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CHAPTER III

HISTORICAL REVIEW OF GENERAL INSURANCE
DEVELOPMENT FROM 2000 BC TO 1950 AD

As per the planned sequence of Research Methodology adopted for this thesis, review will be now taken of development of General Insurance Industry from its inception in rudimentary form in ancient times to maturity in conventional form of 1950. The objective of this review is to test basic Hypothesis.

Testing and verification of hypothesis from the historical review of development of General Insurance Business from 2000 BC to 1950 AD.

Basic Hypothesis is tested through the Review of Historical development from 2000 BC to 1950 AD. For this purpose the entire period is split into following time slots which represent significant mile-stones in the development of General Insurance:
I) Origin of Insurance Practice in Ancient Human Civilization 2000 BC.

a) Contribution of Babylonian and Indian Civilization

b) Origin of Marine Insurance

II) Insurance Development from 2000 BC to 14th Century:

a) Development of General Average Practice

b) Guild Schemes of Insurance protection

III) Insurance development in 14th Century. Contribution of Commercial - Cultural Renaissance of Italy.

IV) Insurance Development in 15th and 16th Centuries of Explorers' Age under Spanish Enterprise.

V) Global Insurance Development in tri-centennial period - 17th to 19th Centuries of Commercial Capitalism, industrial revolution and colonial expansion under leadership of British hegemon - Development of Marine - Fire - Miscellaneous
Accident insurance practice in conventional form.

VI) Development of British and Global General Insurance Industry during period 1900 to 1950.


For each of the above phases Macro environment and Micro General Insurance Norm are considered in following aspects:

A) Macro Environment Form

a - Political development level

b - Economic development level

c - Social development level

d - Technological development level
B) Micro General Insurance Sector Norm

a - Development of Insurance Practice

b - Types of Business

c - Statutory Control

d - Management Norm

e - Development Organization

f - Social-Welfare Role

g - International Transactions

For each of this phase inter-relation will be tested for its impact on the progressive development of General Insurance Business in the multi-sectoral dimensional norm as established in 1950. For Markets reviewed as Study Cases Hypothesis is tested during their various phases of development resulting in the final stage of their 1950 norm.
I) Origin of Insurance Practice in Ancient Human Civilization 2000 BC.

a) Insurance Industry has rich and colourful history of development with the passage of Human Civilization. Its beginning in conceptual form can be traced to ancient civilizations as very often quoted Biblical Story of the First Insurance Plan in recorded history in the form of “Joseph’s scheme of reserving in storage one-fifth of the crop of each prosperous year to be used in the years of famine to avoid the catastrophe in Pharaoh's dream of Seven Ears of full and ripe corn and one stalk being swallowed by seven other ears thin and scorched by the desert wind.” The historical record of Insurance development is not so precise as to point out without doubt its origin in any one country, year, or transaction. But there is broad consensus amidst Insurance Historians to accept Marine Insurance as the Mother of Insurance Practice and to trace its origin in the rudimentary form in the commercial contract of "Bottomry Loan" developed 2000 years BC in Babylonia and India.
b) **Contract of Bottomry or Respondentia:**

i) **Babylonian Contribution**

By 2000 BC human civilization had stabilised on the foundation of agricultural economy in fertile land of river valleys. Knossos, Egypt, Sumeria, India, China had become centres of prosperous human civilization and manufacturing skills. International trade by way of land and sea routes had developed amidst their people. Babylon - the capital of Babylonian Empire now covering historical Sumeria, had achieved the status of Clearing House of International Trade as all trade routes converged in it. From Armenia in the North, Egypt in the West, China and India in the East caravans came there laden with merchandise. (Annexure 3.1) The trade with the harbour towns like Knossos in Crete along the Eastern Coast of Mediterranean was by way of trading ships traversing inland seas. Consolidation of Babylonian Empire in 2100 BC under the great King Hammurabi had resulted in the substantial development of its political economy from which emerged its thriving commercial system of international trade interlinking Knossos and Crete.
on the Western Frontier of then human civilization with India and China on its Eastern Frontier.

However, the kingdoms of prosperity located in the fertile river valleys were separated by the vast stretches of desert territory traversed by nomadic tribes whose members utilised their relatively unexhausted mental and physical energy in thriving upon constant movement from place to place, keeping contact with affluent and relatively docile fraternity of settled communities through routine trade transactions and yet frequent looting raids on caravans in land transit or acts of piracy against traders' ships. Besides these human threats arising from the imbalance between Socio-Economic Cultural traits on the one hand of agricultural and commercial communities and on the other of primitive nomadic tribes, trader's venture was also exposed to the inevitable perils of Fire Storm, Flood, Overturning of animal drawn vehicles or Capsizing of trading vessels. Commercial venture was thus subject to the serious possible threat of failure entailing substantial financial loss for the entrepreneur.

Financial system for supporting commercial enterprise had developed by that time in the
settled communities in the form of the Loans given by moneylenders to traders. But as per the custom of loan transaction, prevalent then, the loan agreement provided for human bondage for borrower and members of his family in the event of failure to fulfil obligations of payment of principal and interest to the lender. Such a deterring environment for raising finance was not conducive to flourishing of international trading ventures, exposed to likely serious risk of a failure by circumstances beyond traders' control.

Macro Environment was thus full of opportunities for promotion of international trading activity amidst well advanced prosperous communities spread over various global sectors, provided a suitable monetary instrument was available for raising finance to support the trading venture, subject to the terms suitable to the trader as well as financier. 'Bottomry Contract' as per the terms provided in Hammurabi's Code - the earliest code of Laws yet known in human history - was the ingenious human response to the demand of Macro Environment. Insurance origin in its primitive form of Hammurabi's Bottomry Bond is thus a byproduct of multi-dimensional evolution of human society in ancient time of 2000 years BC.
As per the terms provided in Hammurabi’s Code (Annexure 3.2), under Bottomry Bond or Respondentia Contract, “the loan was granted to the borrower - trader on the terms stipulating that after the successful completion of the venture, he would repay to the financier - lender capital sum plus interest charged at a rate much higher than the prevalent interest rates in the market. However in the unfortunate circumstances of the failure of the venture owing to the causes beyond the control of the borrower - trader, he was freed by the financier - lender of all obligations of repayment of the loan amount and interest”. Loading of interest rate under this arrangement can be justifiably interpreted as premium charged by the Financial underwriter of the venture for covering transit risks of the trader. It is interesting to observe that as per this arrangement the trader’s fortuitous transit loss was covered right from the inception of the venture and it was the Financier who had to wait patiently for receiving his advanced capital and accrued interest subject to the successful termination of the venture. The sequence of payment of premium and claim under the primitive form Insurance - origin is just the opposite to its norm under the modern developed scheme.
Financier had to be a very vigilant observer of trade scenario and shrewd assessor of traders credibility for providing loan for international venture at adequate interest rate worth the risk of loss in the event of the failure of a venture. The trader required on the other hand expertise for estimating prospects for success of venture and assess whether the interest rate was reasonable to give him net gain worth the venture.

It is also worth recording that under separate sections of Hammurabi’s Code, provisions were made for State Schemes to cover property losses of Citizens arising from thefts and cultivators’ losses arising from damage to crop by stipulated causes. Under another section of this code provision was made for Adoption Annuity Plan under which a Babylonian could adopt a son, rear him and for old age security depend upon his adopted son’s legal obligations to provide necessary funds.

From this brief historical review of Babylonia’s commercial and financial development under Hammurabi’s regime it can be concluded that the practice of Marine Insurance and State’s Insurance schemes for community welfare were initiated under provisions of Hammurabi’s code giving Babylonian
civilization unique distinction of pioneering status in recorded Insurance Annals...

ii) Ancient Indian Civilization’s Contribution

It is interesting to note process of introduction of commercial agreements for loan similar to Bottomry Bond in ancient India’s market system.

By 2000 BC the process of amalgamation of original Dravidian natives of India with new-comers of Aryan race from North which had started 4000 BC was almost over. Socio-Economic Political structures in the form of City States or medium-size Kingdoms had emerged from the earlier predominantly agricultural – commercial Mohenjodaro civilization with its basic unit of independent self-governing village. Production level of this civilization had developed further with input from the new-comers with significant progress in the manufacturing of textiles - silk goods, excavation of mines and production of metal implements especially weapons and building of ships. Domestic trading activity of Indian community had already developed extensively by 2000 BC and now her Foreign Trade opened wings
with the export of Indian textiles, silk, spices, jewellery, metal implements and weapons to the markets in the Middle Eastern and Mediterranean Regions.

For supporting this domestic and Foreign trading activity Financial Structure was essential and from historical information it is evident that it was developed during this period of progressive multi-sectoral evolution of society. *Manu-Smriti* - (Annexure 3.2) Ancient India's Socio-Legal code, developed by India's priest class over period starting from 2000 BC to 200 BC, provided for this need under various sections. As per the sloka from the text pertaining to trader's obligations it is stated: "The trader should be made to pay (taxes or duty) taking into account the rate of purchase, the rate of sale, the length of the journey, expense of food and incidentals on the way and the yogakshema - (risk and safety)." Under another article of *Manu-Smriti* the obligations of ship-owners and the members of crew towards cargo owners and passengers are stipulated: "The sailors are held collectively responsible for the damage caused by their default to the goods or passengers. But they are absolved from all responsibility if the damage arises from
the accident or cause beyond their control”. On the basis of recorded data it can be stated with certainty that by 200 BC the concepts of insurance and premium in simple form but with application of mathematical techniques were developed in ancient Indian civilization. Development of commercial agreements for trader - financier - ship-owners class was possible as the byproduct of vigorous growth of Ancient India’s foreign Trade, which was bemoaned by Roman historians in words, “Gold flows from Rome to India in exchange for various luxury articles.”

c) Macro Environment Factors of Babylonian and Indian Civilization and Development of Insurance

In accordance with the research approach adopted for the study of inter-relation between Macro Environment of Society and its Insurance Industry, it will be appropriate to summarise from above discussion, Macro Environment factors of Babylonian and Indian civilization which contributed to their successful development of preliminary forms of Marine Insurance, Ship-owners Obligations, State-Welfare Insurance schemes.
Significant common Macro Environment factors can be summarised as follows:

i) **State Political Organisation**

Babylonian state was well organised under great king Hammurabi’s rule on the foundation of Socio-Economic - Cultural progress achieved by Sumerian civilization developed from 7000 BC to 2000 BC. Hammurabi’s Law was recognised in all parts of Babylonian Empire and covered all aspects of community life including commercial sector. Indian political structure though constituted of many City States and Kingdoms under various rulers had political - social stability under common code of *Manu-Smriti* developed by priest class at the helm of social structure in all states. According to the historians of Babylonian civilization Cuneiform Sumerian language was effective medium for the development of administrative rules and legal agreements and their propagation as ruler’s commands. In Indian Civilisation’s case, the same role of effective medium for socio-economic political - cultural integration was played by Sanskrit language.
ii) Development of Financial Structure

In Babylonian and Ancient Indian civilizations, Financial system of banking had started functioning even prior to the introduction of coinage through the use of gold and silver ingots with stamping of weights and seals of owners in (Sumerian or Sanskrit) language. Loan system supporting financing of trade transactions was developed in customary tradition and needed only suitable alteration to suit new environment.

iii) High Production Level

Babylonian and ancient Indian civilizations had developed over long period - 7000 BC to 2000 BC handicraft production level of high grade to generate export activity and community's standard of living was adequately high for creating markets for consumer goods and promote import of foreign goods.

iv) Special Status

Babylon was centrally located to serve the role of Exchange House for International Trade linking Markets from the Mediterranean region to India and
China. India was playing major role of exporter of high quality goods of all types needed in the Middle-East and Mediterranean Markets.

Above factors made Babylonian and Indian civilizations most suitable for the innovation of Insurance Schemes in their original form. It should be also noted that development of Insurance Schemes in this preliminary stage shows following trends which continue to play important role even at this advanced stage.


ii. Bottomry Contract was individual enterprise and Marine Underwriters' skill continues to be individual expertise oriented inspite of extensive use of advanced technology for collection and analysis of data.
iii. State performed role of providing terms of standard agreements binding Traders - Financiers - Shippers under Hammurabi's code or Manu-Smriti though business was in private sector. State is expected to continue the same role for modern commercial - financial or insurance sectors in spite of their increasing liberalisation as per present Macro environment trends.

iv. State continues to play role of providing Social Welfare and Crop Insurance scheme as initiated during Babylonian and Ancient Indian civilizations.

Corelation between the above stated strengths of Babylonian and Ancient Indian civilizations and their successful pioneering development of insurance Sector validates presumption under basic Hypothesis in positive manner.
II) Insurance Development from 2000 BC to 14th Century

After the innovation of Marine Insurance Practice in the rudimentary form of Bottomry Contract in ancient Babylonia and India, the second major step in its development, in terms of Separation of risk of Loss of Ship and Goods from that of the Loan was taken probably about the end of the 13th Century in Italy passing through the early stage of her Renaissance in politics, art, literature and culture. Before undertaking discussion on this development, it will be only appropriate to take brief review of Macro Environment developments and progress of Insurance Practice development during the period separating ancient civilization and the dawn of 14th Century.

a) Macro Environment Transformation: 2000 BC to 14th Century AD

During this period under consideration World History had witnessed in its Western and Middle-East sectors, Rise and Fall of Babylonian, Egyptian, Phoenician, Greek, Roman, Persian, Arabic, Mongol Empires and emergence
of New Order through the establishment of Rome-centric Christian political socio-economic block in Western Europe and its Constantinople centred Islamic counterpart in Middle-East. (Annexure 3.3) In the Eastern sector of human civilization substantial transformation had taken place in terms of changes in political structure of India and China under the impact of foreign invasions from time to time but by and large intrinsic vital cultural essence of these civilizations had preserved continuity with the past through synthesis of new cultural values ushered in by new-comers with the old traditional values from the past.

During the period 2000 BC to 700 AD all major religious faiths ranging from Hindu and Zoroastrian faith dating from 1000 BC to 800 BC to the Islamic faith established in 630 AD became part of human civilization. Organisation and spread of Christian and Islamic faiths had vital impact on socio-economic political and cultural transformation of Europe, Middle-East Asia and North Africa during the period from 400 AD, when Christianity was securely established as the official religion of Roman empire, to 1450 AD
when Ottoman Empire was established at Constantinople controlling large parts of North Africa and Middle-East.

During this political turmoil replete period international trade interlinking Far-East, Middle-East, Western Sectors of civilization continued with the upswings and downswings depending upon the situation of peace and stability or conflicts and turmoil in the various regions of the globe. Since during this period the Eastern sector of global civilization remained for the predominant part of duration relatively peaceful as compared to its Western and Northern counterparts, the direction of trade remained from East to West as was noted by early Roman observers of the scenario. Major contribution to Macro Environment of the various civilizations which flowered and faded during this period can be summarised as follows:

1) Greek (450 BC to 350 BC) contribution to human civilization was the Assemblies of people which were the forerunners of Modern democratic Institutions.
ii) Greek Contribution to the development of scientific thought particularly Mathematics and Astronomy.

iii) India's outstanding contribution to human civilization was Gautam Buddha's (550 BC) teaching which is the pioneer thought for Modern philosophy of scientific Humanism.

iv) The Chinese civilization produced in Sixth Century BC Confucian philosophy which is the foundation of culture, political thought and administrative systems of China, Korea and Japan.

v) Middle-East's contribution to human civilization during this period was teachings of Prophets Moses, Jesus and Mohammed which were the motive forces for political - socio-cultural transformation of Europe, Asia and Africa and had far reaching effects on economic and scientific development of civilization.

vi) Roman contribution was the introduction of legal system in administration and unification of Christian Europe under
political authority of Rome which was origin of modern concept of Frontierless Europe.

vii) Persian and Arab contribution was preservation of Asia’s leading position in political - socio-economic and scientific fields.

Having thus reviewed in brief span, Macro Environment developments during the period under study, consideration will be now given to the contributions of this period to the developments in Insurance History.

b) Developments in Insurance History

i) The practice of ‘Bottomry Contract’ was inherited by the Greeks through their Commercial and Cultural links with the great sea traders Phoenicians who had played historical role in interlinking the markets of Europe, Asia and Africa. Use of this commercial practice was continued in post-Greek-Roman period till 14th
Century when Italian merchants introduced necessary changes befitting new trade scenario.

ii) The practice of contribution by various parties to the Marine venture initiated under Rhodian Law of ancient times was codified under Justinian Code (540 AD).

iii) Greeks and Romans had developed political and social structures of high level and for meeting community needs complimentary forms of social welfare schemes were needed. Schemes for providing cost of burial ceremonies were initial attempts in Funeral Insurance schemes developed in European countries at later stage. Significant progress was made in providing under Falsidian Code of Laws (40 BC) directives for distribution of estate after owners death. Progress was registered in compilation of Annuity value tables based upon simple concepts of mortality rates and subscription experience (225 AD to 235 AD). These developments registered further progress in social welfare schemes initiated under Hammurabi's code.

iv) Novel contribution to insurance system during the Greek - Roman period was the collective
scheme for protection of members of Craft guild against the loss by Fire, Ship-wreck, captivity or other causes. The origin of Medieval trade guilds can be traced to this historical origin. The craft guilds were registered in 8th Century AD under the ordinance of Emperor Charlmagne. These guilds are the forerunners of modern Trade Unions and their collective aid schemes can be described as original forms of Mutual Insurance schemes developed at later stage.

c) Macro Environment and Development of Insurance

From the review of global Macro Environment in different sectors during this period, it can be concluded that due to the political turmoil, it was not very conducive for vigorous continued growth of global trade. Systems of trade and finance, therefore, did not register progress of such order as would require changes in their norms developed earlier. Bottomry contract practice was continued without much change for meeting trade finance requirements in old and newly developed markets. Codification of rules pertaining to the traders’ and shippers’ liabilities progressed with substantial further
development of political and legal structures in Greek and Roman states. Formation of craft guilds was the natural outcome of democratic institutions built in Greek civilization or independent village communities in India. Voluntary collective schemes for supporting individual members in their time of loss emerged out of the economic needs of civilization in new form in Europe. Joint-family system symbolised by 'Banyan Tree concept' took care of dependents' responsibility in Indian civilization and hence concepts of Life Insurance or community fund did not develop in India. In individualistic oriented society of Greek - Roman civilization provision had to be made for care of dependents and hence insurance schemes in simple forms were initiated under guild schemes. It should be noted that the impact of organised Religions, which had emerged as the most dominant force during this period, on promotion of insurance schemes was negative. Their objection to the practice of usury and its resemblance to rudimentary form of insurance made support of Church and Islamic priest authority to Insurance impossible. These problems for development of insurance in
Islamic and Catholic societies continue in different forms and degrees even in modern age.

The association between Insurance development and Macro Environment trends pointed out under the above para gives further support to the validation of theme under basic Hypothesis.
III) Insurance Development in 14th Century

Contribution of Commercial -

Cultural Renaissance of Italy

**Italian Contribution to Marine Insurance Development**

a) Special Status of Italy in 14th Century

12th and 13th were the Centuries of Papal Ascendancy. United Christendom under the rule of Pope came nearer to becoming a working reality as never before and would never be after in the history of Europe. In spite of some discreditable phases of the Papal Rule, influence of Christian faith over the minds of the large majority of population inhabiting the constituent kingdom states of Europe had developed into a commanding position displacing loyalty to the Rulers of Kingdoms to secondary position. Rome, thus acquired the status of the central treasury of Tax - Revenue collected from every individual unit of Christian Western Europe.

The system of Monetary exchange in multi-currencies was far from development at this stage of economic history. Exchange of revenue was through the transfer of goods or valued metal. Italian cities with Rome as their cynosure, became the centres of
trade in which wealth accumulated and their prominent citizens became experts in establishing infrastructure and managing systems for commercial and financial transactions.

In this environment emerged the great trading houses who performed the role of managing the system of collection and remittance of taxes from the various centres to Rome, through their agents appointed at main Italian cities like Venice and Florence and centres like Bruges, London, Cyprus, Rhode, Tunis, Barcelona in Western Europe and Mediterranean Region. Whilst Papal Tax - Revenue generated thus flow of cash and goods in the direction of Italy, it also gave an opportunity to Italian Merchants to export Italian goods to other parts of Europe. Thus tax revenue in the form of wool-shipments was received from England, bales of fine Florentine woolen clothing were exported to her from Italy. Representatives of trading houses met at the Champagne Trade Fairs, organised periodically as market practice since 13th Century at various centres in Europe, for negotiations and settlement of commercial and financial transactions. This process marked on the one hand, the emergence of European Market for commercial and monetary exchange inaugurating the age of Commercial Capitalism and on
the other decline of old customs of trade of the feudal age of human civilization.

Macro stage was thus set for transformation of commercial and financial norms of society developed during the long phase of pre-commercial capitalist feudal age (2000 BC to 13th Century AD) of Agricultural Economy and Manual production norm.

b) Transformation of Commercial and Financial Infrastructure / Systems

Formation of Credit Associations and Banks in the cities of Venice and Genoa was the response of dynamic traders and financiers to this situation. Enterprise of organisation of Credit Associations and Banks was the bold attempt of commercial and financial entrepreneurs to liberate themselves from the age old bonds of usury system. Intelligent solution to the problem of designing financial system within the Church dictated legal framework prohibiting loans with interest was the new commercial partnership denoted as 'Commenda'. Under the agreement of Commenda, one of the partners limited his role in the enterprise only to share its initial financing and subsequent participation in
its profit or loss, leaving the other partner free to manage its execution to achieve successful fulfilment. Being free from fixed interest linkage, this new form of commercial-financial partnership was within the terms of Church law forbidding loans with interest. Many such agreements were registered in the legal records of various Italian city administrations of that time. (Annexure 3.4)

In this new Macro Environment scenario time had arrived for a change in the preliminary form of Marine Insurance of 'Bottomry Contract' introduced in Hammurabi's code in 2000 BC. It is indeed remarkable that Bottomry Contract had served useful part as the basic financial arrangement binding traders and financiers for marine venture of overseas trade during this long period from 2000 BC to the 14th Century, which witnessed Rise and Fall of many a civilizations in Human History.

c) Marine Insurance Policy - New Form of Marine Contract in 13th and 14th Century

As stated above the form of partnership denoted as 'Commenda' was developed to produce a combination between the Commercial Entrepreneur and his
financier. Similarly, a trading partnership had developed to facilitate overseas trading in the form of a combination of a Merchant, who was commercial entrepreneur and his agent or tractator who took the responsibility of travelling with the goods and disposing off them at the various ports. The agent or the tractator received as his reward \( \frac{3}{4} \)th of the profit and the balance was to the credit of the merchant who ventured his goods. The agent was not necessarily in the command of the ship and he could act at the same time for a number of merchants who subscribed either capital or goods. It is easy to see how this form of trading defined as \textit{societas Maris} facilitated the introduction of Marine Insurance in the new form. Trading by land or sea was fraught with great dangers, and the Merchant who acted for himself or for a ward whose money was committed to him ran a serious risk of losing all he had ventured as his agent or tractator took no risk other than that of good faith. In many of the old contracts we find words excluding the responsibility of the tractator.

The old form of Bottomry Contract which was revived by the medieval Mediterranean traders was held not to infringe the doctrine against usury but was found
inadequate to suit financial needs of a Merchant holding trust fund on behalf of his wards. Wealthy Florentine Merchants who could average their ventures could manage risk through the traditional form of Bottomry Bond. But the merchants with limited financial resources trading on behalf of an individual or a group of wards whose money was committed to them could not expose their trust funds to uncovered loss as was the provision under 'Bottomry Contract' for the failure of venture due to causes beyond the control of either the ship-owner or the agent holding custody of goods. The risk of loss of ship and goods had to be separated from the loss of loan and that took place about the end of the 13th Century.

