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CLOAKED BUSINESS

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A half century of chronicling the history of World War II has largely overlooked a carefully cloaked world of dubious deals between American entrepreneurs and the Third Reich's financiers. Newly declassified United States intelligence records reveal in unprecedented detail how US and Allied firms systematically used backwater countries to conduct backroom business with Axis enterprises. The files peel away a whole new layer of collaboration, describing scores of so-called "shadow agreements" in which corporations disguised their ties with the enemy through the cover of other companies in neutral countries, from Spain to Sweden to much of Latin America.

They show bank drafts and communique moving among scores of shippers, banks, insurance companies, and exporters from nations at war. Global commerce was still conducted amidst global combat, and business blurred the boundaries between fascism and the free world. This cloudy category of complicity is emerging only now, largely because of a somewhat chaotic dash to declassify ultra-sensitive espionage records in the United States, Western Europe, and the former Soviet bloc. The Nazi War Crimes Disclosure Act that Congress passed in 1998 has triggered the release of some 3 million pages of intelligence files, thereby helping to lift the last veil of secrecy on the US role in World War II. Last year, the CIA released records of the virtually unknown Insurance Intelligence Unit, a component of the agency's wartime predecessor, the Office of Strategic Services. Besides supplying Allied battle planners with important target data, it also outlined the way insurance companies - along with banking and shipping interests and governments of neutral countries - conducted clandestine commerce that ignored lines drawn in blood on the battlefield.

The Insurance Intelligence Unit was formed by OSS General William Donovan from a gaggle of rival insurance executives motivated by patriotism and personal gain.

It is difficult, if not impossible, to determine which companies operating in this gray zone profited from Axis war crimes. But the records show with stunning frequency just how determined businessmen were to continue commerce even if the sharing of risk also meant the sharing of critical intelligence information.

Some examples from the newly declassified files:

In 1941, a year in which US trade embargoes of, and military tensions with, Japan culminated in the attack on Pearl Harbor, the San Francisco office of a British insurer resold coverage of the Panama Canal - the US Navy's key link between the Pacific and Atlantic theaters - to two Japanese firms.

"In connection with this insurance, there was forwarded to Tokyo a detailed description of the locks, all machinery in connection therewith, exact location, etc.," a 1942 OSS report said.

In 1938, with Germany and Japan looming as potential conquerors of their respective hemispheres, the Axis-linked Swiss Re insurance group asked for, and received, detailed reports on the flammability of major American cities from the National Board of Fire Underwriters.

With war underway in 1942, Fireman's Fund Insurance Co. sold risk coverage of a key US defense contractor, the Sperry Gyroscopic Compass plant, to Axis-dominated Switzerland General Insurance Co. As part of such transactions, Fireman's shipped the complete plans of the Compass plant to Zurich, though they were intercepted by US censors.

When a fire of suspicious origin wiped out an enormous Firestone tire plant in New Jersey in 1939, it turned out that Fireman's of Newark had sold the risk to a group of Axis-connected European insurers. In exchange for covering the loss, Fireman's of Newark and the Marine Office of America had to provide the US supply and production capacity of an essential wartime material: rubber.

Economic comeback fueled by 'reinsurance'

Germany had pulled itself out of the rubble of World War I and global depression by specializing in "reinsurance," the selling of insurance to insurance companies. Just before the start of World War II, the global leader in reinsurance was Switzerland's Swiss Re, followed by Germany's Munich Re. Intelligence records show that as the Reich conquered Europe in the first half of the war, its insurance revenue actually grew.

Not only were Axis insurance companies in effect operating in the United States by sharing risks, they were using the business as a source of foreign exchange. Germany and Italy, in particular, camouflaged their stake in the industry by forming reinsurance pools in Brazil, Chile, Argentina, and other South American countries.

So essential was the insurance industry that the Reich enlisted a Hamburg brokerage house to dispatch insurance "penetration agents" to travel with German troops into France, the Balkans, and Soviet Union.

The Insurance Intelligence Unit's predictions of the Nazis' moves were eerily accurate. It forecast and then followed the way German and Italian insurance strategists sought to circumvent Allied blacklists of their global business through the shadow agreements in neutral countries, starting with Spain and then spreading to Latin America.

