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Insurance Company Collapses in the
World Economic Crisis
The Frankfurter Allgemeine Versicherungs-AG
(Favag) and the Austrian Phönix

While considerable attention has been paid to the national and international significance of the great Central European banking collapses in the World Economic Crisis, especially those of the Austrian Credit Anstalt in May 1931 and the Darmstädter- und Nationalbank (Danat) in July 1931, similar disasters in the insurance field have received very little historical consideration. This is understandable for a number of reasons. The banking disasters occurred at the height of the Depression and contributed significantly to the deepening and broadening of the Depression in the countries where they took place and in transmitting their evil consequences abroad. They were a very visible result of the financial and economic disorders of the postwar world economy. They called forth national and international regulatory efforts in the form of standstill agreements, foreign exchange controls, and currency and banking regulations that were important constituent elements of the financial and economic "regime changes" that took place in the wake of the Great Depression. The banking crises have also been the object of extensive commentary and study by contemporaries and historians¹.

While the insurance company collapses discussed in this paper, the Favag in August 1929 and the Austrian Phönix in March 1936, were great shocks at the time and provoked much commentary in the national and international press, they have received little if any attention from business historians and scholars of the Great Depression. An important reason certainly is that the insurance industry itself has received very little scholarly study. In these specific instances, however, two other factors certainly have promoted such neglect. First, they occurred

¹ On "regime changes", see *Douglas J. Forsyth, Ton Notermans* (eds.), *Regime Changes. Macroeconomic Policy and Financial Regulation in Europe from the 1930s to the 1990s* (Providence, Oxford 1997). For the literature on the banking crises, see *Gerald D. Feldman*, *Current Problems in the Study of Banking Crisis*, in: *Philipp Cottrell, J. Reis, C.E. Nuñez* (eds.), *Finance and the Making of the Modern Capitalist World, B 9 Proceedings of the Twelfth International Economic History Congress, Madrid, August 1998* (Seville 1998) 53–62.

at the temporal peripheries of the Great Depression, the Favag collapse on the eve of the Depression, the Phönix debacle at a time when Central Europe seemed to be pulling out of the Great Slump. Second, the insurance company crises were contained and successfully terminated, in the case of the Favag through its absorption by its chief competitor, the Allianz Insurance Company, in the case of the Phönix, by government and insurance industry intervention to protect policyholders and redistribute liabilities and assets. For these reasons, the full significance and relevance of these collapses for the history of the Great Depression have been veiled but, as I hope to show, they certainly deserve more study than they have received.

I. The Fall of the Favag

On December 11, 1928, Deutsche Bank Director Paul Bonn wrote to the Director of the Frankfurt branch, E. Rothschild, about a recent conversation with Director Georg Solmsen of the Disconto Gesellschaft concerning a major business engagement for which the Favag was supposed to give a guarantee: "Herr Dr. Solmsen asked me on this occasion whether I took the guarantee to be of full value and explained his question by pointing out that the business methods of the Frankfurter Allgemeinen have been extraordinarily displeasing to the Disconto of late; they have the impression that engagements are being undertaken which have very little transparency and whose uncovered risks could amount to very significant sums. One does not to be sure have a definite conception at the Disconto about what is going on, but one has an uncomfortable feeling. These remarks were made very casually. But they were all the more interesting to me since I have already for some time spelled out for you my impression that neither the large-scale guarantee business of the Frankfurter Allgemeinen, nor especially the transactions conducted by interlocking companies, which as far as one can tell have the character of being practically business in goods, could be considered acceptable. Also the apparently very extensive business with automobile purchase financing, as is the case with the Automobile Bank, cannot be seen as an especially promising line for such an insurance concern."²

Bonn was worried about the leadership of the company. He had the impression that the General Director, Paul Dumcke, "has become very old" and feared that one of the directors, Dr. Kirschbaum, to whom he attributed the character traits of "a certain recklessness and lack of concern" as well as "other elements" in the company had gained the upper hand. Bonn confessed that he had been worrying about the situation at the Favag for some time and thought it was necessary for the bankers serving on the Supervisory Board of the Favag, one of whom was Direc-

² Paul Bonn to E. Rothschild, Dec. 11, 1928, Historisches Archiv der Deutschen Bank (HADB), S233.

tor Rothschild, "to get into touch with one another about this question cautiously, inconspicuously, and without taking any special action".

Unfortunately, the bell was already tolling for the Favag. It tolled first, however, for Dumcke, who died unexpectedly but perhaps fortunately from an operation on February 14, 1929 with his reputation still very much intact and widely praised in obituaries for his contributions to the development of large scale enterprise in the insurance field. While the hymn of praise was to have a rather ironic quality a few months later, it is important to recognize that Dumcke was indeed one of the great leaders in the field, becoming a director of the company in 1892 and then Chairman of the Board of Directors in 1897³. He had built up the company before the war through communities of interest with various reinsurance companies and then fusion with the important Preussische Rückversicherungs-AG, which was renamed Helios Allgemeine Rückversicherungs-AG. At the same time, Dumcke expanded into multi-branch direct insurance as well. War and inflation provided him with the opportunity to expand still further. Foreign business was particularly important, since the Favag's participations in Southeast Europe and in Switzerland and its extensive international transportation insurance activities provided the company with the hard currency needed to use the inflation to expand at home. Favag took the whole or substantial portions of the Karlsruher Lebensversicherungsbank AG, the Vereinigte Berlinische und Preussische Lebens-Versicherungs-AG, and the "Hammonia" Allgemeine Versicherungs-AG, Hamburg under its wing. Thus, by the end of the 1920s it was second only to Allianz in the German insurance business and was a major national and international player in both direct insurance and reinsurance. At its shareholders meeting on June 18, 1929 the directors reported a 14 million mark increase in premiums over the previous year, assets amounting to 73.8 million RM, a net profit just short of 3.1 million RM, and a 12½% dividend totally 2.3 million RM⁴.

