INSURANCE IN THE CITY OF LONDON

If you think that insurance originated in London I have a very nasty shock for you . . . the Babylonians beat us to it by about 4,500 years!

Around 3000 BC the Babylonians were the greatest traders in the known world, and there then existed a form of commercial insurance which related solely to trading ventures. A system of loans for these ventures at an agreed rate of interest was in wide use. There were, of course, no insurance Companies or banks — these arrangements were entered into by individuals, and it was this commercial practice that was extended to one of insurance.

It became customary for merchants, or for what we would now know as financiers, to loan money for a trading venture, either at normal rates, in which case they had no concern with the outcome of the venture, or, alternatively, at very much higher rates — that is a premium, which would usually be about 100%, and if the goods were then lost, the lender received neither return of the loan, nor the interest. It seems to me that to make that kind of transaction viable there must have been an enormous mark up on the sale of the goods.

The Babylonians extended their trade to Phoenicia. The Phoenicians themselves, being great traders, adopted the Babylonian system of insurance and gave it a name "bottomry". Unlike the Babylonians, the Phoenicians' trade routes were mainly by sea, and they adapted the system to cover not only cargoes, but the hulls as well.

By the 8th century B.C., trade was dominated by the Greeks, and around 300 BC by the Romans — both adopted the practice of bottomry. It is perhaps strange that with such a sophisticated community as the Romans, there is no evidence of any other form of commercial or private insurance. There was certainly some evidence at that time, and later, of forms of insurance, particularly amongst the poorer classes, to cover the costs of burial. These were really mutual arrangements within comparatively small communities.

By the 8th century AD there was certainly, in some parts of Europe, community mutual insurance against all kinds of risks, even including fire and robbery. This system of mutual insurance had become somewhat more sophisticated in Flanders, and between the 11th and 13th centuries had even extended to livestock.

There is also evidence that in 1310 a chamber of insurance was set up in Bruges where merchants could meet to insure their merchandise against marine and other risks; it seems that Lloyds was not a new concept after all, but it was in Italy in medieval times that the modern system of marine insurance was almost certainly born. Apart from Life Assurance, it was really only marine insurance which was conducted on a commercial basis until the end of the 17th century. It involved Papal agents and Italian financiers, and indeed, the earliest known policy documents were written in Italian, and it was Italian policies which subsequently became the model upon which Lloyds marine policies were based.

A great deal of information as to what was going on at that time can be obtained from the records of a really quite remarkable Italian merchant, Francesco di Marco Datini. He was born in Tuscany in about 1335, and at the age of 15, travelled to Avignon, and set himself up in business and he was highly successful at it.

Following that success, he returned to Italy, and became in turn a merchant, financier and an underwriter. He wrote to his wife in 1395 about a galley of his which was carrying goods worth 3,000 florins.

Although it was insured, he was greatly concerned in case it was lost, and said to his wife — (and I am bound to say as a loss adjuster, I have heard this sort of thing before) — "For when they insure it is sweet to them to take monies, but when disaster comes it is otherwise, and each man draws his rump back and strives not to pay."

Marine insurance became widely practised in Italy and Bruges, and then extended to Spain, and indeed, Barcelona was the first city to try and regulate the practice of insurance by law.

What, you may well ask, were the London merchants doing about insurance all this time? The answer to this is, not very much, for the fact of the matter is that merchants in London lagged far behind those on the Continent both in trade and mercantile practice.

It was the Lombards from Italy who came to the City and remained an important influence on trade and commerce until the middle of the 16th century. That was not altogether the fault of English traders because the Lombards and the Hanseatic merchants had enjoyed special privileges in London dating back to the 10th century, and it was not until those privileges were withdrawn by Cecil and Gresham in 1578 that the English merchants had the field to themselves. By that time the Lombards had left a well established commercial tradition behind them, including insurance. The contribution of the Lombards to insurance in England was enormous.

The earliest known policy is dated 20th September 1547, and although it was underwritten by William Mercer and Thomas Lodge, it is largely written in Italian. All these policies were underwritten by individuals, and there was still no corporate or organised insurance market, and in all those earlier policies reference is made to assurance being done in accordance with the custom in Lombard Street, and until January 1982 the Lloyds marine policy included the words "as it is agreed by us, the Insurers, that this writing or policy of insurance shall be of as much force and effect as the Insurers writing made in Lombard Street."

