23

INSURANCE

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Introduction

An old adage says that insurance is sold, not bought. Nevertheless, this European invention of turning risk into a marketable product has conquered the world. In 2016, insurance premiums accounted for 6.3 percent of world gross domestic product (GDP) or a staggering US$4,732,188 million (sigma 3 2017). Still, insurance has not yet reached the entire world. Many countries remain heavily underinsured. In 2015, for example, the life insurance market of South Africa was still about two-and-a-half times the size of the entire rest of the continent (sigma 3 2016: Table III).

The main reason is that insurance needs a certain level of economic development and consumers with disposable income to do any business at all. Insurance thrives with sound economies and reciprocally helps them thrive. Conversely, struggling economies and people with low incomes shun expenses on insurance and accordingly increase their risks and potential setbacks. Cultural and religious factors also play a role. Life insurance in Muslim countries, including economically powerful areas such as Saudi Arabia, is almost non-existent.

Being dependent on somewhat developed markets implies that insurance was never a first mover in globalization. Its supporting function for other business, however, is most likely significant, yet difficult to measure. The historian H.M. Robertson once stated that the “crux of capitalism lies in the function of risk-bearing” which prompted Swiss historian Jean Halpérin to declare insurance the very foundation of capitalist development (Halpérin 1946; Robertson quoted in Halpérin 1946: 24). Others implied that the support of insurance was limited. Frank Knight (1921), the American economist, pointed out that insurance was only suitable for calculable risks while it could not deal with uncertainties, and uncertainties provided the main opportunity for making profits. Others again, especially proponents from the non-governmental organization (NGO) sector, have argued that insurance creates risks rather than making the world safer because it entices people and companies to take on risks that they would otherwise not assume.¹

The extent of such support further varied according to the different risks insured. Three main lines of business – marine, fire, and life – developed almost independently and along different paths for much of their histories. Marine insurance directly benefitted the shipping community while life insurance only started entering corporate strategies with industrial life insurance in the
late nineteenth century. Fire insurance, as Pearson (2004) finds, mainly insured private risks but had a limited function in insuring corporations during the Industrial Revolution. Even the same lines of business developed in different ways in separate markets as insurance depends heavily on local regulation, risk landscapes, and differing cultures that lead to different risk awareness and consumer behavior. Risk profiles differed enormously for marine, fire, and life and naturally led to different insurance products and business models. Reinsurance, finally, the insurance of insurance, also developed along an individual path. An overarching history of insurance is difficult if not virtually impossible to write.

This chapter will therefore restrict itself to looking at the main forces that allowed insurance to internationalize in its initial stages. It will also consider some of the hindrances. The first three sections will explore how the three lines differed in the way they spread internationally. The focus is on the early periods of internationalization for each: marine insurance from the fourteenth to the mid-eighteenth century, fire insurance from the early eighteenth to the early nineteenth century, and life insurance from the late eighteenth to the late nineteenth century. This periodization sheds more light on the internationalization processes specific to these forms of insurance. Later globalization, especially from the 1970s and 1980s onwards, reveals fewer differences to other industries as larger composite companies dominated. Corporate reinsurance, which came about in the mid-nineteenth century, will not be a main focus of this chapter.

The international spread of the different lines of business was in those early stages supported by different actors. The fourth section of this chapter will therefore discuss what importance can be attributed to companies in the process of globalization, particularly focusing on the role of joint stock companies. I will argue that the advantages of joint stock companies should be re-evaluated. Also, the importance of companies in globalizing insurance should be revisited and compared to the equally important impacts of imitation and migration.

**Marine insurance**

The emergence of contractual practices, so-called *respondentia, commenda*, and later bottomry contracts, to protect against transport risks is assumed to have started with Babylonian overland trade. These products offered credit where repayment was contingent on the safe arrival of the freight. The nature of long distance trade made such predecessors to insurance inherently international. This helped them spread to other regions, including India before 600 BC (Trenerry 1926: 61ff.). In the early seventeenth century, they reached Japan via Portuguese traders (Yoneyama 2012: 493). These systems evolved alongside other concepts of creditor protection, limiting liability, or otherwise shielding entities and owners and in essence hedged against financial liabilities. They do not necessarily classify as insurance business as they consisted mainly of clauses in credit agreements. However, they share some important attributes with insurance in that risk is transferred and, in these cases, interest rates functioned in lieu of premium payment as they were set at a level high enough to compensate the financer for the risk (Kingston 2013: 3).