The Allianz Concern had also been engaging in a systematic but much more careful policy of expansion under the leadership of General Director Kurt Schmitt, who considered a fusion with the Favag a potentially promising acquisition. While Schmitt was aware that the Favag had been doing business with a considerable amount of borrowed money and had told Dumcke that he believed this to be a mistaken policy whether it was proving profitable or not, he also thought Dumcke hard to replace and thus only broached the subject of Allianz-Favag collaboration in a conversation with Director Bodenheimer of the Danat Bank, a Favag super-

³ The roots of the company go back to 1865, when it concentrated on glass insurance. It then moved into transportation insurance and was called the Frankfurter Transport- und Glasversicherungs-Gesellschaft until its takeover of the Frankfurter Lebensversicherungs-AG in 1911 led to its change of name to Frankfurter Allgemeine Versicherungs-AG. See *Ludwig Arps*, *Durch Unruhige Zeiten. Deutsche Versicherungswirtschaft seit 1914. I. Teil* (Karlsruhe 1970) 424–427.

⁴ Bericht der in der General-Versammlung vom 30. September 1929 gewählten Revisions-Kommission der Frankfurter Allgemeinen Versicherungs-Aktien-Gesellschaft zu Frankfurt am Main, p. 17, Firmenhistorisches Archiv der Allianz AG, München (FHA), B-2, Nr. 601 (Hereinafter cited as Revisions-Commission).

visory board member, after Dumcke's death. This seemed all the more opportune since the leading personage in the concern, Director Philipp Becker, was a "finance man" rather than "insurance man" and none of the "insurance men" were of Dumcke's alleged caliber. There were reports of conflicts among the directors, and one of the Favag directors had actually approached Director Hans Hess of the Allianz in 1928 and suggested a fusion and buying out of the contracts of some of the leading Favag directors. There were also rumors going around about the investments of the directors. Schmitt pointed out that a careful audit of the Favag's finances would be required before any consolidation could take place. Bodenheimer thanked Schmitt for the suggestion, but responded that "he knows the situation exactly, and that the financial business of the Frankfurter has run profitably. Even if the banks are not in agreement with all the engagements, there is still no doubt that the Frankfurter was a first-class corporation that is making good earnings and progressing. He saw no place for a collaboration with Allianz at the moment."⁵

This was quite optimistic given the rumors that had been circulating, and the passivity of Bodenheimer and the other bankers on the Favag supervisory board is no less remarkable in the face of the newspaper articles that began to appear in the "Frankfurter Zeitung" in the spring of 1929. These articles were the work of Artur Lauinger, a pioneer in investigative journalism who had a special interest in insurance questions. A diligent reader of company reports and balances and careful observer of shareholder meetings, Lauinger was also a regular visitor at the Frankfurt exchanges and had heard all sorts of rumors about banking activities by the Favag through the Südwestdeutsche Bank A.G. Indeed, one branch bank director who had a seat on the Favag supervisory board and who probably was Rothschild of the Deutsche Bank, showed Lauinger a bill of exchange with Dumcke's signature and raised the question as to whether it was properly discountable. For Lauinger, the even more important question was whether an insurance company had any business discounting bills of the type shown to him and engaging in banking business of this kind.

Be this as it may, Lauinger visited Dumcke shortly before the latter's death and insisted on knowing more about the Favag's activities in the guarantee and lending fields. Dumcke referred him to Finance Director Becker. Lauinger saw Becker sometime in late March or early April 1929. He found Becker as reluctant to provide concrete information as the late Dumcke, whereupon Lauinger told him that he considered the credit operations of the Favag totally inappropriate for an insurance company and that he intended to attack the Favag openly if he were not provided with accurate balances and if a halt was not put to the credit operations in question. Becker then promised to gather the information and to keep Lauinger abreast of developments, but Lauinger soon launched a press campaign against the Favag's way of doing business. Also, Lauinger began informing members of the supervisory board and the Reich Supervisory Agency for Insurance of serious problems at the Favag.

⁵ Aktennotiz Schmitt, Nov. 26, 1929, Bundesarchiv Berlin (BAB), 80 Ba 2, P5785.

The supervisory board of the Favag did decide to take some action in May by setting up an auditing committee, but Becker and Director Kirschbaum continued to maintain that the company was sound and only slowly and reluctantly provided the required information. Finally, however, enough facts were out to make impossible any further unwillingness on the part of the supervisory board to at least discuss the problem. Sometime in the summer of 1929, Lauinger was summoned home from vacation for a special meeting of the supervisory board of the Favag, which was in a state of despair over the mounting evidence of irregularities in the Favag's balances. Lauinger advised them to insist on the production of an accurate balance and to determine who was responsible for the losses, advice toward which the bankers on the board showed little enthusiasm since they feared that the Favag would close its accounts with banks which pressed them too hard and give its business to competing banks instead. Needless to say, the supervisory board members were also rather nervous about revelations that would make matters worse and cast a shadow over their performance as supervisors. The trouble was that the Reich Supervisory Agency was also responding to the news it was getting from Lauinger and began to launch an investigation of its own⁶. On August 17, the Favag announced the cessation of payment to its creditors. Three days later, Allianz took over its direct insurance business, thus guaranteeing that policyholders would be protected. The satisfaction of other creditors, however, both national and international was to become the subject of tedious negotiations for half a year and civil law suits, a few of which dragged on into the mid-1930s, while the criminal trials of the leading directors lasted into 1932 when they received jail sentences and fines. The Favag affair thus blended in nicely with the other bankruptcies and scandals of the depression period and public perceptions that there was something rotten in the world of capitalism.

As was so often the case with such failures in Central Europe, the roots of the difficulties lay in the inflationary period and in the gold mark opening balances following the hyperinflation. In the case of the Favag, the gold mark opening balance was considered five million gold marks in excess of what it should have been and was attributed to the desire of Dumcke to increase the company's prestige and attraction to investors. As the General Director of Allianz and chief beneficiary of Dumcke's folly Kurt Schmitt, who later attributed Allianz's survival in the depression to the modesty of its 1924 gold mark opening balance and the purposefulness of its expansion policy, explained: "The excessively high demands on the capital resources of the company necessarily arose from the exaggerated conver-

⁶ *Artur Lauinger*, *Das öffentliche Gewissen. Erfahrungen und Erlebnisse eines Redakteurs der Frankfurter Zeitung* (Frankfurt 1958) 18–22. Lauinger's account telescopes some of the events between late 1928 and August 1929 since he leaves the impression that his interviews with Dumcke and Becker and the supervisory board meeting took place within a short space of time, which could not have been possible since Dumcke died in February. Fortunately, a memorandum of Münchener Rück General Director Wilhelm Kisskalt of January 25, 1930, who spoke with Lauinger in April 1929 about the interview with Becker, helps clarify the sequence of events. The memorandum is in BAB, 80 Ba 2, P5785.