The documents of Florentine trading houses (Annexure 3.5) show the beginning of the practice of payment of forwarding agents for Freight and Insurance to be arranged simultaneously with the owner of the ship. A contract separate from that of freight and one of insurance of 1347 has been preserved and as quoted by Bensa in his "Il Contratto d’ Assicurazione nel Medio Evo". This contract was drawn in the form of fictitious loan to be treated as void if ship arrives safe at the port of destination by a specified route. In later
contracts, the form is of sale and not loan agreement. In a contract of insurance of 1397 perils covered are stipulated as "of God, the Seas, of People, or any other Person, of Letters of Marque, or Arrest and of every other case Peril or Chance, Impediment or Mishap which any way could happen or might have occurred, no matter how or under what conditions the cases might occur, excepted only what concerns customs dues and Ballast". In some of these expressions we have almost approached the standard form of 16th Century Marine Insurance Policy adopted in the Office of Insurance in London 'and afterwards incorporated in the Lloyds Policy based thereon. Premium rates, for covering various transits of goods are quoted in the books written in 14th Century by Florentine Merchants on the subject of Commercial practice. All commercial contracts among Mediterranean trading cities were drawn by public or professional scribes and in some cities like Genoa, the practice of Insurance had developed in the last decade of 14th Century so extensively that some scribes or notaries specialised only in this new professional line.

Insurance practice which developed initially in Italian Centres like Florence, Pisa, etc. spread fast to all other cities with which they were
connected through their network of agencies. Custom and use brought some measure of uniformity in its practice. The contact in commerce between Barcelona and Pisa must have introduced insurance practice to the former city and to Barcelona we have to accord the first attempt in 1435 to regulate insurance practice by ordinance. At this stage the centre of trade and hence the development of Insurance had started shifting from the Italian trading centres to their counterparts in Spain, Portugal and Netherlands as these countries were now riding the wave of political power, whereas decline had started in Papal power and with it of Italian commercial citadels.

d) Decline of Italian Commercial Enterprise

Exhausted Papal power could not preserve the flow of wealth to Italy and with its substantial reduction, the thriving Italian cities suffered Economic and Commercial recessions. Initiative for financing discovery of sea routes to explore new worlds in the East and the West was taken by Spain and Portugal and the centre of international trading activity and development of financial sectors of banking and insurance shifted there in 15th Century. Marine
Insurance practice developed in Florence and other Italian cities followed her merchants and bankers in their network of commerce with which they brought together the trading centres of the Medieval World. Florence and the Italian cities generally laid the foundations of Commercial practice of the Modern world in their instruments governing the mechanism of overseas trade: the contracts of short term partnership in a trading venture; (i) the bill of exchange, (ii) the bill of lading and (iii) the policy of insurance (Annexure 3.6). The downfall of Florentine Republic in 1529 brought an end to that brilliant period of Italian inspiration in which Florence had been pre-eminent. With the discovery of the new world, the centre of political and economic gravity moved Westwards and a new stage of mercantile development commenced in the cities of Spain, Portugal, Northern Europe and England.

e) Macro-Environment x Development of Insurance in 13th and 14th Centuries

Our detailed review of Marine Insurance Development in the middle ages and merchant era of 13th and 14th Centuries gives evidence pertaining to the intimate relation between Macro Socio-Economic political
factors and the growth of Micro Economic Marine Insurance business from its inceptive form of Bottomry Contract into the form substantially similar to Modern Marine Insurance. It is also worthwhile noting that Insurance developed during this period in its Marine Sector but further development was not registered either of State sponsored or Community supported voluntary insurance schemes, initiated in ancient Babylonian, Greek or Roman civilizations. Macro Environment was conducive only to the development of Marine Insurance owing to emergence of European Commercial and Financial Market as a consequence of Papal hegemony over European Wealth during this period of history. Politically and socially reactionary environment of middle ages was not supportive to the development of Welfare Insurance schemes. Basic Hypothesis stating close relation between Macro environment and Micro Insurance sector gets further support from this review of development Insurance in the middle ages of Commercial Era.
IV) Insurance Development in 15th and 16th Centuries of Explorers' Age under Spanish Enterprise.

a) Political and Economic Scenario of Europe in 16th Century

The early beginning of the age of explorers had been ushered in 1272 to 1280 by the Venetian Marcopolo who visited the Mongol Court in China and other Kingdoms in the Orient. The Publication of his travels inspired two centuries later a certain Genoese Mariner, Christopher Columbus to pursue a brilliant idea of sailing Westward round the world to China. With the technical invention of Mariners' Compass liberating mariners from the mercy of stars to determine the direction of sailing, they were now confident of charting their course during long distance voyages for discovery of new routes to the Orient. After failure in attempts with many courts, Columbus could finally succeed in 1492 in securing patronisation at Granada, from the new rulers of United Spain, Ferdinand and Isabella.

This initiative shown by Ferdinand and Isabella resulted in the 16th Century in the rise of tide which took Spain to the crest of Political power and
Economic wealth. Spain grew richer and richer with the inward flow of gold and silver from recently explored New world of America.

b) Spanish / Netherlands’ Contribution to the Development of Marine Insurance

As stated in the historical review of Italian contribution to Marine Insurance development the Custom and use of newly developed Marine Insurance practice in all constituent markets of Western Europe brought some measure of uniformity in it. As per historical record, the first attempt to regulate Marine Insurance practice was made in 1435 by administrators of the city of Barcelona. The object of the ordinance was to prevent fraudulent abuses and to give a preference in treatment to their own ship-owners. The ordinance prohibited insurance on vessels owned and freighted by foreigners and limited insurance on foreign vessels freighted at Barcelona under 50% of their value and insurance on domestically owned and freighted vessels under 75% of their value. Under the ordinance the regulations were made for contribution by all underwriters participating in the risk. Provisions were made to prevent the issue of wager policies under
underwriters' declaration on oath that the
insurances are real and not fictitious. Further, it
was provided that the fact of payment and receipt of
premium is reentered on the policy and omission in
it invalidated the contract. Time limit of four
months was stipulated under the ordinance for
payment of damages or total loss, after its
assertion. Penalty for prompt execution of
liability was provided as in the case of bill of
exchange. The early contracts of Marine Insurance
were referred to as bills of assurance in London.

In Barcelona and Italy insurance contracts by the
legislation in the 15th Century were void, when the
loss of ship or goods was known by the insured at
the time of making the contract. Marine Insurance
practice in other cities of Europe and particularly
entrepots of wool trade like Bruges developed on
same lines like Barcelona, Pisa and Genoa. The
court of Echevins administered justice in accordance
with these declared usages unless specifically
provided otherwise. The verdict of the court in the
dispute between parties to the Marine Insurance
contract would be subject to the same regulations
irrespective of whether the case was heard by Court
of Echevin in country of either party to the
contract. Payment of claim was expected in full and immediately on proof of loss and a counter-claim for any share in salvage was to be made subsequently.

Florence Ordinance of 1523 shows the stage reached by Marine Insurance as per the practice honoured by Mediterranean Merchants at the beginning of the 16th Century. These ordinances were set out in full by Nicholas Magens in his essay on Insurance (Annexure 3.7). As per Florence Ordinances all insurances had to be made according to the set regulations unless exceptions in special cases were approved by the committee of five deputies appointed for regulating insurances. Besides administration of policies the deputies had power to fix premium rates if they found it necessary for common good. All insurance cases had to be judged by the deputies and atleast four of them should join in the judgment. Standard policy forms were attached to the regulations. Florentine ordinance represented the accumulation of Marine Insurance Experience during the two centuries of the later Middle ages.

However, with the downfall of Italy’s status and rise of Spain the changed conditions in political, commercial and geographical characteristics of
global trade are seen in the Insurance regulations made under Phillip II for Spain in 1556 (Annexure 3.8) and for Antwerp in 1563. With the discovery of the New World comprising Cuba, Mexico, Uruguay, Chile, California, Florida, international trade had taken a new global dimension requiring new ordinance for controlling its various aspects. Ordinance of Phillip II was first such comprehensive attempt for controlling Marine Insurance contracts in distant lands. Government had to establish agencies for supervision of transactions and issue of documents in accordance with the regulations of the Chambers of Insurance. The policies had to be signed by the Government approved Agent or Broker and underwriter and breach of regulations invited heavy fines and loss of licenses - Brokers were not allowed to take any share in underwriting. Limits were fixed on the value of insurance on hull, cargo, freight, artillery, provisions, etc. Rules for fixing contribution by insurers, liability of claims, charging of premium and standard forms of policy for cargo and hull were provided under the ordinance. No perils were inserted in the policies but reference was made to the provision of the ordinance under which perils covered were specified as "the sea wind, Fire, Enemies, Friends, and any other accident that happens or can happen except
Barratry of the Master or a deficiency of Merchandise”.

In curious contrast were the provisions under Antwerp ordinance sanctioned in 1563 by the same monarch for his possessions in Netherlands. The ordinances were divided in two main sections dealing with Navigation and Assurances. Navigation section dealt with (i) Jettisons, Shipwrecks and Averages (ii) Collision of ships and (iii) Breaches of Ships Laws. Marine Insurance ordinances are complimentary to the Navigation regulations under Section I. The assurances were to be made according to the custom of the Exchange at Antwerp. The draft policy could be used either for ship or cargo. Time of risk as well as perils covered were stipulated in the policy. Detail provisions were inserted in the policy for care to be taken of the damaged cargo by the insured on behalf of the insurers and assurance of payment of cost was given by insurers. The premium is mentioned in the policy in the words and the assurers acknowledge the receipt of payment as consideration of price for assurance at the specified rate on insured value of goods. Antwerp ordinances follow the form of policy of custom exchange of Antwerp. Rules were stipulated for
limiting insured sums on ships in ballast, partially or fully loaded ships, valuation of ships, etc. Regulations for dealing with cases of double insurance or deliberate over-insurance were provided under ordinance.

From the brief review of Florence ordinance 1523, Spanish ordinance 1556 and Antwerp ordinance of 1563 it can be concluded that they took development of Marine Insurance to the threshold of Modern Marine Insurance practice. Merchants in London from references in policies to the usages of the exchange of Antwerp were aware of the code of rules of general application to which as per their practice of Lombard street they conformed. Frontierless European Market had thus developed in the Marine Insurance Sector when the global trade had spread to cover the New World and the age of Colonialism and Commercial Capitalism had started.

c) Misadventure of Spanish Armada / Change in Political Environment

As stated in the (a) in Political Environment of 16th Century, Spain had taken the responsibility of
preservation of Catholic hold on Western Europe and Suppress rising tide of Protestants. The long drama reached its climax with the invasion of Elizabethan England by Spanish Armada of Philips II on 29th July, 1558. The invasion ended in the total defeat of then mighty Spain by rising British power.

This historical naval battle was the beginning of the decline of Spanish Power and rise of Britannia destined to 'Rule the Waves' from 17th Century to mid-20th Century.

d) Shift of Centre of Insurance Development

With this change in the political backdrop, the centre of commerce shifted to England from 17th to 18th Centuries and continued there till mid-20th Century. From the ancient times of 2000 BC of Hammurabi's code providing terms of Bottomry contract to Phillips II's Spanish and Antwerp ordinances on Insurance Business, Marine Insurance history has covered a very long track of journey. The shift of centre of insurance development through milestones of Babylon - Athens - Rome - Florence - Barcelona, London follows identical track of shift of Political and Economic power. This Corelation
the development of Macro Environment and its Micro Insurance sector gives good support to basic Hypothesis stating emergence of technological development of human society. The significant development in various sectors at the end of 16th Century can be summarised as follows:

A) Macro Environment (Europe)

Political Level:

1. Beginning of the process of transformation of Europe's constituent units from Kingdoms of Supreme Royalty supported by aristocracy, feudal lords and Church to States under rulers subject to the increasing control by deputies of commercial capitalist class.

2. Beginning of the process of establishment of colonies of European states in Asia, Africa and America.
Economic Level:

1. Feudal stage -> Precapitalism commercial relations (Domestic Market).

2. Bilateral trade -> colonial monopoly (International Market).

Financial System:

1. Usury -> Loans with interest

2. Money-lender -> Credit Society and Banks

Commercial Infrastructure:

Individual -> Individual / Family enterprise
Partnership enterprise.

State Control:

2. Royal decree -> Supervisory Body -> Courts

Social Level:
Submission to Papal Authority -> National Church -> Freedom of Worship.

Technical Level:
1. Manpower -> Simple Machines.
2. Star charting for voyage navigation -> Use of Mariners' Compass.
3. Tablets of engravings -> Printing Press.

B) Micro Environment Insurance

Marine Insurance:
Bottomry Contract -> Marine Policy State Control of
Insurance: Royal Codes Provision

-> Ordinance for controlling Marine Insurance.

Non-Marine Insurance:

No progress in development of welfare schemes under Royal patronage but continued development of Voluntary community schemes for protection covers for accidental injuries or property damage or funeral expenses by craft guild members.

Annexure 3.9 gives graphical Corelation between factors A and B. Annexures (3.10 to 3.14) also give through use of Balloon Model the Macro Environment - Insurance Development in various stages from 2000 BC to 16th Century AD.
ORIGIN OF MARINE INSURANCE
IN BABYLONIAN AND INDIAN CIVILIZATION ..2000 B.C.

BABYLONIAN CIVILIZATION

About 2000 B.C. a new race of Semites whom we call Amorites entered and became overlords of the plain, and ruled it from Babylon. We have records of their greatest king named Hammurabi. We have his letters in which he sends orders to his officers and governors - all on baked clay, and in clay envelopes. We also have an inscribed stone with his great code of laws, many of which remind us of those of the Jews, such as the one about taking "an eye for an eye, and a tooth for a tooth". They tell us also of the rules for buying and selling goods and houses, for the payment of craftsmen, and for the borrowing of money, and repayment of debts. So, here was a rich and prosperous empire with many cities and many temples, priests and scribes and king's servants and lords, workers and farmers and merchants, all keeping one law, and obedient to one sovereign king. It was an extensive empire, and relied for its transport on donkeys - just as many parts of the Near East did until recent years. We might call it a donkey civilization. We might also call it a clay civilization. Houses and writing tablets were of clay. Even the bales of the merchants were sealed with tags of clay, all properly stamped with the owner's name.

(Source: A History of the Western World - L.J.Cheney)

INDIAN CIVILIZATION

"We find thus this Indus Valley Civilization connected and trading with its sister civilizations of Persia, Mesopotamia and Egypt and superior to them in some ways. It was an urban civilization where the merchant class was wealthy and evidently played an important role. Professor Child says: It would seem to follow that the craftsmen of the Indus cities were to a large extent producing for the market. What if any form of currency and standard of value had been accepted by society to facilitate exchange of commodities is however uncertain. They regular municipal government's authority was strong enough to secure the observance of town planning by-laws".

(Source: The Discovery of India - J. Nehru)
By about 2000 B.C. the Babylonians as well as the ancient Hindus were familiar with the essentials of the contract of bottomry or respondentia as indicated by the provisions in the Codes of Hammurabi and Manu. The Babylonian contract and the Code of Hammurabi applied mostly to caravans. Manava-Dharmashastra referred to both sea-borne and overland traffic.

The great sea traders of the period were the Phoenicians and they, from their 5 or 6 coastal towns formed connecting links between the three continents known at that time. Their ships carried them to all arts of Asia and Africa and even to remote parts of Europe, where they founded colonies and depots. They centered their activities not only to commerce, but also established cultural links and it was through this great maritime power that the Greeks inherited their knowledge of the contract of Bottomry. This was probably about 900 B.C. About this period the Phoenicians also introduced the alphabet and the system of weights and measures.

Both the concepts of insurance and premium grew simultaneously hereafter. By about 200 B.C., the approximate date of Manusmriti, it was well-known that the merchants must pay charges for securing their goods, passing through jungles, from being robbed. Says Manusmriti:

क्रयविक्रयमयाने भक्ते च सपरिययम् ।
योगक्षेमे ज संप्रेक्ष्य वणिजो द्वायोक्तान् ॥

"The Trader should be made to pay (taxes or duty) taking into account the (rate of) purchase, the (rate of) sale, the length of the journey, expenses of food and incidentals (on the way) and the "Yogakshema" (risk and safety)."
The opening of the Thirteenth Century was the age of Papal ascendancy. A United Christendom under the rule of Pope came nearer to being a working reality than it was ever before or after that time.

(Source: Short History of the World - H.G.Wells)
COMMERCIAL AND FINANCIAL CONTRACTS
IN 14TH CENTURY EUROPE

1) Medieval Form of Partnership - Cornmenda

In the essay on "Law Merchant" by W. Mitchell (C.U.P., 1904) an example is given of one made in March, 1155.

"I Petrus de Tolosi admit to have received from you Otto Bonum pounds (? of silver) one hundred and twenty-seven which I am to take for trading to Salerno or from here to Sicily, and as to the profit which the Lord will give, I am to have one quarter and on return I am to remit to your order."

(Ego Petrus de Tolosi profiteor me accipisse a te Ottone Bono libras centum viginti septem quas debco portare laboratum Salernum vel ex hine apud Siciliam et de profieuo quod ibi Deus dederit debeo habere quartum et reeditum debeo mittere in tun potestate.)

2) Responsibility of Tractator

In many of the old contracts we find words expressly excluding the responsibility of the tractator "ad risicum et fortunam Dei maris et gentium." The principle was set out in the Twelfth Century: "IF it happen that a man entrust to another man his property to carry over sea for gain - 'en aventure de mer et des gens' - and pirates happen to fall in with them and carry off all that he is carrying, or the weather is bad and wrecks the vessel and all is lost, reason commands that he is quit in all and he needs make no amends." According to Pegolotti ("Pratica della Mercatura," 1335 - 1343), Florentine bills on England contained one or other of the phrases "rendu sauf en terre" or "en aventure de mer et des gens" and the banker's commission differed according to the phrase used. The excess charge made when "sauf en terre" was inserted instead of the second phrase "en aventure de mer et des gens" represented in effect premium for insurance.

(Source: The History of Bristol Insurance)

M.E. Raynes
MARINE INSURANCE CONTRACT IN 14TH CENTURY EUROPE

The wording of the contracts covering the insurance of Flemish cloth and other goods effected by Francesco del Bene & Co. of Florence have not come down to us, but a contract separate from that of freight an one of insurance of 1347 has been preserved, and was quoted by Bensa in his "Il Contratto d'Assicurazione nel Medio Evo." It is drawn in the form of a fictitious loan without interest, a sort of inverted bottomry bond, probably because a contract embodying a fixed premium payment for covering a risk might savour too much of the element of interest and therefore transgress the edicts against such payments. It is written in commercial Latin, and an English translation is as follows:

In the name of God, Amen. I Georgins Lecavelium, citizen of Genoa, acknowledge to you, Bartholomeus Bassus, son of Barolanus, that I have received and accepted from you in Genoa one hundred and seven pounds (of silver) as a free and friendly loan. I renounce every advantage in law of requiring proof of having acquired accepted or counted the said money. These one hundred and seven pounds in Genoa, or its equivalent in money, I agree and promise in solemn covenant to return and restore to you or your acknowledged messenger by myself or my representative.

Being well preserved and sound in mind, that if your ship called the Santa Clara which is now being prepared in the pool of Genoa, God willing, to go and sail presently to Majorca, shall have sailed, having been navigated by direct route from the port of Genoa to Majorca, shall have arrived at that place safe and sound before the expiration of the next six months coming, then in that case the present contract is null and void as if had not been made. I personally assume all the risk and responsibility for the said amount of money until the said ship shall have arrived at Majorca, being navigated by direct route as above. And also if the said ship shall be safe and sound in some other place before the said six months the present contract is likewise null and void as if it had not been made. And likewise if the said ship shall have changed its course the said contract is null and void and as if it had not been made.

In the said manner and under the said conditions I promise to make settlement, otherwise I promise to you to pay and incur the penalty of double the stipulated amount of the said money together with restitution of damages and expenses which may arise on that account or be sustained in litigation, the aforesaid remaining secure under pledge and security of my property goods and possessions.

Made in Genoa in a room in the house of Carlus and Bonifacius brothers of Usmares, in the year from the birth of our Lord 1347, following the custom in Genoa on the 23rd day of October about eventide.

Witness Nicolaus of Tecuis, draper, and John of Ruchus, on of Bonantus, a citizen of Genoa.

The document does not itself express the events on which the sum is payable, but it does say what are the events on the happening of which the contract in void; hence, if the specified events do not occur, then the contract could be enforced as a loan transaction.

(Source: History of British Insurance. He. Raynes)
To prevent the issue of wager policies, the underwriters "likewise must declare on oath that the insurances are real and not fictitious," and the policies are not to use the words "value more or less or done or not done." It was provided, further, that "all who take out insurances are bound to pay the stipulated premium, completely and absolutely at the time of the contract, observing also that the fact of such payment is entered on the policy," and "to have this done the contract shall have no force or value either for the insured or for the insurer, but from the moment of payment being made and received."

Some association in practice between marine insurance and bills of exchange is shown in the following contract from the ordinances:

"Underwriters shall be obliged to pay for damages or total loss, not later than four months after the same has been truly asserted under penalty of prompt execution as in the case of letters of exchange and where no news has been received on an insured vessel, as it happens sometimes that ships go down without leaving a trace of their movements, the insurers must pay for the loss at the end of six months after the date of the receipt of the last report."

As we have seen above, bills of exchange were sometimes drawn "en aventure de mer et de gens." and the ordinance regulating the payment of the policy of marine insurance seems to have as its object the making of the one complement the other. The early contracts of marine insurance were referred to as bills of surance or bills of assurance in London.

As a centre of the wool trade, Bruges would not be long behind the Italian cities in adopting the practice of insurance. We have seen that Uzzano in about the year 1400 quoted the rates of premium for insurance of wool from both London and Bruges, but there is evidence that insurance was practised at Bruges itself some time earlier. There is in existence a "Chronicle of Flanders", beginning from the year 621 to the end of 1725, gathered from the ancient writings by "M.D. and F.R.," Bruges, 1736. In this work there is a passage of which the translation runs: "At the request of the inhabitants of Bruges in 1310 he (the Count of Flanders) permitted the establishment in the town of a Chamber of Insurance, by which the merchants were enabled to insure their merchandise exposed to the risk of the sea, or other hazards, for the consideration of a few pence per cent, as is practised at the present day. But in order that so useful an establishment to the merchants might not be dissolved as soon as founded, he enacted various laws and forms."

(Source: History of British Insurance - H.E.Raynes)
SIXTEENTH CENTURY MARINE INSURANCE CODE
FLORENTINE ORDINANCE ON MARINE INSURANCE - 1523

As a whole, they must have been a codifying of practices observed prior to the 28th January, 1523 - the date of the ordinance. They were drawn by five deputies appointed at Florence for regulating insurances. All insurances had to be made in accordance with the regulations, unless there were some special circumstances admitted by the five deputies, when the special condition had to be inserted word for word in the book of these magistrates, so that all might be aware of it. The deputies had power, if they found it for the common good, to fix rates (No.4). When insurances were made on ships which at the time of the contract were already lost, no action could lie against the underwriters till the matter had been investigated by "six merchants and six others joined in commission with them" (No.5). The deputies might employ persons for salving a ship or cargo (No.6) and assess for expenses the merchants and insurers concerned (No.7). Without permission of the deputies, no money for goods thrown overboard or ransomed should ever be exacted nor premiums already paid returned (No.8). In a final clause it was provided that the deputies should take cognizance of all matters relating to insurance and that at least four of them should join in the sentence: which they were to give according to what they should think just and equitable in such case." They therefore constituted both an administrative body and a judicial tribunal.

Two forms of policy were attached to the regulations. They first was in general terms and was intended to cover goods on a named ship. Some points in the general policy were:

1. The insurance began from the time the goods were loaded and lasted till they were brought ashore at their destination. They
2. The ship could touch at any other place, could "sail forwards and backwards, to windward or leeward, according to the pleasure of the master, and everything might be transacted which necessity should require."
3. The perils insured against were of the sea, fire, jettison, reprisals or robberies of friends and foes, and all other cases, perils, tempests, disasters, impediments, and misfortunes, even such as cannot be thought of, that might happen...the insurers were likewise answerable for baratry of the master, saving only the stowage and the paying of customs.
4. In the case of disaster (which God avert) the insurers were obliged to pay the sum insured within two months of the day the news of the loss was brought to Florence, and, in case of no news being received within six months, the insurers were to pay, but return was to be made should subsequently the goods be found to be safe.
5. In case of loss the insurers were to pay first and, subject to leave of the five deputies, obtain sureties for repayment by the insured, and if within eighteen months the insurers established their case, the insured was to return the amount he had received under the assurance plus 20 per cent. This additional was apparently imposed to discourage claims by the insured for immediate settlement on doubtful evidence.

