History of insurance

The **history of insurance** describes the development of the modern business of insurance against risks, especially regarding cargo, property, death, automobile accidents, and medical treatment.

The industry helps to eliminate risks (as when fire insurance companies demand the implementation of safe practices and the installation of hydrants), spreads risks from the individual to the larger community, and provides an important source of long-term finance for both the public and private sectors. The insurance industry is generally profitable and provides attractive employment opportunities for white collar workers.

Merchants have sought methods to minimize risks since early times. Pictured, Governors of the Wine Merchant's Guild *by Ferdinand Bol, c. 1680.*

1 Ancient world

In some sense, we can say that insurance dates back to early human society. We know of two types of economies in human societies: natural or non-monetary economies (using barter and trade with no centralized nor standardized set of financial instruments) and monetary economies (with markets, currency, financial instruments and so on). Insurance in the former case entails agreements of mutual aid. If one family's house gets destroyed, the neighbours are committed to help rebuild it. Granaries embodied another early form of insurance to indemnify against famines. These types of insurance have survived to the present day in countries or areas where a modern money economy with its financial instruments is not widespread.

The first methods of transferring or distributing risk in a monetary economy, were practised by Chinese and Babylonian traders in the 3rd and 2nd millennia BC, respectively.[1] Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous Code of Hammurabi, c. 1750 BC, and practised by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

Achaemenian monarchs in Ancient Persia were presented with annual gifts from the various ethnic groups under their control. This would function as an early form of political insurance, and officially bound the Persian monarch to protect the group from harm.[2]

At some point in the 1st millennium BC, the inhabitants of Rhodes created the 'general average'. This allowed groups of merchants to pay to insure their goods being shipped together. The collected premiums would be used to reimburse any merchant whose goods were jettisoned during transport, whether to storm or sinkage.[3]

The ancient Athenian "maritime loan" advanced money for voyages with repayment being cancelled if the ship was lost. In the 4th century BC, rates for the loans differed according to safe or dangerous times of year, implying an intuitive pricing of risk with an effect similar to insurance.[4]

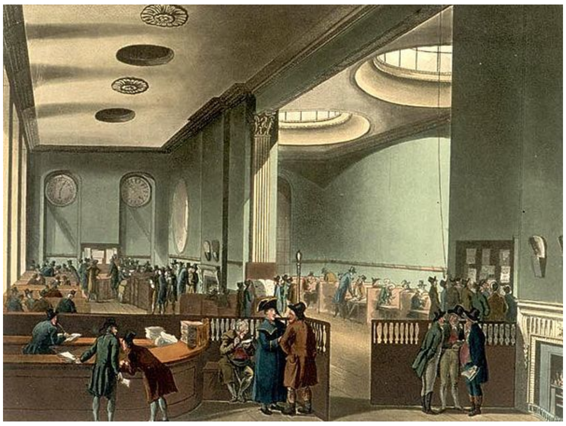
The Greeks and Romans introduced the origins of health and life insurance c. 600 BC when they created guilds called "benevolent societies" which cared for the families of deceased members, as well as paying funeral expenses of members. Guilds in the Middle Ages served a similar purpose. The Jewish Talmud also deals with several aspects of insuring goods. Before insurance was established in the late 17th century, "friendly societies" existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.

2 Medieval era

Separate insurance contracts (i.e., insurance policies not bundled with loans or other kinds of contracts) were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. The first known insurance contract dates from Genoa in 1347, and in the next century maritime insurance developed widely and premiums were intuitively varied with risks.[5]

These new insurance contracts allowed insurance to be separated from investment, a separation of roles that first proved useful in marine insurance. The first printed book on insurance was the legal treatise *On Insurance and Merchants' Bets* by Pedro de Santarém (Santerna), written in 1488 and published in 1552.[6]

