

Mar 4, 1942

To Comdr Wharton (B-7)

- For investigation
- For information and file
- For information and return

ORATIONS

October 22, 1942

For comment and recommendation

Returned. An excellent Summary. Keep for future reference (Σ) ONI

GPO 16-19610

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1. Many possibilities for using the practice of re-insurance in spreading risk loads among insurance firms of various nations as a channel for obtaining intelligence and counter intelligence data, in addition to revealing dangerous leakage of information concerning the war effort of the United States, have been revealed in discussion of the problem with Mr. Clayton G. Hale, civilian insurance expert employed by the Secretary of the Navy.

2. Study of the problem clearly shows this channel can be developed to a degree for the benefit of American intelligence agencies - those of the armed forces and those dealing with economic phases of our international relations - even under the adverse conditions created by the war. Under peace conditions the reinsurance practice could be utilized by our government to create a vast store of detailed and essential information concerning resources, trade, industry, research and war preparations of foreign nations, provided American insurance companies are encouraged to actively and aggressively enter the international reinsurance market.

3. The dangers to National Security arising from the practice are not only far-flung, but very real. In fact it may be stated that we are faced with the deplorable situation of finding the necessity for locking the barn door after the horse has long since gone over the hill. But we also are in the position of protecting the remaining gear in the barn - and getting the barn ready for the new horse.

4. There are very good grounds for believing the enemy and other foreign powers have utilized the practice as a channel for obtaining all vital strategic information about the United States not only in the past, but up to the immediate present. There are definite indications that such information - including information revealing specific data on merchant vessel movements and details of cargo carried and information revealing details of offensive and defensive installations constructed by the Army and the Navy - is being made available to the Axis powers.

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NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

October 22, 1942

MEMORANDUM FOR THE DIRECTOR

SUBJECT: Reinsurance in Relation to Intelligence and
Counter Intelligence

1. Many possibilities for using the practice of re-insurance in spreading risk loads among insurance firms of various nations as a channel for obtaining intelligence and counter intelligence data, in addition to revealing dangerous leakage of information concerning the war effort of the United States, have been revealed in discussion of the problem with Mr. Clayton G. Hale, civilian insurance expert employed by the Secretary of the Navy.

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5. The deeper aspect of the problem clearly reveals the use of reinsurance as a means for economic espionage which enables foreign competitors to meet our industrial, trade and professional activities by revealing details of the most confidential character - details that federal bureaus hesitate to request for fear of being placed in the position of inadvertently revealing trade secrets to a competitor. This paradox has existed and is perpetuated by failure of business men and federal officials charged with conduct of the war to appreciate the facility with which the mechanics of reinsurance may be used in espionage by our enemies and competitors. It is truly a situation fraught with grave danger. This danger will be a continuing threat until steps are taken to not only stop the outward flow of vital information, but to reverse the stream so the United States government may use the channel to further its own war and economic interests.

6. Through Mr. Hale the Navy Department has been cooperating with the State Department and the Board of Economic Warfare in considering the problem of insurance and reinsurance from the standpoint of National Security and strengthening the National Economy. The present approach to both phases is predicated on building up American insurance companies so they will be in a position to provide complete coverage without recourse to reinsurance on risks where our war effort is involved through foreign concerns. This has produced some reactions and information of considerable interest in the field of intelligence and counter intelligence.

7. It has been revealed that much of the reinsurance on merchant ships and cargo has been handled through the Zurich General in Switzerland. This concern in turn deals with insurance companies in Germany and Italy. The firm also has connections with British, Swedish, Norwegian and Danish insurance concerns. The bordereaux on such insurance until recently gave complete information as to the vessel, cargo, port and time of departure, general route of the voyage, way ports, cargo destined to each and the port and time of the voyage end. Information of this character is freely exchanged between firms handling reinsurance for purposes of computing rates. As in cases of original underwriting, reinsurance itself is spread among as large a number of concerns as possible so as not to place too great a risk load on the resources of any one firm. Steps have been taken to curtail the circulation of this detailed information, but even yet considerable detail is made available insurance companies and brokers, who are not fully aware of the vital character of the information and the need for strict and continuous protection of such information.

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8. Recently the War Department sought and obtained casualty coverage and workmen's compensation insurance in connection with construction of the third set of locks in the Panama Canal system. The policy was written by the New York office of the Zurich General with the written agreement that no details of the basic information on which the rates were fixed and the policy written be sent out of the United States for two years. Within two weeks after the policy had been issued the Assistant Manager of the New York Office of the Zurich General delivered a diplomatic pouch to the Swiss Legation in Washington. The records do not reveal the manager as having any official connection with the Legation.

9. Data required for fixing rates of such policies reveal information which would enable any expert insurance man, working with an engineer, to reconstruct the entire work program, type and character of construction and the planned rate of construction, in addition to revealing precise location of the work. In normal peace times insurance and reinsurance firms require detailed blueprints and plans of works or objects insured to be filed, with sufficient copies for dissemination to all concerns involved in reinsurance.

10. Further, in normal times it is the practice of insurance companies to pool such basic information with central insurance bureaus in the United States and abroad for establishment of and checking on actuarial tables and statistics used in computation of rates on various types of risks. In passing it will be of interest to note that commanders of field forces may obtain detailed information on private, public utility and governmental structures and works within areas occupied or of future operations from such central bureaus, and attention should be paid to preventing destruction of such centers by the enemy, where possible.