The present-day marine insurance policy includes a number of features which were included in the Florentine policy. In this features which were included in the Florentine policy. In his "Marine Insurance," Gow says of the perils insured against: "The perils of the sea is followed in the policy (i.e. Lloyd's) by long enumeration of other perils strung together without very obvious connection, occurring much in the same order as in the Florentine policy of 1523. They only explanation of this order that offers itself as at all likely is that the perils were added one by one simply as they were found in the history of insurances to become necessary for the proper protection of the insured."

(Source: History of British Insurance - H.E.Raynes)
SIXTEENTH CENTURY MARINE INSURANCE CODE

ANTWERP ORDINANCE - 1563
SPANISH ORDINANCE - 1556

The ordinances of Philip II for marine insurance in Spain were made in 1556. The Ordinances may be described as the first comprehensive effort to organize the business. The government had before it the new and particular problems of distant maritime ventures. It exercised control through the brokers who were licensed; to them were remitted the negotiations with the underwriters, preparation of the policies, the witnessing of the signatures thereto, and acting generally in accordance with the regulations under the aegis of a Chamber of Insurance. Failure to comply with the regulations meant loss of the licence and payment of a heavy fine. The policy was to be signed by the underwriters and the broker, and the latter had to keep a book in which the particulars of policies were entered. The evidence of the brokers had entry in his book were sufficient against the underwriter and his representative in the even of his death - an important point with the long voyages across the Atlantic. Brokers were not allowed to take any share in underwriting.

For ships going to the Indies, no more than two-thirds in value was to be insured on hulls; freight, artillery, and ships' provisions were to be included; and a separate policy on the hull had to be effected from that on cargo. Should a policy be taken out after a ship had been lost, and the assured could have heard (whether he did so or not) of the loss at the time the contract was made, the policy was void and the premium returnable. If no news of a ship sailing for or from the Indies after the lapse of eighteen months from the date she left port was received, she was deemed lost and the sum assured became payable, the assured making a "resignation to the insurers." If more was insured under a policy that the cargo was worth, the name of the last underwriter was to be struck off and the excess premium returned; the remaining underwriters shared the risk proportionately. The forms of policy which were embodied in the Ordinances made reference to some of the provisions in the Ordinances themselves, but the perils covered were not inserted in the policies. Article XLII, however, specified these as "the sea wind Fire Enemies Friends and any other accident that happens or can happen except Barratry of the Master or a Deficiency of the Merchandise."

In curious contrast were the Ordinances sanctioned by the same monarch for his possessions in the Netherlands. Those of Antwerp were passed in 1563 and are of particular importance as from the policies effected in London during the sixteenth century it is clear that the usages of the Exchange at Antwerp and those of Lombard Street in the City of London were similar. The Ordinances were divided into two main sections, the first relating to navigation and the second to assurances. The first section was subdivided into three, with headings (a) of Shipwrecks, Jettisons, and Averages; (b) of ships which damage one another; and (c) of ships' laws, breaches thereof, and other things relating to justice. The marine insurance Ordinances are complementary to the navigation laws in the first part.

All assurances after the date were to be made "after the custom of the Exchange at Antwerp," and policies had to follow the form embodied in the Act.

(Source: History of British Insurance )

H. LAYNES
HISTORICAL DEVELOPMENT OF GENERAL INSURANCE (MARINE)

2000 BC TO 16TH CENTURY AD

- POLITICAL - ECONOMIC CENTRE
  - BARCELONA
  - FLORENCE
  - ROME
  - ATHENS
  - BABYLON
  - RHODIAN LAW
  - JUSTINIAN CODE
  - GENERAL AVG.

- LETTER OF CREDIT
- BANKING SYSTEM
- VOLUNTARY WELFARE SCHEMES
- GUILD
- Marines INSc.
- SPANISH ORDINANCE ANTWERP ORDINANE

- BOTTOMRY BOND
- HAMMURABI'S CODE - LOAN CROP INSc.

INSURANCE DEVELOPMENT CENTRE

2000 BC  1000 BC  500 BC  13th/14th/15th Century
APPLICATION OF BALLOON MODEL

ORIGIN OF MARINE INSURANCE & SOCIAL WELFARE SCHEMES
TIME: 2000 BC, CENTRE OF DEVELOPMENT: BABYLONIA

MACRO ENVIRONMENT ENVELOPE
MICRO SYSTEMS OF SOCIETY

TECHNOLOGY
VULNERABILITY
OF COMMUNICATION
TO NATURAL HAZARD

TECHNOLOGY
DEVELOPMENT OF LAND,
SEA COMMUNICATION

INTL.ENVIRONMENT
PEACEFUL
BILATERAL
REGIONAL
AGRARIAN
COMMUNITY

ECONOMIC VECTOR
AGRICULTURAL
DEVELOPMENT
HANDICRAFT
LOAN SYSTEM

COMMERCIAL ENTERPRISE
FINANCIAL SYSTEM
SOCIAL WELFARE
SCHEMES

POLITICAL VECTOR
PROGRESSIVE RULE
HAMMURABI
STABILITY

ECONOMIC VECTOR
LOAN SYSTEM
SUBJECT TO
SLAVE BOND

SOCIO-ECONOMIC NEED
1. FINANCIAL SOURCE
TO SUPPORT
INTL. TRADE
2. SECURITY FOR LOSS
FROM NATURAL HAZARD

INTL.ENVIRONMENT
TENSIONS BETWEEN
AGRARIAN NOMADIC
TRIBES - PIRACY
THEFT

HAMMURABI CODE
BOTTOMRY
CONTRACT

ORIGIN MARINE
INSURANCE

HAMMURABI CODE
ROYAL DECREE
FOR COVERING
CROP-TRANSIT
LOSSES

CROP INSURANCE

SOCIAL WELFARE SCHEMES
INSURANCE DEVELOPMENT

(1) CONTINUED USE OF BOTTOMRY BOND.
(2) VOLUNTARY SCHEMES FOR SHARING LOSSES

TIME: 2000 BC TO 500 AD
CENTERS: MEDITERRANEAN REGION, GREECE, PERSIA, ITALY.

TECHNOLOGY
- WEAPONS

TECHNOLOGY
- BETTER SHIPS CHARiot

INTERNATIONAL ENVIRONMENT
- TRADE EUROPE-ASIA-INDIA-CHINA

ECONOMIC VECTOR
- AGRICULTURAL DEVELOPMENT
- HANDICRAFT

COMMERCIAL ENTERPRISE
- FINANCIAL SYSTEM
- SOCIAL WELFARE SCHEMES

POLITICAL VECTOR
- GREEK DEMOCRATIC SYSTEM
- ROMAN/PERSIAN LEGAL SYSTEM
- SLAVE SYSTEM
- ANTI-WELFARE

ANTI-USURY
- TEACHING OF RELIGIONS
- NON DEVP. OF LOAN SYSTEM

Socio-economic needs
1. Loan system
2. Welfare

INTL. ENVIRONMENT
- CONFLICTS GREECE ROMAN-PERSIA - CHINA

JUSTINIAN & OTHER CODES
1. Bottomry system
2. Rhodian - G.A. Law
3. Succession Law

VOLUNTARY SCHEMES
- ARTISANS GUILDS
- FUNERAL SOCIETY

GEN. AVG. PRACTICE
- ACTUARIAL SCHEME

MUTUAL INS. MIS.
- ACCD
INSURANCE DEVELOPMENT

PERIOD OF STAGNATION OF SOCIO-ECONOMIC SYSTEMS

TIME: 500 AD TO 11TH CENTURY
REGION: EUROPE, MIDDLE-EAST

TECHNOLOGY
ANTI-SCIENCE ATTITUDE OF RELIGIONS

STAGNATION OF AGRICULTURE HANDICRAFT SECTORS

COMMERCIAL ENTERPRISE FINANCIAL SYSTEM SOCIAL WELFARE SCHEMES

RELIGIOUS DOGMA AGAINST LOAN

SOCIO-ECONOMIC NEEDS
NO SPECIAL NEEDS MERE SURVIVAL

INTL. REL. TURMOIL RELIGIOUS CRUSADES CHRISTIAN X ISLAM

POLITICAL TURMOIL CONFLICTS GREEK LATIN, NORDIC TRIBES

INTL. REL. TURMOIL NOMADIC INVASIONS OF HONS. MOVE

FINANCIAL CONTINUATION OF EARLIER SYSTEMS
INS.DEV.P. NIL

SOCIAL DECLINE OF PROGRESSIVE SCHEMES
NITL
INSURANCE DEVELOPMENT

DEVELOPMENT OF MARINE INSURANCE POLICY

TIME: 12TH CENTURY TO 14TH CENTURY
CENTRES: ITALIAN - DUTCH...CITY CENTRES

TECHNOLOGY
ANTI-SCIENCE
RELIGIOUS DOGMA

TECHNOLOGY
EMERGENCE OF
SCIENCE ERA

POLITICAL
EMERGENCE OF
POLITICAL TURMOIL

ECONOMY
DEVP. OF
AGRICULTURAL
HANDICRAFT
SECTOR

POLITICAL
STABILITY WITH
PAPAL CONTROL

COMMERCIAL
ENTERPRISE
FINANCIAL SYSTEM
SOCIAL WELFARE
SCHEMES

ECONOMY
FLOW OF MONEY
AND GOODS

POLITICAL
EMERGENCE OF
CITY - STATES

ECONOMY
DEVELOPMENT OF
COMMERCIAL
CAPITALISM

SOCI-ECONOMIC NEEDS
COMMERCIAL
FINANCIAL SYSTEMS

POLITICAL
EMERGENCE OF
NATIONAL...STATES

1. CONTRACT OF
SALE
2. CREDIT SYSTEM
3. BANKING
INSTITUTION

1. LETTER OF CREDIT
2. MARINE INSURANCE
CONTRACT

SOCIO-CULTURAL
RENAISSANCE
DEMOCRATISATION
PROCESS STARTS

GUILD - WELFARE
SCHEMES & EVP.
INSURANCE DEVELOPMENT

1. STANDARDISATION OF MARINE INSURANCE PRACTICE
2. STATUTORY CODES FOR MARINE INSURANCE
3. DEVELOPMENT OF GUILD - SCHEMES

TIME: 15TH CENTURY - 16TH CENTURY
CENTRES OF DEV: SPAIN, HOLLAND, ITALY, BARCELONA, ANTWERP, FLORENCE

BEGINNING OF INDUSTRIAL SECTOR

TECHNOLOGY
SCIENTIFIC
ADVANCEMENT, PAPER
MARINER'S COMPASS,
TELESCOPE
SHIPS - MACHINES

NEW WORLD
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DYNAMIC ANTI-PAPAL MOVEMENTS

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Chapter - III

**HISTORICAL REVIEW OF GENERAL INSURANCE DEVELOPMENT**

2000 BC TO 1950 AD

**PARTS V-A to V B.1**


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V) Global Insurance Development in tri-centennial period - 17th to 19th Centuries of Commercial Capitalism, industrial revolution and colonial expansion under leadership of British hegemon - Development of Marine - Fire - Miscellaneous Accident insurance practice in conventional form.

A) MACRO ENVIRONMENT METAMORPHOSIS

As concluded in the Part III of this Chapter by the end of 16th Century, the Center of Political, Commercial and Financial power in Europe shifted from Spain to England. During the following three Centuries Western Civilisation underwent transformation from Alvin Toffler’s First Wave Agricultural Production norm into Second Wave norm representing Industrial Revolution. Corresponding change in the Commercial and Financial norm was from Agrarian Economy into capitalist one. The degree of transformation varied from the highest scale for Britain to the lowest in Russia.

England being the front-line state in this dynamic process of Micro Environment change acquired the
distinction of 19th Century leadership in ushering new developments in Global Financial Sector commencing the operation of Commercial Banking and Insurance institutions subject to increasing statutory control. Before proceeding to take historical review of General Insurance development during this tri-centennial period, it will be as per our adopted Research Methodology worthwhile to analyse factors which contributed to England's unique status of premier rank in successful achievement of this radical transformation of society.

Britain's Unique Status in the 19th Century World:

a) Political Stability - Evolution of British Parliamentary Democracy:

Western World then constituted of Europe and North America underwent during the period of three centuries following 1600 AD democratisation of their domestic political systems in diverse forms of constitutional Monarchy and Democratic Republic. It is interesting to note that during the same period these Western nations established for themselves on the continents of Asia, Africa and South America
Colonial Empires extinguishing for native population the very same values of Freedom and Democracy, which they had proclaimed as primary objectives of their own political restructuring. In this process of complex mix of opposite trends in global political restructuring Britain was exceptional in passing through this phase with relatively steady pace preserving at every juncture continuity with her past tradition.

England had her violent political revolution in 1648, 1¼ centuries earlier than historically great French Revolution, when King Charles was beheaded and Oliver Cromwell started his unique decade in British History as protector of commonwealth. However, by 1670 Britain was established as the model constitutional monarchy for Europe. Resilient character of British political regime was also seen in 1783 when after the loss of her First overseas colony in America with the recognition of independence of the newly established United States new bond of friendship binding England with USA was preserved in mutual interest. Whilst in the historical conflict with Napoleon's Republican France, monarchical Europe gave their leadership to Britain, British Parliamentary democracy was an ideal for the rising democrats in Europe. In the 19th Century, Europe went through substantial political
turmoil of political restructuring. United States of America had also to pass through traumatic four years of civil war.

During this period the mother of parliaments - British Parliament - also went through the process of reform. This change did come under the pressure of violent riots by common people after rejection of bills for Reform in 1831 but in comparison to the intensity and duration of political turmoil experienced by other European states, England did preserve political stability ensuring steady reform towards full democratisation of the system.

This factor of her political stability was vitally important for England to take lead in the new phases of human history of Industrial revolution and establishment of colonial empire. Moreover, continued political stability in post-1670 period had also enabled England to advance further her legal system evolved from traditional customs of trade, providing adequate legal infrastructure for controlling on sound basis, albeit through the inevitable process of trial and error, the development of her commercial and Financial, Industrial and shipping sectors in the new era of Macro-Environment transformation. The stormy political period arising from the bursting of South-Sea Bubble in the first decade of 18th century.
developed further process of statutory monitoring of British Financial and commercial enterprises operating otherwise in free private sector environment and by the end of 19th Century this task was fairly well accomplished. (Annexure 3.15)

b) Successful Industrial Revolution:

England secured distinction of leadership in ushering in 18th and 19th Centuries commencement of the new phase of Industrialisation in human civilisation. This new phase marked the break from the old Agricultural Civilisation, lasting in quantum-wise substantially developed but intrinsically unaltered production norm from 3000 BC to 18th Century, in its shift of the source of productive power from Man to Machine utilising external source of energy. Industrialisation emerged from the new source of heavy utilisation of coal and iron through the new techniques of their mining and casting developed through scientific progress of the past four centuries.

Radical transformation of centuries old production system did bring as its inevitable consequence initial phase of dire misery to the millions of men, women and children, uprooted from their settled life in agricultural and handicraft activities and
exposed to helpless exploitation by profit greedy New Capitalist Masters emerging from monied Commercial and Property owners class. It was remarkable that this Inhuman Aspect of Industrialisation generated swift protest from many socially conscious Intellectuals and Christian spirited Leaders of community supporting the cause of labour though majority of politicians were initially reluctant to restrict under laws operation of industry on the ground of Laissez Faire tradition of British Commercial Enterprise. In the relatively free democratic atmosphere of England Labour Movement got fast organised in Trade Unions and under their pressure supported by Liberal Leaders of Community, legislation was enacted in time through the well established agency of Parliament to ensure increasingly Safe Working Conditions and Reasonable Remuneration for Labour Class. Availability of outlet for expressing protest and timely legislative measures diffused from time to time labour crisis explosion in violent Revolution which would have retarded growth of British Industry, as was the case in other European states.

Moreover, newly established colonies of British Empire provided for British Industry a vital source for Low Cost commodity Imports and tied market for Export of High-Cost manufactured goods, generating thereby Substantial Profits, needed for building
capital in the initial growth stage. Some share of this Profit did contribute to the Increase of Wages and betterment of standard of living of British working class, softening thereby their resistance to Industrialisation.

Education of large working class, necessary for building a source of trained manpower resulted in raising the Socio-Cultural Standard of labour making it impossible to manage industry through brutal exploitation without co-operation from employees.

By the end of 19th Century, as compared to other industrialised European states, British Model for simultaneous operation of Private Sector Capitalist Industry, Organised Labour Trade Unions, Corporate Financial and Commercial Sector subject to Statutory Acts passed by democratic Parliament was well established to promote vigorous National Economic Growth, taking advantage of fast developing domestic Consumers' Market and Commercially profitable tied Colonial Markets.

c) Establishment of British Colonial Empire:

With domestic political stability and lack of contest from powerful European States owing to their involvement in domestic or regional political turmoil, Britain with her powerful naval and
Commercial fleet could promote unhindered her initially Commercial and finally Colonial interests in all parts of the globe. By the end of 19th Century British colonies of Australia, New Zealand and Canada developed into dominion states of British Empire. Colonies in Indian subcontinent, South east Asia, Caribbean Region, Africa and Middle East established through aggressive overseas extension of capitalism started socio-economic development after passing through initial painful phase of predatory enslavement. They were now integrated as a part of British Empire serving as a vital source for cheap imports and markets for high cost exports of Metropolitan Industry. Anti-colonial Nationalist Movements were as yet in Embryonic stage and colonies' political stability with slow but steady socio-economic growth was conductive to overseas growth of British Trade and Investment in the Colonial domain. (Annexure 3.16)

d) Vigorous Growth of British Capitalist Economy in 19th Century - Financial and Industrial Hegemon:

With her well organised domestic industry and availability of increasingly large size domestic and Colonial markets British Capitalist System had developed by mid-19th Century adequate potential for generating and sustaining vigorous national economic
growth irrespective of periodic adverse impact of disturbances in global scenario on her bilateral trade with Europe and United States of America.

By 1860 Britain's share in global industrial output was 20% inspite of technological advance of other states. Britain with 2% of world population controlled 45% of global industrial potential, 20% of world commerce, 40% of world trade in manufactured goods and 33% of global Merchant Fleet, giving her International status of Financial Hegemon. (Annexure 3.17/A-B)

For supporting this vigorous growth of British Capitalist Enterprise at its zenith in 19th Century, adequate Commercial and Financial service sector was vital. From this need emerged newly organised sector of British Banking and Insurance. As stated earlier, Commercial Laws of Britain emerging from 13th Century onwards, from the customs of trade brought in by Hansetic and Lombard traders had developed through the continued series of case histories. 18th and 19th Centuries advanced this development further by codification of Company Law for Commercial Sector and Special Acts for controlling operations of newly developed Financial Sector of Banks and Insurance companies. Full development of British Capitalist system in domestic and overseas sectors turned the City of London into
the Cynosure of global Financial Enterprise of which General Insurance Industry was one micro-constituent unit. Relative Macro Environment profiles of Britain and other global sectors are given in Annexure 3.18/A-B.

e) Generator of Revolutionary Scientific and Economic Thought:

Simultaneously with developing as the center of Political-Economic and Industrial power in 19th Century world, England also made such a vital contribution to development of Scientific Socio-Economic thought in 17th - 19th Century period that it was universally acclaimed as harbinger of the new Intellectual Revolution.

i) Scientific Revolution:

In the field of Scientific Thought Fundamental Contribution came from two treatises - 'Principia Mathematica' written by Newton in 1670 and 'Origin of Species' written by Darwin in 1859.

The spirit of science unlocking the mystery of universe took a major triumphant step with
'Principia' and thereafter this process of human conquest of universe has continued unhindered.

If Newton's 'Principia' revolutionised human thought in the domain of Mathematics - Physics, Darwin's 'Origin of Species' inaugurated new epoch changing socio-cultural outlook of human society.

Industrial Revolution in which Britain led human civilisation was the off-shoot of radical change brought by Newtonian and Darwinian contribution in Human Approach to the study of Nature's Riddle.

ii) Revolution in Economic Thought:

In the sector of Economic Thought Revolutionary Contribution came from two treatises published from London, 'Wealth of Nations' written and published by Adam Smith in 1776 and 'Das Capital' written by Marx and published by Engles and Successors in series of four volumes during 1865 - 1910.

Adam Smith's theory of specialisation of Labour Sets the objective for the new era of Capitalism of evolving through the working of Market Forces, pace of production and distribution of goods, to satisfy society's wants through the voluntary merger of individual self-interest and collective prosperity.
Adam Smith was not an apologist of the vested interests of up and coming bourgeoisie of 18th Century capitalism but was a visionary of Promotion of Wealth of the entire Nation and World through democratic and radical distribution of wealth.

Karl Marx revolutionised humanistic aspirations of early Christian and Socialist thinkers by analysing scientifically contradictory social factors emerging from change in Capitalist Society's organisational and technological production norm from agro-based handicraft to industrial, triggering the process of revolutionary birth of Socialism from the womb of Capitalism.

Free interaction of these two basic Economic ideologies in relatively free democratic environment of Britain led to evolution of her established socio-economic-political model, to stabilise British Macro-Environment ensuring socio-economic growth in the new era of Democracy, Industrialisation, Capitalism and Colonialism and set a Model not only for other Western Nations but also for their Colonial subjects.
B.1) DEVELOPMENT OF GENERAL INSURANCE INDUSTRY DURING THE DYNAMIC TRI-CENTENNIAL PERIOD 1701 - 1900

Having taken the review of Global Macro-environment transformation during the period of three centuries following the 16th one, it will be now my endeavour to trace transformation of Global General Insurance Industry as the offspring of economic-industrial, socio-political changes. From the analysis of various Macro Factors, it was shown that London had earned in 19th Century the status of Cynosure of global Financial Operation. It is therefore logical to see whether it also became in 19th Century the cynosure of global Insurance activity. If as per my hypothesis Insurance business develops simultaneously in all parts of the world as the product of Macro Environmental metamorphosis to fulfil society's socio-economic technological needs at the pace of change of each global sector then the degree of its development was likely to be highest in premier front-line Western World state of Britain and lowest in socio-economically backward colonial domains of Western Powers in Asia, Africa, South and Latin America.

For reference to the various developments of British Insurance Industry, I have made substantial use of comprehensive treatise 'A History of British Insurance' written by Harold E. Raynes in 1948.
1) **Emergence of British Marine Insurance Business**

a) **Origin of British Marine Insurance**

By the middle of the 16th Century, English mercantile class had with the Royal Support received from early Tudor times established paramount control on British overseas trade enterprise reducing drastically the role of Foreign Italian, German, Flemish merchants who controlled till then export of British wool and other commodities earning substantial profit. However, commercial customs of trade developed by these Foreign Merchants during the period 12th - 15th centuries continued as the basis of British Commercial Practice. Marine insurance practice developed by Lombard Street operation of Italians in accordance with the practice developed in 14th Century Italy was adopted as the standard custom of trade for deciding disputes of Freight and damaged Cargo claims in Admiralty Court in 15th Century. (Annexure 3.19)

By mid-16th Century, Marine insurance policy records of British commercial transactions are available with original text of policies in Italian and contemporary translation in English. It is obvious from these historical records that in their case the customs of
merchants in London and Antwerp were as defined and binding as the statutory regulations were applicable for transactions in Mediterranean cities.

With the development of British overseas trade, the importance of London as an underwriting centre increased and substantial share in insuring overseas trading risks, was taken by English underwriters under the Foreign policies issued in the form as per foreign norms set under Antwerp ordinance, 1563 of Spanish Rulers. English policies followed the norm developed by foreign traders of Lombard Street except in one peculiar exception of not giving the rate of premium, owing to possible practice of paying different rates to various underwriters participating in the risk. The English contracts were short in form without elaborate clauses depending upon their interpretation by the customs of Lombard Street. Underwriters were themselves merchants who required at other times cover for their ship or goods from their mercantile neighbours.
b) Establishment of Chamber of Assurance - Marine

Insurance Act 1601 - 1662:

With the dawn of the age of discovery and the new world opening up in the West, ships and overseas trade acquired a new glamour and mercantile outlook influenced policies and legislations of all states. After historical defeat of Spanish Armada in 1558. Elizabethan Administration, through the Tudor established organ of Privy-Council took serious interest in all matters pertaining to expansion of Mercantile Enterprise. Marine Insurance Practice came under its purview and became subject to its regulation.

