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Edited by
Robin Pearson

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THE DEVELOPMENT OF INTERNATIONAL INSURANCE

FINANCIAL HISTORY

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PREFACE

This book contains a selection of essays that derive from papers presented at the session 'Insurance in History', held at the XVth World Economic History Congress in Utrecht in 2009, and at a related pre-conference meeting held in Zurich. The theme of both meetings was deliberately left general with the object of casting the net as widely as possible. One aim of the organizers was to find out what historical research on the insurance industry was currently being carried out around the world and who was involved. The call for papers produced a result that surprised even the optimists among us. Altogether 18 papers from 22 authors were presented at the Utrecht and Zurich meetings. The authors came from Italy, Spain, Switzerland, the Netherlands, Sweden, France, Germany, the USA, Argentina, Chile, Brazil, Japan, Australia and South Africa. There were further offers of papers from researchers in the USA, Canada, Japan, France, the UK, Singapore, Hungary, Morocco and Nigeria that could not be included in either meeting or that were withdrawn, often for funding reasons. One outcome was that the existing pockets of insurance historians, hitherto working in a fairly small and specialized field of business and financial history, were now connected to a truly global network of researchers.

This is the latest stage in a process that has been gathering pace over several years. It began in 1995 with a conference in Kyoto, organized by Takau Yoneyama, where Japanese scholars were brought together with a small number of historians from the UK – David Jenkins, Peter Mathias, Robin Pearson, Clive Trebilcock and Oliver Westall – to discuss aspects of insurance history in both countries. In 1998 a more broad group met in a session at the World Economic History Congress in Madrid, from which several publications resulted (see *Risques* 31 (July–September 1997); and C. E. Núñez (ed.), *Insurance in Industrial Societies: Economic Roles, Agents and Markets from Eighteenth Century to Today* (Seville: University of Seville, 1998)). In the same year Peter Borscheid established a regular workshop on insurance history under the auspices of the German Society for Business History. In 2005 there was a session on insurance in Spain held at the conference of the Spanish Economic History Conference in Santiago de Compostela, organized by Jerònia Pons Pons and María Ángeles

Pons Brías, from which a collection of essays has recently been published (*Investigaciones Históricas sobre el Seguro Español* (Madrid: Fundación Mapfre, 2010)). Since then there have been conference sessions and dedicated workshops on insurance history held in Madrid, Melbourne, Hanover and Zurich, in addition to the meetings last year. Scholars have been very fortunate in that much of the recent impetus has come from industry sources, notably the corporate history project of Mapfre, authored by Leonard Caruana, José Luis Garcia-Ruiz and Gabriel Tortella (*De Mutua a Multinacional: Mapfre 1933–2008* (Madrid: Mapfre, 2009)), and the large ongoing project at the Swiss Re, led with great energy and skill by Rudolf Frei and Niels-Viggo Haueter. Several of the authors in the present volume are also involved in the Swiss Re corporate history, and we owe a debt of gratitude to Rudolf and Niels for their outstanding support, particularly in hosting our pre-conference meeting at the Swiss Re Centre for Global Dialogue in Rüschlikon.

As editor of this volume, I would also like to thank my colleagues Leonardo Caruana and Robert Wright for co-organizing the meetings in Utrecht and Zurich. Leonardo had the original idea for an international session on insurance history at the WEHC, and Bob kindly suggested that we publish this volume in the Financial History series that he edits for Pickering & Chatto. I would also like to thank Daire Carr of Pickering & Chatto for being such an efficient and supportive commissioning editor and for holding me to deadlines. Finally, I must also thank the contributors to this volume. They turned their chapters around to tight deadlines and answered all the queries set for them, despite various language barriers. This was all the more remarkable for the fact that at least two of them have had to cope with new arrivals to their families while revising their chapters. The future of insurance history, as well as the babies, would appear to be in safe hands.

Robin Pearson
Hull, April 2010

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Robin Pearson is Professor of Economic History at the University of Hull, UK. He has published widely on various aspects of British and international economic and business history, with a particular focus on insurance. His first book, *Insuring the Industrial Revolution: Fire Insurance and the British Economy, 1700–1850*, won the 2004 Wadsworth Prize for Business History. He has recently finished a book, *Shareholder Democracies? Corporate Governance in Britain and Ireland before 1850*, co-authored with Mark Freeman (University of Glasgow) and James Taylor (Lancaster University), forthcoming with University of Chicago Press. He is currently working on a project entitled *Insuring America: Multinational Insurance Companies in the United States, 1850–1920.*

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Takau Yoneyama is Professor of Risk Management and Insurance at Hitotsubashi University, Tokyo. He has published widely on various approaches to risk management and insurance. He compiled the eight-volume edition of the *History of Insurance* (2000) together with David Jenkins (University of York). Recently he has been involved in the revision of insurance contract law in Japan as a non-juridical member of the Legislative Council of the Justice Ministry. He is a co-editor, together with Professor Tomonobu Yamashita of Tokyo University, of *A Commentary on the Insurance Act of Japan*. He is a member of the executive committee of Asia-Pacific Risk and Insurance Association as well as the organizer of an international project on corporate forms in insurance, supported by the Dai-ichi Life.

