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Requiem for a Heavyweight

The Man Who Tried to Take over the 'Establishment'

Saul Steinberg's Chemical Bank Fiasco

SOMEDAY, PERHAPS MANY, many years from now, when Saul Steinberg's obituary is published in *The New York Times*, the obit will undoubtedly mention the episode in Steinberg's career that truly put him on the map: his 1969 takeover attempt of the \$9-billion-in-assets Chemical Bank New York Trust Company (now known as Chemical Bank).

Steinberg, through his high-flying Leasco Data Processing, had already taken over the Reliance Insurance Company, and for reasons that to this day remain unclear, decided that his next target would be Chemical, one of the biggest, oldest, snottiest, WASPiest, and most powerful institutions in America.

In the late Sixties—the era financial writer John Brooks called the “Go-Go Years”—Leasco was a great stock. It went up. And then it went up a lot more. It was a concept stock, a “new era” stock, the equivalent of a 1999-vintage dot.com stock.

Leasco's business, leasing computers, wasn't especially profitable—unless you were especially clever when it came time to do the accounting.

Let the record show that Saul Steinberg was a master accountant able to make Leasco show increasing profits for years. (Decades later, Reliance Group would report wondrous profits...and then—surprise!—horrific losses.)

That Steinberg had bagged Reliance was, in itself, something of a miracle. It

was testimony to the power of fads, and to a market psychology in which shareholders would exchange their shares in a valuable, conservatively run insurance company for pieces of paper in an overvalued, convoluted financial bagatelle.

Companies were not being valued on what they were worth in the present, or in the following year, but on what they *might* be worth at some indeterminate point in the distant future. The motto of this school of investing might as well have been “Ya gotta believe,” for it was similar in some respects to a religion (life on Earth may not be worth much, but everlasting life in the hereafter is priceless).

'New Era' Economics

There was a logic to the “new era” economics promoted by Steinberg and adhered to by his followers. There was “synergy” between leasing and insurance. (Both were financial services.) If a nebulous leasing company trades at 80 times earnings while an adequately reserved insurance company goes for nine times earnings and two-thirds of book value, it is wildly accretive to the leasing company's earnings and book value to use its *shares* (which can be printed on demand) to acquire the much larger insurance company. The whole process, of course, is somewhat ironic, since the leasing company could never afford to buy the insurance company if it had to pay for it using notes that were legal tender for all debts public and private.

Once having absorbed Reliance, one might have thought that Leasco's multiple would shrink to that of an insurance company. Instead, the way the theory went back then, the earnings of the insurance company would be capitalized at the fancy leasing-company multiple. Of course, this made no sense—unless you believed that Leasco could use its magical “currency” to acquire even more

earnings that could be capitalized at an even higher multiple, and that this process could be repeated endlessly.

Steinberg understood the game, and had succeeded wildly with the Reliance deal. Was his hubris such that he truly believed that, using his funny money, he could replicate the Reliance deal on such a grand scale? Or was his hubris of a different sort? Did the precocious, boyish-looking multi-millionaire want fame?

“I think his angle was to get his name in the papers,” said one fellow who remembers those days well. “He wanted to make himself a big shot. And you know what? He's still famous.”

Whatever his motives, the deal—especially in retrospect—is the kind of harebrained, crackpot stuff that's simply marvelous to study and ponder. For even if Steinberg's stock had been sound, even if he *hadn't* been a 30-year-old promoter, and even if the Justice Department would have allowed a merger between a large bank and insurance company, it is inconceivable that the deal could have occurred.

Saul Steinberg was a young, aggressive Jew of Russian descent. He was the kind of Jew about whom many *Jews* of German descent felt uncomfortable. (In the arcane hierarchy of American Jewry, German Jews, who arrived here before Russian Jews, have often tended to look down their noses at, or be embarrassed by, the more recently arrived Jews.)

While anti-Semitism wasn't an “official” policy at America's biggest corporations in the late Sixties, there weren't many Jews in senior positions at the major banks, insurance companies, auto manufacturers, steel companies, and law firms. It is hard to imagine that if *Moses* himself had offered to buy Chemical for cash that the board would have accepted, so foreign was the concept of a Jew running one of America's great banking institutions.

One needn't be enlightened to know that this is wrong.

And yet the reactions were strangely mixed. Many quietly felt that it was unfair that Saul Steinberg's effort to take over Chemical was, in part thwarted because Steinberg was a Jew. Some Jews felt that Steinberg's promotional tactics were a *shonda fur die goyim*—an embarrassment in front of the gentiles.

Others felt that the Establishment was treating Steinberg unfairly, but then again, they wouldn't want to keep *their* money in a bank that he owned.

As for Steinberg, he professed to be unaware of any anti-Semitism. "We'd touched some kind of nerve center," he told John Brooks. "I still don't know exactly what it was. Once, at a party, the head of a huge corporation asked me if there had been any anti-Semitism in the campaign against us. I said none that I knew of. There are bankers and businessmen who are anti-Semitic, but it was more than that."

Perhaps Steinberg was right. It was more than *that*.

Around the time Steinberg was making his play for Chemical there was a joke about the kid who wanted a Mickey Mouse outfit for his birthday...so his father bought him Chemical Bank.

As one of our highly placed, ultra-witty Russian Jewish sources summed up matters for us recently: "Chemical Bank may have been a Mickey Mouse outfit, but it didn't need Donald Duck to take it over." ■

To be continued.

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