The files include detailed charts that show how Allied and Axis businesses intermingled, often with a German on every board. Three executives of companies controlled by Munich Re, for example, were on the boards of 12 other Argentine companies, and those companies, in turn, were linked to management of dozens of other firms.

"As we're seeing with the insurance [disputes] of the World Trade Center, the reinsurance business was a very international business and most people don't realize how involved these companies are with each other," said Gerald D. Feldman, a historian at the University of California at Berkeley.

"There is so much common business that they can't imagine living without each other," said Feldman, author of "Allianz and the German Insurance Business," a new book that examines links between German insurance giant Allianz and Swiss companies.

Consider American Cornelius Tucker, who the declassified files show served as the Argentina representative for the American Foreign Insurance Association, a brokerage firm that represented such wartime US insurance giants as Home Insurance Co., the Hartford, and the Phoenix of Hartford.

The AFIA, based in New York, was a rich source of information for the OSS unit and Tucker cooperated fully with the US Embassy in Buenos Aires on insurance intelligence matters, one OSS report said. Yet Tucker also was director of an AFIA-owned Argentine insurance company, Sud Atlantica, that was placed on the "yellow list" of companies doing indirect business with the enemy. Yellowlisted firms were forbidden from doing business with Allied companies and given the opportunity to break off Axis ties or face war-crime sanctions.

The OSS said Sud Atlantica was writing insurance policies for such important Axis defense industries as Siemens-Schukert, a subsidiary of the big German electronics firm. And the actual managers of Sud Atlantica were Heine and Co., which also was the broker for two German insurance syndicates: Bremen Marine Insurance Association and the Hamburg Association of Insurance Firms.

The upshot of such business-as-usual arrangements meant that there was a clear channel for cash and strategic data to leach from the United States to the Axis nations trying to crush it.

The same fears were expressed in reports on two New York insurance executives, Cecil Stewart and Stewart Hopps, who were affiliated with the Atlantic Brokerage Co., the Rhode Island Insurance Co., and the William Penn Insurance Co. A 1943 OSS report said they were purportedly selling war insurance to strategic US defense industries and reselling some of the risk to Latin American affiliates linked to Nazi insurers. The report said the two men also ran a steamship company that chartered tankers for Royal Dutch Shell, a Nazi collaborator that used Hitler's slave laborers.

"It's very possible that details of American insurance properties could reach the enemy via this sequence of reinsurance transactions," the OSS report said.

Stewart and Hopps were not unknown to the unit investigators; they had been part of the original OSS committee convened to design the Insurance Intelligence Unit, according to the minutes of meetings that included OSS officials and prominent international insurance executives.

Profit appears to have been the prime motivation for the dubious dealings that blurred enemy lines. US intelligence officials were clearly concerned that commerce was giving the Axis easy access to vital defense information.

Such dealings were a part of routine global commerce during peacetime, and they continue today. Swiss Re, for example, insured 22 percent of damage done to the World Trade Center, and the insurer and the towers' owners have tussled over the amount of the proper payout. Just as numerous businesses have capitalized on the fear and anxiety that have gripped the United States since the Sept. 11 terror attacks, the declassified World War II documents help demystify one of the most overromanticized of eras.

The records illustrate the range of greed that was pervasive during the war. "The Greatest Generation," for all its exploits, was also peppered with crooks, con artists, and cold-hearted profiteers.

Butchers in Brooklyn rioted over federal meat rationing; coal miners defied a law against strikes in essential industries; hoarders emptied stores to create food shortages. The United Auto Workers fought hard to keep women - epitomized by the propaganda posters of "Rosie the Riveter" - off the assembly lines. Race riots broke out nationwide when labor shortages allowed blacks and Hispanics into jobs that previously were unattainable for minorities. OSS operatives in occupied France continually complained that members of the fabled "La Resistance" were often merely bandits who stole their equipment and held their agents for ransom.