CONTENTS

INTRODUCTION: TOWARDS AN INTERNATIONAL HISTORY OF INSURANCE

Robin Pearson

Preamble: Culture, Trust and Risk

Unlike commodity trades, where the object of exchange is visible and tangible, insurance is a business based entirely on trust and expectation. Money is handed over in return for a promise to pay back a larger sum in the future, contingent upon the occurrence of an uncertain event, or in one unique case – death – contingent upon a certain event occurring at an uncertain point in time. In the case of whole-term life assurance, for example, the insured by definition will not be around to ensure that his or her claim is paid. Trust in the individual or institution selling the insurance product therefore has to run deep. The purchaser has to have confidence that the product is fairly priced – a much more complicated problem than the pricing of most commodities – and that the insurer will remain solvent over the duration of the policy.[1] The seller has to have confidence that the risk taken is an insurable one and that the moral hazard embodied by the policyholder is at an acceptable level. Why, therefore, should such a business ever take place beyond the boundaries of local communities or outside close-knit groups characterized by high levels of transparency and reputational knowledge? How and why did this trust-based invisible product become traded over long distances and across political, ethnic, religious and cultural borders, and, since the early nineteenth century, in such vast quantities?

The short answer is the need to spread risk. But risk can be diffused in many ways, not all of which involve 'modern' forms of social security and insurance. For centuries poor communities in the Philippines have reduced the risks and limited the effects of typhoons and flooding through mutual assistance associations and forms of cooperation denoted by the Tagalog word *turnahan* – literally 'doing a turn'.[2] Mutual aid includes cooperative irrigation and rotating credit societies. Less formal reciprocity includes collective actions (known as *bayanihan*) such as helping with the rebuilding of houses after typhoons, moving houses onto higher ground before storms, and dam building to protect barrios from floods. Long-run data for the twentieth century suggests a close correlation between the *per caput* density of mutual aid associations and those regions with historically the highest frequency of disasters, so that the latter seems to have been the primary determinant of the former.

This example suggests that different political and cultural environments can shape attitudes to risk and levels of trust.[3] With the exception of a few pioneering works on life insurance,[4] historians have not really begun to explore how consumers and suppliers of insurance in the past have factored in world views and cultural bias when buying or selling cover against different types of risk. The relative balance of influence between cultural perceptions of hazards and scientific knowledge of hazards is likely to have changed considerably over time in different societies, according to a wide variety of external factors such as education, standards of living, lifestyle, economic structures and political institutions. Cultural theorists have begun to examine the ways in which popular perceptions of risk are culturally determined and impact upon power relations in a society, but little of this has found its way into insurance history.[5] There is no space here to discuss cultural theory at any length, but its principal message warns us against assuming the inevitable triumph of scientific risk assessment with the global diffusion of Western forms of insurance. It also suggests there may be a strong path-dependent effect determining how national markets develop and respond to the arrival of suppliers of insurance from other nations and other cultures. The great variety of such markets and the institutional vehicles through which different forms of insurance have been delivered is highlighted in the survey below.

The Rise of National Markets

Marine and Inland Transport Insurance

The protection of goods and people in transit provided an early motive for various types of mutual association offering non-actuarial forms of insurance. From the middle ages there were, for instance, mutual societies of shipowners in Chinese ports and armed escort services for trade caravans passing along bandit-infested roads between Chinese provinces.[6] Similarly, merchants in the Habsburg territories paid fees for the military protection of trade convoys travelling along designated routes, the so-called *Geleitregal*, formalized by the imperial law of Henry VII in 1231.[7]

The insurance of ships and their cargoes, however, was the earliest form of premium insurance and, from the outset, the most international. Ocean shipping usually passed between borders and operated under internationally accepted legal codes. Nevertheless, one can still speak of national markets in so far as recognized centres of marine insurance emerged in different states, and were subjected to taxation by their respective rulers. Such centres were first strung out along the northern Mediterranean, Italian and Adriatic coasts. By the 1600s there were also specialist communities of insurance brokers in London, Antwerp, Amsterdam, Bruges and Hamburg. In London some 150 private marine underwriters were joined in 1720 by two new chartered monopoly companies, the Royal Exchange Assurance and the London Assurance, but these failed to displace the underwriters operating out of Edward Lloyd's coffee house. By this date the London market had extended to include the slave trade and so-called 'cross risks', that is ships or cargoes travelling between two or more foreign destinations outside the United Kingdom.