It is challenging to define when risk protection started qualifying as insurance. Schug (2011) attempts a meticulously detailed analysis of the notion of insurance (*Versicherungsgedanke*) in the wide variety of risk-hedging activities from the Code of Hammurabi to the present day. Most scholars now agree that modern insurance appeared in the wake of Italian sea trade in the mid-fourteenth century. This view is based on two assumptions: (1) insurance needs to be premium based as opposed to communal arrangements financing losses *ex post*; (2) insurance qualifies as an independent business when its function is separated by individual contracts from the credit function (e.g., Raynes 1948). Much research on the origins of insurance therefore emerged out
of legal historians’ interest in detecting contracts that were drawn up separately from trading agreements (e.g. Bensa 1884; Salvioli 1884; Chaufton 1886). La Torre (1993) argues that the Commercial Revolution of the thirteenth and fourteenth centuries set the stage for premium-based insurance to appear, implying that insurance emerged as a consequence of trade. Bonß (1995) identifies a cultural shift as risk acquired positive connotations with the spread of entrepreneurship. This gradually replaced religious morale that interpreted risk taking in order to make profits as sinful. He sees this changing attitude toward risk as a prerequisite for both modern business and insurance to emerge. Bonß, however, also points out that even after modern insurance contracts started appearing, they remained isolated, albeit frequent, instruments and rarely led to the creation of insurance companies. Bogatyreva (2016) identifies the late seventeenth century as the time when the idea of corporate marine insurance became more popular with proponents stressing the increased financial security of corporate insurers.

For much of its history, marine insurance was carried out by traders, ship-builders, and owners who would often offer insurance alongside other services (Wright and Fayle 1928: 35; Supple 1970: 6). Coffeehouses associated with the shipping industry came to serve as trading places. They offered the opportunity to be in touch with the latest news. Eventually, though, groups specializing on insurance morphed into clubs, associations, broker offices, and, in the seventeenth century, the Lloyd’s marketplace. The first significant joint-stock companies only appeared in the 1720s in London with the support of royal charters.

This implies that the first international expansion of insurance was not driven by companies. It spread, at least initially, with the help of individuals through an already existing network of the marine community. It was an informal and largely unregulated market based on a relatively simple instrument, the insurance contract, which survived in its basic form for many centuries. Offering insurance among themselves allowed the shipping community to profit from their unusually intimate knowledge about the risks insured. With this, somewhat idiosyncratic organizational forms, such as clubs and associations, have survived (Pearson and Doe 2015). From the start, marine insurance expanded in almost identical forms across Mediterranean and European Atlantic trade regions imitating Italian practices. Italian templates for insurance contracts were used universally and it was not uncommon to see them used in Italian language even outside Italy (Kingston 2013: 9).

This standardization of legal documents across differing jurisdictions led to marine merchants establishing committees responsible for out of court settlements of disputes, often bypassing local legislation, to form part of the supranational Lex Mercatoria. If we distinguish between “international” as referring more to cross-border activities (i.e., inter nationes) and “global” as implying a certain degree of unification across countries, we can say that marine insurance in this early stage shows many hallmarks of a globalized, rather than just an international, industry. It was applied across nations and used a congruous business and legal network across borders. This global network appears to have functioned rather well until different players entered the market and governing institutions started appearing.

Some current research therefore focuses on the institutional change in marine insurance (Kingston 2007, 2013; Leonard 2016). For Kingston (2013), it was an information asymmetry inherent to marine insurance as well as moral hazard which required an increased role of regulatory institutions to intervene and deal with a “lemons problem” in which the insured possessed more information about the risk than the insurer. Leonard (2016) further argues that the growth of the business led to a large number of market entries that were impossible to absorb in a small, informal community of merchant insurers. In the case of intruding corporate insurers without any vested interest in the safety of the marine business, this could lead to disruptions between the market economy and purely financial capitalism as well as to increasing disputes. Legal
institutions gradually adapted the *Lex Mercatoria* into local law and the business was subject to increasing regulation. Kingston (2013), however, argues that the success of governing institutions overall was rather limited. Institutional interventions also led Kingston (2007) and Leonard (2016) to analyze marine market developments against Institutional Economics theories to account for different developments of international markets. According to Kingston, institutional change helps explain the different paths along which British and US marine insurance developed. In North America and the later United States, the joint stock form thrived while in Britain the 1720 Bubble Act prohibited the foundation of new joint stock companies without a royal charter.