3 Modern insurance

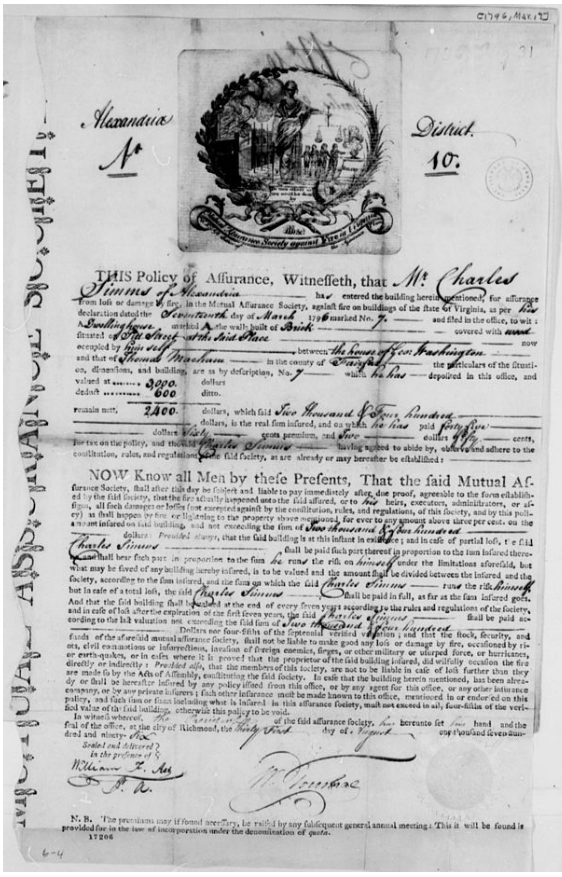


The subscription room at Lloyd's of London in the early 19th century.

Insurance became more sophisticated in Enlightenment era Europe, and specialized varieties developed. Some forms of insurance developed in London in the early decades of the 17th century. For example, the will of the English colonist Robert Hayman mentioned two "policies of insurance" taken out with the diocesan Chancellor of London, Arthur Duck. Of the value of £100 each, one related to the safe arrival of Hayman's ship in Guyana and the other was in regard to "one hundred pounds assured by the said Doctor Arthur Ducke on my life".[7]

3.1 Property insurance

Property insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance "from a matter of convenience into one of urgency, a change of opinion reflected in Sir Christopher Wren's inclusion of a site for 'the Insurance Office' in his new plan for London in 1667".[8] A number of attempted fire insurance schemes came to nothing, but in 1681, economist Nicholas Barbon and eleven associates established the first fire insurance company, the "Insurance Office for Houses", at the back of the Royal Exchange to insure brick and frame homes. Initially, 5,000 homes were insured by his Insurance Office.[9]



An 18th-century fire insurance contract.

In the wake of this first successful venture, many similar companies were founded in the following decades. Initially, each company employed its own fire department to prevent and minimise the damage from conflagrations on properties insured by them. They also began to issue 'Fire insurance marks' to their customers. These would be displayed prominently above the main door of the property and allowed the insurance company to positively identify properties that had taken out insurance with them. One such notable company was the Hand in Hand Fire & Life Insurance Society, founded in 1696 at Tom's Coffee House in St. Martin's Lane in London.[10] It was structured as a mutual society, and for 135 years it operated its own fire brigade and played an important part in shaping fire fighting and prevention.[10] The Sun Fire Office is the earliest still existing property insurance company, dating from 1710.[10]

This system was soon exposed as terribly flawed, as rival brigades often ignored burning buildings once they discovered that it had no insurance policy with their company. Eventually, a solution was agreed upon in which all the insurance companies would supply money and equipment to a municipal authority charged with stationing fire prevention assets and firefighters equally around the city to respond to all fires. This did not solve the problem entirely, as the brigades still tended to favour saving insured buildings to those without any insurance at all.[11]

In Colonial America, the first insurance company that underwrote fire insurance and was formed in Charles Town (modern-day Charleston), South Carolina in 1732. Benjamin Franklin helped to popularize and make standard the practice of insurance, particularly Property insurance to spread the risk of loss from fire, in the form of perpetual insurance. In 1752, he founded the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. Franklin's company made contributions toward fire prevention. Not only did his company warn against certain fire hazards, it refused to insure certain buildings where the risk of fire was too great, such as all wooden houses.