sion to gold of the Frankfurter Allgemeinen. The decision to enter into dangerous financial engagements also arose from the effort to master these difficulties, which in the last analysis led to the collapse of the Frankfurter.⁷ Even as Schmitt swallowed up the best and most profitable parts of the Favag's business, he warned against excessive optimism and risky engagements. Indeed, the analysis of the Favag's situation revealed a Panglossian approach to the economic situation that was uncommon in the industry. Thus, the company did a great deal of indirect business in transport insurance which produced a stream of high premiums but constant losses. The premiums provided the liquidity to pay for the past year's losses, presumably in the expectation that at some time or other the premium income would overtake the liquidity problem. Even more risky was the Favag's engagement in credit insurance, a dangerous business in times of economic instability, but most adventuresome was its extension of guarantees and credits not only for transactions with goods but also for purely financial transactions. These activities had very little or nothing to do with insurance; the premiums, such as they were, were not properly booked; reserves were not held for them; they were not reinsured. Most serious, however, was that many of these transactions never showed up in the balances. The business was conducted by the directors personally, and they accounted to no one but themselves for what they were doing. Not only did the concern operate through a series of interlocking directorates in which accountability was tossed to the winds, but the concern included some enterprises in which the directors played shareholders using false names or in which they gave credits to enterprises which did not even exist. The most notorious instance was the Deutsche Keramik-Gesellschaft mbH in Vienna which was run, with no success whatever, by Paul Dumcke's son Ernst and to which the Favag gave considerable credits. The credit granting of Südwestdeutsche Bank, which was run and supervised by Favag directors, was often simply criminal. The Favag thus collapsed because of spectacular mix of bad decisions in the field of indirect insurance, banking activities inappropriate for an insurance company, an inorganic concern structure, and the mixing of the concern's interests with the personal enterprises of the directors. In the process, the concern had accumulated very high debts, including short-term debts in Switzerland, England, and Holland for the financing of long-term projects⁸.

Obviously, the directors of the Favag had every interest in veiling these activities, but the fact that they could do so with such "success" reflected the failures of the agencies created to supervise the concern. In the case of the Reich Supervisory Agency for Insurance, this manifested itself in a willingness to accept minimal reporting and satisfaction of the technical requirements connected with the actual insurance business of the Favag, a willingness to overlook many activities inappropriate for an insurance company, and a failure to follow up on activities which it did protest. In the case of the Favag supervisory board, the chief problem lay, as

⁷ Vorstandssitzung am 5. und 6. November 1929, FHA 17, 2/4.

⁸ The details are to be found in the Revisions Commission report 18–124.

was and is so often the case with such scandals, in the blind confidence placed in the directors and the failure to demand information even when, as has been shown, there was considerable suspicion that all was not well with its financial management. This led to the peculiar consequence that the culprits on the board of directors not only created the crisis but also dictated the solution. Thus, when Director Becker, after much pressure, finally came through with an account of the Favag's debts, he also declared: "Now I must honestly give you my view as a member of the board of directors so that you can deal with the situation: the 'Frankfurter' is finished, since the confidence that has been upset can only be won again with great difficulty. It is in the interest of the German economy that a collapse not be allowed to take place. The bank consortium must immediately declare that the consortium stands behind the Frankfurter. Toward this end the consortium must place 30 million at the disposal of the Frankfurter, half in cash, half by guarantee."⁹ This would make possible the liquidation of the debts and the survival of the insurance side of the business. He went on to urge that they let Allianz take over the insurance business, but he also mentioned the Schweizerische Rück, Prudential-London, and two American companies as possible future owners of the insurance assets. Becker provided not only revelations and advice but also the confession that the directors had known about the debts for years, but claimed that this had been the only way to build up the business after the inflation.

Becker, like his boss Dumcke, escaped punishment, in his case by falling victim to incurable heart and kidney problems, but five of his colleagues received prison sentences and fines in February 1932, the judge severely condemning the dead and dying and expressing regret that he could not pronounce harsher sentences on the living. Press coverage had been extensive, and the courtroom was full. All this reflected the great public interest in such scandals, the concern over the decline of business morality to which it bore witness, the inadequacy of government regulation in the past, presumably now corrected by a new insurance law with much tougher provisions that was passed in March 1931, and the failure of the supervisory board, above all the bankers, to supervise. By the time the trial came to an end, of course, the banking crisis had taken place, triggered by the failure of the Nordwolle concern and the failure of the Danat bank as a result in July 1931. As in the case of the Favag, the allegedly supervising bankers, especially Jakob Goldschmidt of the Danat, had failed to stop the speculations of the Lahusen brothers, who ran the Nordwolle, until it was too late. The analogies between the Favag and the Nordwolle were not lost on the public and worried the government, which feared that the cases "would have the consequence of producing a further sharpening of the mistrust of the capitalist form of economy"¹⁰. This mistrust was expressed already by the Social Democratic jurist Hugo Sinzheimer shortly after

⁹ Ibid. 144.

¹⁰ State Secretary Trendelenburg at the Ministerialbesprechung vom 7. September 1931, Akten der Reichskanzlei. Weimarer Republik, Die Kabinette Brüning I u. II (Boppard am Rhein 1982) vol. 2, p. 1663. For the trial judgements, see "Nach 4 Monaten Verhandlung: Gestern Favag-Urteil," Frankfurter General-Anzeiger, Feb. 26, 1932, in FHA, B-2/601.

the Favag scandal broke: "In this connection, the collapse ... has a special significance. It shows clearly that the private personal responsibility of the entrepreneur in no way offers a guarantee for rational economic management. It further shows that the great 'private' large enterprises of our age can only be regarded as private enterprises on the basis of an unsustainable fiction ..." ¹¹.