Administration and Legal infrastructure for control of fast developing British Marine Insurance Market was established in the form of Chamber of Assurance in Royal Exchange on the lines followed for Antwerp Bourse. Most important result from the creation of the Chamber of Assurance was the Standardisation of Marine Policy Wording and Clauses in the form which in its vital essence persisted upto 1982. (Annexure 3.20) The other vital impact of Chamber of Assurance was shift of large number of Marine Insurance litigation disputes from Admiralty Court to Arbitration Processing by the
expert Commissioners at Chamber, whose decisions were to be set down in writing by the Registrar of Assurance.

After about 25 years of existence the petition from the city Merchants registering complaints about the non-execution by parties of Commission's decisions led in 1601 to the passing of An Act touching Policies of Assurance used among Merchants' - said to be drafted by Francis Bacon. (Annexure 3.21)

In 1662, a further Act was passed increasing the power of the Commissioners and reducing their number required at their meeting to form a quorum. With the fast expansion of British overseas trade legal disputes pertaining to overseas trade transactions, became complex and under Act of 1662 gave further powers of examining witnesses beyond the seas and to proceed to execution against party's goods as well as his person.

With the Standardisation of Marine Policy Wording and Clauses by the Commissioner's Office in the Royal Exchange and establishment under Act of 1601 of Legal Court to deal with Marine
Insurance Claims adequately competent Administrative and Legal Infrastructure was established to promote expeditious development of Marine Insurance in London Market in the era of vigorous expansion of British overseas trade.

c) **Inception of Liberal British Statutory Control of insurance:**

From the above review it can be concluded that Marine Insurance practice emerged in Britain from the commercial practice initiated earlier in 14th and 15th Centuries by Italian and Netherlands traders and continued later on by British merchants. Fast pace of its development was undoubtedly contributed substantially by the Royal Support received from early Tudor times but entrepreneurship was of individual traders developing customs of trade through exchange of view and experience. As directed in the very preamble of Memorandum of its Constitution the Commission of Controllers was to deal with all cases in brief and summary course without formal pleading and proceedings and in accordance with the established customs of trade. Registrar’s control of business was principally for protection of policyholder’s interests from the fraudulent distortions of
commercial Contract of Insurance. Right from this early phase of modern Insurance History, significant difference between British Controllers of Insurance and their European counterparts can be seen in their respectively liberal and stringent attitude towards imposing statutory restrictions on operation of Insurance Business. Maximum freedom of operation through flexibility of controls developed as a unique feature of British statutory control of Insurance right from its initial historical phase.

d) Commencement of Brokers Role in British Insurance Market:

Broker’s role started in British Commercial Sector as the Middlemen promoting contact between a buyer and a seller entering in Commercial contract. They extended their role further through development of expertise in advising their clients on making Insurance Arrangements covering subject matter of commercial contract. They assisted in fixing terms of insurance and drafted the policy.

The system of Broker’s Accounts with the various traders participating as underwriters...
of a common risk was the origin of modern practice of Brokers slip and accounts of transaction spread over wide range of domestic and international underwriters. With the closure of Registrar of Assurance office by the end of the 17th Century, the Brokers System developed wider scale of operation and therefrom emerged the historical British Marine Institution of Lloyds.

e) Foundation of Chartered Joint Stock Companies in British Insurance Market:

Steady development of British Insurance Industry as the extensively spread network of Individual British trader underwriters suffered a serious jolt in 1693 when occurred the first major Marine Insurance Catastrophe arising from Anglo-French war incidence of the scuttling of Smyrna Fleet by French Navy in the Bay of Lagos. Individual trader Marine Underwriters were unable to meet losses underwritten by them as per then standard practice of covering war risks under Marine Policy and would have suffered bankruptcy but for partial relief from the scheme passed by House of Commons as a special Bill to meet emergency faced by
merchant underwriters and their creditor clients owing to consequence of war.

The catastrophe did result in some loss of prestige for the LONDON Market which had acquired leader's position in Europe's international Marine Market, owing to excellent financial reputation of its leading Merchant Underwriters and their flexibility in underwriting Marine Hull and Cargo Risks at rates and terms relatively more economic and wider in scope than those available in principal European Marine Insurance Centers. Smyrna Catastrophe triggered in Britain a move towards formation of joint-stock companies for underwriting Marine Business, as proposed in 1629 by Underwriters in Holland, but not implemented till then in any country. (Annexure 3.22)

The debate about the relative security of policyholder with the joint-stock Insurance Company with limited liability of shareholders as compared to financially sound Individual underwriter with unlimited liability had not picked up momentum earlier as it was felt then that the policy of Marine Insurance was a
contract of limited duration and limited liability covering a single voyage of single ship and hence guarantee from a sole trader or a group of them with adequate financial capacity was adequate for ensuring policyholder’s security. This factor of credibility about Individual Underwriters of repute continued even in the 19th Century after the era of Joint-Stock Companies was inaugurated.

After passing through the various phases of National debate, expressing stiff resistance by the powerful lobby of Individual Underwriters and Brokers, Royal consent was given to the bill authorising two projects of incorporation of ROYAL EXCHANGE Corporation and London Assurance, with Joint-stock of each Corporation of £1,500,000. With further stipulation the bill gave Monopoly of operation to only these two Corporations by prohibiting formation of any new Corporation in future and declaring as illegal insurance activity by any other corporate body. Monopoly given to Royal Exchange and London Assurance in consideration of their guarantee of payment of £300,000 to Royal treasury was highly criticised by
advocates of Free Enterprise in emerging Capitalist Commercial Class.

Both companies thus started with inadequate financial Capital after these payments reduced by 50% under Financial crisis of South Sea bubble burst and under heavy impact of unfortunate major claims outgo in initial phase, passed through critical period for their survival. However, with the passage of decades of trade prosperity for Britain, their business developed satisfactorily, covering 10% share of London Market by the end of 18th Century, the balance being written by individual brokers, predominantly represented by Lloyds. Foundation was thus laid in the 18th Century of the Company Sector of London Insurance Market.

f) Emergence of Lloyds - A Unique British Contribution to Global Insurance Industry:

Establishment of the Monopoly of Royal Exchange and London Assurance in the Company Sector of British Insurance Market provided to Individual Broker's Sector, a Century of opportunity to organise themselves into their leading forum of Lloyds. With the financial and organisational problems of Royal Exchange and London Assurance
in their formative period and lack of competition from any other source, Individual Brokers Sector and their leading group of Lloyds controlled 90% of London Market premium developed upto the estimated level of £1 million by the end of 18th Century.

i) Establishment of Lloyds:

The collective need of the Brokers' Market after virtual closure of office of Assurance for the establishment of Infrastructure of Centralised location to provide Individual operators an opportunity to get together on regular basis for Exchange of Business offers and discussion of diverse problems pertaining thereto, monitoring various developments on and off shores as well as processing of administration of business and settlement of Marine Claims and recoveries arising therefrom. If Marine Underwriting had developed from inception days of Hammurabi's Bottomry Contract 2000 BC, as product of Individual Enterprise, Centralised Infrastructure for servicing business of Community of Individual Brokers also emerged in 17th Century as the product of individual entrepreneurship of Edward Lloyd.
ii) Establishment of New Lloyds / Register of Shipping:

Lloyds Coffee House was under Individual Proprietorship but underwriting of business was increasingly under the control of the Group of Leading Professional Underwriters who formed the Nucleus of Lloyds. Practice of maintenance of Register of Shipping was started in 1760 by "A Society of Underwriters of Lloyds Coffee House" and rules made it an offense subject to fines and penalty if the member of the Society allowed use or reference of this book by outsiders.

Professionalisation of Lloyds operation led to the differences between the proprietors of old Lloyds Coffee House and their professional underwriter members who shifted to a New Lloyds Coffee House which finally started operation from Royal Exchange Rooms in 1771.

Further development of London Marine Insurance Market in the 19th Century was to follow major Restructuring of Insurance Company Sector as a sequel to the development of Joint Stock Companies in British Commercial and Financial Sector.
g) Restructuring of British marine Insurance

**Market in 19th Century:**

**Development of British Insurance Market in 18th Century**

i) **Historical Development of British Commercial sector:**

Commercial Capitalism of 18th Century evolved out of the following historical stages:

a) **14th - 15th Century:**

Granting of Charters in 14th Century to various Craft-Guilds giving them authority to regulate their trade practice.

b) **16th Century:**

Granting of Royal Charters to Association of Merchants for profitable Trading operation in specific activity and Global Market sectors. Charter to East India Company in 1600 AD by Queen Elizabeth.
c) **17th Century:**

(i) Acceptance of principle of Joint Stock Company under renewal of East India Company's Charter in 1659 by Cromwell.

(ii) Linkage of Monopoly for trade with payments to Crown-Treasury.

d) **17th - 18th Centuries:**


(ii) Formation of Joint Stock Companies without Charter but with constitution under deed of settlement.

(iii) financial boom in formation of Companies to support Industrial Projects and Commercial Ventures.

(iv) Financial Collapse of South Sea Bubble - 1719 - 20 AD.

(v) Bubble Act of 1720.
As concluded in the earlier part dealing with the granting of Monopoly for Marine Insurance to two Chartered Companies under the Bubble Act of 1720 it resulted in the concentration of 90% of Market Marine Business in the hands of Lloyds group leaving only 10% balance with the two companies - Royal Exchange and London Assurance. There was public criticism of the failure of Chartered Companies to develop a meaningful Market share inspite of Monopoly under the Charter.

ii) Formation of Fire Insurance Company Sector

1680 - 1800

During the period 1680 AD to 1790 AD, nine Fire Insurance Companies were established out of which only one was incorporated and the rest were constituted either under the deeds of settlement or as per detailed publicised agreements of co-partnership. Functioning of these companies in the immediate post-Bubble Act (1720) - period was legally precarious but by mid-18th Century the panic had subsided. Taking into consideration satisfactory development of Fire companies, the Government attitude towards formation of new Fire Companies became more liberal and the prohibitive provisions of 1720 Act were not
tested for legality of existing companies. Under the new Act of 1782, unincorporated joint stock companies were given specific recognition.

Opening of British Marine Insurance Market in the 19th Century

i) Attack on Marine Insurance Monopoly of Chartered Companies:

Attack on the Marine Insurance Monopoly given to Royal Exchange and London Assurance under Bubble Act, 1720 leading as its consequence to predominant concentration of the Market in the hands of Lloyds was commenced by the newly developing sector of Fire Insurance Companies.

In 1810, whilst resubmitting their application this attack on Monopoly of two Chartered Companies was renewed by Globe. They were indirectly supported in this attempt through a petition submitted by the leading merchants of City of London, jealous of the growing wealth of Lloyd's underwriters, to form a new company with a nominal capital of £ 5,000,000 to write Insurance of Ships and Merchandise. The petition of the Globe stated that since 1720,
the shipping turnover of British ports had quintupled in value as per official estimates and during the period of last five year, export figures had also quintupled. It was pointed out that the New Insurance Companies formed in British East Indies, America, Hamburg and elsewhere were taking away large part of marine Insurance business linked with British trade and it was therefore advisable to provide additional domestic Insurance capacity by establishment of one or more new companies to write Marine Business.

The proposal to appoint the Select Committee to consider the petitions of Globe and the new £5,000,000 company was fiercely resisted by Lloyd’s on the ground that means of Lloyds both in point of extent and solidity were completely adequate to meet every possible occasion - They pointed out that the subscribers of Lloyds had increased from 79 in 1771 to 15000 in 1810 and cautioned that “those who commence underwriting without the necessary caution generally soon find their error in their own ruin and the injury to those with whom they are connected”.

On the contrary, the spokesmen of Free Trade Lobby, in support of the appointment of select Committee, recommended that “the New Company
should be incorporated, to throw Marine business open generally."

ii) **Repeal of Monopoly in Marine Insurance**

**Market**

The Select Committee in their report concluded as follows: (Annexure 3.23)

a) Marine Insurance should have all the security which can be found for it, whether it exists in Chartered Corporation, other companies or through individuals.

b) Exclusive privilege of Marine Insurance of the two Chartered Companies should be repealed subject to retention of their power and privileges under Charter in all other aspects.

c) Two petitions for new companies should be resubmitted for the consideration of House under Bills....

The report quoted Adam Smith on the advantage of Joint-Stock Insurance Companies constituted of shareholders who would also place their
Insurance with the company. The committee report concluded, "It was not the intention of your committee to recommend the enforcement of any particular system of law but on the contrary to release this branch of business from the restraints now existing and to leave it to shape itself in conformity with the true interests of the public".

The effect of the new Business Environment of Laissez-Faire is very marked in this report. However, the report was in no sense a vindictive attack on the principle of Individual Underwriting though it did criticise high remuneration of brokers at 25% of premium and their discreet avoidance of Large and More Perilous Risks. Report's vital contribution was its emphasis on the adverse impact of Uneconomic Insurance on the one hand, producing increase of prices for imports of consumer goods and on the other, increase in the cost of import of raw material contributing to escalation of the cost of exported manufactured goods damaging their prospects in competitive foreign markets.

British Marine Insurance Market was thus opened from 1824 to all sectors of Insurance Industry comprising: -
1) Chartered Corporations
2) Incorporated Joint stock companies
3) Joint stock partnerships under deeds of settlement
4) Individual brokers

befitting the era of Free Market in British Economic History.

h) 19th Century Structural and operational Transformation of British Marine Insurance Industry

1) Widening of Company Sector of Marine Insurance Market

a) Developments during the Period 1824 - 1844:

Immediately after the repeal of Monopoly in 1824, two Marine Insurance Companies, Alliance Marine Insurance Company and Indemnity Mutual Marine Insurance Company were established with authorised capital of £ 5,000,000 and paid up capital of £ 250,000. Inspite of their initial lean period both companies were by 1840, well established and finding that they were
adequately capitalised reduced their authorised capital to £1,000,000.

However, the history of a large number of small Marine Companies formed in London and Liverpool markets after the repeal of monopoly in 1824 was far from smooth. Large number of them disappeared through Financial Bankruptcies and their only historical contribution to London Market was the injection of intensive competition for business under pressure of which Marine premium rates declined to the unremmunerative level, causing bankruptcies of companies through heavy underwriting losses.

b) Developments 1844 - 1880:

Further period of speculative formation of a large number of small size Marine Insurance Companies in London and Liverpool followed 1844 Act of Joint Stock Companies. Most of them repeated history of failure of their earlier predecessors. However, with the passage of decades in the second half of the 19th Century, which witnessed flourishing growth of British Commerce, the Company Sector of British Marine Insurance Market was reasonably well established with five pre-1844 companies. (Royal Exchange, London Assurance, Indemnity,
Alliance and Marine) and 13 post-1844 companies. (Annexure 3.24)

In second half of the 19th Century, under the pressure of competition amidst new and old companies as well as Lloyds brokers premium rates declined steeply.

Total Marine Premium of 13 post-1844 registered companies which as per statistical estimate given in Danson’s third review of “Underwriting in England” published in 1880 constituted 40% of the market was recorded for 1873 - 79 as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Prem. £</th>
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</thead>
<tbody>
<tr>
<td>1873</td>
<td>2,298,313</td>
</tr>
<tr>
<td>1874</td>
<td>2,048,148</td>
</tr>
<tr>
<td>1875</td>
<td>1,743,831</td>
</tr>
<tr>
<td>1876</td>
<td>1,636,698</td>
</tr>
<tr>
<td>1877</td>
<td>1,525,068</td>
</tr>
<tr>
<td>1878</td>
<td>1,323,906</td>
</tr>
<tr>
<td>1879</td>
<td>1,323,906</td>
</tr>
</tbody>
</table>

Underwriting loss of these companies for the period 1872 - 73 - 74 amounted to £ 483,229.
The continuous premium fall shown in this market statistics was as per the study of its compiler Mr. Danson due to following reasons:

1) Reduction in the basic premium rate due to change of Transport Mode from Sailing Vessels to Steamers.

2) Reduction in Insured Amounts at risk due to Trade Recession arising from global conditions of turmoil.

3) Decline of Premium Rates under the pressure of Intensive Competition.

c) Sectoral Composition of London Marine Markets in 1880

From the published business figures of companies in earlier quoted statistics, it can be estimated that total London Market Marine Premium in the last decade of 19th Century was approximately £ 5,000,000 with likely split-up in Market Sectors as follows:
Company Sector:

1) Pre-1844 formed five companies 20%

2) Post-1844 - 13 companies 40%

3) Lloyds Markets 35%

4) Other Brokers Market
   from Liverpool and London 05%

It will be thus seen from the above Market data that 90% concentration of business in Lloyds Market as at the end of 18th Century was drastically decimated by the end of 19th Century with the opening of British Marine Market in 1824 and subsequent establishment of 16 New Marine Insurance Companies.

d) Establishment of Technical Organisation of Company Sector:

London Marine Insurance companies organised themselves in 1884 into an organisation - The Institute of London Underwriters for the purpose of promotion of interests of underwriters through joint efforts of all
members in standardisation of policy wordings, clauses, administrative practice, though Members' freedom of fixing premium rates was not restrained. Technical Committees of the Institute were formed with the inclusion of Lloyds underwriters to decide on matters affecting the whole market. The Marine Insurance clauses drafted by the Technical and Clauses Committee of the Institute are widely used from 19th Century onwards in all territorial sectors of Global Marine Insurance market.

2) Changes in Lloyds Organisation in Post-1824 period

a) New Rules and Regulations for Membership of Lloyds

Restructuring of Lloyds in 19th century was inevitable with the impact of the repeal in 1824 of Monopoly of Marine Insurance business given in 1720 to two Chartered Companies and Individual brokers. But the process in this direction started arising from the internal management disputes.
As per the recommendations of the Committee:

i) The Eligibility of persons to become Subscriber of Lloyds was reserved to the Categories of Merchants, Bankers, Traders, Underwriters or Insurance Brokers, subject to election by ballot by the Committee. The subscription of the member was raised to £25 and annual sum of 4 guineas.

ii) The governing body was to be a committee of 12 which will look after all aspects of Administration, Trust of Funds and Communication of Information.

iii) Appointment of Agents to act for the benefit of underwriters.

b) Impact of Competition post-1824 period on Lloyds Marine Business:

As international trade increased in the post-1850 period, ship-owners incorporated and volume of business expanded and the demand for Marine Insurance increased substantially. During the same period, with the opening of the
market, the number of Marine Insurance companies had increased and Lloyds began to lose business under the pressure of competition. Excessive competition for business of uneconomic rates brought losses and financial failures not only for New companies but also for established Lloyds Members.

The solution to this problem for generation of adequate Financial capacity to develop Marine business and withstand pressure of competition was the formation of Syndicates at Lloyds to share Large Size Risks among several Individual Members. As late as 1891 as per report of Salvage Association a tramp steamer insured at Lloyds might claim a value of $15,000 spread over half a dozen of Lloyds names and non-Lloyds Insurance Companies. However, as the Dimensions of the Risks and volume of business expanded further it became necessary for Lloyds to get Additional Financial support to their policies from Individuals who were not Insurance Professionals but were prepared to invest their funds to extend financial support to the judgment of Insurance Professionals, leading to restructuring of Lloyds Member Organisation. (Annexure 3.25)
c) **Restructuring of Lloyds Membership:**

The exigencies of competition and expansion of business led to the reorganisation of members in three categories:

1) **Underwriting Members** - Membership with Right to accept risks on Lloyds Form and vote.

2) **Non-underwriting Members** - Privilege of Membership and vote.

3) **Annual subscribers** - Membership without vote.

The composition of total Membership in 1883 was:

- Underwriting members : 476
- Non-underwriting members : 150
- Annual subscribers : 589

With the above Restructuring of Lloyds, it continued to be a vitally important part of British Marine Market and continued its Influential Role in Global Marine Market.
Even though overall London Marine Market Share of Lloyds Market reduced from 90% to 35% by the end of 19th Century, it continued its traditional leader's status in London and Global Marine Sector.

Moreover, through the efforts of Mr. Cuthbert Heath Lloyds started in 1885 business in Non-Marine sector, which was to flourish in the 20th Century.


d) **Associations and Services Connected with Lloyds:**

i) **Information Service:**

*Lloyds List*: Publication of Lloyds List from 1734 established the Information Infrastructure of Lloyds which developed in the following centuries covering following documents:
1) Lloyds Shipping Index
2) Lloyds voyage record
3) Lloyds Loading List
4) Lloyds Law reports
5) Lloyds Maritime and Commercial Law Quarterly
6) Lloyds weekly Casualty reports
7) Lloyds Survey Handbook
8) Lloyds Maritime Atlas
9) Lloyds Calendar.

Lloyds has provided the vital source of Information Network to Marine International underwriters for the past 2 centuries and is likely to develop its role further in the present and coming centuries of continued advance of Information Technology. (Annexure 3.26)

ii) **The Salvage Association:**

The Salvage Association was formed in 1856 as the Non-profit making joint venture of Lloyds and Marine Insurance Companies to provide expert technical assistance regarding salvage and arrangement of surveys of damaged ships, cargoes and
other Maritime Property. The Role of Salvage Association will develop further in time to come for finding out solutions to the serious problems of Risk Management in Global Shipping and Marine Sector.

iii) Lloyds Agency Infrastructure:

When Lloyds was incorporated as Agency in 1871 it was given power to appoint agents of the Corporation in all ports of the world.

Lloyds Average and Recoveries department which acts for both Lloyds Underwriters and Insurance Companies in the collection of General Average Refund and deals with the distribution of such refunds and recoveries in connection with cargo claims was also established during this stage of restructuring of Lloyds organisation.

Lloyds organisation thus started by the end of 19th Century functioning in its fully developed new structural and operational form as the centre of British domestic and global Marine Insurance activity due to the coupling of its role.
as the source of sizable Financial Capacity of good security quality and source of technical services for operational infrastructure for Total Marine Shipping Operation in general and Marine Cargo & Hull Insurance in particular. (Annexure 3.27)

1) Development of British Marine Insurance Law:

1) Introduction:

18th and 19th Centuries laid the foundation for British Marine Insurance Act passed in 1906. In 1755 edition of NICHOLAS MAGEN's valuable work on Insurance under the caption of Marine Insurance Codes in Global Sectors, British Marine Insurance Code is conspicuous by absence as the codification of British Marine Act was to follow 1½ Centuries later.

2) Contribution of Lord Mansfield:

Owing to the lack of case Histories on record in the initial stage of transfer of Marine
Insurance Disputes to its jurisdiction Common Law Court could not give directive for processing Marine Insurance Claims. Valuable spadework in building the basic structure of British Marine Law was done by Lord Mansfield, eminent jurist and Justice of King’s Bench. He not only developed the basic, procedures of Legal Systems to simplify administration and expedite processing of claims but also evolved the typical basic British Approach to consider Marine Insurance disputes under Common Law.

i) Customs or Usage of the Trade must be the guiding principle for deciding whether Insurance is liable or not in every case.

ii) Every underwriter is presumed to be well conversant with the Practice of the Trade he insures.

iii) Principle of Utmost Good faith is the basis of contract ensuring prohibition of the signatories of the contract to profit from the innocence or misrepresentation of facts communicated to the party during negotiation or currency of contract.

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iv) The insured is entitled to only true value of cargo or freight or ship subject to maximum limit of sum insured irrespective of whether the contract is of agreed value or not. Principle of Indemnity was thus recognized.

v) The principle of Proximate Cause of loss to be within the terms of Insured perils.