"Regardless of the country or the era, you don't change human beings very much, or their instincts," said Edwin J. Putzel Jr., former executive officer to the OSS's General Donovan. "Their basic drives, good and bad, are always there."

Unit hoped to exploit insurance information

The idea for the Insurance Intelligence Unit was hatched by Ernest Cuneo, a New York lawyer and OSS operative close to President Franklin D. Roosevelt, spy novelist Ian Fleming, gossip columnist Walter Winchell, and muckraking newsman Drew Pearson. Cuneo later ran a newspaper syndicate that had ties to US intelligence agencies.

According to the OSS files, Cuneo and Hopps approached Allen Dulles, a Wall Street lawyer running the OSS in New York, about forming a group that not only could exploit the detailed intelligence contained in fire, casualty, aviation, and marine insurance, but also expand the US share of the global insurance market.

Hopps, an adviser and director of the Rhode Island Insurance Co., which owned a controlling interest in the William Penn Insurance Co., was quickly bounced from the unit when other top executives were recruited. According to minutes of the meetings held to create the unit, Hopps was considered untrustworthy. He responded by tipping the FBI that the OSS was going to conduct counter-intelligence in Latin America, which was then under FBI jurisdiction. FBI director J. Edgar Hoover demanded that the fledgling spy unit stay out of the area.

But it was clear to members of the Insurance Intelligence Unit that Latin America had become an important part of the Axis war machine. Beginning in 1942, the unit diagrammed labyrinthine connections between insurance companies around the world, a network that included not just every other form of financial institution, but virtually every type of business.

Most insurers pooled their risks to protect themselves from a catastrophic payout. The unit made clear how entwined the lucrative risk business really was, from Hartford to Hamburg to Hong Kong. US citizens were paying premiums that German companies theoretically were using to cover losses to London businesses battered by Luftwaffe bombs.

By sharing risk, they also shared details of the things they insured - from Naval shipyards in Baltimore to chemical companies in Bremen, to bridges built on the River Kwai. The United States blacklisted enemy companies. But a 1943 OSS analysis of Nazi infiltration dismissed the list as useless because: "a) The firms not blacklisted are full

of Germans.

b) The blacklisted firms can't be prevented from reinsuring in Swiss or Swedish pools, both of which are Axis."

The OSS unit tracked how Nazi Germany took over France's insurance industry as it invaded the country. The files are filled not only with the names, backgrounds, and personal peccadilloes of French insurance executives who collaborated with the enemy, but the names and details of Allied branch executives who turned traitor. One, Carl Endemann, an American of German descent who represented AFIA but sided with the invading Nazis, provided strategic data about installations in North Africa just prior to the Allied invasion there, according to an OSS report. His English wife, stoutly pro-British, went to jail.

For Germany, the capture of France opened up a financial link to neutral Spain, allowing the Reich to penetrate the insurance market in the Americas. Fenix-Espanol, a joint venture of French and Spanish companies, was an important conduit. "Due to this international versatility and its dual offices, Fenix has become a dangerous center for the accumulation of vital data and funds for use by Fascist interests," a 1943 OSS report said.

The OSS found that the Axis used different tactics in countries in which the government controlled the insurance industry. Acting through an intermediary, Munich Re in 1942 offered a deal to government reinsurance banks in Uruguay and Brazil. Munich Re would share their risk, and the Latin American banks, in turn, would get a cut of the European insurance market. It is unclear if the offer was accepted.

The records also describe how the Axis was using its precious foreign currency to finance Nazi spies in the United States itself. The US dollars it obtained - often through American banks - were "used for subversive activities" in this country, the OSS records said: "The Insurance [Axis] people are the Axis payoff men in the US and Latin America."

Not only do the OSS records show a paper trail of money that linked Munich Re and Italy's Generali Group to Swiss Re and their sundry adventures in neutral Spain, Portugal, Sweden, and South America, they provide evidence that Americans themselves were paying premiums on policies that indirectly funneled cash and intelligence to Germany.

Swiss Re had branches throughout Britain and Axis-occupied Europe, and founded the North American Fire & Marine Reinsurance Corporation in 1940, with headquarters on New York's Park Avenue. By 1944, the OSS said it was the biggest fire reinsurer in the United States. American Rodney Davis was both president of North American and of the US branch of Swiss Re, and the board of directors of the former was the same as the board of managers of the latter.