In 1720, the first significant British joint stock marine insurance company, the Royal Exchange Assurance (REA), was founded. A second chartered company, London Assurance, soon joined it. For over 100 years, the two companies enjoyed a monopoly in marine insurance. Private underwriting, however, was still permitted. Underwriting of both the London and the REA remained comparatively modest throughout the eighteenth century while the Lloyd’s market and private underwriting flourished. Marine business was difficult to embed in departmental workflows. As Supple (1970: 200) points out, “even within a Corporation, marine underwriting was very much an individual and personal activity.” Corporate insurance thus failed to compete effectively with the informal market where crucial information was much more readily available, especially at Lloyd’s. Kingston (2007) therefore sees one of the main reasons for the relatively poor performance of corporate marine insurance in the agency problem inherent to insurance.

By having a monopoly, the marine corporate companies oddly protected the idiosyncratic landscape in marine insurance by preventing more corporate competition, which led to Lloyd’s consolidating its leading position. It to some extent also prevented the London market from growing fast enough during the eighteenth century to absorb increasing business from booming trade and a surge in prices with the Napoleonic wars. This helped other English markets grow but also several other European and US–American markets. Britain, however, dominated. Countries such as Chile, for example, had nearly all their risks insured in Britain, including “cross-risks” where ships did not call on British ports (Llorca Jaña 2011: 19).

Marine insurance thus spread internationally in conjunction with trade and can hardly be seen as a main driver of globalization. It was confined, for obvious reasons, to economically developed areas with according shipping infrastructure. Dedicated companies were a relatively late phenomenon with, initially, limited success. Both the informal market and the corporations had to adapt gradually to local institutional circumstances. In some ways, this inherently international and even global business de-globalized as local markets and local regulation developed, which led to different marine markets internationally. In Genoa, Copenhagen, and Naples, for example, this even resulted in state monopolies in the mid eighteenth century (Pearson 2015: 3).

**Fire insurance**

Fire risks were stationary, so, while marine insurance lent itself to becoming international or even global from the start, protecting against fire remained a local and mutually organized concern at least up to the late seventeenth century. Clubs and associations offered protection through fire brigades and sometimes included some form of mutual financial help. After the 1666 Great London Fire, joint stock fire insurers appeared along with several mutual foundations. Joint stock companies, especially, were to thrive with the Industrial Revolution and with growing trade in the Empire.
Pearson (2004) discusses how the changing economic balance affected the development of fire insurance as well as the impacts of insurance on the Industrial Revolution. Fire insurance grew enormously and profited from the growth of population and the associated boom in housing and other property but much less from manufacturing. However, according to Pearson’s findings, it did not directly insure the Industrial Revolution.

Fire insurance spread to other British cities via an agency system that the Sun Fire Office had developed in the early eighteenth century (Pearson 2004: 107ff.; Dickson 1960). But growing trade in the British Empire was the driving force for fire insurance to diffuse internationally. It was, though, also thanks to one pioneering company, the Phoenix Assurance. No “other company entered the foreign market with such incisive rapidity or precocious application” (Trebilcock 1985: 162). A group of sugar refinery owners who found it difficult to obtain cover on the market had founded the joint stock company in 1782. Only three years later, their “Committee on Foreign Insurances” discussed a detailed business plan “to further consider the Extension of Business in Foreign Parts” (Trebilcock 1985: 181). Why did the Phoenix lead this expansion? The sugar business was colonial and the sugar refiners were intimately familiar with the international risks. Trebilcock also points to the industrial origins of the company and the composition of the management board which, unlike at other fire insurers, consisted exclusively of businessmen. One of the founders called the Phoenix “the First Commercial Insurance Company” (Trebilcock 1985: 172). Choosing the joint stock form appears to have been obvious in order to raise the capital necessary for expansion. As we will see later, the role of the corporate form was, though, limited. The success was largely due to the first international agency system, which allowed expanding without heavy infrastructure. During the first two decades, over 90 percent of foreign business came from Hamburg. The Hamburg agency consequently developed into a considerably sized bureau which expanded locally by appointing agents as far away as later Poland–Lithuania. Operating through agents rather than establishing subsidiaries or branches brought several advantages as costs mainly occurred in the form of commissions. Agents were also familiar with local conditions and better equipped to assess the risks.