Lord Mansfield in his decisions and directions took the greatest trouble to search and use the record of Customs both domestic and abroad and of ordinances and codes in use in other countries at that time. From these he extracted principles to apply to the cases before him. From this mix of International and Domestic Customs of Trade and Legal Practice, evolved the British Marine Insurance Act of 1906.

j) Emergence of British Marine Insurance from Macro Environment:

This part of the Chapter reviewing development of British Marine Insurance Industry from the Macro Environment changes from 13th Century to 19th Century can be summarised as follows:
<table>
<thead>
<tr>
<th>Time</th>
<th>Political Norm</th>
<th>Economic Norm</th>
<th>Technological -cal Norm</th>
<th>Marine Insurance Norm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>Political Norm</td>
<td>Economic Norm</td>
<td>Technological Norm</td>
<td>Marine Insurance Norm</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>17th - 18th Century</td>
<td>Colonial enterprise of British government through expanding Overseas operation of Chartered Companies</td>
<td>Charters for joint-stock companies in trading and non-trading sector linked with Monopoly of Market sector.</td>
<td>Commencement of Industrial Revolution in Mineral Industry and Woolen sector.</td>
<td>Formation of British Fire and Life Insurance companies in joint-stock, Mutuals of partnerships or under Municipal ownership.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Economic Crisis of South Sea Bubble</td>
<td></td>
<td>Formation of Lloyds as London Centralised Market of Brokers - other brokers syndicates in Liverpool.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16th Century Control of Insurance by special Chamber - Assurance discontinued by the end of 17th Century - Marine Insurance disputes within jurisdiction of Common Law courts.
<table>
<thead>
<tr>
<th>Time</th>
<th>Political Norm</th>
<th>Economic Norm</th>
<th>Technological Norm</th>
<th>Marine Insurance Norm</th>
</tr>
</thead>
<tbody>
<tr>
<td>19th Century</td>
<td>Democratisation of British political system</td>
<td>Free Economy Era</td>
<td>Industrial Revolution intensifies</td>
<td>Repeal of Monopoly of Marine Insurance Companies</td>
</tr>
<tr>
<td></td>
<td>Spread of Colonies</td>
<td>Financial, Commercial Revolution</td>
<td>Change in production norm</td>
<td>Establishment of Marine Insurance Co. Sector</td>
</tr>
<tr>
<td></td>
<td>Emergence of Britain as Political-Economic Industrial superpower</td>
<td>Vigorous business growth in domestic and international market - premier rank in global market</td>
<td>Development of Railways communication</td>
<td>Impact of Competition on closure of small size Insurance Companies and concentration of Market in Medium - Big size companies. Formation of Syndicates at Lloyds with minimum capital restrictions for individual members. Develop-ment of British Marine Insurance Law. Commencement of Non-Marine Insurance business by Lloyds.</td>
</tr>
</tbody>
</table>
Annexure 3.28 gives through application of Balloon Model pictorial representation of the above transformation of Macro Environment and Micro-Marine Insurance Business during the period 13th to 19th Century, giving justification to our Hypothesis, stating corelation between Macro Environment and Micro Insurance Sector norm of Society.
## DEVELOPMENT OF BRITISH COMMERCIAL LAW

<table>
<thead>
<tr>
<th>YEAR</th>
<th>LEGISLATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1300 - 1500 A.D.</td>
<td>Charters to craft guilds to give them powers to make bye-laws to regulate their trade and to bind not only their members but all who plied the trade of weavers, goldsmiths, mercers, fishmongers, vintners, merchant taylors...</td>
</tr>
<tr>
<td>1500 - 1700 A.D.</td>
<td>Charters to company of merchant adventures - East Land Company - Russia Company - Turkey Company - East India Company - Muscovy Company. Acceptance of principle of joint stock company for profit through trading operation</td>
</tr>
<tr>
<td>1700 - 1800 A.D.</td>
<td>Creation of joint stock companies for non-trading operation profit. Water supply, road-drainage construction banks - insurance - mineral mining payments to royal treasury for monopoly</td>
</tr>
<tr>
<td>1720</td>
<td>Bubble Act to prohibit marine insurance by other than approved chartered companies</td>
</tr>
<tr>
<td>1837</td>
<td>Chartered Companies Act</td>
</tr>
<tr>
<td>1852 - 1867</td>
<td>Companies Act</td>
</tr>
<tr>
<td>1900</td>
<td>Companies Act</td>
</tr>
</tbody>
</table>

(Source: Company Law - Topham - Ivamy)
COLONIAL EMPIRES - 18TH AND 19TH CENTURY

(Source: The Rise and Fall of the Great Powers - Paul Kennedy)
If the Punjabis and Annamese and Sioux and Bantu were the "losers" (to use Eric Hobsbawm's term) in this early-nineteenth-century expansion, the British were undoubtedly the "winners." They had already achieved a remarkable degree of global preeminence by 1815, thanks to their adroit combination of naval mastery, financial credit, commercial expertise, and alliance diplomacy. What the Industrial Revolution did was to enhance the position of a country already made supremely successful in the preindustrial, merchantilist struggles of the eighteenth century, and then to transform it into a different sort of power. IF (to repeat) the pace of change was gradual rather than revolutionary, the results were nonetheless highly impressive. Between 1760 and 1830, the United Kingdom was responsible for around "two-thirds of Europe's industrial growth of output, and its share of world manufacturing production leaped from 1.9 to 9.5 percent; in the next thirty years, British industrial expansion pushed that figure to 19.9 percent, despite the spread of the new technology to other countries in the West. Around 1860, which was probably when the country reached its zenith in relative terms, the United Kingdom produced 53 percent of the world's iron and 50 percent of its coal and lignite, and consumed just under half of the raw cotton output of the globe. "With 2 percent of the world's population and 10 percent of Europe's, the United Kingdom would seem to have had a capacity in modern industries equal to 40-45 percent of the world's potential and 55-60 percent of that in Europe." Its energy consumption from modern sources (coal, lignite, oil) in 1860 was five times that of either the United States or Prussia/Germany, six times that of France, and 155 times that of Russia! It alone was responsible for one-fifth of the world's commerce, but for two-fifths of the trade in manufactured goods. Over one-third of the world's merchant marine flew under the British flag, and that share was steadily increasing.

(Source: The Rise and Fall of the Great Powers - Paul Kennedy)
### Relative Shares of World Manufacturing Output 1750 - 1900

<table>
<thead>
<tr>
<th>Year</th>
<th>United Kingdom</th>
<th>Habsburg Empire</th>
<th>France</th>
<th>German States/Germany</th>
<th>Italian States/Italy</th>
<th>Russia</th>
<th>United States</th>
<th>Japan</th>
<th>Third World</th>
<th>China</th>
<th>India/Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1700</td>
<td>1.9</td>
<td>2.9</td>
<td>4.0</td>
<td>2.9</td>
<td>2.4</td>
<td>5.0</td>
<td>0.1</td>
<td>3.8</td>
<td>73.0</td>
<td>32.8</td>
<td>24.5</td>
</tr>
<tr>
<td>1800</td>
<td>4.3</td>
<td>3.2</td>
<td>4.2</td>
<td>3.5</td>
<td>2.5</td>
<td>5.6</td>
<td>0.8</td>
<td>3.5</td>
<td>67.7</td>
<td>33.3</td>
<td>19.7</td>
</tr>
<tr>
<td>1830</td>
<td>9.5</td>
<td>3.2</td>
<td>5.2</td>
<td>3.5</td>
<td>2.3</td>
<td>5.6</td>
<td>2.4</td>
<td>2.8</td>
<td>60.5</td>
<td>29.8</td>
<td>17.6</td>
</tr>
<tr>
<td>1860</td>
<td>19.9</td>
<td>4.2</td>
<td>7.9</td>
<td>4.9</td>
<td>2.5</td>
<td>7.0</td>
<td>2.4</td>
<td>2.6</td>
<td>36.6</td>
<td>19.7</td>
<td>8.6</td>
</tr>
<tr>
<td>1880</td>
<td>22.9</td>
<td>4.4</td>
<td>7.8</td>
<td>8.5</td>
<td>2.5</td>
<td>7.6</td>
<td>2.4</td>
<td>2.4</td>
<td>20.9</td>
<td>12.5</td>
<td>8.6</td>
</tr>
<tr>
<td>1900</td>
<td>18.5</td>
<td>4.7</td>
<td>6.8</td>
<td>13.2</td>
<td>2.5</td>
<td>8.8</td>
<td>2.4</td>
<td>2.4</td>
<td>11.0</td>
<td>6.2</td>
<td>1.7</td>
</tr>
</tbody>
</table>

### Per Capita Levels of Industrialization 1750 - 1900

(Relative to U.K. in 1900 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>United Kingdom</th>
<th>Habsburg Empire</th>
<th>France</th>
<th>German States/Germany</th>
<th>Italian States/Italy</th>
<th>Russia</th>
<th>United States</th>
<th>Japan</th>
<th>Third World</th>
<th>China</th>
<th>India/Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1750</td>
<td>8</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>6</td>
<td>4</td>
<td>7</td>
<td>4</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>1800</td>
<td>16</td>
<td>16</td>
<td>12</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>21</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>1830</td>
<td>16</td>
<td>25</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>8</td>
<td>10</td>
<td>7</td>
<td>38</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>1860</td>
<td>24</td>
<td>64</td>
<td>28</td>
<td>25</td>
<td>12</td>
<td>15</td>
<td>10</td>
<td>7</td>
<td>38</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>1880</td>
<td>24</td>
<td>87 [100]</td>
<td>39</td>
<td>52</td>
<td>17</td>
<td>15</td>
<td>10</td>
<td>7</td>
<td>69</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>1900</td>
<td>35</td>
<td></td>
<td>39</td>
<td>52</td>
<td>17</td>
<td>15</td>
<td>10</td>
<td>7</td>
<td>69</td>
<td>12</td>
<td>6</td>
</tr>
</tbody>
</table>

(Source: The Rise and Fall of the Great Powers, Paul Kennedy)
A) GREAT BRITAIN

**AGRICULTURAL ECONOMY**

**INDUSTRIAL ECONOMIC GROWTH**

**FINANCIAL ECONOMIC GROWTH**

**FINANCIAL & COMMERCIAL INFRASTRUCTURE AND CONTROL**

**COMMERCIAL FINANCIAL SOCIAL WELFARE ENTERPRISE**

- **VIGOROUS SCIENTIFIC PROGRESS**
- **VIGOROUS INDUSTRIAL PROGRESS**
- **STABILIZATION OF INDUSTRIAL SOCIETY**
- **POLITICAL STABILITY, STABILIZATION OF PARLIAMENTARY DEMOCRACY**
- **COLONIAL EXPANSION STABILIZATION OF CONTROL**

**DEVELOPMENT AS SUPREME INDUSTRIAL - FINANCIAL - COLONIAL POWER WITH DOMESTIC POLITICAL STABILITY AND SOCIAL WELFARE PROGRESS**

B) COLONIES OF BRITISH EMPIRE

**AGRICULTURAL PROGRESS**

**INDUSTRIAL PROGRESS**

**SCIENTIFIC PROGRESS**

**HANDICRAFT INDUSTRY DECLINE**

**FINANCIAL BANKRUPTCY PAUPERIZATION**

**COMMERCIAL FINANCIAL SOCIAL ENTERPRISE**

- **INTENSIFICATION OF RURALISATION OF SOCIETY**
- **SUPPRESSION OF RESISTANCE - TURMOIL**
- **COLONIAL REGIME**

**POLITICAL ECONOMIC SOCIAL DECLINE**
C) **EUROPE**

- **Impressive Scientific Progress**
- **Slow Industrial Progress**
- **Steady Agricultural Economy**
- **Slow Industrial Economic Growth**
- **Slow Financial Economic Growth**

**Commercial Financial Social Enterprise**

- **Industrialization**
- **Labour Resistance**
- **Political Resistance**
- **Political Turmoil**
- **Colonial Expansion**
- **Competition from Other Powers**

**Slow Pace of Socio-Economic Progress and Colonial Expansion**

**Domestic Political Turmoil - Labour Unrest Continues**

D) **UNITED STATES OF AMERICA**

- **Vigorous Scientific Progress**
- **Vigorous Industrial Growth**
- **Vigorous Agricultural Growth**
- **Farms**
- **South Plant**
- **Impact of Civil War**

**Commercial Financial Social Enterprise**

- **Establishment of Democracy**
- **Stable Federal State**
- **Impact of Civil War**
- **Labour Unrest**
- **Enterprising Individual Emp.**

**Political Economic Social Growth Continues in Post-Civil War Period in Spite of Adverse Impact - Growth in Isolation from Global - Involved**
SHIFT OF EXPORT TRADE TO ENGLISH TRADERS

(13TH CENTURY TO 16TH CENTURY)

As the English learned the business of commerce, it was not unnatural that they should look with a jealous eye on the foreign merchants in their midst who made the profits on exporting English wool and other commodities, and copying their rivals of the Hanse and the Flemish merchants, they associated themselves for gaining a foothold in foreign markets. In 1296 the Duke of Brabant conferred privileges of residence and self-government on English and other merchants at Antwerp similar to those enjoyed by the merchants of the Hanse in the Steelyard in London. The English merchants availed themselves of their privilege and established themselves there, exporting from England wool, skins, lead, and tin, which had been the exports undertaken by the Hanse merchants. They also exported another commodity - cloth of English manufacture. It was the beginning of the Company of Merchant Adventures: they were called into being not by a Charter from the English Crown - though such followed - but by a grant of rights by a foreign prince. Effective competition by an organised English body of merchants was directed against the hold of the foreign merchant on the English export market. “At the end of the thirteenth century, alien merchants, whether Germans, Italians , or Flemings, had larger capital, better ships, better methods of insurance.” The fight between the two organizations might have lasted much longer had it not suited the Tudor monarchs to create a monopoly of trade through certain channels in the hands of the Merchant Adventures so that they might more effectively tax exports. The expanding trade from England had permitted the Hanse merchants at the beginning of the reign of Henry VIII to export annually 20,000 pieces of English cloth. In 1549 it had increased to 44,000 pieces. The withdrawal therefore of the licence to the Hanse merchants was a drastic step, yet it was carried out in 1552 and 1553 during the short reign of Edward VI and on the advice of Thomas Gresham.

(Source: A History of British Insurance
— M. E. Raven)
<table>
<thead>
<tr>
<th>POLICY OF 2ND SEPTEMBER, 1637, AS DRAWN AT THE OFFICE OF ASSURANCE</th>
<th>LLOYD'S MARINE POLICY IN USE TO-DAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. In the name of God, Amen, Timothy Allsop of St. Sebastians merchant as well in his own name as for and in the name and names of all and every other person or persons to whom the same doth may or shall appertain in part or in all</td>
<td>Be it known that..... and/or as agent as well as for and in the name and names of all and every person or persons to whom the same doth may or shall appertain in part or in all</td>
</tr>
<tr>
<td>2. doth make assurance and causeth himself and them and every of them to be assured</td>
<td>doth make assurance and cause himself and them and every of them to be insured</td>
</tr>
<tr>
<td>3. lost or not lost</td>
<td>lost or not lost</td>
</tr>
<tr>
<td>4. from Newhaven in France to Sebastians</td>
<td>at and from .....</td>
</tr>
<tr>
<td>5. upon any kind of goods and merchandises laden or to be laden aboard the good ship called the Thomas of Leith 140 tons or thereabouts</td>
<td>upon any kind of goods and merchandises and also upon the body tackle apparel and ordnance munition artillery boat and other furniture of and in the good ship or vessel called the .....</td>
</tr>
<tr>
<td>6. whereof is master under God in this voyage Robert Longland or whosoever else shall go for master in the said ship or by whatsoever other name or names the same ship or the master thereof is or shall be named or called</td>
<td>whereof is master under God for this present voyage ..... or whosoever else shall go for master in the said ship or by whatsoever other name or names the same ship or the master thereof is or shall be named or called</td>
</tr>
<tr>
<td>7. Beginning the adventure from the loading of the said goods aboard the said ship at Newhaven in France and so shall continue and endure until the same ship with the said goods shall be arrived at St. Sebastians aforesaid and there landed in safety.</td>
<td>beginning the adventure on the said goods and merchandises from the loading thereof aboard the said ship. ..... upon the said ship etc. and shall so continue and endure during her abode there upon the said ship with all her ordnance tackle apparel etc. and goods and merchandises whatsoever shall be arrived at ..... upon the said ship until she hath moored at anchor in good safety and upon the goods and merchandises until the same be there discharged and safely landed</td>
</tr>
<tr>
<td>8. and it shall be lawful for the said ship etc. in this voyage to proceed and sail to and touch and stay at any ports or places whatsoever without prejudice to this insurance</td>
<td>The ship etc. goods etc.</td>
</tr>
<tr>
<td>POLICY OF 2ND SEPTEMBER, 1637, AS DRAWN AT THE OFFICE OF ASSURANCE</td>
<td>LLOYD'S MARINE POLICY IN USE TO-DAY</td>
</tr>
<tr>
<td>---</td>
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</tr>
<tr>
<td><strong>10.</strong> Touching the adventures and perils which we the assurers are content to bear and do take upon us in this voyage are of the seas, men of war, fire enemies, pirates, rovers, thieves, jettisons, letters of mart and counter mart, arrests, restaints and detainments of kings and princes and of all other persons; barratry of the masters and mariners and of all other perils, losses and misfortunes that have or shall come to the hurt, detriment or damage of the said goods or any part thereof.</td>
<td>Touching the adventures and perils which we the assurers are content to bear and do take upon us in this voyage they are of the seas, wild fire, enemies, pirates, rovers, thieves, jettisons, letters of mart and counter mart, arrests, restaints and detainments of kings, princes and people of what nation condition or quality soever, barratry of the master and mariners and of all other perils, losses and misfortunes that have or shall come to the hurt, detriment or damage of the said goods, merchandises and ship etc. or any part thereof.</td>
</tr>
<tr>
<td><strong>11.</strong> and in case of any misfortunes it shall be lawful to the assured their factors, servants and assigns or any of them to sue, labour and travel for in and about the defence, safeguard and recovery of the said goods or any part thereof without prejudice to this assurance. To the charge whereof we the assurers shall contribute each one according to the rate and quantity of his sum herein assured.</td>
<td>and in case of any loss or misfortunes it shall be lawful to the assured their factors, servants and assigns to sue, labour and travel for it in and about the defence, safeguard and recovery of the said goods and merchandises and ship etc. or any part thereof without prejudice to this assurance. To the charge whereof we the assurers will contribute each one according to the rate and quantity of his sum herein assured.</td>
</tr>
<tr>
<td><strong>12.</strong></td>
<td>and it is expressly declared and agreed that no acts of insurer or insured in recovering saving or preserving the property insured shall be considered as a waiver or acceptance of abandonment.</td>
</tr>
<tr>
<td><strong>13.</strong> This writing and assurance being made and registered according to the King's Majesty's order and appointment shall be of as much force and effect as the surest policy or writing of assurance heretofore made lost or not lost in Lombard Street or Exchange. And it is agreed by us the insurers that this writing or policy of assurance shall be of as much force and effect as the surest writing or policy of assurance heretofore made in Lombard Street or in the Royal Exchange or elsewhere in London.</td>
<td></td>
</tr>
<tr>
<td><strong>14.</strong> And so we the assurers are contented and do hereby promise and bind ourselves each one for his own part our heirs, executors and assigns to the assured their heirs, executors, administrators and assigns for the true performance of the premises. And so we the assurers are contented and do hereby promise and bind ourselves each one for his own part our heirs, executors and assigns to the assured their heirs, executors, administrators and assigns for the true performance of the premises.</td>
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</tr>
<tr>
<td><strong>15.</strong> confessing ourselves paid the consideration due to us for this assurance by Mr. George Willingham. confessed ourselves paid the consideration due unto us for this assurance by the assured.</td>
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<tr>
<td><strong>16.</strong> at and after the rate of four pounds per cent.</td>
<td>In witness whereof we the assurers have hereunto subscribed our names and sums of money assured: Given in the Office of Assurance within the Royal Exchange in London the 2 of September, 1637.</td>
</tr>
<tr>
<td><strong>17.</strong> In witness whereof we the assurers have hereunto subscribed our names and sums of money assured in London.</td>
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ANNEXURE-3.22

MARINE INSURANCE ACT 1601

1. PREAMBLE OF MARINE INSURANCE BILL 1601

And whereas it hath been time out of mind an usage among merchants, both of this Realm and of foreign nations, when they make any great adventure (especially into remote parts) to give some consideration of money to other persons (which commonly are in no small numbers) to have from them assurance made of their goods, merchandises, ships and thins adventured, or some parts thereof, at such rates and in such sort as the parties assurers and the parties assured can agree, which course of dealing is commonly called a policy of assurance, by means of which policies of assurance it cometh to pass, on loss or perishing of any ship, there followeth not the undoing of any man, but the loss lighteth rather easily upon many than heavily upon few, and rather upon them that adventure not than those that do adventure, whereby all merchants, especially the younger sort are allured to adventure more willingly and more freely.

2) ADMINISTRATION OF ADMIRALTY COURT

The Court set up by the Act consisted of a Judge of the Admiralty, the Recorder, two doctors of Civil Law, two common lawyers, and "eight gave and discreet merchants." Any five of them were empowered to act as the Court "with full and authority to hear examine order and decree all and every such cause and causes concerning policies of assurances in a brief and summary course as their description shall seem meet without formalities of pleadings or proceedings." The powers granted to the Aldermen and citizens of London nominated by the Lord Mayor "to settle rates and fees and to deal with other matters" do not seem to have been interfered with. Candler held the patent, penned the policies and registered them, but under some supervision by the Commissioners.

The Court had powers to warn any parties to come before it as also to examine on oath any witness, and to commit to prison "that shall wilfully contemn their final orders or decrees." The Commissioners were to sit at least once a week in the Office of Assurances or in some convenient public place. There was a right of appeal by any grieved person to the High Court of Chancery. Owing to the character of the Court, some of the merchants sitting thereon might be interested in a case coming before it, and it was...
Parliament wrote a law, restricting participation in various kinds of financial enterprise. The insurance rules were to be among the most restrictive. King George-I had received gifts of stock in two companies being organized to write insurance. Only those companies, he urged, should be chartered to do such business. But the individual underwriters of Lloyd's were already too well placed to be shoved aside in that way, and the Bubble Act, as it was called, in the end provided that no companies other than the Royal Exchange and the London Assurance could offer insurance - but any individual who wished to enter the business could do so on his own.

All this seems (and was) corrupt. The men who made the modern economic world had all the bad habits we now associate with Third World operators. It also seems foolish, because the principle of risk-spreading inherent in the insurance company that wrote a lot of policies was lost when an individual bore all risks. But the "sole trader" as an insurance underwriter was not foolish at that time. In the smaller world of the mid-eighteenth century, individuals owned and operated most of the world's business. "Incorporation" would give an enterprise a legal entity separate from its proprietor and thus a better chance to survive after a proprietor's death, insulating his stockholders from losses beyond their actual investment. But it was relatively rare, requiring until the nineteenth century an act of the legislature or an extraordinary specific approval by an official whose powers to grant such favours were hedged about with cautionary restrictions.

Under these conditions a sole trader with unlimited liability and great personal wealth might well offer a more certain guarantee than any corporation that the policies he backed would be paid off.

(Source: Risky Business, Disaster at Lloyd's of London - Elizabeth Luessenhop, Martin Mayer.)
FREE TRADE PRINCIPLE AND MARINE INSURANCE BILL (1810)

As to the third section of their inquiry, the best system for all concerned, the report went on: "That mode of effecting marine insurances must be best which gives the best security at the cheapest rate; and that which gives the best security at the cheapest rate is the enabling merchants to insure each other. If such a system could be established it is probable that the price paid for assurances will not much exceed the aggregate value of the losses sustained on each class of risk insured." The report quoted Adam Smith on the advantage of companies for banks and insurance, and it is apparent that while their words might be taken to be a recommendation of mutual insurance societies, they had in mind a company working for profit, but of which the shareholders should be those merchants who would place their insurances with the company. "It was not the intention of your Committee to recommend the enforcement of any particular system of law, but on the contrary, to release this branch of the business from the restraints now existing and to leave it to shape itself as it then infallibly would do in conformity with the true interests of the public."

"By uneconomical insurance (and what stronger proof can exist that it is uneconomical than when brokerage even mounts to one-fourth of the underwriters' profit) the prices of all imported articles are enhanced. The same is the case with the raw material for our manufacturers and in the importation of manufactured articles. We shall, on the return of peace, want every advantage that wisdom can devise to meet the competition from low wages on the Continent."

The effect of the new Free Trade principles and lassies-faire in business are very marked in this report. It has been accused of one-sidedness and of doing scant justice to Lloyd's, but an impartial reading does not bear that out. The opinions expressed in the report are those of common-sensed business men who clearly saw the anomaly in the situation and the unintended result of the 1720 legislation.

The report was in no sense an attack on the principle of individual underwriting; in the course of it certain criticisms were levelled against existing practices, such as the high remuneration of the brokers.