Another problem was the danger of international distrust of German financial institutions and the German private economy in general. After the banking crisis, this was a reality, and the major concern was increasing it still further. At the outset of the Favag scandal, however, there was more reputation to save. In this respect, the management of the Favag collapse shows some interesting contrasts and similarities with the Danat debacle. Where in the latter case the other big banks, above all the Deutsche Bank, showed a remarkable lack of solidarity with the Danat. While prepared to take over some of its most lucrative accounts, the Deutsche Bank leadership was quite willing to see the Danat liquidated. The role of the Allianz in the case of the Favag was quite different. While there can be no question that the Allianz wished to take over its chief competitor, or at least take over the best parts of its business, the rapid intervention of Allianz meant that the investment of policyholders was secure and that the private sector managed to contain the most dangerous potential element in the catastrophe without dramatic government intervention. As General Director Schmitt somewhat cynically but still very hopefully told his board of directors: "One cannot deny that the events at the 'Frankfurter' have led to a general crisis of confidence in the private insurance business; but it is to be hoped that this crisis will be overcome soon. In working against a migration of business, especially of life insurance to foreign companies, it is useful to point out that collapses similar to the 'Frankfurter' are not unknown in America and England." ¹²

Indeed, it is important to note that there had been some genuine resistance against Allianz's self-interested but salutary intervention in the Favag affair that was of international significance. As has been shown, Schmitt had broached the possibility of fusion with Allianz in his talks with Bodenheimer and other discussions had taken place at a time when the problems of the company had not been revealed. Even after they were, the basic insurance business remained very attractive, which explains the rapidity of Schmitt's intervention. It was attractive to others as well, especially the group of insurance companies connected with Director F. Nordhoff of the Berlinischen Feuer-Versicherungs-Anstalt. The latter was closely allied to the Schweizer Rückversicherungs-Gesellschaft in Zürich, which was a competitor of the Allianz-associated Münchener Rückversicherungs-Gesellschaft and which did 50–60% of its life insurance business in Germany. It was anxious to expand its operations in Germany, not by acquiring portions of the

¹¹ *Thilo Ramm* (Hrsg.), Hugo Sinzheimer. Ernst Fraenkel. Die Justiz in der Weimarer Republik. Eine Chronik (Neuwied, Berlin 1968) 200. I am grateful to Carl-Ludwig Holtfrerich for bringing this somment of September 1929 to my attention.

¹² Vorstandssitzung am 5. und 6. November 1929, FHA 17, 2/4.

Favag itself, from which it expected more “surprises”, but rather by gaining control of two old, solid, and well respected companies in the Favag concern, the Karlsruher Lebensversicherungsbank AG in Karlsruhe and the Vereinigten Berlinischen und Preussischen Lebensversicherungs AG in Berlin. Nordhoff complained to his friends in the Disconto-Gesellschaft that the Allianz takeover would upset the balance in the insurance business and would also bring about a further economic concentration in Berlin at the expense of Frankfurt and South Germany¹³.

Yet another scheme was urged by the Victoria Versicherungs-Gesellschaft which, using Jakob Goldschmidt of the Danat Bank as its spokesman, proposed common action on the part of all the large German insurance companies to deal with the problem. In the last analysis, however, the leading banks represented on the Favag supervisory board found the Allianz takeover most acceptable and welcome despite the power shift it carried with it. On the one hand, the alternatives were all being proposed in August 1929 while the full scope of the disaster was gradually coming into focus, for example, that the “silent reserves” of the Favag were really its own shares which it had purchased and was holding in the portfolios of member companies of the concern. On the other, Allianz had the distinct advantages of operating in all the various insurance fields in which the Favag operated, having a superior apparatus and organization for the management of the Favag policies, and being willing to put up guarantees for these right away while negotiating about the final purchase price. Time was of the essence if a widening crisis were to be averted and unwelcome interventions by the State avoided. As the bankers concluded: “Finally, in view of the fact that it is impossible in the time available to wait for the coming together of the big insurance companies, which would take a very long time, and that one under no circumstances should allow the Reich Supervisory Agency for Private Insurance to mix in, it was decided to ask Herren Dr. Schmitt and Hilgard from the Allianz as well as Dr. Herzfelder of the Hermes Kreditversicherungsbank AG to discuss the matter with us.”¹⁴ Furthermore, Allianz had considerable influence with the Reich Supervisory Agency, thus making its role even more advantageous.

Indeed, the Reich Supervisory Agency had to approve the contracts between Allianz and the Favag, which it did on August 20, 1929. This involved the immediate separating out and acquisition by Allianz of the most intact and lucrative portion of Favag’s business without the summoning of a meeting of the shareholders. Furthermore, the Reich Supervisory Agency thereby issued an effective ban on payment to other creditors until the price Allianz would pay could be decided and until the assets and liabilities of the rump Favag could be determined. While the Reich Supervisory Agency had the right and power to give primary protection to the policyholders, it also involved a bypassing of shareholders and other creditors

¹³ Aktenvermerk Frank (Disconto), Aug. 16, 1929 and other relevant correspondence in HADB, S236, and Schweizer-Rückversicherungs-Gesellschaft Ausschuss Sitzung, August 1929, Ausschuss-Sitzungen 10, Schweizer-Rückversicherungs-Archiv Zürich.

¹⁴ Sitzung der Berliner Hauptbeteiligten des Bankkonsortiums, Aug. 17, 1929, HADB, S245. Hermes was a part of the Allianz concern, and Herzfelder was a specialist in credit insurance.

that the Reich Supervisory Agency could only justify with the argument that the value of what Allianz was getting would diminish if insurance customers turned elsewhere and that this would not be to the interest of anyone. While Allianz certainly stood to gain substantially and could determine what it would and what it would not take over, it was willing to pay some heed to South German sensibilities as well as to anxieties about its increased power. Thus, the Favag would neither be formally annexed nor allowed to disappear but would rather be reestablished as the Neue Frankfurter Versicherungs-Gesellschaft, albeit as a company within the Allianz concern. Also, the major insurance companies in the Favag concern, the "Hammonia," which was taken over jointly by the Allianz and Münchener-Rückversicherungs-Gesellschaft, and the Karlsruher Leben and Vereinigte Berlinisch-Preussische were to retain their formal independence and not be externally designated as belonging to the Allianz concern. Nevertheless, despite a general recognition that Allianz, and particularly Schmitt, had acted to prevent the Favag collapse from turning into a major disaster for the German insurance business and the German economy, there was also considerable feeling that the Allianz had taken whatever was worth taking, not only in the German insurance circles, but also by the Schweizer Rück¹⁵.