The Phoenix’ endeavors were later copied with companies demonstrating their global ambition in names such as the Globe, the Atlas, or the Imperial. On the continent, company founders showed even less inhibition to imitate and the French, German, and Spanish markets subsequently had their national versions of Phénix, Phönix, and Fénix. Also, companies all over the world later started calling themselves Lloyd’s without in any way being related to the their London namesake. The insurance model that internationalized was strongly influenced by the British models for fire insurance. Imitation may have played an equally important role in this spread as the expansion of British companies’ business in European Atlantic seaports and the Baltics. Several German fire insurers, for example, copied “every aspect except [the Phoenix’] legal form, from operational structure to its technical accounting and risk classification system” (Liebig 1911: 23–24, quoted from Borscheid and Haueter 2012: 99).

Fire insurance depended on developed markets in order to expand. It thus followed traders and their risks wherever they went and used their networks to do business. As such, traders became not only clients of insurance companies but insurers often entrusted them to represent their business abroad. Agency houses’ contacts with local traders eventually led to the first foundations of local insurance companies for example with the involvement of Parsee traders in India and so-called compradores in Hong Kong (Borscheid and Haueter 2012: 416–17; for the role of local merchants see Leonard 2012; see also Aldous’ chapter in this volume). However, despite the involvement of local traders in India and Hong Kong, fire insurance remained very much a business done by Europeans with other Europeans.
Fire insurance thus spread globally in a different way from marine insurance. It appears that joint stock companies with innovative business ideas were the main driver. Yet, the fire insurers were heavily dependent on an infrastructure set up by trade. Similar to marine, an intimate knowledge of the risks insured was crucial at least in the case of the leading fire insurance company, the Phoenix. Imitation also appears to have played an important role but there is no systematic research available on this subject.

Life insurance

The first expansion of life insurance was driven much less by agents or companies. It also differed from the expansion of early marine markets through networks. Agents in some cases sold life insurance but usually only to fellow Europeans. Borscheid and Haueter (2012) identify other forces for the expansion of life insurance. Migration to the New World was possibly just as important as internationalizing companies were. Several waves of mass exodus of Europeans brought the idea of life protection to all white settler colonies, often in the form of mutual insurance. Company names such as Franco-Argentina, or Germano-Argentina referred to the origins of the mutuals and addressed specific client segments. European offspring also founded local subsidiaries of fraternal organizations. Freemasonry modeled on British lodges appeared in the USA from the early eighteenth century on (Beito 2000: 5). Friendly societies, the Manchester Unity, or Oddfellows, especially, founded hundreds of subsidiaries in white settler colonies. It was only toward the end of the nineteenth century, that mainly North American life insurance companies conquered international markets with modern advertising methods.

The other significant factor was imitation of prototype life insurers. British companies sold life insurance for example in Hamburg, but at inflated prices made possible by the absence of local competition (Braun 1925: 212). Business was also hampered by some failures of British companies to pay out claims. This, Braun, concludes, led to the foundation of the first significant German life insurance company, Gothaer in 1827. The company served as a model for later Japanese life insurance but was itself a copy of British life insurance. The model imitated goes back to the British Equitable. In the 1770s, it had been the first to adopt an actuarial approach to calculating premiums. Mortality tables allowed calculating different premiums for different ages and helped managing reserves in a more efficient way. Alborn (2009), however, shows how life insurance in Britain throughout the nineteenth century and beyond relied surprisingly little on actuarial insight. Still, such actuarial practices became a kind of a blueprint for starting life insurance companies in other markets. Actuarial books traveled more easily to new potential markets than companies did. Actuarial sciences developed somewhat independently of insurance companies through academic and professional associations. Even throughout the de-globalizing period that started with World War I, actuarial networks continued to function internationally. Hence, actuarial history has a long tradition with Braun (1925) still providing the most comprehensive and reliable study. Hacking’s Emergence of Probability (1975) brought the development of probability theories during the Enlightenment back as a research subject and Daston (1988) examined probability and its influence on views on rationality while Porter (1986) examined the rise of statistical thinking. While none of the latter focuses on the expansion of the insurance industry, they are important for our understanding of the business rationale that allowed especially life insurance to spread.