3.2 Business insurance

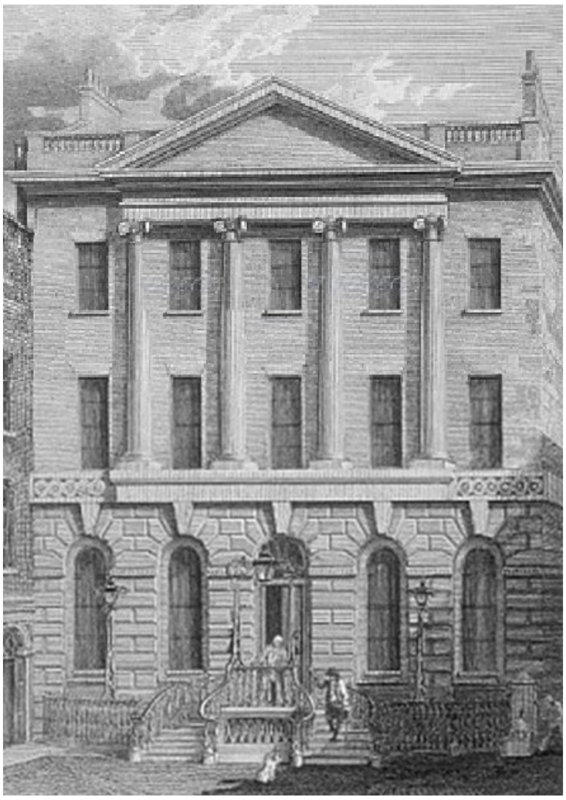
Lloyd's Coffee House was the first marine insurance company.

At the same time, the first insurance schemes for the underwriting of business ventures became available. By the end of the seventeenth century, London's growing importance as a centre for trade was increasing demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house on Tower Street in London. It soon became a popular haunt for ship owners, merchants, and ships' captains, and thereby a reliable source of the latest shipping news.[12]

It became the meeting place for parties in the shipping industry wishing to insure cargoes and ships, and those willing to underwrite such ventures. These informal beginnings led to the establishment of the insurance market Lloyd's of London and several related shipping and insurance businesses. In 1774, long after Lloyd's death in 1713, the participating members of the insurance arrangement formed a committee and moved to the Royal Exchange on Cornhill as the Society of Lloyd's.

3.3 Life insurance

The first life insurance policies were taken out in the early 18th century. The first company to offer life insurance was the Amicable Society for a Perpetual Assurance Office, founded in London in 1706 by William Talbot and Sir Thomas Allen.[13][14] The first plan of life insurance was that each member paid a fixed annual payment per share on from one to three shares with consideration to age of the members being twelve to fifty-five. At the end of the year a portion of the "amicable contribution" was divided among the wives and children of deceased members and it was in proportion to the amount of shares the heirs owned. Amicable Society started with 2000 members.[15][16]



Amicable Society for a Perpetual Assurance Office, established in 1706, was the first life insurance company in the world.

The first life table was written by Edmund Halley in 1693, but it was only in the 1750s that the necessary mathematical and statistical tools were in place for the development of modern life insurance. James Dodson, a mathematician and actuary, tried to establish a new company that issued premiums aimed at correctly offsetting the risks of long term life assurance policies, after being refused admission to the Amicable Life Assurance Society because of his advanced age. He was unsuccessful in his attempts at procuring a charter from the government before his death in 1757.

His disciple, Edward Rowe Mores was finally able to establish the Society for Equitable Assurances on Lives and

Survivorship in 1762. It was the world's first mutual insurer and it pioneered age based premiums based on mortality rate laying "the framework for scientific insurance practice and development"[17] and "the basis of modern life assurance upon which all life assurance schemes were subsequently based".[18]

Mores also specified that the chief official should be called an actuary - the earliest known reference to the position as a business concern. The first modern actuary was William Morgan, who was appointed in 1775 and served until 1830. In 1776 the Society carried out the first actuarial valuation of liabilities and subsequently distributed the first reversionary bonus (1781) and interim bonus (1809) among its members.[17] It also used regular valuations to balance competing interests.[17] The Society sought to treat its members equitably and the Directors tried to ensure that the policyholders received a fair return on their respective investments. Premiums were regulated according to age, and anybody could be admitted regardless of their state of health and other circumstances.[19]

The sale of life insurance in the U.S. began in the late 1760s. The Presbyterian Synods in Philadelphia and New York founded the Corporation for Relief of Poor and Distressed Widows and Children of Presbyterian Ministers in 1759; Episcopalian priests created a comparable relief fund in 1769. Between 1787 and 1837 more than two dozen life insurance companies were started, but fewer than half a dozen survived.