(Source: A History of British Insurance - H.E.Raynes)
The removal of the ban on marine insurance companies was followed by the formation of a number of weaklings, pursuing a history very different from that of the two established in 1824 and the two chartered companies of 1720. In his history of "Lloyd's and Marine Insurance" of 1876, Martin has listed them with notes of their inglorious records. While they lasted they constituted competitors, encouraged quotations of unremunerative rates and, when they disappeared, they left the world of marine insurance the worse for their existence. The following may be mentioned:

- 1826: The Sunderland
- 1826: The Tyne
- 1826: The Unanimous of Shields (wound up 1861)
- 1830: General Maritime Insurance Co. (wound up 1848)
- 1831: Liverpool Marine Insurance Co. (wound up 1850)
- 1834: Ocean Marine of Liverpool

With the exception of those indicated, these companies lasted for a very short time. In 1836, however, there was established the Marine Insurance Company in London, with a capital of £1,000,000, which, after the initial difficulties, took its place among the successful institutions transacting marine insurance. Its original £100 shares with £18 paid received large dividends in the time of marine insurance prosperity, and about thirty years after its foundation they rose to over £100 in the market.

In 1839 there were seven new marine insurance companies, but only one, the London Maritime Assurance Company, lasted any length of time. It passed into liquidation in 1860. In 1840 two further companies, one in Edinburgh and the other in Newcastle, were founded and lasted for a few years. The Joint-stock Companies Act of 1844 was followed by a period of speculation and a number of marine insurance companies were registered, some of which proceeded no further, while others soon passed into liquidation. In 1859 activity began again and six new companies were registered, only one of which, The Ocean, became a successful company. Its capital was £1,000,000 in 40,000 shares of £25, and in the first year ending December, 1860, it received £136,970 in premiums and paid £60,000 in claims. The next year the business transacted was more, and in the third year the premiums approximated a quarter of a million, with claims of £168,594. During its first quinquennium the total premiums amounted to £1,289,258, while the claims were £874,277 and expenses of management £89,000. The dividend record up to 1871 was one of continual growth.

(Source: History of British Insurance - M.E. Rayne)
Because of Lloyd's exemption from the Insurance Companies Act the internal government of the society is covered by separate legal provisions. In 1769 a committee of Lloyd's subscribers, dismayed at the amount of gambling that was then rife at Lloyd's, opened a New Lloyd's Coffee House, run by a 'master' on behalf of the two hundred or so subscribers. In 1811 in response to complaints from Parliament about the insolvency of certain underwriters the subscribers signed a trust deed to put their constitutional house in order. This deed governed the society of Lloyd's until 1871, much as the Stock Exchange is governed by a trust deed today. In 1871, much after the Committee of Lloyd's had found itself unable to expel a member who had, so they alleged, defaulted on a claim. Lloyd's secured a private Act of Parliament. This Act laid down the 'Fundamental Rules of Lloyd's': the membership was to be divided between underwriting and non-underwriting members, and only the former could underwrite at Lloyd's; all business had to be conducted in the Room on behalf of individuals and not partnerships or companies; and underwriters in the Room could only deal with other members or subscribers, so that only Lloyd's brokers could place business at Lloyd's. Under this Act the committee became increasingly concerned about the solvency of underwriters. At first guarantees were called for but by the 1880s the present system of deposits was in widespread use. In 1882 the committee fixed the minimum deposit of £5,000: this is £200,000 at today's prices compared to the minimum deposit today of £50,000. The 1871 Act established an elected committee of twelve and gave the society the power to make bye-laws subject to the approval of the Recorder of the City of London. Further Acts, in 1888, 1911, 1925 and 1952 updated the founding statute. The most important change was in 1911 when the committee was given power to suspend a member for up to two years if he had been guilty of any act or default discreditable to him as an underwriter, or otherwise, in connection with the business of insurance.

(Source: A View of the Room Lloyd's - Ian Hay Davison)
1. **Lloyd's List**
   Source of worldwide service of news of interest for Maritime Insurance and Transport industries.

2. **Lloyd's Shipping Index**
   List of around 20,000 merchant vessels on overseas voyages. Technical - Registration data.

3. **Lloyd's Voyage Record**
   Comprehensive coverage of arrivals and sailings at all ports of call on current voyage.

4. **Lloyd's Loading List**
   Schedule of vessels due to load in UK ports for all parts of the world.

5. **Lloyd's Law Reports**
   Report on Maritime and Insurance cases in UK/USA courts.

6. **Lloyd's Maritime and Commercial Law Quarterly**
   International Legal development in marine world.

7. **Lloyd's Weekly Casualty Reports**

8. **Lloyd's Survey Handbook**

9. **Lloyd's Maritime Atlas**

10. **Lloyd's Calendar**
    Standard form of Marine Policies - agreements

(Source: Marine Insurance Vol.1 - R.H.Brown)
1) Associations and Services connected with Lloyd's

The Salvage Association was formed in 1856 and has its head office in Lloyd's building. It is not entirely a Lloyd's concern, the controlling committee being composed of representatives of many marine insurers. The Association provides expert technical assistance regarding salvage and arranges surveys of damaged ships, cargoes, and other maritime property. Surveying offices and agents maintained in many ports are subject to the control of head office. The Association does not maintain salvage vessels or equipment but is able to assist in the negotiation of salvage contracts and the resulting awards. It is a non-profit making concern and was incorporated by Royal Charter in 1867.

Lloyd's Average and Recoveries Departments acts for both Lloyd's Underwriters and Insurance Companies in the collective of general average refunds and deals with the distribution of such refunds and also of recoveries obtained in connection with cargo claims which have been paid by insurers in collision cases. In addition the Department investigates the possibility of recoveries from carriers and other third parties and disburses any recoveries obtained to insurers. The Department is also concerned with general average guarantees.

Lloyd's Agency Department is concerned with the activities of Lloyd's Agents and incorporates the Settlement of Claims Abroad Department, which processes claims under CPA policies and certificates.

Lloyd's also maintains a Claims Bureau and Policy Signing office, details of which appear in the chapters relating to claims and policy signing.

Other Lloyd's services include an Advisory and Legislation Department, a Membership and Service Group, an Agency Department and an Information Department. There are also Underwriters' Associations which act for Lloyd's Underwriters in all technical matters and generally represent the Underwriters in matters pertaining to their business.

2) Institute of London Underwriters

The Institute of London Underwriters is an organization which represents the interest of its members in the London marine insurance Company market. Its membership comprises more than 100 Companies including the principal marine insurance Companies. The "Institute", as the organization is called in the market, was incorporated in 1884 and until recently only British and British controlled Companies and Corporations were eligible for membership.

A committee, elected from the members, runs the affairs of the Institute. The purpose of the Institute is to further the interests of insurance by co-ordinating facilities regarding wordings, clauses and conditions and to find grounds for common agreement on problems affecting the insurance market. Principally the Institute concentrates on marine business.

Committees are formed which include Lloyd's Underwriters as well as members of the Institute, to decide on matters affecting the whole market and to make recommendations to the market based on their findings. The Institute provides facilities for these Committees to meet. The Technical and Clauses Committee and The Joint Hull Committee are two such Committees. The "Returns Bureau" (The Joint Hull Returns Bureau) operates under the auspices of the Joint Hull Committee for the benefit of the whole market an authorizes "lay up" returns for both Lloyd's and Company underwriters. In addition to its services to insurance, the Institute administers a Policy Signing Office and a "Claims Payable Abroad" service on behalf of its member Companies.

The marine insurance clauses drafted by the Technical and Clauses Committee are published by the Institute. These "Institute Clauses" are widely used throughout the world.

MACRO-ENVIRONMENT TRANSFORMATION AND
IMPACT ON MICRO MARINE INSURANCE BUSINESS
(13TH TO 19TH CENTURY) - BALLOON MODEL

13TH - 15TH CENTURY

- FOREIGN CONTROL ON TRADE
- EUROPEAN TRADE + INSURANCE
- PROGRESS IN WOOL HANDICRAFT TRADE
- FOREIGN TRADERS

15TH - 16TH CENTURY

- INTERNAL CUSTOMS AS BRITISH UNDERWRITERS + BROKERS
- BRITISH TRADERS CONTROL TRADE
- BIGGER-SIZE SHIPS BRITISH NAVAL CONTROL PARAMOUNT
- MANUFACTURERS/INDUSTRIAL DEVELOPMENT

17TH - 18TH CENTURY

- FORMATION OF MARINE INSURANCE
- ESTB. OF L’LOYDS
- GLOBAL EXPANSION OF TRADE
- BRITISH ECONOMIC SUPERPOWER
- INDUSTRIAL REVOLUTION SHIP BLDG. TEXTILE
- BRITAIN POLITICAL SUPREMACY
- COLONIAL ENTERPRISE

18TH - 19TH CENTURY

- STATUTORY CONTROL OF INSURANCE
- COMMERCIAL EXPANSION
- COLONIAL EMPIRE
- SOCIAL TURMOIL OF INSURANCE REFORMS
- COMPETITION BETWEEN INSURANCE COMPANIES
- ECONOMIC IMPACT OF INDUSTRIAL REVOLUTION
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Chapter - III

HISTORICAL REVIEW OF GENERAL INSURANCE DEVELOPMENT
2000 BC TO 1950 AD

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B.2) DEVELOPMENT OF NON-MARINE GENERAL INSURANCE BUSINESS DURING THE PERIOD 17TH CENTURY TO 19TH CENTURY

In the earlier part of Chapter III covering development of Insurance Industry during the period 2000 BC to 1600 AD, it was described how non-Marine Sector of Insurance Industry in general and General Insurance Industry in particular, developed in the earlier phase as State-Welfare Schemes for the benefit of citizens and later on as the beneficiary schemes for the members of Artisan Guilds. Later on Community Welfare schemes developed under the guidance of parish priests for reimbursement of Fire Losses of unfortunate individuals through voluntary charity contributions by members of community. There was however, no development in any part of the Western World to insure Non-Marine risks on commercial basis till second half of the 17th Century, even though by that time Marine Insurance practice had developed to an advanced stage to meet demands of security for transit of goods within domestic as well as international sectors of trade. Non-Marine Insurance sector developed 17th Century onwards to meet socio-economic industrial needs of Society undergoing major transformation through the inception of commercial capitalism and industrial
revolution. As in the case of Marine Insurance, in the case of Non-Marine Insurance, Britain's premier status in Global Commercial and Industrial Revolution, made London the primary centre for development of Non-Marine General Insurance Industry. Review of British Insurance Industry during the period of tri-Centennial period 1701 to 1900 will therefore adequately cover historical development of Fire and Miscellaneous Accident Business, as the byproduct of Macro Environment Transformation of Western Society during this period.

A) Development of British Fire Insurance Business

a) Historical Development in Pre-17th Century Period:

British Marine Insurance business emerged from the commercial tradition developed in 13th to 14th Centuries by Italian and Dutch traders. British Fire and Miscellaneous Accident Insurance practice emerged from the cooperative tradition developed by Anglo-Saxon Roman civilisation in the form of Artisan Guilds and their welfare schemes for covering their
members in the event of fortuitous loss by Fire or other accidents.

By 15th Century the formation of guilds had advanced substantially in Britain, covering occupations ranging from Goldsmith Bankers at the highest rank and cobblers at the lowest rank. Guilds not only controlled the condition of work and price and quality of products but also functioned as welfare societies giving money to widow and orphans in the event of demise of working artisan or reimbursement of loss arising from occurrence of Fire or other accidental mishaps. Vital contribution of Artisan Guilds spread was the emergence of urban centres like London as cluster points of Socio-Economic activities of community and shift of dominant influence of Castle and Church from Countryside to Commercial and Artisan production Urban centres. Urbanisation of Society created the environment for their need of Fire and Miscellaneous Insurance.

By the end of the 15th Century London developed as the prime center of political-socio-economic cultural activities of Britain's population. Congestion of buildings housing the
continuously increasing population led to the generation of Fire Risk Exposure of urban centres. Fires occurred with high frequency (Annexure 3.29) and devastated whole towns with high concentration of timber buildings. Organised relief of Fire Loss for the members of entire community was not available though as mentioned earlier Artisan Guilds gave limited protection to their members. It was through community efforts of Organised Charity that members suffering fire losses were compensated. The system of raising donations through briefs issued by church wardens did provide some cover for Fire Losses of unfortunate individuals but the system was losing credibility due to occurrence of frauds distorting its bonafide purpose. Need for designing a Fire Loss protection scheme on Commercial Basis through Collective Contribution from Spread Out Members of Society was increasingly felt with the expansion of city population. The great fire of London in 1666 causing substantial loss to community expedited the action of initiating Fire Insurance practice leading to the establishment of the first Fire Insurance Company in Britain in 1680.
b) **Development of Fire insurance Companies in 17th and 18th Centuries of Commercial Capitalism:**

By the end of mid-17th century, the formation of joint stock partnerships had progressed substantially in commercial sector. Marine Insurance practice as well as development of Mathematical principles applicable to the generation of fund for meeting losses at future date had created basis for developing Fire Insurance scheme on Commercial Basis.

Fire office established in 1680 under the leadership of Dr. Nicholas Barbon was remodeling of his original speculative scheme of providing insurance cover to the buildings built by him in immediate post Great Fire of London Period. This company which functioned successfully for four decades, made following vital contributions to Fire Insurance Development:

1) **Concept of Premium and Sum Insured**

In the notice announcing the formation of the company, it was stated that they undertake for a Reasonable Rate to secure the house in London.
and suburbs thereof from Fire and if burned
down to build them again at the cost of the
office, for which end is provided a
considerable bank of money and a fund of free
land to such a value as will secure those that
agree with the office. As per the statement
published by Fire Office, premium rates
computed by them were based upon the statistics
of fire Losses during the period of 14 years
from 1666. The practice of discounted premiums
under long term contracts was also introduced
covering contracts upto maximum period of 31
years. In their Accounts Report for the year
1712, when it started operating as Phoenix, it
is stated that during the period of 31 years,
their total claims amounted to £ 50,000 and
were adequately met from their funds. Method of
computation of premiums of this first Fire
Company was thus reasonably satisfactory from
the aspect of initiating 'Underwriting of
Fire insurance'.

2) Loss Minimisation Techniques

Right from the inception of this company, they
introduced the system of providing their
clients assistance to the extinguishing and prevention of Fires by men well versed in carrying out this task. Coupling underwriting of Risk with Prevention and Minimisation of Loss can be aptly described as the beginning of 'Risk Management' concept.

Other Companies formed in 17th Century

Almost simultaneous with the formation of Fire Office, an attempt was made to establish Municipal Insurance Company - the Corporation of London. Even though this venture proved a short term affair of two years, it has historical importance as the first scheme of Mutual of House-Owners. Under this scheme, originally designed in principle by Benjamin Delaune a fund was to be generated by contributions at 5% of the value of house, for reimbursing the Fire losses of members Estimated on the number of City of London brick houses at 12,000 and the value per house at £250 and participating level at 25%, a fund of £50,000 would be available for the purpose of meeting future losses. This scheme of Mr.Newbold - member of London Corporation was
approved by the court and the table of premiums for insurance contract ranging from 1 to 100 years was published showing more economic terms as compared to rates of Fire Office. It was vehemently attacked by Fire Office and advocates of Free market on the ground of encroachment by Municipal authority on private sector sphere of activity and the scheme was therefore dropped in 1682.

In 1683, Friendship Society was established to insure members' houses in a New Way of depositing some amount for entering the scheme, premium on annual basis and Levy at the time of Claim Settlement under collective scheme.

In 1696, another company - Amicable Contributors for Insuring houses from Loss by Fire was formed. Members of the company were the policyholders themselves, whose liability was limited to loss per £ 100 sum insured. This company became Hand-in-Hand company after ten years. Members of society were not allowed to insure their property with any other company.

These three companies formed London Fire Insurance Market at the end of the 17th
century. Though they had opted for different basis for formation of company, they adopted common practice of rate differentiation for stone and timber houses, limiting losses to ratable proportion in the event of co-insurance and system of providing Fire-fighting assistance to clients, whose insured property was distinguished by Fire Marks of Insurance companies. (Annexure 3.30)

c) Growth of Fire Insurance in 18th Century:

Expansion of Fire Insurance Market

i) Significant Expansion of Fire Insurance Companies took place in the 18th Century as the consequence of combination of two macro-environment factors of Industrial Revolution and Commercial capitalism. The Industrial Revolution changed the face of the British Industrial and Commercial scenario generating in its sweep many more items of value which needed to be insured. Big new factories housing complicated machinery and producing substantially large volumes of valuable goods were built. Goods produced by these factories
were transported and stored at warehouses for shipping overseas. This vigorous growth of Commercial and Industrial Enterprise created increasing demand for insurance protection leading to speculative growth of Fire Insurance Companies in the 18th Century.

As concluded in the earlier discussion on macro-environment transformation in 17th and 18th Centuries evolution of new political socio-economic structure of England was in comparison to other Western Countries relatively far more smoother and hence more conducive to the vigorous socio-economic growth during the phase of Industrial Revolution. Economic Enterprise of community at large generating inflow of Capital for Financing Multi-sectoral ventures of construction, production, mining had developed substantially in spite of initial collapse and crisis leading to enactment in 1720 of Bubble Act. This process continued till it reached crescendo in the first quarter of the 19th Century when the year 1824-25 registered total Investment of Nominal capital £ 160 million with paid up amount of £ 27.5 million. The schedule of Joint-stock companies registered during the two
years period 1834 - 36 shows investment of capital of £ 135 million spread over various sectors of industrial, commercial, financial, construction projects. (Annexure 3.31)

The share of Insurance Companies in this explosion of investment was significant varying within range of 30% - 10% during the various phases of development. As stated earlier, the by product of the Industrial Revolution was swift accumulation of material capital of factories, machinery, warehouses, shipping, docks, mercantile buildings for the transport of goods and of the stock of consumable goods themselves. For its protection against exposure to Risks of various types in general and Fire Insurance in particular, the demand for Insurance grew in proportion to the value of the property. For meeting this demand of insurance of fast growing commercial-industrial sectors, it was necessary to generate substantial additional Financial Capacity than could be offered by the Three Fire Offices in operation at the end of the 17th Century. But the situation in the first three decades of 18th Century was not encouraging for the formation of new Insurance Ventures.
Explosion of Financial crisis as the consequence of South Sea Bubble Bursting had lead to the passing of the Bubble act in 1720, giving Charters of Monopoly for Marine Insurance to Royal Exchange and London Assurance and prohibiting formation of new ventures. Provisions under this act raised vital issues pertaining to the legality of new Insurance Companies formed in 18th Century for writing Fire Insurance. Three companies formed earlier than 1700 and four new companies, The Sun Fire Office, The Union, The Westminster, The Bristol Crown formed in first two decades of 18th Century had constitutions based upon deeds of settlement or agreements of partnership and their legal status under the Act of 1720 was not clear. In 1721, Royal Exchange and London Assurance were also given charters permitting them to form separate corporation to conduct Fire and Life Insurance Business. By the middle of the 18th Century with the stabilisation of national economy, the attitude of the Government towards the formation of the new Insurance Companies was changed and the prohibitive provisions of the Act of 1720 were not tested to check legality aspects of operating Fire Insurance Companies.
A further step was taken in 1782 by the Act of 22 GEO III C48, by which unincorporated joint-stock Fire Insurance Companies were given specific recognition (Annexure 3.32). The Custom and practice in formation of unincorporated joint stock Insurance Ventures had become too strong for the enforcement of prohibitive provisions of the Bubble Act pertaining to such associations, particularly in the case of companies providing vitally needed service of Fire Insurance. In spite of the initial disabilities under which unincorporated joint stock insurance companies operated, a number of new companies were promoted in the last quarter of the 18th Century particularly in the provinces where London companies could not give adequately satisfactory service. By 1806, the number of Fire Insurance companies showed following territorial spread. (Annexure 3.33)

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<td>London Office Companies</td>
<td>11</td>
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<tr>
<td>Country Office Companies</td>
<td>16</td>
</tr>
<tr>
<td>Scottish Office Companies</td>
<td>5</td>
</tr>
<tr>
<td>Total number of companies</td>
<td>32</td>
</tr>
</tbody>
</table>
ii) **Technical developments in Fire Insurance:**

Industrialisation and Urbanisation of society resulted in the increase in major Fire Losses in the second half of 18th Century (Annexure 3.34). Aggregation of property arising from the factory system and storage of goods in warehouses resulted in the steep escalation in the quantum of claims to be paid by Fire Insurers. Insurance Companies had developed from experience principle of Limitation of the Sum Insured per Risk but they had not as yet learnt to take care of Limiting Liability per Location resulting in Heavy Locational Losses for some companies. Reinsurance practice was as yet not invented and hence was started for safety of Individual Underwriters whilst providing Insured Clients’ need for Insurance of High Amounts, the practice of Coinsurance in London Marker. To avoid fraudulent distortion of this system, the warranty of declaration of Co-insurances by the Proposer at the time of taking cover was introduced along with the principle of Ratable Proportion of Loss. Arising from the practice of coinsurance Standardisation of Fire Insurance covers was also introduced, to some extent though as yet
Fire Insurance Association or Tariff System of rates was not formed. The sharing of the Major Risks through Coinsurance initiated the process leading to standardisation of policy forms and Tariff system under the control of Fire Offices Association in the 19th Century. In the 18th Century, all Insurance Companies had their own table of rates but Basic Principle of adequacy of Rate proportional to the hazardous character of property and stock insured was accepted by all companies. Practice of coupling Insurance business with company managed Fire Brigade was also a common feature.

iii) Financial Basis of 17th / 18th Century Insurance Companies:

Adam Smith in his Economic Treatise had blessed the formation of joint stock venture in Insurance Sector in his statement - "The only trades which seem possible for a joint stock company to carry on successfully without an exclusive privilege are those of which all operations are capable of being reduced to what is called a routine, or to such a uniformity of method as admits of little or no variation: Of
this kind is the first, the Banking Trade: Secondly the trade of Insurance from Fire and from Sea risks and Capture in time of war, thirdly, the trade of making and maintaining a navigable cut or canal and fourthly the similar trade of bringing water for the supply of a great City.” (Annexure 3.35).

Right from the inception of first Fire Insurance Company - Fire Office, the promoters were clear in their mind that the objective of the venture was to generate reasonable return on the investment and premium rates were therefore charged to produce reasonable return on the Investment and generate Adequate Fund for meeting Future Losses.

By the time new Insurance venture of Association of sugar Refineries was formed in 1783, to provide Insurance Needs of Sugar Manufacturers, the principle of adequacy of rates was well established and the rates were charged for producing reasonable surplus as well as ensuring limiting exposure of risk. This conservative attitude of Insurance led to the problems of sugar manufacturers and traders
to place their insurances upto the full value and at the rates reasonable from Commercial Cost aspect. Interesting case arose in respect of clash of interests between British Sugar Traders who had predominant share in the Sugar trade of Europe and Insurers. Only two insurers were prepared to underwrite sugar refinery risks and that too at excessively high rates ranging from 25 S. per cent to 10 S. per cent, and subject to limit per location of £ 5000. Sugar manufacturers needed covers per location upto £ 20,000 and at rates much lower than the Market Rates. Conflict between Financial Interests of Insurers who ensured underwriting profitability of business through adequately high rates and conservative limitation of liabilities and trader-manufacturer clients who desired Comprehensive Insurance service at commercially satisfactory price led to the historical development of trade linked Insurance Venture.

iv) Concept of Trade-Linked Insurance Venture:

Formation of New Fire Office Company in 1783 (to be known as Phoenix from its Fire Mark) by
the Sugar Manufacturer promoters was the historical beginning of Trader-Linked Insurance Venture which in due course would lead to formation of Captive Insurance Companies. The New Company covered the Sugar Refinery risks of best class at 12 S. per cent for building and 18 S. per cent for stock and utensils. The office accepted general business and changed exclusions under the schedule of hazardous trades as well as adopted new basis for claims settlement on relatively more liberal basis, as compared to Market companies. This company was formed through capital contribution proportional to the financial and production capacity of Members. The venture succeeded satisfactorily, reaching premium-wise second rank in due course. The company expanded its Insurance activities in 1747 in Life Insurance sector by establishing a separate company Pelican. This case history is important from the aspect of tracing historical beginning of Captive Insurance Concept as well as beginning of Composite Insurance group writing General and Life Insurance business.
v) **Legal aspects of Fire Insurance Cover:**

Basic legal aspect of Fire Insurance contract developed in 18th Century court cases. Jurist Park in his outstanding work 'System' pointed out the vital difference between the basic principles of Fire and Marine Insurance societies. He pointed out that the Rules by which the Fire Insurance Societies are governed, are given to every person at the time he insures so that by his acquiescence he submits to the proposals and is fully apprised of the rules upon the compliance or non-compliance with which he will or will not be entitled to indemnity”. Although Marine policies are in their nature assignable such is not the case with Fire Insurance. In the case of Insurance policies on ships insertion of Interest or no Interest term is legally valid which was specifically prohibited under Fire Insurance policy. Important court cases in 18th Century evolved the above basic rules pertaining to Fire Insurance.