These contributions to the literature also help understand why insurance was, at least initially, a product more easily sold in Western cultures. The concept of life insurance is strongly tied to cultural parameters and societal organization. Early forms of, for example, burial clubs or widow funds had emerged around somewhat homogeneous groups of participants where an
Insurance

underlying solidarity principle was evident. Mutuals, to some degree, maintained this group feeling as they evolved around certain professions as well as cultural and sometimes religious identities. The shift from solidarity organizations to actuarially based business was difficult for a variety of reasons and met with considerable opposition. Turning life insurance into a business meant putting a price on someone’s life. This in itself was difficult before the advent of sound actuarial methods but it also provoked criticism, notably from religious quarters. Probabilistic calculation had moral implications, as the Church interpreted the forecasting of death as tampering with Divine providence. Ceccarelli (2001), however, gives some more detailed insights into the subject and shows how clerics differed and partly disagreed in their view on insurance. Borscheid (2013: 31) further points to the fact that mortality statistics later used by insurance companies were the work of clerics who attempted to prove a divine order. The magistrates, however, also eyed insurance practices with suspicion, especially as early life insurance companies soon expanded into speculation and some turned the business into gambling-like practices in the late seventeenth and eighteenth centuries (Clark 1999). Much life insurance was banned in European countries and England curbed speculative life business in 1774 with the Gambling Act (Alborn 2008). Zelizer (1979) describes how moral opposition to life insurance persisted in the United States well into the nineteenth century. This moral objection extended to the managers of life insurance companies as Braun (1925: 302) illustrates. He quotes Elizur Wright, the “father of insurance regulation” in the United States as saying that life insurance was “the most available, convenient, and permanent nidus for rogues that civilization had ever presented.”

Skepticism about European life insurance according to Borscheid and Haueter (2012) was one of the main hindrances for it to spread to different non-European characterized societies. Muslim societies up until today share early European doubts about how religiously or morally acceptable insurance can be. This may account for the scarcity of life and other insurance in Muslim countries. Skepticism was often mutual. One hindrance to the expansion of life insurance companies was therefore self-imposed. Many companies abroad only targeted white people as they did not believe that the indigenous could be trusted (Borscheid and Haueter 2012: 10–15). Reciprocally, many locals did not trust Western insurance companies and perceived some threat to their traditional solidarity networks. As insurance companies started globalizing in the late nineteenth century, clients of foreign cultures were only slowly targeted and often with difficulties. Some companies later had to go to some lengths in order to convince locals. The Shanghai Life Insurance Company for example, in the early twentieth century is reported to have provided its Chinese policy-holders with free accommodation on their travels and founding English schools for children of Chinese clients (Wright 1908: 827). In the USA, African-Americans were often denied insurance well into the twentieth century and fraternal organizations provided attractive alternatives to those without ready access to life insurance. Even masonic lodges, despite being associated with the elite appeared to have been accessible. As early as 1775, Prince Hall started African-American freemasonry (Beito 2000: 7; on Prince Hall and the insurance activities of lodges see Muraskin 1975).

Makers of global business: institutional forms

So, who were the makers of the global insurance business? Companies played a crucial role and it is tempting to assume that joint stock insurers were at an advantage with easier access to capital and more freedom in management decisions. Yet, mutuals later globalized after reaching the necessary size to do so. The respective roles of mutuals and joint stocks have provoked several debates. Some older authors (e.g., Halpérin 1946, 1952; Raynes 1948) assumed a single
evolutionary line along which insurance developed from charity and mutual help into a superior modern business carried out by joint stock companies. But views on organizational forms of insurance often show hallmarks of political preferences. Both capitalist and left-wing quarters claimed insurance for their purposes (Puskar 2006: 50–51). The left saw mutual insurance based on solidarity as an alternative to purely capitalist business. Insurance served as a model for a more social enterprise within capitalism as it builds on solidarity among the insured and, in essence, practices a redistribution of means. Fraternal, especially friendly societies, fit this view even more as they were even further removed from profit making. Consequently, in the late nineteenth century they were considered hotbeds of communist ideas (Wallace 2000). State intervention, more than competition from corporate insurance, came to spell the gradual decline of fraternal organizations. Bismarck designed his wide-ranging social security and pension system primarily as a means to “bribe” (in Bismarck’s own words) the working classes into having something to look forward to and take their minds off revolutionary thoughts (Andreas 1926: 195–196).

Conservative quarters, on the other hand, stressed the benefit of corporate insurance to the economy and through this to society overall. Halpérin (1946) places insurance at the heart of capitalist development and argues that older forms of communal security had to be replaced by calculable capitalist methods with money assuming the role of bridging the present with the future. Family ties and guilds, according to Halpérin (1946: 20), prevented insurance from turning into a business end of its own (for guilds see Catherine Casson’s chapter in this volume). This, he argued, was because mutual help “paralyzed” the development of modern insurance and, with it, business per se. Clark (1999: 7) dismantles Halpérin’s claims that such capitalist insurance business was based on sound calculations by showing how little systematic risk management such early modern companies applied. Febvre (1956), in direct response to Halpérin, argues that insurance was a side effect of developing capitalism which led to a split of the notion of security into material security, on the one hand, and safety in the hereafter on the other. He dismisses Halpérin’s distinction of security provided by insurance versus solidarity and that the latter was gradually superseded by the former.