3.4 Accident insurance

The Railway Passengers Assurance Company was founded in 1848 as the first company to provide accident insurance.

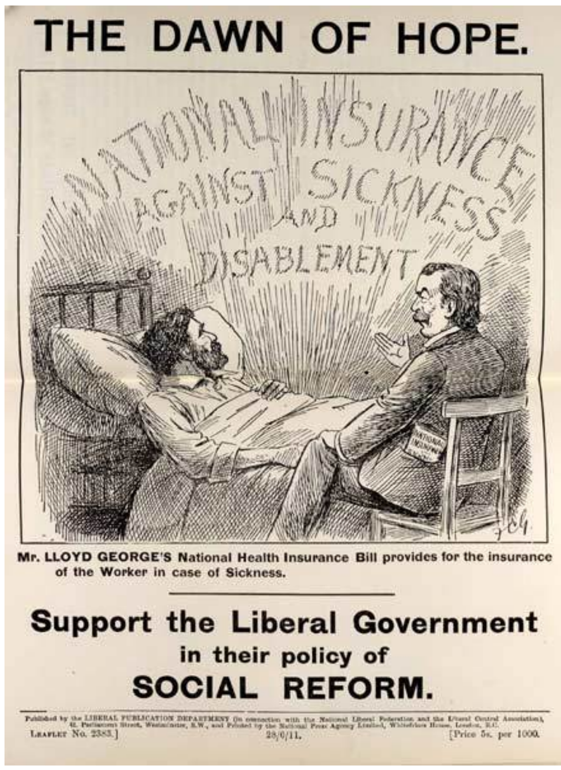
In the late 19th century, "accident insurance" began to become available. This operated much like modern *disability* insurance.[20][21] The first company to offer accident insurance was the Railway Passengers Assurance Company, formed in 1848 in England to insure against the rising number of fatalities on the nascent railway system. It was registered as the Universal Casualty Compensation Company to:

> ...grant assurances on the lives of persons travelling by railway and to grant, in cases, of accident not having a fatal termination, compensation to the assured for injuries received under certain conditions.

The company was able to reach an agreement with the railway companies, whereby basic accident insurance would be sold as a package deal along with travel tickets to customers. The company charged higher premiums for second and third class travel due to the higher risk of injury in the roofless carriages.[22] [23]

3.5 National insurance

By the late 19th century, governments began to initiate national insurance programs against sickness and old age. Germany built on a tradition of welfare programs in Prussia and Saxony that began as early as in the 1840s. In the 1880s Chancellor Otto von Bismarck introduced old age pensions, accident insurance and medical care that formed the basis for Germany's welfare state. His paternalistic programs won the support of German industry because its goals were to win the support of the working classes for the Empire and reduce the outflow of immigrants to America, where wages were higher but welfare did not exist.[24][25]



Leaflet promoting the National Insurance Act 1911

In Britain more extensive legislation was introduced by the Liberal government, led by H. H. Asquith and David Lloyd George. The 1911 National Insurance Act gave the British working classes the first contributory system of insurance against illness and unemployment.[26]

All workers who earned under £160 a year had to pay 4 pence a week to the scheme; the employer paid 3 pence, and general taxation paid 2 pence. As a result, workers could take sick leave and be paid 10 shillings a week for the first 13 weeks and 5 shillings a week for the next 13 weeks. Workers also gained access to free treatment for tuberculosis, and the sick were eligible for treatment by a panel doctor. The National Insurance Act also provided maternity benefits. Time-limited unemployment benefit was based on actuarial principles and it was planned that it would be funded by a fixed amount each from workers, employers, and taxpayers. It was restricted to particular industries, cyclical/seasonal industries like construction of ships, and neither made any provision for dependants. By 1913, 2.3 million were insured under the scheme for unemployment benefit and almost 15 million insured for sickness benefit.