There was also a great deal of sentiment at home and abroad that Allianz, which paid the Favag 36,897,301 RM for the assets it had acquired, had paid too little in the end for the advantages thus received¹⁶. The view of Allianz was that it had prevented a catastrophe for the German insurance industry and for the German economy in general. While both arguments were probably correct, the debate itself was highly relevant to the second and far less soluble aspect of the Favag collapse, namely paying off as much as possible of the domestic and international debts the concern had contracted. These amounted to 63.9 million RM to domestic creditors and 35.6 million RM to foreign creditors¹⁷. The obvious solution was to form a standstill syndicate of the creditors, while the banking committee of the Favag supervisory board provided some guarantees and the time was taken to determine the actual status of the Favag and what Allianz was willing to work out with Favag to pay for its acquisitions.

These problems were to reappear in the banking crisis and reflected the deeper economic and financial difficulties that plagued the Weimar Republic. One important issue was whether the Reichsbank would back up the effort with its

¹⁵ Aktenvermerk Moesler, Aug. 19, 1929, HABD, S236 and Vorstandssitzung am 5. und 6. November 1929, FHA 17, 2/4. Little credence seems to have been given to the charges of the indicted directors that Allianz had been plotting to take over the Favag all along and that it had even been responsible for the Lauinger articles. See the responses by Schmitt, Hess, Hilgard, and Kisskalt and their valuable accounts of their dealings with the Favag in BAB, 80 Ba 2, P5785. For the Reich Supervisory Agency decision and justification of its actions, see its formal decision of Nov. 16, 1929 in the Protokoll über die Gläubigerversammlung, Jan. 15, 1930, HABD, S244, 1f.

¹⁶ See Favag an das Finanzamt Frankfurt am Main, Dec. 17, 1932, Bundesarchiv Koblenz (BAK) B 280/13283.

¹⁷ Favag an Waller, Aug. 27, 1929, HABD, S234.

authority and also provide rediscounts and guarantee funds. At an initial meeting with Reichsbank Vice-President Dreyse on August 20, the banks were quite sour about the burdens being imposed upon them. They considered it insupportable "that foreign bankers give money to business without our collaboration and ... then count on the German banks springing into the breach every time"¹⁸. The Favag case and the mini-League of Nations of foreign creditors who had given the Favag money showed the extent to which short-term foreign lending to Germany had gotten out of control. Furthermore, one could not force Favag creditors to agree to a standstill, and the only solution the banks could suggest, and one which Dreyse found very unsatisfactory, was that those who could afford to take the losses join the standstill syndicate while those who could not afford to wait be satisfied first. This in effect placed a premium on taking the Favag to court and made those who cooperated look foolish. The Reichsbank was willing to put pressure on domestic banks and creditors unwilling to cooperate, but Dreyse was very wary of promising Reichsbank guarantee funds after it had just turned down such requests from the agricultural cooperatives.

By November 1929 the situation had worsened considerably since some foreign and domestic creditors were refusing to cooperate and demanding payment so that there was a renewed danger that the Favag would have to declare bankruptcy. Ten days of negotiations in London and Paris failed to bring agreement. As the liquidator appointed by the supervisory board of the Favag reported: "The chief reason for this attitude is the view abroad that the German banks represented in the supervisory board of the Favag are in some form or other obligated to step in for the obligations of the corporation. The difference between the organization of German and foreign joint stock companies is not taken into account. Taking the French or English perspective, one equates the German supervisory board with the administrative board in the French and English sense and views the members as representatives of their firms who are participating in the administration of the corporation under their company's responsibility. One cannot and perhaps does not want to understand that the differently structured organization of the German corporation in no way places obligations on the members of the supervisory board and the firms with which they are associated in the manner in which such obligations are assumed in an English or French administrative board. The joint stock corporation has for a long time become an instrument of credit in international business and as such has been used and misused extensively by the previous management of the Favag. Its collapse demonstrated how disadvantageous it is for international business and financial relations that the legal foundations of the organization of joint stock companies in the European nations are so different and that the business views about the obligations of the firms and persons participating in such a corporation are so different in the individual countries. On the other side one cannot dismiss the fact that foreign creditors in some cases have not operated with the necessary caution and have given credit in large amounts to unhealthy en-

¹⁸ Aktenvermerk, Aug. 20, 1927, *ibid.*

terprises simply on the basis of the credit guarantees of the Favag, the granting of which the Frankfurt banks certainly would have discouraged if they had been asked. The false business methods of the Favag enticed foreign banks to undertake business in Germany without the collaboration of knowledgeable correspondents working on the scene and thereby also to disregard tried and true principles.”¹⁹

The situation was very worrisome to Economics Minister Curtius, who summoned Directors Oscar Wassermann of the Deutsche Bank and Jakob Goldschmidt of the Danat and told them that “the banks must make large payments to prevent a cessation of payment by the Favag. The German economy cannot bear a collapse”. They all agreed, however, that the Reichsbank had to intervene and assist and went to see Reichsbank President Schacht. Schacht, however, refused to do any such thing and also warned against the Reich Supervisory Agency issuing a payment ban “because the outside world would view this as demonstrating the possibility of intervention from above with respect to the fulfillment of payment obligations ... intervention from above would create fear that the same could also happen with respect to the numerous municipal credits taken abroad”²⁰. The great vulnerability created by the private and public borrowing in Germany was thus apparent. The reality of the Favag case, however, was that a Reich Supervisory Agency payment ban had been created under the terms of the grant of permission to Allianz to take over the direct insurance business of Favag. This automatically protected policyholders. The Reich Supervisory Agency also mandated a payment ban for what remained of the Favag until its financial status was established and Allianz and the Favag had settled on what the former would pay the latter for the assets it had taken over. Schacht apparently raised no objections to this. Also, the Favag bankers seem to have used his good offices and influence to bring recalcitrant English banks into accepting the standstill arrangement²¹.