The difference between mutually organized insurance and joint stock players was described later by La Torre (1993). La Torre still stresses the business end as a main identifier of modern insurance. The disconnection of the insured’s interest (i.e., the risk) from the financial interest of the insurer lessens the potential for conflict, he argues. Thus, insurers mainly interested in financial gain were optimally suited to insure marine risks as they did not have any directly vested interests and as such were more disposed to provide risk capital. Mutuality, though, still had its place in that it is better suited to cover regular and statistically more predictable risks, for example in agriculture or life. Marine insurance, however, with its short term and less predictable risks, La Torre continues, was better suited for modern, capitalist insurance. The evolution of mutual and modern insurance (in La Torre’s sense) was thus parallel rather than linear with each of them suited to specific purposes. Yet, as La Torre notes, mutuality also reached certain limits with increasing size and number of the risks. The gradual change from mechanical to organic societies, to use Durkheim’s (1893) terminology, thus meant that voluntary mutuality had to become compulsory, eventually paving the way for state-backed social insurance.

La Torre’s view that mutual and joint stock insurance are, respectively, better suited for certain lines of business is commonly accepted today. This view may explain the frequency of mutuals in life insurance and the fact that this branch spread mainly via emigration and imitation. Recent research, however, suggests that other factors were influential as well. Some suggest that life insurance across continents is economically not viable (Biener et al. 2015). Conditions for life insurance vary enormously in respect of regulation, product design, sales channels,
consumer behavior, income distribution, competition from pension systems, tax incentives, differing life styles, dietary habits, climates, and many more factors. While these factors may have had less importance historically, it might still be interesting to research whether cross-border life insurance was a profitable business in the past.

Pearson (2004: 235) remarks that unincorporated joint stock partnership was the most common form found among British fire insurers founded before 1850. Due to the Bubble Act of 1720 which limited the foundation of further joint stocks without a royal charter, the joint stock principle was somewhat corrupted. Insurers without a charter had to find legal loopholes to operate. Pearson (2004) finds that fire insurers significantly developed the relatively new corporate form of the joint stock company. This eventually paved the way to the repeal of the Bubble Act in 1825. James (2013a: 8) sees the need to raise larger amounts of risk capital as a main reason for the rise of joint stock insurance companies from the eighteenth century on. He also points to the connection of the two composite companies, the REA and the London, with a “revolution in corporate form,” during what Supple (1970: 5) called a “context of economic growth and financial experiment.” Some early joint stock fire insures had enjoyed reasonable success after the Great Fire of London but many suffered from immature business logic and the turbulences of the early eighteenth century bubble. In some ways, also the foundations of the REA and the London may have been premature. At least initially, they did not offer the financial stability James (2013a: 8) attributes to the “more stable” business form of the joint stock company. As Supple (1970: 35) points out, the REA, shortly before the South Sea Bubble, had “implicitly committed itself to a dependence on the booming stock market.”

Naturally, a certain size was required for insurance companies to engage in global business. According to James, the joint-stock principle was decisive in the development of large-scale insurance (2013a: 8–9). The two monied companies, the REA and the London Assurance, enjoyed the monopoly privileges of their charters because the government perceived the security of shipping and trading to be of public interest. Soon after their foundation, they received additional charters for fire and life business despite the fact that with the Sun an already powerful fire insurance company existed. Yet, the fire companies grew business mainly in their home markets and internationalized only toward the later nineteenth century. The London Assurance only started opening foreign agencies in the 1850s (Drew 1949: 89). The REA only seriously increased foreign business from the late nineteenth century on with an increase between 1885 and 1910 from a mere 2 percent to 64 percent (Supple 1970: 241–242; percentage calculation by Jones 1977: 54). Supple attributes this lack of internationalization to management failure. The scarce expansion of many insurers up until the second half of the nineteenth century can partly be explained by the Napoleonic wars, which on the one hand increased prices but also made international business riskier. Another factor may be attributed to exceptional growth opportunities in home markets. A further reason for extended international growth may have been the appearance of professional reinsurance in the mid-nineteenth century as an additional safeguard to conduct international business.