I have talked about marine insurance with its origins rooted in the mists of time, but what of insurance against other perils?

I suppose like any other business, insurance tends to follow a need; the need for marine insurance arose from the material risks taken by merchants trading by sea, and insurance on marine risks was established in the cities involved in early mercantile adventures.

What we can take credit for in the City is the introduction of fire insurance on a wide scale and the concept of corporate insurance. It is of interest that, in 1189, Henry Fitz Ailwyn, the first Mayor of London, stipulated that houses in London should be built of stone with slate and burnt tile roofs, and party walls 3 ft. thick.

No one seems to have taken the slightest notice! And by the first half of the 17th century, the population of London had doubled, the buildings were of cheap materials, almost entirely wood, and had caused the most appalling congestion of housing. Certainly the fire hazard was then such that only an idiot would contemplate entering the field of fire insurance, and it was, of course, the Great Fire of London in 1666 that triggered the initiative.

Some 13,200 houses were destroyed, and total damage was estimated at £10,689,000. That was then a quarter of the national income. The Great Fire changed the attitude to housing in the City, and under the terms of the Rebuilding Act, only 9,000 houses were to be built in place of the 13,200 destroyed, and amongst other things, these were to be built of brick or stone with proper party walls. The twelve great livery companies were each charged with providing a variety of fire fighting equipment for use in the City.

Not surprisingly, there was a demand for fire insurance, and this, together with the steps taken to reduce the hazard of fire, made the insurance of that peril less risky.

Now, you are not going to believe this, but who do you think decided to go into the fire insurance market? The Corporation of London! In 1674, Mr. Deputy Newbold, who was a City merchant, compiled a fire insurance scheme which he presented to the Lord Mayor. Although he had some support, the Corporation was apparently too busy to properly consider it, and so Newbold had another go in 1679.

His scheme set out the advantages that might accrue to the City from the raising of a joint stock as security for the proposed insurance undertaking which was to be a mutual insurance scheme. He reckoned there were 12,000 brick houses in the City valued at £250 each, and if only a third of the householders contributed £12.10s.0d. each, that would raise £50,000 from which all houses burned could be rebuilt. Presumably inflation was not a problem then.

In November, 1680, a committee was appointed to consider the proposals — 12 months later, the Committee agreed to the general proposals, but the Committee scheme differed from that of Deputy Newbold — the Corporation had smelt a profit in it for themselves.

It was not to be a mutual scheme, but was to be carried on by the Corporation itself; they were going to collect the premiums, the Committee stating that "this was certain to raise a good revenue to the chamber."

In order to provide security to the Insured, lands and ground rents to the value of £100,000 were to be settled on Trustees. What the Corporation had not reckoned with was competition, and they had not foreseen what might happen if there was delay in implementation of the scheme. Remember Newbold had first broached the subject in 1674. Even when he had tried again in 1679, it took over a year for a committee to be formed, and then another year before a decision was reached. My own experience suggests the nothing much has changed since then.

One, Nicholas Barban, a doctor, who decided it was more profitable, following the Great Fire, to become a builder, had clearly got wind of Newbold's scheme, and in September, 1681, turned insurer. Some two months before the Corporation had published theirs, he came out with his scheme claiming to be the inventor of it.

However, this gave the Corporation one advantage; when they published their scheme they were able to substantially undercut Barban's rates. It is interesting that both Barban and the Corporation were not basically quoting an annual premium, but for £2.15s.0d.% Barban would insure for 31 years. The Corporation would insure you for 100 years at £3.2s.5d.% and for another 1s.3d. the insurance was in perpetuity. Presumably the policies were transferable from one owner to another. Barban was none too pleased about this undercutting, and he went into print accusing the City of plagiarism, and of putting forward a scheme which was economically unsound.

The City probably suffered the greatest adverse publicity from the accusation as to the "impropriety of those Citizens that manage the revenue of the City, through rashness and want of knowledge venturing the public revenue of the City on a project that brings loss, and thereby prejudices the whole body of Citizens. The gentlemen on the committee did not well understand the design they were about — for which they were not to blame, for it is not reasonable to expect that they should so well of a sudden understand the design as the inventor of it who had spent much time and study on the contrivance."