While private underwriters and brokers continued to operate in many ports, some European states moved to found national institutions for marine insurance. In France, there was an unsuccessful attempt to promote a monopoly company for marine insurance in 1686.[8] Genoa, Copenhagen and Naples successfully established state monopoly companies between 1742 and 1751. Private companies undertaking both marine and fire insurance also appeared, beginning in Antwerp in 1756. Hamburg and Trieste also developed into major centres for private marine insurance companies. The first Trieste company was launched in 1766 and doubled as a credit bank for local merchants.[9] Like marine insurance, inland transport insurance was also essentially international. From the late 1760s Trieste fire and marine companies, for example, insured grain and tobacco in transit over land and on river from Hungary to the Adriatic port.[10]

Several points can be made about European marine insurance. First, there were multiple organizational forms at an early stage. There were individual underwriters, operating through brokers, as in Lloyd's, perhaps doing the bulk of the business before 1850. There were state monopoly insurers and quasi-monopoly private companies incorporated by the state. There were small private partnership companies and large private joint-stock companies and there were numerous private mutual insurance associations of shipowners. This mixture of organizational forms continued, with some variation in its composition, throughout the nineteenth and twentieth centuries, at least until the collapse of the traditional Lloyd's system of underwriting in the 1990s. The diversity and flexibility of form probably helped marine insurance deliver protection against losses at sea even when one or more particular types of organization were forced to contract or withdraw from the market, due to regulatory barriers or a lack of competitiveness. For example, when the two London chartered companies withdrew from the 'cross risk' business during the Napoleonic Wars, alarmed by the lack of information from overseas, underwriters at Lloyd's quickly moved in to supply that market. Second, in the Mediterranean ports, though less so in northern Europe, marine insurance, especially in its corporate forms, was closely associated with banking and the provision of commercial credit, and for this reason was encouraged by mercantilist states. This may, however, have added to the volatility of insurance markets in southern Europe and helps explain the high failure rate of marine companies there during the later eighteenth century, although further research is required to substantiate this. Third, regardless of the way it was organized, marine insurance – and other forms of transport insurance to a lesser extent – contributed greatly to the international diffusion of insurance practices. Merchants in eighteenth-century Trieste readily moved their insurances to underwriting centres abroad to obtain cheaper rates. Some of the early stock companies appointed agents or established subsidiaries outside their home territory. Fourth, marine insurance contributed little to actuarial techniques. The risks were non-standardized – by route, by composition of cargo, by type of ship – and underwriters worked largely by instinct, experience and rule of thumb, assisted, importantly, by an increasing flow of information about shipping risks. Some of this information was formally organized in *Lloyd's List* (1734) and *Lloyd's Register of Shipping* (1760), but much of it was passed by word of mouth on the floor of Lloyd's coffee house or among the communities of brokers in ports such as Liverpool, Bristol, Hamburg and Antwerp. This enhanced the problem of adverse selection that was faced by the two London marine insurance corporations in their unsuccessful struggle to compete with Lloyd's, as the corporations did not enjoy access to the same volume and quality of information.[11] By the beginning of the nineteenth century the corporations accounted for less than 5 per cent of the £137m estimated to be insured on marine risks in London.

The chartered monopolies of the two London corporations were finally repealed in 1824. During the 1860s new companies were formed in London and Liverpool that benefited from the huge transfer of American marine business to Britain during the American civil war. By the 1870s stock companies had acquired around 40 per cent of the UK marine insurance market. Lloyd's responded by diversifying into other lines, creating a host of new products and expanding others in general insurance, including burglary, loss of profits, credit, professional indemnity, boiler, engineering, bicycle, motor car and aviation insurance. In Britain the large fire insurance companies followed suit, taking over existing accident offices to create giant composite insurance enterprises.[12] Around 1850 there were just six lines of accident insurance available in Britain, Europe and North America. By 1914 this had risen to about fifty.[13] The benefits of the new types of insurance had to be explained to agents and vigorously sold to customers. In doing so, the level of inventiveness in marketing and product design rose to new heights. Personal accident insurance, for instance, was sold in Britain and America through