It was, though, a joint-stock company that drove the first significant and relatively early internationalization of fire insurance. This may seem self-evident but a closer look at the outset of the Phoenix reveals that the company was prevented from fully profiting from this organizational form. Trebilcock dwells in detail on the delicate legal implications that the foundation of a joint stock company involved (1985: 67ff.). There is no evidence that the choice of institutional form was made with a view to expand business internationally. Rather, it was based on the wish to be granted a royal charter and its benefits of limited liability and a monopoly. A few years before the foundation of the Phoenix, Adam Smith, who, as James (2013a: 8) points out, was rather skeptical of joint stock companies, noted in his Wealth of Nations that the joint stock
principle was best suited for insurance companies but that they did not need a charter (Smith 1776: 416). Charters, in Smith’s view, were justified mainly for companies dealing with “remote and barbarous nations” (1776: 415).

The Phoenix did not obtain the charter, which meant that it could not operate with limited liability. This constituted a risk to investors and policyholders. Furthermore, the practice of issuing shares with a high proportion of uncalled capital proved difficult to implement. Uncalled capital functioned as a kind of risk reserve in that a call on capital could cover unexpected expenses and claims. It, however, also meant that shareholders faced potentially large liabilities for which they expected to be compensated by high dividends (Acheson et al. 2012). The Board of the Phoenix feared that the high proportion of uncalled capital (£250 versus only £50 paid up) might deter sugar refiners who were already suffering from a difficult market. The overall capital was then lowered from an originally envisaged £97,500 to £16,500. Such relatively low capitalization, unlimited liability, not being chartered, and operating without a monopoly suggest that the Phoenix’ success was not exactly based on a strong capital structure. Rather, it was due to a legal trick. The Phoenix’ operations were based on a Deed of Settlement that had been drafted in order to secure utmost liberty in management decisions and to limit the influence of shareholders. Furthermore, the fact that no charter had been granted proved to be beneficial as it allowed the company to decide independently of the government and spared them from paying substantial amounts to the government. It is safe to assume that the liberty to decide on their business strategy (the international agency system) proved the decisive factor for the Phoenix Board to enable international expansion. Asking for shares to be fully paid up also proved advantageous as dividends could be issued rather restrictively.

More research is needed into the importance of organizational form for companies to internationalize. The case of the Phoenix may not be exemplary, yet the imperfection of the joint stock principle at the time and the successful ways in which other corporate elements were applied suggest that question of mutuals versus joint stocks in globalization is not that easy to answer. Recent research indicates that the distinction between mutual and joint stock was not always clear (Pearson and Yoneyama 2015). Many hybrid forms existed and continue to exist. Organizational choice was often based on necessity and exogenous factors because “the law dictated the institutional forms available to insurance entrepreneurs, and the interpretation of law entirely controlled which fields remained open for daring exploitation and which became merely the source of later frustration” (Trebilcock 1985: 69). The main factors influencing decisions were regulatory environments with some governments favoring mutuals, the ease of access to capital, cultural views, and also entrepreneurial ideologies (Pearson and Yoneyama 2015). The founder of Japan’s first mutual insurer based his organizational choice on Confucian principles despite being an ardent supporter of a free market economy (Yoneyama 2015). Some joint stock companies during the Industrial Revolution resorted to applying methods borrowed from mutuals and attempted to increase business by asking shareholders to take out policies (Pearson 2004: 246) while some mutuals in twentieth century Japan introduced with-profit policies (Jiang 2015). The Canadian Sun Life, one of the most global life insurers, started as “The Sun Mutual Life Insurance Company” in 1871, despite being a joint stock company. The “mutual” in its name was purely for marketing purposes (Darroch and Kipping 2012: 258). The fake mutuality was abandoned ten years later when the failures of several real mutual societies were felt to taint the mutual principle but the company mutualized in the 1950s to fend off foreign takeover attempts (Darroch and Kipping 2012: 264). International expansion of mutuals appears to be a phenomenon of the later nineteenth century. The idea of mutuality was easy to export but the mutual institutions, initially, were less fit for cross-border or multinational business. In the seventeenth and eighteenth centuries, they were the “classic associations of small
traders and shopkeepers clubbing together for defense” (Trebilcock 1985: 6). The mutual principle matured from communal organizations into mutual companies with longer lasting success. From the later eighteenth century to the early nineteenth, Britain witnessed mainly joint-stock foundations in life business, most of which, however, rapidly disappeared while the fewer mutual foundations proved more resistant (Braun 1925: 206). Mutual organizations reached impressive sizes during the nineteenth century especially in white settler colonies. In Japan, mutual insurance organizations produced some of the world’s largest insurers in the twentieth century, albeit all of them active almost exclusively in their home market.