Two directors of the American branch of Swiss Re, Paul Alther and Erwin Hurlimann, were "chiefs" of what the OSS called the "mother enterprise" in Zurich. Whether they were collaborators or just businessmen endeavoring to conduct commerce under precarious conditions is one of the ambiguities of the war.

"Many Germans and Swiss, friendly to the Axis, are employed in the various Swiss insurance companies and have ready access to their records," one 1943 OSS report said. "Therefore, it would be impossible for any Swiss company to prevent information received through international insurance business from falling into the hands of the Axis. . . ."

Switzerland, because of its neutrality, avoided the heavy reparations paid by former Axis nations until the mid-1990s, when a class-action lawsuit successfully proved that Swiss banks pocketed the accounts of Holocaust victims.

The United States, Germany, and Israel - along with businesses ranging from Daimler Chrysler to Deutsche Bank - tentatively agreed in 1999 to establish a German foundation that would distribute \$5 billion to an estimated 1 million people for unpaid insurance policies, lost pensions, or wages they could have earned performing slave labor. This is in addition to the roughly \$100 million that Germany has paid, and continues to pay out, in postwar reparations since 1947.

Roughly 61 international US firms, including Coca-Cola and Ford, also have contributed to the foundation. Contributing is supposed to be a shield from reparations lawsuits, but the suits continue unabated as lawyers race to the docket before their clients reach the grave. One suit accuses IBM of allowing its computer technology to make the genocide of Jews more efficient, but US-based companies have largely disavowed any actions of their overseas subsidiaries, which were more or less seized by the Axis.

An international commission led by former US Secretary of State Lawrence Eagleburger has reached a tentative agreement with major Swiss, German, Austrian, and Italian insurers to pay off old policies, but squabbling over who would pay for the program has left the agreement in limbo. Hearings were held on Capitol Hill earlier this month on the topic.

"The work of international insurance, like that of banking, is so intertwined and multinational - even in the 1940s - that I suspect it was decided to let beneficiaries of fascist finance off the hook," said historian Timothy Naftali, a consultant for the commission overseeing the declassification of US intelligence files from the World War II era.

Still, historians-for-hire and lawyers for purported victims and complicit companies have built a cottage dustry in combing through declassified records - part of a reparations fever that resulted in the Nazi War Crimes Disclosure Act to begin with.

Yet the indirect relationships American firms had with Axis companies remain below the radar screen.

The Eagleburger commission has focused largely on exacting compensation from big European companies that kept the premiums of Holocaust victims. But Neal Sher, the commission's chief of staff, expressed surprise when asked about the declassified documents that linked Allied and Axis insurance concerns.

"If there is any evidence that there were American companies writing policies on people who were victims of the Holocaust, we're interested," Sher said.

A private insurance investigation law firm that specializes in treating old insurance records as archeological digs also was unaware of the unit's information.

"That certainly raises my curiosity. The thing I am most interested in right now is the liability of US corporations," said Terrell Hunt, president of Risk International Services, Inc., a Houston-based insurance investigation firm voluntarily assisting state insurance commissioners in reparations cases. "It would take a fair amount of research, but I can't believe there isn't something wrong about [Axis and Allied executives] sharing board seats."

Even back in 1944, OSS agents described the daunting postwar task of untangling what one termed the Third Reich's vital "invisible export." Not only did the Axis develop a sophisticated "set of economic tools" to move money around the world more easily, they covered their tracks enough to make "the unscrambling of liberated

areas more complicated."

Moreover, insurance and banking are far more complex than other businesses to trace because of the intricate way that money traveled a circuitous global route. Exactly where the boundaries of blame should be drawn has led to endless debates about how far to extend responsibility for the one war that truly engulfed the globe.

"Whole conferences are held on these sorts of questions," said Ron Zweig, a Tel Aviv University Holocaust expert and a member of a historians panel helping oversee the US records declassification. "These are difficult and complex issues."

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