By the turn of 1929–1930 some progress had been made in determining the status the Favag, and the liquidator was able to issue an interim report. Impatience was increasing, however, with the slowness of the process, which sought to avoid formal declaration of bankruptcy while carrying out the liquidation through the employment of bankruptcy methods²². The Reich Economics Ministry desperately warned against declaration of bankruptcy, which would have serious political consequences and lead to unwanted changes in the impending reform of the corporation law. Both the banks and Allianz, however, claimed that they had done a great deal already and that the burdens should be more widely distributed in the business community. Goldschmidt was particularly outspoken, pointing out “that he always has been for an action by means of which one would finally permit the curtain to be drawn over this matter so agitating to the public”. He also pointed out “one cannot wait for a final status report because in cases like the Favag a

¹⁹ Bericht über die Liquidation der Frankfurter Allgemeinen Versicherungs-Aktien-Gesellschaft in der Zeit vom 20. Aug. bis 30. Nov. 1929 v. Dr. Waller, p. 3, HADB, S240.

²⁰ Aktenvermerk Moesler, Nov. 1, 1929, HADB, S239.

²¹ See Moesler to Schacht, Sept. 4, 1929, HADB, S238.

²² See the report of the Liquidator, Dr. Waller of Dec. 28, 1929 in HADB, S239.

status report is, so to speak, never final”²³. Whether all the interested groups, that is, the insurance industry, the banks, and the government would be willing to contribute, however, remained open and, since the creditors were scheduled to meet on January 15, their representative proposed that the banks offer 20% to the creditors and agree to hold back on getting payment for their Favag credits until the other creditors had received at least 40% of their claims. This was based on the proposition that the banks in the supervisory board had a special responsibility because of their failure to detect the malfeasance of the Favag directors but also that the Allianz payment to the Favag, when finally determined, would make possible more than the 20% determined to be available at the beginning of 1930.

This was, indeed, to be the foundation on which the final liquidation of the Favag rested, and it should come as no surprise that representatives of the creditors bitterly resented the way in which the banks on the Favag supervisory board had behaved between August 1929 and when they finally met in mid-January 1930: “The first thing that the administration did in the ‘protection’ of the interests of the creditors was to take the most valuable assets which this enterprise had as its basis and sell them to the Allianz. They should have been all the more cautious in doing so since the Allianz concern is a concern in which the majority of the administration banks are just as much represented as in the Favag concern. Represented in the Allianz are: Deutsche Bank, Disconto-Gesellschaft, Darmstädter Bank, Commerz- und Privatbank. One had, without setting a purchase price first, shifted over this valuable set of assets from a concern that was in distress to a concern that was not and one had removed what had previously been the most dangerous competitor of the firm that was not in distress and turned it into the single most decisive insurance concern in Germany ... One had more or less skimmed the cream off the cake and left behind an unpalatable, spoiled dough for the creditors, without there being any security as to what is still to be saved from the Allianz concern for the creditors of the Favag concern.”²⁴

This was probably a self-interested exaggeration under the circumstances. From a longer term perspective, however, the solution to the Favag crisis must be understood in terms of the need “to draw a veil” over the very tenuous economic and financial circumstances in which the Weimar Republic was functioning. Whatever the aftershocks in the law courts, the agreements made between the Favag and Allianz and between the Favag banking committee and the creditor committee in February 1930 laid the basic issues to rest and permitted the liquidation of the Favag with some satisfaction of the creditors²⁵. They did not, of course, eliminate the underlying structural and financial difficulties of which the Favag was an important symptom. It remained for the events of July 1931 to tear that veil asunder and to make the kind of highly privatized crisis management that characterized the handling of the Favag collapse impossible.

²³ Aktenvermerk, Jan. 10, 1930, HADB, S241.

²⁴ Justizrat Heilbrunn at the Creditors meeting on Jan. 15, 1930, HADB, S244, p. 15.

²⁵ The agreements are to be found in HADB, S233.

II. The Fall of the Austrian Phönix

Almost seven years separated the Favag collapse from the Phönix debacle, which took place in March 1936, and between them lay the worst years of the Great Depression and the demise of much of the liberal economic system and environment under whose auspices the Favag crisis had been settled. Nevertheless, there were significant similarities between the two cases. Like the Favag, the Phönix was a very large company, the third largest on the European continent in fact, and one that did business in no less than twenty-two countries. Some of the conditions that led to its collapse were very similar to those that had caused the Favag to go under. Just as the Favag owed its rise and fall to Paul Dumcke, so the Phönix's fate was intimately bound up with its General Director, Dr Wilhelm Berliner, by all accounts a remarkable personality with extraordinary talents as a linguist, mathematician, financial expert, and lawyer. He had entered the company, which had been founded in 1882, in 1900 and assumed effective leadership of Phönix by 1914 even though he never took the General Director title himself. He was an imaginative risk taker, greatly increasing the Phönix's insurance portfolio during the war by offering insurance for military dependents actuarially based on the experience of the Russo-Japanese war and investing heavily in war bonds. These activities gave him a high rating at least with the government authorities and led, among other things, to his appointment as a member of the Austrian delegation in St. Germain. He has also played an important role as an adviser to the Austrian Government in the negotiation of the Geneva loans in 1922 and at the Hague Conference following the collapse of the Creditanstalt in 1931²⁶.

The Phönix rode out the postwar crisis by selling some of its assets in the successor states and then began a policy of expansion, first by investing in the insurance portfolios of some small foreign insurance companies and also acquiring some small companies that were operating at a deficit or were illiquid. It also took over a very large portfolio of policies in Czechoslovakia at a very unfavorable exchange rate and became active in Germany as well. Indeed, it did business in practically every country in Europe and in the Near East as well. The motives for such expansion were not dissimilar to those of the Favag. In order to handle existing obligations, one had to take on new ones, obviously an expensive and dangerous way of doing business. These methods could hardly escape notice. Wilhelm Kisskalt, the General Director of the Münchener Rückversicherungs-Gesellschaft became increasingly troubled in 1929–1930 by the high administrative costs of the Phönix and its lack of profitability. At the time, the Münchener Rück was a major reinsurer of Phönix and Kisskalt was a member of its administrative council.

²⁶ In this account, I follow closely the very useful article of *Isabella Ackerl*, *Der Phönix-Skandal*, in: *Das Juliabkommen von 1936. Vorgeschichte, Hintergründe und Folgen. Protokoll des Symposiums in Wien am 10. und 11. Juni 1976 (Wien 1977)* 241–279. See also the very informative discussion in *Marita Roloff* and *Alois Mosser*, *Wiener Allianz Gegründet 1860 (Vienna 1991)* 135–155.