Yet, the role of transnational and multinational companies, mutual or joint stock, is easy to overestimate in the early modern era. Insurance, initially, spread very much as a concept. Copying business models, as we have seen, was frequent in fire and in life insurance. In some ways, also marine insurance thrived on imitation as insurance contracts and business practices were copied throughout European ports. Imitation was not limited to certain organizational forms. Emigrants, however, the possibly most important force to export life insurance in the nineteenth century, appear to have preferred mutual organizations. They also brought fraternal forms of insurance to the new world such as freemasonry and friendly societies (see e.g., Carlyon 2001 for foundations in New Zealand). These organizations covered an important share of life and health insurance (see van Leeuwen 2016 for the insurance function of friendly societies). Toward the end of the nineteenth century, Germany started offering social insurance, a concept imitated by other states subsequently. Insurance spread as a cultural good as much as a business concept and thrived mostly in European-influenced cultures.

Conclusion and suggestions for further research

Research into the globalization of insurance is relatively scarce. Borscheid and Haueter (2012) provide the main overview of the spread of insurance to twenty different markets. Different actors supported the diffusion of insurance. Companies played an important role but may not have been the dominant force during these early stages. Migration and imitation were possibly equally important. The basic concept of insurance was easy to reproduce and led to a rapid expansion of marine insurance from the fourteenth century without producing any notable companies before the 1720s. In all lines of business described here, marine, fire, and life, imitation proved successful. As insurance depends on local idiosyncrasies in terms of the risk landscape, legal environments, cultural parameters, and many more factors, imitation and adaptation to local conditions may have been a more effective way of spreading insurance. There is a large field open here for further research.

Migration as a promoter of insurance proved powerful as well and, through the large number of emigrants, produced important mutual insurance institutions, indeed some of the world’s largest insurance companies. The role of mutuals in engaging in cross-border business and internationalization endeavors is, though, not well researched. Although friendly societies and other fraternal organizations globalized from the eighteenth century on and covered a large part of the insurance sector, their role has so far been neglected in academic writing. Joint stock companies, finally, may have been the main drivers for companies’ diffusion. Past research concentrated more on mutual than on joint stock insurance. Some insight into possible advantages of the joint stock form in globalizing is also necessary. If, as some imply, joint-stock insurers are more supportive of other business, an account of how companies used insurance in order to expand is necessary. A more detailed analysis of the relationship and links between risks, institutional forms, market environments, and exogenous factors that created different insurance markets would be welcome. Finally, a comparative account of the spread of insurance and other financial
services or the service sector altogether might provide some interesting insight into the aptness of insurance as a cross-border or international business.

Notes
1 See for example the recent campaign of several NGOs urging insurance companies to stop underwriting coal exploration and mining. https://unfriendcoal.com/coal-insurance/ (accessed 9 April 2019).
2 See Trenerry (1926) for the history of pre-modern forms of insurance. For the origin of commenda contracts see Hillman (1997: 621–624), and La Torre (1993: 181ff.). Udovitch (1962) traces the commenda back to Islamic Qirad financial instruments. See Schug (2011) for a classification of insurance and insurance similar activities from antiquity on.
3 Mutuals, on the other hand, expressed the solidarity of their members in names such as Hand in Hand or their professions such as in Jeweller’s Mutual.
4 See Ewald (1986) for the societal function of insurance; Lobo-Guerrero (2011, 2012, 2016) for the notion of security that insurance produces.
5 This has continued into the present for example in China, where products linked to death touched on taboos (Chan 2012). When the PRC opened up to insurance in the 1980s, life insurance was to lead the way. It was praised as something in between insurance and stock speculation. Life insurance, it was argued, promised a guaranteed return unlike, for example, motor insurance. At the same time, it carried little risk as opposed to many financial instruments. (Interview with Qixiang Sun, C.V. Starr Professor, Associate Dean of School of Economics and Director of the China Center for Insurance and Social Security Research (CCISSR) at Peking University, 6 June 2007.)
6 “[C]’est précisément l’assistance mutuelle familiale, sociale ou professionnelle qui a paralysé le développement de l’esprit d’entreprise” (Halpépin 1946: 20).
7 The REA and the London together had offered the government the sum of £300,000 in order to obtain charters.

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