The City replied to this in almost equally vitriolic terms, but, nevertheless, faced with a reduction in Barban's premium rates, it abandoned the insurance market.

Barban's organisation, called the Fire Office, did not long have the monopoly, and in 1684 a mutual society, called the Friendly Society, was formed to secure houses from loss by fire, and for three years there was fierce competition.

Barban and his partners then presented a petition to obtain a monopoly of fire insurance. The Friendly Society retaliated, and, after a long battle, a most extraordinary solution emerged.

The Fire Office was to have a monopoly for one year, after which business was to alternate quarterly between the Fire Office and the Friendly Society. However, this strange arrangement was, in fact, never implemented, because further competition arose — in particular, from the Amicable Contributorship (what a dreadful name for a business!) which sensibly changed its style to The Hand in Hand, and which continued as an independent company until it was absorbed by the Commercial Union in 1905.

Growth was very slow, for example, in its first 8 years of operation, the Hand in Hand only issued 7,313 policies, and there was good reason for this.

First of all, insurance was confined solely to private houses; secondly, insurance was only granted in London, and thirdly, stocks and chattels were not covered.

It was a London businessman, Charles Povey, who realised the constraints on business resulting from the policy being adopted by the then Insurers. Povey had been involved in all kinds of businesses, and in 1708 he offered to insure, at the traders' exchange house in Hatton Garden, moveable goods, merchandises and wares from loss of fire throughout Great Britain, and, later in the year, he brought in 20 governors and directors to help him. Basically, they were involved in adminstering the project, and did not contribute any capital.

The idea did not take off as rapidly as it might have done, and a very conservative policy was adopted by the governors and directors, who virtually confined the issue of insurance to London, and issued very few insurances on chattels.

Not deterred, Povey started up another company, known as the Company of London Insurers, in an endeavour to extend business to outside London and to cover the carriage of persons from London to the Provinces. On the 24th March, 1710, the Companies were merged to form the Sun Fire Office. By 1720 there were six Fire Offices in London, but, despite the foresight of Povey, all were still pursuing extremely conservative policies, and progress continued to be extremely slow. It was not until 1721 that the Sun Insurance Office took steps to expand their business outside London, and appointed agents to issue policies and receive premiums. They were to receive a commission of 5%. These agencies, as it were, fanned out from London, but again, progress was really very slow, and England's then second largest city, Bristol, did not acquire an agency until 1737.

Extension of business to the North was even slower; Birmingham got its first agency in 1744, and Liverpool did not get one until 1783, but things were, nevertheless, on the move.

The Union Insurance Office came to specialise in the insurance of goods and chattels, and the Insurers were learning about the hazards of various types of risk, and in 1721 the Sun Insurance Office started a system of classification of buildings, which resulted in variable premiums depending upon the risk involved. The result of classification, of the move away from insurance of buildings in London to the Provinces, and the issuing of cover on goods and chattels, is well demonstrated by the Sun's figures showing that, in 1716, 60% of premiums related to houses and shops, whereas, by 1790, houses and shops accounted for only 43% of the premium income.

For the risk of fire alone, there was still an enormous untapped market, it being estimated in 1802 that only a third of insurable property in the United Kingdom was covered against fire.

At the end of the 18th century and the beginning of the 19th century, more Companies were springing up to compete with the monopoly that had previously been enjoyed by three Companies. By the very early years of the 19th century, there were at least 11 Companies transacting fire business in London, and Companies were mushrooming in the Provinces as well as in Scotland and Ireland, like the Norwich Union, the Hibernian in Ireland, and the Caledonian in Scotland.

It was at this stage in the preparation of the Paper, that I telephoned Ralph Hedderwick to ask him how long I should speak for. He explained that, after he had read the Minutes, it would already be rather late in the afternoon, and I should not talk for more than 20 minutes. In fact, my time had already run out.

My apologies, therefore, to those of you associated with Life Assurance and Lloyds, both of which should figure in any talk on the history of insurance. Perhaps these could form the subject of another Paper at some time.