This system was greatly expanded after the Second World War under the influence of the Beveridge Report, to form the first modern welfare state.[24][27]

In the United States, until the passage of the Social Security Act in 1935, the federal government did not mandate any form of insurance upon the nation as a whole. With the passage of the Act the new program expanded the concept and acceptance of insurance as a means to achieve individual financial security that might not otherwise be available. That expansion experienced its first boom market immediately after the Second World War with the original VA Home Loan programs that greatly expanded the idea that affordable housing for veterans was a benefit of having served. The mortgages that were underwritten by the federal government during this time included an insurance clause as a means of protecting the banks and lending institutions involved against avoidable losses. During the 1940s there was also the GI life insurance policy program that was designed to ease the burden of military losses on the civilian population and survivors.

4 Notes

[1] See, e.g., Vaughan, E. J., 1997, *Risk Management*, New York: Wiley.

[2] "Insurance in Ancient Iran".

[3] "Lex Rhodia: The Ancient Ancestor of Maritime Law - 800 BC".

[4] Franklin, J., 2001, *The Science of Conjecture: Evidence and Probability Before Pascal*, Baltimore: Johns Hopkins University Press, 259.

[5] J. Franklin, *The Science of Conjecture: Evidence and Probability Before Pascal* (Baltimore: Johns Hopkins University Press, 2001), 274-277.

[6] Franklin, *Science of Conjecture*, 277

[7] "And whereas I have left in the hands of Doctor Ducke Channcellor of London two pollicies of insurance the one of one hundred pounds for the safe arivall of our Shipp in Guiana which is in mine owne name, if we miscarry by the waie (which God forbid) I bequeath the advantage thereof to my said Cosin Thomas Muchell...whereas there is an other insurance of one hundred pounds assured by the said Doctor Arthur Ducke on my life for one yeare if I chance to die within that tyme I entreat the said doctor Ducke to make it over to the said Thomas Muchell his kinsman..." Will of Robert Hayman, 1628:Records of the Prerogative Court of Canterbury, Catalogue Reference PROB 11/163

[8] Dickson (1960): 4

[9] Dickson (1960): 7

[10] Hand in Hand Fire & Life Insurance Society

[11] "The World's First Insurance Company". Retrieved 2012-12-17.

[12] Palmer, Sarah (October 2007). "Lloyd, Edward (*c*.1648–1713)". *Oxford Dictionary of National Biography*. Oxford University Press. doi:10.1093/ref:odnb/16829. Retrieved 16 February 2011.

[13] Anzovin, Steven, *Famous First Facts* 2000, item # 2422, H. W. Wilson Company, ISBN 0-8242-0958-3 p. 121 *The first life insurance company known of record was founded in 1706 by the Bishop of Oxford and the financier Thomas Allen in London, England. The company, called the Amicable Society for a Perpetual Assurance Office, collected annual premiums from policyholders and paid the nominees of deceased members from a common fund.*

[14] Amicable Society, *The charters, acts of Parliament, and by-laws of the corporation of the Amicable Society for a perpetual assurance office*, Gilbert and Rivington, 1854, p. 4

[15] Amicable Society, *The charters, acts of Parliament, and by-laws of the corporation of the Amicable Society for a perpetual assurance office*, Gilbert and Rivington, 1854 Amicable Society, article V p. 5

[16] Price, pp 158-171

[17] "Importance of the archive". The Actuarian Profession. 2009-06-25. Retrieved 2014-01-24.

[18] "Today and History:The History of Equitable Life". 2009-06-26. Retrieved 2009-08-16.

[19] Lord Penrose (2004-03-08). "Chapter 1 The Equitable Life Inquiry" (PDF). HM Treasury. Retrieved 2009-08-20.

[20] Howstuffworks: How Health Insurance Works.

[21] "Encarta: Health Insurance". Archived from the original on 2009-11-01.

[22] "Railway Passengers Assurance Company Ltd". Retrieved 2012-12-17.

[23] A. P. Woodward. "The Disability Insurance Policy". *Sage*. Retrieved January 4, 2014.

[24] E. P. Hennock, *The Origin of the Welfare State in England and Germany, 1850–1914: Social Policies Compared* (2007)

[25] Hermann Beck, *Origins of the Authoritarian Welfare State in Prussia, 1815-1870* (1995)

[26] The Cabinet Papers 1915-1982: National Health Insurance Act 1911. The National Archives, 2013. Retrieved 30 June 2013.

[27] Bentley B. Gilbert, *British social policy, 1914-1939* (1970)

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