Important legal cases of 18th Century interpreted exclusions under Fire Policy of Invasion, Foreign Enemy, Military or Usurped
Power, Rebellion, Civil Commotion, Riots. Particularly important was the interpretation of the terms Riot and Civil commotion in dealing with Fire claims arising from Gordon riots in 170. (Annexure 3.36). Lord Mansfield's judgment based upon analysis with relentless logic defining "civil commotion as an insurrection of the people for general purposes, though it may not be a Rebellion where there is usurped power" set historical precedent for dealing with Fire Insurance claims in turbulent times of Industrial Revolution and Political Restructuring in 18th Century.

It is worthwhile noting direct emphasis on integrity of the Insured but tacit presumption of the same responsibility of Insurer in explaining the scope of cover to the client, bearing in mind the Free market Environment of the 18th Century. Historical origin of we-they syndrome between Insurers and Insured which was to intensify in Consumers Age of 20th Century can be seen in this initial approach to the principle of Utmost Good Faith in the 18th Century of Laissez-Faire.
d) Further Development of Fire Insurance in the 19th Century:


i) Technical Aspect of Underwriting:

Evolution of Tariff System for Premium Rating:

By the end of the 18th Century, Fire underwriting had developed to the stage of classification of Risks into three classes of Common, Hazardous and Double - Hazardous. Special Ratings were used in the case of Industrial Risks and Stock therein and for buildings containing any kiln, steam engine, stove or oven used in the process of manufacture. Some agreements in respect of
rates for Industrial Risks started in the third decade of the 18th Century.

First step towards the formation of Professional Association of Fire Underwriters was taken in Edinburgh with the establishment in 1829 of Scottish Fire Offices.

The problems pertaining to the total market agreement for upward revision of premiums were summarised as follows:

1. It was argued that Companies offering profits to their client - shareholders would be merely giving them back with one hand what they sought to obtain with the other.

2. Companies could restore back the rates to the original level as a Market development without formal agreement.

3. Insurance companies had encouraged agreements with the representative body of their tied clients on rates subject to the agreed terms of processing of claims like
valuation of losses on old machinery in
the event of Total Loss.

In spite of these initial problems pertaining
to signing of overall Market Agreement between
British and Scottish underwriters, first steps
were taken through informal agreements amidst
leading market members to observe minimum rates
limitation on specific risks like
textile mills.

In spite of substantial progress in establishing
by the end of mid-19th Century, Tariff system,
there was nothing like a Monopoly of Insurance
on Fire Rates. A proportion of Companies chose
to underwrite risk on individual merit rating.
Besides Non-Tariff Companies there was
potential competition from Association of
Manufacturers for Mutual Assurance like Cotton
Major problems between Industrial clients and
Insurance arose from the level of discounts for
Fire Extinguishing appliances. Mutual
Associations offered substantially higher
discounts in comparison to insurance companies
for Risk Prevention Measures. This difference
between the Industrial clients and their
underwriters which continue even today can be traced to the interesting historical example, when in 1885, Mather & Platt of Manchester introduced American Invention of Automatic Sprinklers. Whereas Mutual Associations gave discounts of 30% in rates, the tariff companies did not recognize it, resulting in breakdown of Tariff System till in 1892 on the revision of a cotton-mill Tariff a healthier state was re-established and a number of non-tariff offices joined the Association. (Annexure 3.37)

Facultative Reinsurance System:

Besides tariff rate system, another interesting technical outcome of substantial expansion of Textile Mill Sector in 19th Century was the introduction of facultative Reinsurance System to provide cover for Large values of Risks. The practice started as per historical record in 1843 and was standardised through inter-company agreements by the mid-19th Century. Reinsurance system was a great asset of Tariff offices in achieving expansion of business in the 19th Century. The Tariff Offices were the largest and financially strongest of the companies and with their knowledge of the
Reinsurance Market, they could absorb and spread within their group large risks in more satisfactory manner as compared to the Non-tariff companies or Mutual Associations where the loss could not be spread outside their companies or Mutual Associations where the loss could not be spread outside their individual capacity.

Technical Basis of Fire Underwriting:

Technique of Fire Underwriting developed through the practical experience of pioneer underwriters of 17th and 18th Centuries. After 100 years of experience, Mr. J. M. McCandish in his treatise 'The Theory and Practice of Fire Insurance Business (Vol. III, FCII)' published in 1900 could still say, "The prudent Fire Office creeps along from year to year feeling its way, watching the ever varying contingencies which affect it, raising and lowering its rates as growing experience dictates and having to deal with hazards which it can measure very imperfectly, it so deals with them as to attain a high degree of safety". Significant contribution to this technique was made by underwriters of leading
insurer Phoenix, who followed the principle of stabilizing Instability right from the relay days of their company’s operation showing remarkable achievement from their stabilisation of Loss Ratios for 100 years in 19th Century (Annexure 3.38). The leading insurers in British Market followed the same approach in diverse forms of underwriting control and adequacy of rates inspite of pressure of competition with the objective of securing surplus from business operation through conventional underwriting.

ii) Formation of Professional Associations:

In 1858 from the efforts started in 1829 of establishing National Association of Insurers emerged the Association of British Fire Offices. In 1860, there took place historical merger of Scottish Managers Office and British Fire Office Association to form Association of Fire Insurance Companies with three constituent Committees of London, Manchester and Glasgow. Main London Committee of the fire Insurance Association became Fire Offices Committee in 1868 when the new constitution was formally adopted.
Besides the formation of Market Tariff Systems another important development had taken place in the cooperation amidst member companies. The system of maintenance of Fire Brigade by individual insurers was discontinued in 1832, when all companies combined to form one Fire Brigade - London Fire Brigade - for the purpose of promoting organisation's economy as well as efficiency. Expense was met from the contribution of individual companies proportional to their volumes of Fire Business.

iii) Historical Event of Tooley Street Fire -
June 22, 1861:

If great Fire of London in 1666 initiated the emergence of Fire Insurance Industry in Britain, 1861 Tooley Street Fire triggered the process of its final structuring into modern form by the end of 19th Century. Insurance Companies suffered by this catastrophe losses totalling over £ 2,000,000 which they fulfilled upto their full commitment. But two major events arose as its consequence:
1. Public criticism of the handling of the fire by London Fire Brigade owned and managed by Insurance Companies.

2. Critical response of Mercantile Community to the reaction of the Insurance Companies enforcing stringent conditions regarding storage arrangements and construction of warehouses and substantial increase of premiums on Wharf and Warehouse Risks. (Annexure 3.39)

a) Fire Brigade Act 1865:

The outcome of the public criticism of handling of Fire by the London fire Brigade was the move by fire Offices Association requesting Home Office to take over the management of London Fire Brigade. The result of the Select Committee’s report dealing with this development was the Metropolitan Fire Brigade Act of 1865, transferring management of Fire Brigade to Metropolitan Board of works with extensive powers for pulling down houses and take such measures as were required to put an end to Fire. Any damage arising from this action was to be covered under Fire Insurance.
Fire Insurance companies were to contribute to the expense of the Fired Brigade at the rate of £ 35 per £ 1,000,000 on the gross amount insured by them in Metropolis. With the relief from management of Fire Brigade the insurance companies could now undertake the project of organising London Salvage Corpse, whose functions were more specialised and appropriate to Insurance.

b) **Restructuring of Fire Insurance Market:**

Immediate Reaction of Insurance Companies to the disaster of Tooley Street Fire was to some extent panicky. With the exception of one Wharf (Chamberlain’s Wharf) where the rate charged was 10 S %, the rest of the risks were thought to be of the best of their kind rated at 4 S %. The consternation was caused due to the inability of The Fire Brigade to check the spread of Fire and the possibility of occurrence of another such catastrophe which would severely diminish further the Financial Reserves accumulated by Insurers during their past decade of operation with marginal surplus. Fire rates for the waterside warehouses were
initially raised 3 to 5 times the tariff rates but were finally reduced subject to reduction for improvement of risk.

To qualify for the reduction for improvements certification was needed from the Surveyors appointed jointly by all Tariff Offices.

Immediate reaction of the Merchants, Brokers, Bankers and Warehouse Keepers combined together was to present a petition to the Lord Mayor, protesting against the action of Insurance Companies, working as a practical Monopoly, imposing excessively high premium rates which would stimulate Non-Insurance practice with its disastrous impact on prudent culture of trade. The controversy between the Insurers resulted into the formation of the two new companies Commercial Union and the Mercantile.

However, the repercussions of this controversy did not weaken but rationalised the Fire Office’s system of tariffs. The principle of adequacy of rates to ensure reasonable underwriting surplus was accepted by the majority of the leading companies and within a few years the Commercial Union, which was
formed as the Company of Protesting Clients itself entered the tariff fold. For strengthening the solidarity amidst the members of Tariff group, Reinsurance of Non-tariff insurers policies was prohibited. However, this was not the surrender of the clients to the Monopoly of Tariff Insurers. The battle between the Tariff Insurance and New Companies like Commercial Union representing clients had continued for two years and compromise on rates was reached thereafter on the basic principles of classification of Risk and the consequent equitable rating of Risks. Without the establishment of the Commercial Union and the Mercantile, the Tariff companies could have continued to exact high rates for the insurance of London’s docks and warehouses. As matters turned out, the opposition of the City of London’s merchants, leading to the stabilisation of two leading insurance companies from the initial spate of eight proposals, turned the conflict of interests into promotion of compromise between insurers and clients for the continued sound growth of fire Insurance Business subject to the play of Market Forces operating in the Environment of Laissez-Faire.
iv) Widening of the Scope of Fire Insurance Cover:

With the expansion of the Industrial and commercial activities of clients their Insurance needs multiplied in scope. From pure Fire Risk concept, development took place to cover damage arising from Fire Fighting operations like water damage or damage to property through demolition under the provision of the Fire Brigade Act. Technical risks like Explosion damage or smoke damage or sprinklers leakage had to be covered. From the overseas operation of British Insurance Companies in West Indies and African countries, the practice of cover of losses arising from storms and other Natural Hazards developed. From political and social turmoil of 18th Century risks like Riot, Civil Commotion had to be covered and by the end of 19th Century Fire policy was extended to cover these Risks under standard Tariff endorsement. The Financial risk of the Consequential Loss arising from interruption of business by Fire, had to be covered. This loss was covered under the practice developed by Continental Fire Insurance as Chomage Losses with limitation
proportional to the proportion of Fire Loss to total sum insured. However, in Britain this cover was developed in 20th Century with its beginning by Profits and Insurance Company Established in 1901. The enlargement of Risk area covered under Fire policy kept pace with changes in Industrial - Commercial - Financial scenario of 17th - 18th 19th Centuries. (Annexure 3.40).

e) Premium-wise ranking of British Fire Insurance Companies in 18th and 19th Centuries Market:

To conclude the review of development of Fire Insurance Market, it will be interesting to compare the premiumwise ranking of leading Individual members of constituting Fire Insurance market of 19th Century. For deriving this data about leading companies official Market statistics of that time is not available as the Legal requirement for the publication of annual accounts became applicable to Insurance companies only in the 20th Century. Fire offices were reluctant earlier due to the fear of disclosing their figures to competitors to publish their premium and other operational
results. For deriving data about premium incomes of various Fire Insurance Companies during 18th and 19th centuries vital sources of official information available is the record of an annual percentage duty levied on British Fire Insurance Companies from 1782 - 1869. It is the only Official Source which gives overall picture of the home Fire Insurance Market during its phase of rapid expansion.

Wartime financial pressure in 1782 induced the government for earning additional revenue to impose this duty on policyholders insuring their property under Fire Policies. Insurance Companies were to collect this amount from their policyholders with each premium payment. Hence total premium statistics of Fire Business could be completed from this data. (Annexure 3.41).

Annexure 3.42 provides interesting Fire Premium Statistics for Fire Business in England for the period 1805 - 1869. The concentration of business with groups of five and 10 largest firms shows following trend:
<table>
<thead>
<tr>
<th></th>
<th>1829-33</th>
<th>1842-46</th>
<th>1862-68</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>five largest</td>
<td>49.88%</td>
<td>49.49%</td>
<td>38.87%</td>
</tr>
<tr>
<td>companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market share of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 largest</td>
<td>71.26%</td>
<td>66.08%</td>
<td>58.15%</td>
</tr>
<tr>
<td>companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Number of</td>
<td>42</td>
<td>54</td>
<td>53</td>
</tr>
<tr>
<td>Firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Sum Insured per policy by all companies</td>
<td>£ 492</td>
<td>£ 737</td>
<td>£ 1280</td>
</tr>
</tbody>
</table>

Premium and Sum Insured figures give the trend of expansion of Market during the period 1830-70. Trend of high concentration of Market with 5 - 10 leading companies thus started in the period of totally Free Market Environment.

The high rate of duty of Fire Insurance led to attempts by the clients at its evasion by using blanket sum insured on entire schedule of covered risks. As a countermeasure the Act was passed in 1829 providing that in the case of plurality of risks, a separate sum insured was to be placed upon each property and secondly stipulating that in the event of Loss or damage by Fire, the Insurance would be liable to pay such proportion of the loss as the sum insured should bear to the whole collective value of the insured property at the time of Fire.
breakout. The Act seems to have effectively prevented subsequent evasion and made Insurance Public conscious of Average clause. Problems of underinsurance are thus evident from the inception of Fire Insurance development.

Position pertaining to Foreign Fire Business will be covered under the exclusive part of this Chapter dealing with Overseas Expansion of British Insurers in tri-centennial period 1709 - 1900. It should be noted that in the final decades of 19th Century Lloyd's began writing Non-Marine Business. Lloyds became in short time important part of London Fire Insurance Market writing substantial domestic and overseas Fire Business though as compared to its Marine business, the volume of Fire business was small.

f) Corelation between Macro Environment Transformation and Development of Fire Insurance in England:

As per the methodology of this research paper, narration of development of Fire Insurance will be now concluded by summarising its interlinkage with Macro Environment - Transformation during corresponding period.
<table>
<thead>
<tr>
<th>Time</th>
<th>Political Norm</th>
<th>Economic Norm</th>
<th>Technological Norm</th>
<th>Fire Insurance Norm</th>
</tr>
</thead>
<tbody>
<tr>
<td>17th Century</td>
<td>Beginning of Development of British Colonial Empire. Statutory Control of British Commercial and Economic Enterprise.</td>
<td>Expansion of British Commercial, Financial, productive enterprise through formation of Joint Stock Companies</td>
<td>Growth in size of production units of woolen manufacture and mining industry</td>
<td>Development of schemes for Fire Insurance system on commercial basis by newly established fire Insurance Companies</td>
</tr>
<tr>
<td>Time</td>
<td>Political Norm</td>
<td>Economic Norm</td>
<td>Technological Norm</td>
<td>Fire Insurance Norm</td>
</tr>
<tr>
<td>----------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>

From the above summary of Corelation between Macro Environment and Fire Insurance development it can be concluded that Multifold Developed fire Insurance system matched with the Macro-characteristics of British Society of 19th Century end.

Schematic diagram of this corelationship between Macro Environment transformation and Micro-development of Fire Insurance is given in Annexure 3.43.
16TH CENTURY LONDON


(Source: The Royal Exchange - Ann Saunders)

LONDON FIRE SCENARIO OF 17TH CENTURY

The records of many of such briefs and the amounts collected have been reserved from the sixteenth and seventeenth centuries. But the calamity of fire was not the only one which they were designed to relieve. The following is a list taken from the registers of the parish of Clent in Worcestershire -

<table>
<thead>
<tr>
<th>YEAR</th>
<th>BRIEFS FOR FIRES</th>
<th>OTHER BRIEFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1672</td>
<td>4</td>
<td>1. redemption of enslaved Christians in Turkey</td>
</tr>
<tr>
<td>1673</td>
<td>7</td>
<td>---</td>
</tr>
<tr>
<td>1674</td>
<td>3</td>
<td>---</td>
</tr>
<tr>
<td>1675</td>
<td>1</td>
<td>1. rebuilding of churches</td>
</tr>
<tr>
<td>1676</td>
<td>4</td>
<td>1. do</td>
</tr>
<tr>
<td>1677</td>
<td>1</td>
<td>---</td>
</tr>
<tr>
<td>1678</td>
<td>3</td>
<td>1. rebuilding of St. Paul’s, London</td>
</tr>
<tr>
<td>1679</td>
<td>2</td>
<td>---</td>
</tr>
<tr>
<td>1680</td>
<td>2</td>
<td>1. redemption of slaves in Algiers</td>
</tr>
<tr>
<td>1681</td>
<td>-</td>
<td>1. repairs to church, St. Albans</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1. relief of persecuted French Protestants</td>
</tr>
</tbody>
</table>

(Source: A History of British Insurance - H. E. Raynes)
INITIATION OF RISK MANAGEMENT STRATEGY
BY FIRE INSURERS

(Source: 'The Journal' September 1995 - C.I.I.Publication)
FORMATION OF JOINT-STOCK COMPANIES IN COMMERCIAL CAPITALIST ERA OF 18TH - 19TH CENTURIES

LIST OF JOINT-STOCK COMPANIES 1825

<table>
<thead>
<tr>
<th>CLASS OF COMPANY</th>
<th>CAPITAL</th>
<th>AMOUNT PAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining Companies (Great Britain)</td>
<td>£10,400,000</td>
<td>£520,000</td>
</tr>
<tr>
<td>South American Mining</td>
<td>£14,475,000</td>
<td>£1,447,500</td>
</tr>
<tr>
<td>Foreign Loans</td>
<td>£26,950,000</td>
<td>£19,000,000</td>
</tr>
<tr>
<td>Railroads</td>
<td>£21,942,500</td>
<td>£219,425</td>
</tr>
<tr>
<td>Canals, Docks, etc.</td>
<td>£14,134,000</td>
<td>£282,680</td>
</tr>
<tr>
<td>Fire and Life Assurance</td>
<td>£32,040,700</td>
<td>£2,242,800</td>
</tr>
<tr>
<td>Waterworks</td>
<td>£2,680,000</td>
<td>£26,500</td>
</tr>
<tr>
<td>Gas</td>
<td>£7,370,000</td>
<td>£737,000</td>
</tr>
<tr>
<td>Loan, Pawnbroking, Investment, Annuity, and Banking</td>
<td>£22,160,000</td>
<td>£2,216,000</td>
</tr>
<tr>
<td>Colonial Companies</td>
<td>£2,000,000</td>
<td>£200,000</td>
</tr>
<tr>
<td>Steam Navigation, etc.</td>
<td>£3,680,000</td>
<td>£368,000</td>
</tr>
<tr>
<td>Provisions, Milk, and Flour</td>
<td>£3,160,000</td>
<td>£158,000</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>£160,992,200</td>
<td>£27,417,905</td>
</tr>
</tbody>
</table>

LIST OF JOINT STOCK COMPANIES, 1834 - 36

<table>
<thead>
<tr>
<th>COMPANIES</th>
<th>NATIONAL CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>88 Railways</td>
<td>£69,666,000</td>
</tr>
<tr>
<td>71 Mining</td>
<td>£7,035,200</td>
</tr>
<tr>
<td>17 Packet and Navigation</td>
<td>£3,533,000</td>
</tr>
<tr>
<td>20 Banking</td>
<td>£23,750,000</td>
</tr>
<tr>
<td>9 Conveyance (Coach and Omnibus)</td>
<td>£500,000</td>
</tr>
<tr>
<td>11 Insurance</td>
<td>£7,600,000</td>
</tr>
<tr>
<td>5 Investment</td>
<td>£1,730,000</td>
</tr>
<tr>
<td>6 Newspapers</td>
<td>£350,000</td>
</tr>
<tr>
<td>4 Canal</td>
<td>£3,655,000</td>
</tr>
<tr>
<td>7 Gas</td>
<td>£890,000</td>
</tr>
<tr>
<td>7 Cemetery</td>
<td>£435,000</td>
</tr>
<tr>
<td>65 Miscellaneous</td>
<td>£16,104,500</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>£135,248,700</td>
</tr>
</tbody>
</table>

(Source: History of British Insurance - H.E. Raynes)
Formation of Joint-Stock Fire Insurance Ventures

At the founding of the Phanix in 1782 there is recorded at a meeting of 25th June, 1782: "Mr. Dawes then read the Bubble Act in order to the consideration of the question whether we should proceed in our application for a charter or not." An application for a charter was made by the promoters, but it was declined for the reason, according to Sir F.M. Eden, that the Attorney General considered the public as likely to be better served by voluntary association of respectable individuals than by incorporated societies. As strengthening their position, the directors placed in the preamble to their deed of settlement a reference to the licensing provision under the 1782 Act in respect of unincorporated associations. In their minutes of a court of directors of 12th August, 1786, they describe their company - the Phanix - as a company trading upon a stock of transferable shares. Apparently, therefore, custom and practice in unincorporated joint-stock ventures had become too strong for the enforcement of those provisions of the Bubble Act as we aimed at such forms of association.

In the deeds of settlement of these eighteenth-century insurance companies which were binding on the shareholders, and which each member had to sign, precedent was substantially followed, but individual requirements were added making for development and improvement throughout the century. Considerable care was taken in the promotion of the Phanix and precedents were carefully examined. In the minutes of the early March, 1782, there was an incomplete draft of the settlement deed, much of which had been copied from the deed of the Bristol Fire Office (of 1769, transferred to the Imperial in 1839), and as a further guide the directors had borrowed the Sun Fire Office deed. In a minute of 21t January, 1782, the promoters of the Phanix resolved: "That if any question should arise concerning the operation of the above resolution before final execution of the deed of settlement of the company it shall be regulated according to the copy of the Bristol deed of settlement now in the hands of and authenticated by Mr. Jarman." When the companies office - the Pelican Life - was established in 1797, its deed of settlement followed the general design of that of the Phanix.

(Source: A History of British Insurance - H.E. Raynes)
FIRE INSURANCE COMPANY MARKET OF 18-19TH CENTURY

DUTY PAID FOR THE FINANCIAL YEAR ENDING 5TH JANUARY, 1806

<table>
<thead>
<tr>
<th>LONDON OFFICE</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sun</td>
<td>92,845</td>
</tr>
<tr>
<td>2. Phoenix</td>
<td>59,162</td>
</tr>
<tr>
<td>3. Royal Exchange</td>
<td>44,096</td>
</tr>
<tr>
<td>4. Imperial</td>
<td>23,141</td>
</tr>
<tr>
<td>5. British</td>
<td>18,744</td>
</tr>
<tr>
<td>6. Globe</td>
<td>17,249</td>
</tr>
<tr>
<td>7. Westminster</td>
<td>12,278</td>
</tr>
<tr>
<td>8. Hand-in-Hand</td>
<td>12,121</td>
</tr>
<tr>
<td>9. London Assurance</td>
<td>6,210</td>
</tr>
<tr>
<td>10. Union</td>
<td>4,783</td>
</tr>
<tr>
<td>11. Albion</td>
<td>3,560</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£ 294,197</strong></td>
</tr>
</tbody>
</table>

DUTY PAID FOR THE FINANCIAL YEAR ENDING 5TH JANUARY, 1806

<table>
<thead>
<tr>
<th>COUNTRY OFFICES</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kent</td>
<td>4,752</td>
</tr>
<tr>
<td>2. Newcastel-on-Tyne</td>
<td>3,759</td>
</tr>
<tr>
<td>3. Bristol Town</td>
<td>3,121</td>
</tr>
<tr>
<td>4. Norwich</td>
<td>3,064</td>
</tr>
<tr>
<td>5. Salamander</td>
<td>2,829</td>
</tr>
<tr>
<td>6. Liverpool</td>
<td>2,799</td>
</tr>
<tr>
<td>7. Bath (Old)</td>
<td>1,599</td>
</tr>
<tr>
<td>8. Worcester</td>
<td>1,427</td>
</tr>
<tr>
<td>9. Norwich Union</td>
<td>1,347</td>
</tr>
<tr>
<td>10. Hants, Sussex, and Dorset</td>
<td>1,313</td>
</tr>
<tr>
<td>11. Bristol Crown</td>
<td>1,258</td>
</tr>
<tr>
<td>12. Bath Sun</td>
<td>1,137</td>
</tr>
<tr>
<td>13. Essex Equitable</td>
<td>1,036</td>
</tr>
<tr>
<td>14. Birmingham</td>
<td>925</td>
</tr>
<tr>
<td>15. Fenchingfield</td>
<td>52</td>
</tr>
<tr>
<td>16. Wooler</td>
<td>43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£ 30,652</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SCOTTISH OFFICES</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Feindly</td>
<td>2,948</td>
</tr>
<tr>
<td>2. Glasgow</td>
<td>1,956</td>
</tr>
<tr>
<td>3. Dundee</td>
<td>1,521</td>
</tr>
<tr>
<td>4. Aberdeen</td>
<td>971</td>
</tr>
<tr>
<td>5. Caledonian</td>
<td>663</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£ 8,059</strong></td>
</tr>
</tbody>
</table>

(Source: History of British Insurance - H.E.Raynes)
IMPACT OF INDUSTRIALISATION ON FIRE INSURANCE DEVELOPMENT

The changing character of fire insurance business towards the end of the century as industrial development proceeded is seen from the list of great fires given in Walford's "Cyclopedia." In 1792 there were two: one in a cotton factory in Sheffield involving a loss of £15,000; and the other, also a cotton mill, in Manchester, with a loss of £100,000. Two years later there was a great fire at Wapping in London and Ratcliffe Highway, when, besides 630 houses there was burnt an East India warehouse, causing destruction of £40,000 of sugar and other merchandise. The total loss in this fire was estimated at a million.