When Kisskalt expressed his concerns to Berliner at a meeting in March 1930, "Herr Dr. Berliner responded that the remarks of Herr General Director Dr. Kisskalt were accurate. The business of the Phönix was very large and he could not administer the apparatus more cheaply. A significant reduction of production would be suicide, since a reduction of administrative costs could only be attained by equal or somewhat increased production. A significant reduction of production would, in absolute terms, not moderate the administrative costs and would drive the percentage up."²⁷ Berliner expressed the hope that he could reduce the costs from 20,4% to 10% in four or five years, which Kisskalt, for all his admiration for Berliner, did not find very reassuring. He was even less happy with the fact that the Phönix was keeping afloat by speculative activities in connection with exchange rate profits. Thus, the Münchener Rück significantly reduced its business with Phönix while Kisskalt retired from its administrative board. Nevertheless, Berliner's methods were favored by certain circumstances peculiar to Austria. One of these was the loss of confidence in the banks, so that the public was more willing to invest in insurance and in insurance companies which had not yet been discredited. The other was that one was able to make a considerable amount of money speculating in shares and securities in the 1920s, and Berliner had genuine talent in this area.

While Berliner himself lived in an extremely modest manner and was extraordinarily generous to his employees and to others needing his help, his business practices nevertheless became increasingly dubious. The securities market in the Great Depression no longer offered the profits of the preceding period, and Berliner increasingly borrowed on the securities from the banks. Thus, when the Creditanstalt collapsed in May 1931, the Phönix had major financial difficulties because its Lombard account was so large. Another major problem lay in his response to the sharp competition during the Great Depression and the inability to move assets from more profitable activities in one country to less profitable activities in another because of the strict exchange controls. The Phönix became notorious for what in effect were dumping practices. It did everything possible to increase its short-term liquidity, offering rates that were unjustifiably low and imaginative combination policies that were uneconomic. Similarly, it offered a one-time premium life insurance policy to a public that had become fearful of putting its money into banks and considered such investment very promising. Indeed, Phönix's guaranteed yearly 5½% interest policies were especially attractive. Berliner also took advantage of the government's home construction program to offer mortgage insurance that guaranteed full coverage in the event of sudden death with a guaranteed declining premium. He also went into the business of guaranteeing returns on domestic and foreign government bonds and was able to circum-

²⁷ Aktennote. Besprechung mit dem "Phönix" wegen des Abschlusses 1929 und des Rückversicherungsvertrages, March 12/13, 1930, FHA, Münchener Rück Akten, A 2.13/42. This volume contains a great deal of material on the Phönix and its operations as well as its relations with the Münchener Rück in the 1920s and 1930s.

vent foreign exchange regulations in various countries because of the multinational network of companies in the Phönix concern.

At the same time, Berliner also engaged in a variety of business activities that had nothing whatever to do with the insurance business, and like Dumcke he became involved with a bank, the Kompass Allgemeine Kredit- und Garantiebank, which was closely associated with the Phönix and was used for various investments and activities that had very little or nothing to do with insurance. Some of these activities, to be sure, were very pleasing to the government. In 1933, for example, when the new National Socialist Government in Germany created all kinds of difficulties for the Austrian tourist business, Berliner proceeded to set up a tourist information bureau at the Phönix which organized cheap tourist trips to Austria, propagandized tourism in Austria, and even increased vacation pay for those of his employees who chose to take their vacations in Austria.

Indeed, Berliner's generosity extended far and wide. He not only gave free insurance to important government officials and other influential persons, but also gave money to causes both good and bad. He never tried to cover up his Jewish identity and gave considerable sums to Zionist causes and also helped Jews trying to leave Germany to rescue their assets. At the same time, however, he gave money to the Austrian Heimwehr and, much to its later embarrassment, also to the National Socialist Party. He showed particular generosity to journalists and seems to have done very well with the Austrian media. He did not, however, do very well with Artur Lauinger who, although a Jew, continued to work at the *Frankfurter Zeitung* in the early 1930s until he was sent to Buchenwald and then emigrated in 1938. When Lauinger began to report on the Phönix's banking activities, Berliner paid him a visit and asked how much he wanted, whereupon Lauinger showed him the door²⁸.

Despite his growing vulnerability to exposure, however, Berliner, like Dumcke, did not live to see his own disgrace and died as the result of an operation on February 17, 1936. His funeral was attended by the leading lights of the international insurance business as well as high government personages, and he was much praised for his works. The revelations came shortly afterward. On the one hand, a list was found naming the recipients of his bribes, and the head of the Austrian Supervisory Office, Oechsner, for whom Berliner had done many kindnesses and whose office had not done an audit on the Phönix since 1921, committed suicide. On the other hand, the true balances were handed over to Berliner's successor, Dr. Eberhard von Reininghaus by the chief accountant of the concern. The accountant, along with some other directors, was to end up in jail. The result of the exposures, needless to say, was a major international scandal and economic difficulties of very serious proportions. This was in fact a much larger collapse than that of the Favag, involving many more countries and policyholders.

By this time, however, one had plenty of experiences with failures and bankruptcies and the mechanisms for dealing with them had changed considerably

²⁸ *Lauinger*, *Das öffentliche Gewissen* 23–24.

since the days of the Favag debacle. In Austria, where memories of the Creditanstalt were very fresh, government intervention was immediate. Chancellor Schuschnigg himself discussed the affair in a major speech in the Bundestag on April 1 that stressed the primary importance of protecting policyholders, and the need for legislation increasing supervision and eliminating speculation by insurance companies. In fact, legislation had already been issued creating an insurance fund to be based on contributions from all the Austrian insurance companies as well as from foreign companies operating in Austria. The goal here was to avoid government guarantees and, instead, to implement the ideology of the Austrian "Ständestaat" or corporatist state and force the private interests to take collective responsibility for guaranteeing that the policyholders would be protected. As can be imagined, foreign companies were not enthralled to be forced into such participation. As Arnaldo Frigessi di Rattalma, the General Director of the *Riunione adriatica di sicurtà* (RAS), which had important interests in Austria, pointed out, however, "even if it is outrageous that the other corporations active in Austria should be drawn in to reconstruct Phönix, it is nevertheless unconditionally necessary from the perspective of general higher business interests to reduce the disquiet among the public concerning Phönix to a minimum in order not to provoke state interventions in the insurance business throughout Central Europe that could have unforeseeable consequences"²⁹. Frigessi, to be sure, was no supporter of generosity in this regard, pointing out that those who had taken out insurance with Phönix-Life had benefitted from irresponsibly low premiums, especially the one-time premium policies which Frigessi thought had ruined the concern. Nevertheless, solidarity was important if State interference was to be minimized, and he certainly believed the State had a responsibility to protect the companies called in to assist by preventing abuses in the future. Subsequently, the Austrian Government did in fact issue special legislation requiring adequate premiums and forcing reduction of costs for insurance companies by reducing salaries and pensions.