11. The Navy recently obtained casualty and workmen's compensation insurance on a fuel oil pipe line located in the Canal Zone. Effort was made to have the policy written by an American concern, but through failure of the brokers to properly explore the background, the policy was written by the American Guarantee Company. This company is a wholly owned small subsidiary of the Zurich General, with the office staff filled by American citizens. It is believed significant that the company took the risk at what is approximately one-half the rate determined to be reasonable. The same conditions as to revealing strategic data about the pipe line exist as in the case of the third Canal lock policy. Army officials connected with the negotiations for the canal project insurance unofficially admit the policy was awarded on the basis of price.

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12. Several weeks ago the Navy and BEW becoming alarmed at leakage of merchant vessel movement information and believing it essential to prevent the information being sent abroad advised Lloyd's of London it was desirable to establish an autonomous branch of that syndicate in the United States. No attention was paid the request until the American group suggested the only alternative was to bar foreign insurance and reinsurance companies from the field and place all business with American firms even if it required federal aid.

13. There was rather prompt reaction on the part of the British Embassy, which made unofficial presentations to the State Department.

14. A series of cablegrams from the New York law firm of Duncan and Mount to the chairman of Lloyd's of London revealed that firm as one of the prime legal representatives of the British organization. Various suggestions for official and unofficial diplomatic pressures were proposed by the firm, many of which were put into action. Other suggestions for beneficial results to the British also were made by the firm. Finally the Chairman of Lloyd's of London replied by cable that he feared American authorities might intercept and read some of the cables and requested Duncan and Mount to discontinue use of the cable and forward the information through "other designated channels". This injunction was deleted by the cable censor and the rest of the cablegram forwarded on to Duncan and Mount. The law firm sent several subsequent cablegrams until Lloyd's apparently realized that action should be taken otherwise. It is known that Duncan and Mount forwarded information to the Chairman of Lloyd's by British diplomatic pouch, which was transported in a lend-lease bomber transferred to the British. Cables confirming receipt of several communications so forwarded have been intercepted.

15. The head of the firm of Duncan and Mount is Oscar D. Duncan, graduate of the U.S. Naval Academy in 1897. He was retired in 1905 as a lieutenant for incapacity resulting from an incident of the service. One T.J. Healy, attorney associated with the firm, aided in the attempt of Fiodore Wozanik, confessed Long Tom saboteur, to escape from representatives of the German-American Claims Commission in connection with fixing the extent of damages from sabotage in the World War. Wozanik was arrested about a year ago on charges of wrecking a Pennsylvania railroad passenger train believed carrying a commission of Soviet officials.

16. When Chairman of Lloyd's realized the American proposal to establish a United States branch or place insurance with American

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firms was a serious one, he flew to the United States with several members of his staff. He is in Washington now carrying on discussions.

17. The Chairman of Lloyd's of London is Eustace Pulbrook. He is accompanied by a Mr. Boxford, Chief Clerk of the syndicate and another individual whose name is not now available. Mr. R. Keith Jopson, commercial secretary of the British Embassy, sits in at all conference sessions and associates with Pulbrook.

18. Prior to arrival of Pulbrook it was ascertained that a close confidential professional relationship existed between Pulbrook and Hendon Chubb and Henry Reid, insurance brokers in New York who have no outward connection with Pulbrook or Lloyd's. The relationship is as close as between Lloyd's and Duncan and Mount, but for some commercial reason is kept undercover.

19. In the process of negotiations significant aside statements have been made by Pulbrook and Duncan. Under pressure of irritation Pulbrook once stated Lloyd's was the very heart of British Intelligence. Duncan under similar conditions said Lloyd's had complete plans and details of every American industrial plant, all bridges, all tunnels and all public utilities, including docks.

20. These aside remarks were made during discussion as to the necessity of the American stand that vital strategic information should not be transmitted out of the United States, not even to London, because of the danger of interception of radio, cable and routine postal communications by the enemy. Lloyd's people have been skeptical of such interception. It is apparent Lloyd's will not set up an American branch unless convinced of American determination. That point has almost been reached, so nearly that details of various phases are under discussion.

21. Pulbrook has stated that prior to the war Lloyd's re-insured with Norwegian, Swedish, Danish, German, and Swiss concerns. After outbreak of the war, reinsurance was discontinued with Germany and with the other countries as they fell under German domination. Pulbrook said that on land insurance Lloyd's no longer reinsures on the Continent, but that in some cases of maritime risk it still reinsures with Swiss companies.

22. Pulbrook said present practice is to reinsure in the United States when possible and in Chile and the Argentine. He said Lloyd's expected reciprocity in business relations and made its commitments accordingly.

23. It is known that Argentina and Chile have maintained reinsurance relations with German and Swiss firms. It is believed,

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however, that direct relations with German firms have been curtailed considerably.

24. Many American insurance companies are in debt to the Reconstruction Finance Corporation. In many instances these companies have been forced to insure and reinsure American war projects so as to prevent reinsurance abroad. This situation could be capitalized by concentrating more of insurance of strategic property in these firms and making adjustment of the outstanding loans in case of serious loss, thereby avoiding direct federal cash subsidy. By building up American concerns and bringing about aggressive entry into the international reinsurance market, the machinery for espionage to benefit the United States could be created now, which would be effective in peace time.

Respectfully,

Wallace S. Wharton

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