I assume you share them.

Mr. Bialkin: Yes, I do. The only thing I would say is that this is a free and healthy and vibrant and expanding economy, and new ideas are coming along all the time. The test of any agency such as the Congress is to see whether those ideas are good or bad when measured against the interests of the free society. If they do more harm than good, probably there ought to be a law against them. If they do more good than harm, they shouldn't be opposed. And we have to respect and applaud the efforts of the Congress to test those ideas.

I think on every one of the points raised by your questions, there are very legitimate questions and room for disputation as to points of view. On the question of what business fire and casualty companies should be in, obviously they ought to be in the fire and casualty business insofar as it is necessary to protect the interests of the policyholders and provide the insurance business for this country.

That doesn't mean that opportunities for increased efficiencies should be interfered with if those assets aren't necessary—in the judgment of whoever is making the judgment, most normally the state insurance commissioners—for utilization in that part of the business. There is no earthly reason why they should not be employed in a healthy and expanding way. I think that is, essentially, the concept that these holding companies advocate.

Senator Hart: Your statement was very kind and we are grateful to have you indicate an understanding of why we are doing what we are doing. So it wouldn't be fair to push you. But when you said clearly the company should be in the fire and casualty business but, if there is some muscle left over, they should be free to diversify—it is a very legitimate question. Maybe the surplus should be used to expand the fire and casualty business, and it won't be if the return is greater someplace else.

Mr. Bialkin: Maybe so. I am not an economist nor am I an expert in this business. I would say, in the interests of both policyholders and stockholders, that one can see that if surplus assets, that is, assets available and not needed to fund reserves, could be used as part of an overall holding company concept to produce profits elsewhere. It could conceivably—and I am not prepared to argue the case at length—result in the kind of efficiencies and cost savings that, on an overall macroeconomic view would be in the best interests of the economy and perhaps even in the interest of the buyers of fire and casualty insurance simply because assets which are underutilized, perhaps, are being put to efficient and effective use.

Now, there are predatory managers and there are creative managers, and I don't know of any way to guide ourselves or to judge in advance necessarily who are going to be better than others. We have to hope that our system and our laws are going to eliminate the bad operators and perhaps permit the more creative people to expand and contribute. And I think, speaking as an advocate at this point, that the services of this particular investment-banking firm in bringing forward new ideas for exploration and experimentation certainly are in the best tradition of American economic development.

Senator Hart: Thank you very much.

Part three of this article will be published on Thursday.