A special law of April 8, 1936 divided the Phönix-Life into two parts with the purpose of separating the insurance from the finance business of the firm. The latter was to be liquidated, while the former was lodged in a new company, the *Österreichische Versicherungs-AG* (ÖVAG), participation in which was made attractive by the aforementioned collective guarantee of the Austrian insurance business and various restrictions on repurchase of insurance policies by their holders. At the same time, the property insurance portion of Phönix, *Elementar-Phönix*, which remained basically sound, was taken over by an international consortium of companies. Among its most important shareholders were the *Wiener Städtische*, the *Italiani Generali*, and the *Münchener Rück*. Indeed, the last named company considered it a matter of prestige to participate and requested special dispensation from the foreign exchange regulations from Schacht in order to do

²⁹ Frigessi to General Director Reismann, March 30, 1936 *Banca Commerciale Italiana*, Archivio di Arnaldo Frigessi di Rattalma, cart. 103, fasc. 1.

so. The entire affair intensified competition between German and Italian companies for the Austrian market, a competition resolved after the Anschluss in March 1938 in favor of Allianz, which at last was able to realize its ambitions in Austria, and the Münchener Rück³⁰.

The Austrian government also sought to protect the interests of its own companies and policyholders against demands of foreign creditors, and this intensified the nationalization of the European insurance business before the war that was a byproduct of the depression and its problems. Phönix-Life had taken advantage wherever it could of situations where insurance oversight was minimal, and there were heavy losses in Egypt. Countries that could protect themselves did so. In Hungary, for example, the government ordered that the assets of the Phönix-Life branches had to be used to satisfy Hungarian nationals and could not be tapped to solve the difficulties of the headquarters in Vienna. A similar position was taken by the Czech government, where Phönix-Life had been particularly active. Generally, because of government coverage requirements, the Phönix-Life branches in West European countries, but also in Poland did not constitute a danger to policyholders and were soon transferred to other companies. In Poland, for example, the Phönix-Life insurance stock was taken over by Generali.

In Germany, where Phönix-Life had been extremely active, there had been, as has been shown, considerable anxiety about the concern's solidity, and the Supervisory Agency had tried to get an increased bond from Phönix-Life and was worried about it having sufficient coverage. This was in fact an issue despite all the regulations, and while the public was told that there was nothing to worry about, there was a genuine danger that the German branch of the Phönix-Life could go bankrupt if negotiations for its liquidation and the assumption of its policies failed. Thus, in May 1936, the Economics Ministry summoned the insurance industry organization leaders to discuss the situation. While one could make arguments that the German insurers had no obligation to save the branch of a foreign company from a bankruptcy which it had brought upon itself, the insurance industry organization leaders dismissed such notions because "they overlook the heart of the matter, which is that the existence of many German families are at play and on the other side that the bankruptcy of the German branch of the Phönix would be a heavy blow to the entire German life insurance business". The conclusion was that a common action by the insurers to prevent such a bankruptcy was necessary in the form of a guarantee for such losses as had been incurred. This was warmly supported by Kisskalt of the Münchener Rück, who pointed out that his company had bowed out of the Phönix long before, but that he felt an obligation nevertheless. The Hungarian insurance companies had put up a 3 million pengö guarantee for their Phönix-Life branch, and "what the Hungarian insurance business can do is easily possible for the German enterprises which are much

³⁰ There is an excellent and informative collection of newspaper clippings and reports, including some by Ambassador von Papen from Vienna, dealing with the crisis in BAB, R 31.01/17324-17325.

stronger in capital ... One has to avoid everything that is likely to promote the view that the German insurance business is not healthy.”³¹ There was only one negative voice, General Director Tiedke of the Alt Leipziger, who argued that Phönix-Life had done nothing but ruin their business and that the policyholders had gone to Phönix-Life primarily for speculative reasons and thus deserved no protection. The prevailing mood, however, was that the reputation of the German private insurance business depended upon them all acting as a collectivity. In the end, the guarantee was given and a new company, the Isar, was established to take over the Phönix-Life policies.

Thus, in contrast to the Favag case, where the Allianz had saved the day and left shareholders and financial creditors to pay the bill, the Phönix-Life liquidation, in both Austria and Germany, involved a great deal more direct government action as well as collective action to cover the losses and protect the policyholders. The much more regulative regime introduced in Germany after the Favag affair was now introduced in Austria as well and, indeed, Austria was soon to have the “blessings” of the German system once the Anschluss took place. It is significant that the Phönix issue in Germany was solved under the auspices of the Reich Supervisory Agency for Insurance, whose powers had been greatly increased. There were some who even argued that the Supervisory Office should in effect run the peak association of the private insurance business, and the voluntary collective action of the private insurers undoubtedly reflected their desire to show that they knew how to keep their own house in order. Also, there were important forces in the National Socialist regime arguing for the socialization of the insurance business. It was thus important to be able to argue that “the events in Vienna give no cause for a strengthening of the tendencies which run in the direction of a nationalization of the private insurance industry, and certainly not among us, where the National Socialist economic policy by aiming at a spirit of community and securing the necessary state influence has made the means of socialization superfluous”³². State authority and regulation had indeed increased greatly, especially under the aegis of the authoritarian regimes that had taken over in the 1930s. The Favag and Phönix cases are significant illustrations of the international business conditions and practices that had played so important a role in producing and providing the scenario for the international economic crisis. They are also suggestive of the changes on the international business scene between 1929 and 1936, that is, at the beginning and the end of the Great Depression in Central Europe.

³¹ Meeting of May 12, 1936, BAB, R 31.01/17325, Bl. 120–127.

³² *Joseph Wünsch*, “Phönix-Gedanken”, *Deutsche Allgemeine Zeitung*, April 6, 1936, BAB, R 31.01/1734, Bl. 164.