In 1795 the greater part of the Town Hall and Exchange at Liverpool were burnt, and the same year saw the loss by fire of a large spinning factory in Manchester. In 1796 Liverpool was again the scene of great destruction of warehouse property and its contents. There was a loss the same year at Hunslett, Leeds, from the burning of a cotton mill. In 1797 Liverpool docks were involved in a great fire.

For great aggregations of property, which was a feature of the factory system and the storing of quantities of goods in warehouses, necessary in the expansion of overseas commerce, fire insurance became essential, and each great fire with its spectacular destruction of wealth drove home the lesson to manufacturers and property owners. Unfortunately the limited number of offices was insufficient for the requirements, and it seems that throughout the century there was great temptation to those offices taking commercial risks to depart from the principles of safe underwriting. At the outset of their history most of the early offices set a limit, which was quite moderate, to the sum insured on one building, but they did not avoid an accumulation of risk in one area. In the year 1720 the Union suffered a loss of £20,000 in a fire at Wapping, which they claimed "was far more than befell any other office at the time." It involved a contribution of 7s. 6d. per cent from insured goods in brick houses and a proportionate one from insured goods in timber houses. The danger of a number of insurances in one locality seems to have been realized from this experience, for in 1725 the Board of the Union ordered the amount of insurances in houses on London Bridge to be reduced from £17,000 to £5000.

The Hand-in-Hand took at its own risk £16,000 upon Bedford House; £33,000 on Woburn Abbey; and £20,000 on Carlton House, the residence of the Prince of Wales. In 1766 this office received a warning against these large insurances by a loss of £25,758 in one fire in Cornhill. Other fires in that year brought the losses to a total of £53,535, a figure not surpassed till 1893. In 1748, when there was a great fire in the City which burnt down the building of office itself, the London Assurance Corporation sustained losses to a total of £18,463 against premiums for the year of only £6563.

(Source: History of British Insurance - H.E. Raynes)
FINANCIAL BASIS OF FIRE INSURANCE

By the time the Industrial Revolution was beginning to gain momentum, fire insurance with the few offices established early in the eighteenth century had gained a place in public regard; and the element of risk, with the desirability for its elimination for merchants and manufacturers, was understood. Adam Smith, in 1776, wrote: "That the chance of loss is frequently undervalued, and scare ever valued more than its worth, we may learn from a very moderate profit of insurers. In order to make insurance, either from fire or sea risk, a trade at all, the common premium must be sufficient to compensate the common losses, to pay the expense of management and to afford such a profit as might have been drawn from an equal capital employed in any common trade. The person who pays no more than this evidently pays no more than the real value of the risk, or the lowest price at which he can reasonably expect to secure it. But though many people have made a little money by insurance very few have made a great fortune; and from this consideration alone it seems evident enough that the ordinary balance of profit and loss is not more advantageous in this than in other common trades by which so many people make fortunes. Moderate, however, as the premium for insurance commonly is, many people despise the risk too much to pay for it. Taking the whole kingdom at an average, nineteen houses in twenty, or rather perhaps ninety-nine in a hundred are not insured from fire. Sea risk is more alarming to the greater part of people and the proportion of ships insured to those not insured is much greater. Many sail, however, at all seasons and in times of war without an insurance. This may sometimes be done perhaps without any imprudence. When a great company or even a great merchant has twenty or thirty ships at sea, they may, as it were, insure one another. The premiums saved upon them all may more than compensate such losses as they are likely to meet with in the common course of chances. The neglect of insurance upon houses is in most cases the effect of no such nice calculation, but of mere thoughtlessness, rashness, and presumptuous contempt of the risk."

While Adam Smith was able to grasp at this early date the economics of insurance, his estimate of the proportion insured to uninsured was based on no statistics and must be accepted with extreme caution. After 1782, some statistics as to the amount of property insured against fire became available when the first ad valorem duty was imposed on sums insured under fire policies, and we shall refer to them later. By the time the third quarter of the century was ending, the percentage of property insured in the cities of London and Westminster must have been considered.

(Source: History of British Insurance - H.E. Raynes)
LEGAL ASPECTS OF RIOT-CIVIL COMMOTION RISK

In the course of his address to the jury, Lord Mansfield said: "In the year 1720 the London Assurance put into their policies all the words here used except civil commotion. Whatever fire happens by a foreign enemy is clearly provided against; when they burn houses or set fire to a town that also is provided for. What is meant by military or usurped power? They are ambiguous and they seem to have been the subject of a question and a determination. They must mean rebellion where the fire is made by authority as in the year 1733 the rebels came to Derby, and if they had ordered any part of the town, or a single house to be set on fire, that would have been by authority of a rebellion. That is the only distinction in this case—it must be by rebellion got to such a head as to be under authority. In the year 1726, some years after the London Assurance had done it, the Sun Fire Office put in an exception and in 1727 they put in other words: they do not keep to the form of the London Assurance: they do not say by invasion from foreign enemies merely: they clearly provide against rebellion, determined rebellion, with generals who could give orders. Though this be so guarded the Sun Fire Office did not think it answered their purpose, and therefore they took the words civil commotion. Not only using those words applicable to guard against a foreign enemy, against a rebellion where there are officers and leaders that can give authority and power, but they add other words as general and untechnical as can possibly be used: civil commotion, not civil commotion that amounts to high treason: they use a general expression—if the mischief happens from civil commotion, taking the largest and most general sense of the words that the language will allow . . . The single question is whether this has been a civil commotion . . . The present was an insurrection of the people resisting all law, setting the protection of the Government at nought, taking from every man who was the object of their resentment that protection as appears from the evidence given by the witness upon the facts and which you will know as well as if no witness had been produced. What was the object and end of this insurrection? It took place in many parts of the town at the same time and the very same night: the mob were in Broad Street, St. Catherine's in Coleman Street, at Blackfriars Bridge and at the plaintiffs. What is the object? General destruction, general confusion. It certainly was meant to aim at the very vitals of the constitution. It was not a private matter under the colour of popery only to destroy all papists under a prelature or a cry of 'No Popery.' But that general object was destruction and confusion. The Fleet Prison was burnt down: Newgate was burnt down the night before. The Kings' Bench Prison is burnt and all the prisoners set at liberty. The New Bridewell is burnt: the Bank attacked: consider the consequence if they had succeeded in destroying the Bank of England. The Excise and Pay Office on Broad Street were threatened. Military resistance and an extraordinary stretch were made and justified by necessity. There was a great deal of firing, many were killed; and the houses of a vast number of papists were burnt and destroyed. What is this but civil commotion? . . . I think a civil commotion is this, an insurrection of the people for general purposes, though it may not be to a rebellion where there is usurped power." The jury found for the defendants. The argument, given at some length, is typical of Lord Mansfield's style, an analysis with such relentless logic as to leave no doubt in his mind that his was the only conclusion which could possibly be accepted. There was, too, an element of rhetoric in his delivery which added force to his judgments: his short description of the Gordon Riots can take an honourable position next to that in 'Darnley Rude.'

(Source: History of British Insurance - H.E. Raynes)
EVOLUTION OF BRITISH TARIFF SYSTEM
IN 18TH - 19TH CENTURIES

There were twenty-four offices whose names appeared in the surveyor's accounts and Brotherton, in his paper on the subject, divided them into three groups according to the magnitude of their risks. In the first there were the Liverpool, the Sun, and the Phoenix; in the second the Royal Exchange, the Manchester, and the Imperial. In the third class three Scottish offices were bracketed together as if they were sharing risks between them we have seen that they had reinsurance agreements and this may have been the fact.

It is significant of the application of tariffs to local conditions that warehouses in different cities had considerable diversity of treatment, partly the result of experience and partly perhaps the result of collective bargaining by owners. The common features were a low normal rate with extras for additional hazards. These extras, however, different in separate localities for the same feature of hazard. In one place there was a charge of 15s for every storey above five, and in another 6d., while in yet another no charge at all was made. Openings through floors meant an addition to the rate of 6d. in one place and 15s. in another, and in others up to 4s. There were also a number of other discrepancies in treatment as to stove and tenancy charges. The warehouse tariffs had every mark of having grown up semi-independently, regard being paid to special local conditions in respect of building construction, water supply, and the predominant character of merchandise deposited.

Others, however, in administering a tariff never have had complete control, and nothing like a monopoly has been attained. Always there has been competition or potential competition which has had to be faced. A proportion of companies at all times have not adhered to the tariff, who, by underwriting each risk on what they regard as its merits may quote a rate below the strict interpretation of the tariff. Potential competition may rise from an increase in the non-tariff companies, either by secessions from the tariff or by promotion of fresh companies, a feature noticeable when business is especially profitable. Another source of potential competition is that of the association of manufacturers for mutual assurance. An early example of this occurred, in 1969, among the cotton mill-owners who formed at Manchester the Cotton Spinners' Mutual Fire Insurance Association. In this case the particular complaint of the mill-owners was that the companies were not giving them the advantage in premium reduction of the fire-extinguishing appliances installed. The Association charged the same contribution from their members as the tariff companies had when a risk was without the appliances, but made what they considered adequate reductions when such appliances were installed.

(Source: History of British Insurance - H.E. Raynes)
DEVELOPMENT OF FIRE INSURANCE
IN 17TH - 19TH CENTURIES

UNDERWRITING OF FIRE INSURANCE - 19TH CENTURY

"The prudent Fire Office creeps along from year to year feeling its way, watching the ever varying contingencies which affect it, raising and lowering its rates as growing experience dictates, and having to deal with hazards which it can measure very imperfectly, it so deals with them as to attain a high degree of safety."

(Source: 1900 (Vol.III FCII) - J.M. McCandish)

STABILISING INSTABILITY

Fire insurance is, in fact, still "a risk business." Nevertheless, success continues to attend the fire underwriter in the pursuit of his aim. A study of the fire loss ratios of the Phoenix Fire Office (later the Phoenix Assurance Company Limited) from 1782 to 1949 illustrates in a remarkable way the progress made over 170 years towards eliminating extreme fluctuations in the loss ratio, and thus achieving that "high degree of safety" which every underwriter desires. It is highly likely that were similar studies to be made by other offices they would show a parallel experience.

This study approaches the subject by taking periods of 10 calendar years, extracting the lowest and highest annual loss.

<table>
<thead>
<tr>
<th>Years</th>
<th>Period</th>
<th>Lowest Annual Loss Ratio</th>
<th>Highest Annual Loss Ratio</th>
<th>Range of Variation Points</th>
<th>Average Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>*1782-1791</td>
<td>10 years</td>
<td>46</td>
<td>82</td>
<td>36</td>
<td>65</td>
</tr>
<tr>
<td>1790-1809</td>
<td>20 years</td>
<td>50</td>
<td>180</td>
<td>130</td>
<td>80</td>
</tr>
<tr>
<td>1810-1819</td>
<td>10 years</td>
<td>35</td>
<td>62</td>
<td>27</td>
<td>46</td>
</tr>
<tr>
<td>1820-1829</td>
<td>10 years</td>
<td>49</td>
<td>85</td>
<td>36</td>
<td>63</td>
</tr>
<tr>
<td>1830-1839</td>
<td>10 years</td>
<td>37</td>
<td>68</td>
<td>31</td>
<td>56</td>
</tr>
<tr>
<td>1840-1849</td>
<td>10 years</td>
<td>47</td>
<td>160</td>
<td>113</td>
<td>66</td>
</tr>
<tr>
<td>1850-1859</td>
<td>10 years</td>
<td>46</td>
<td>78</td>
<td>32</td>
<td>60</td>
</tr>
<tr>
<td>1860-1869</td>
<td>10 years</td>
<td>46</td>
<td>120</td>
<td>74</td>
<td>67</td>
</tr>
<tr>
<td>1870-1889</td>
<td>20 years</td>
<td>47</td>
<td>78</td>
<td>31</td>
<td>60</td>
</tr>
<tr>
<td>1890-1899</td>
<td>10 years</td>
<td>59</td>
<td>76</td>
<td>17</td>
<td>64</td>
</tr>
</tbody>
</table>

* The Phoenix Fire Office was founded in 1782 and, therefore, the first 10-year period overlaps by two years the second.

(Source: Fire Underwriting in Theory and Practice - George Hurren)
IMPACT OF TOOLEY STREET FIRE 22 JUNE 1861

RESTRUCTURING OF LONDON FIRE INSURANCE MARKET

The immediate results of that impact were in the revision and classification of rates, but the ultimate effects were even wider and more profound. In the middle years of the nineteenth century Britain's industrial revolution was in full flood. The upsurge of new industries and resultant commerce was visible in a vast quantity of new factories and warehouses, many of them build rapidly and with little regard for durability, safety or suitability for accommodating manufacturing activities or the storage of merchandise. The chain reaction set up by the Tooley Street Fire brought about an elaborate classification of buildings and merchandise and insurance rates relating to them - developments as much in the interests of manufacturers and merchants as in those of the fire offices. The better your building, the less you paid to have it insured - the collective results of which simple axiom were to prove their value with the passage of time.

Furthermore, the amended London Mercantile Tariff of 1863 led to improvements in the practice of reinsurance, giving greater security to policy-holders in the event of serious disasters and conflagrations. It was, in fact, a returning point in the history of British insurance, for it consolidated the Associated Offices organisation out of which grew the Fire Offices Committee, established in 1868, and a year later the Fire Offices Committee (Foreign) - institutions which have since become a great importance and are today familiar to all those whose calling, whether at home or abroad, has anything to do with the underwriting of fire risks.

It is interesting to speculate on the workings of Providence as seen in the far-reaching results of a fire.

(Source: A Century of Insurance - The Commercial Union Assurance Group 1861-1961 - Edward Liveing)
WIDENING OF SCOPE UNDER FIRE INSURANCE POLICY - PROFIT INSURANCE

On the Continent, from about the middle of the last century, "chomage" or percentage policies were granted to cover consequential loss from fire. The principle adopted was that the insured should insure for the possible loss of profits in a named sum, in addition to his ordinary sum insured under the normal fire insurance; and in the event of loss under the latter he should have paid to him, under the Chomage Policy, such proportion of the sum he had insured thereunder as the settled loss under the fire policy bore to the sum insured under the fire policy. A 25 per cent loss under the fire policy would mean a payment of 25 per cent under the Chomage Policy. Such a practice has not been regarded favourable in this country; it can have little relation to the true loss of profits and encourages over-insurance.

During the present century, however, British fire offices have made a successful effort to meet the demand for what has come to be known as "Profits Insurance." The first development from the "chomage" or percentage policy was the "Time Loss" policy, under which the insurer pays to the insured for a period of twelve months from the date of the fire a sum in respect of each working day during which business is suspended in consequence of fire. If 300 days are taken as working ones during a year, then \( \frac{3}{100} \) of the sum insured as normal profits is payable for each working day lost. More elaborate methods of computing the basis of settlement of claim have come into force as the business has developed, and a formula set out in the policy provides for settlement by considering separately the items, of on sequential loss due to: (a) net profits; (b) standing charges; and (c) increase in cost of working. The formula applicable to any particular case depends upon the nature of the business carried on, and is adjusted to the circumstances.

A pioneer in profits insurance was the Profits and Income Insurance Company, established in 1901, which took over a small profits insurance business from the Western Insurance Company. By 1908 business of this nature had become sufficiently established to encourage many of the fire insurance companies to add it to their activities.

(Source: History of British Insurance - H.E. Raynes)
THE PERCENTAGE DUTY
ON BRITISH FIRE INSURANCE 1782–1896

The records of an annual percentage duty levied on British fire insurance from 1782 to 1869 are particularly useful because they are the only source which gives an overall picture of the home fire insurance market at a time when it was expanding rapidly.

Wartime financial pressures led the Government to introduce the duty in 1782, with fire offices having to collect it from their policyholders with each premium payment. Starting at a rate of 1s 6d p.a. for every £100 insured the duty was progressively raised so that by 1815 it had reached the highly unpopular level of 3s, which often meant that the Government took more from a policyholder in duty than he was paying his insurance company in premium. Nevertheless, despite strong protest and evidence suggesting that the duty encouraged under-insurance no alterations were made until 1864, when a reduction to 1s 6d preceded its repeal in April 1869.

Meanwhile, several changes were made in the scope of the duty. Initially, for example, it applied to all fire insurance’s transacted by British companies. But their foreign risks were exempted in 1786, and the colonies after 1810. Therefore the main records of annual duty payments from 1810 onwards simply cover all property insured in Britain, a point which should be borne in mind in making comparisons, because some companies, such as the Phoenix and Royal, had far larger incomes from overseas agencies than firms like the Sun, Norwich Union, and County. Company histories often show the importance of foreign business to particular offices.

The only other important change in the duty occurred in 1833 when farmstock insurances (on animals, crops, and implements) were exempted. Luckily for the historian, however, each company still had to complete a return showing the amount which it covered on farmstock, and these were published by the Government with lists of the duty payments.

(Source: The Percentage Duty on British Fire Insurance 1782–1896 - Roger Ryan)
# Premium-wise Ranking of British Fire Insurance Companies

## 1805 - 1825

<table>
<thead>
<tr>
<th>Share % of total market held by 5 largest firms:</th>
<th>1805</th>
<th>1816</th>
<th>1825</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sun</strong></td>
<td>28.48</td>
<td>20.60</td>
<td>16.19</td>
</tr>
<tr>
<td><strong>Phoenix</strong></td>
<td>18.15</td>
<td>13.74</td>
<td>9.15</td>
</tr>
<tr>
<td><strong>Royal Exchange</strong></td>
<td>13.53</td>
<td>9.08</td>
<td>6.95</td>
</tr>
<tr>
<td><strong>Imperial</strong></td>
<td>7.10</td>
<td>6.62</td>
<td>4.60</td>
</tr>
<tr>
<td><strong>British</strong></td>
<td>5.75</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Norwich Union</strong></td>
<td>-</td>
<td>6.32</td>
<td>9.53</td>
</tr>
</tbody>
</table>

Share % of total market held in total by:

| 5 largest firms | 73.01 | 56.36 | 46.42 |
| 10 largest firms| 89.16 | 75.21 | 64.37 |

| Total number of firms | 27 | 36 | 50 |
| Total amount of insurance (in £m) | 262 | 382 | 448 |

## 1829-33 - 1842... - 1862-98

<table>
<thead>
<tr>
<th>Share % of total market held by 5 largest firms:</th>
<th>1829-33</th>
<th>1842...</th>
<th>1862-98</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sun</strong></td>
<td>16.61</td>
<td>16.95</td>
<td>11.87</td>
</tr>
<tr>
<td><strong>Phoenix</strong></td>
<td>9.56</td>
<td>12.12</td>
<td>7.77</td>
</tr>
<tr>
<td><strong>Norwich Union</strong></td>
<td>8.68</td>
<td>7.64</td>
<td>5.46</td>
</tr>
<tr>
<td><strong>Protector</strong></td>
<td>7.79</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Royal Exchange</strong></td>
<td>7.24</td>
<td>7.24</td>
<td>-</td>
</tr>
<tr>
<td><strong>County</strong></td>
<td>-</td>
<td>5.54</td>
<td>-</td>
</tr>
<tr>
<td><strong>Liverpool, London &amp; Globe</strong></td>
<td>-</td>
<td>-</td>
<td>8.23</td>
</tr>
<tr>
<td><strong>Royal</strong></td>
<td>-</td>
<td>-</td>
<td>5.56</td>
</tr>
</tbody>
</table>

Share % of total market held in total by:

| 5 largest firms | 49.88 | 49.49 | 38.87 |
| 10 largest firms| 71.26 | 66.08 | 58.15 |

Total number of firms (English only in 1829-33) 42
Average total insured each year by all British fire offices (in £m) 492

(Source: History of British Insurance - H.E. Raynes)
BRITISH FIRE INSURANCE SCENARIO
(1300 A.D. TO 1900 A.D.)
DEVELOPMENT OF FIRE INSURANCE INDUSTRY WITH MACRO ENVIRONMENT TRANSFORMATION

13TH 14TH 15TH 16TH 17TH 18TH 19TH

1) PAPAL CONTROL ON RULERS
2) TRADE DOMINATED BY
3) URBANISATION

1) ENGLAND OVERSEAS COMMERCIAL SUPREME
2) BRITISH ENTERPRISE Takes over TRAE
3) COMMUNITY ARTISAN GUILDS FOR SECURITY OF MEMBERS AGAINST FIRE LOSS
4) COINSURANCE & FAC.
5) EXPLOSION, STORM, RIOT, CIVIL COMMOTION
6) WIDENING OF COVER
7) DEVELOPMENT OF FIRE TARIFF SYSTEMS
8) ESTABLISHMENT OF FIRE INSC.
9) STANDARISATION OF FIRE POLICY AND ADMINISTRATION PROCEDURES
10) FIRE ASSOCIATION
11) COINSURANCE & FAC.
12) REINSURANCE SYSTEM
13) TOLLEY ST. FIRE
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2000 BC TO 1950 AD

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Annexures 3.44 to 3.54

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### ANNEXURES FOR CHAPTER-III

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B.2) B) DEVELOPMENT OF BRITISH MISCELLANEOUS ACCIDENT INSURANCE BUSINESS

The class of Insurance business which is adequately wide and flexible in scope of cover to include all types of business which do not fall in three exclusive classes of Marine, Fire and Life is termed Miscellaneous Accident Insurance Business. It started its growth in the 19th Century and has continued its widening of scope upto the present day in the 20th Century. Within its group constituents, the development started in the form of Personal Accident Insurance in the 19th Century. (Annexure 3.44)

a) Personal Accident Insurance

Personal Accident Insurance was the typical response of developing Insurance Industry to the social welfare needs of society passing through the intrinsic change from Agricultural into Industrial norm. As reviewed in the history of Insurance Development, social welfare needs were met earlier through state schemes and later through Artisan Guild’s Schemes. By the end of 18th Century Life
Insurance practice based on actuarial principles had taken firm roots subject to the provisions of Life Assurance Act of 1774 and practice of Industrial Life Insurance was developed from the Friendly Societies formed to provide security to the low income strata of society in the post-retirement phase of life. From this development of Life Insurance emerged the class of General Insurance which provided financial cover in the event of accidental bodily injuries or death arising from the exposure of individuals to the risks of Industrial Revolution.

Railway Traffic was the prime mover in the development of Personal Accident Insurance. Railway travel with its attendant risks, partly real, partly imaginary and sometimes of spectacular magnitude, gave to promoters of companies under 1844 Joint Stock Companies Act an opportunity for providing insurance against Railway Accidents. Only two of them were established and carried on business. Railway Passenger Assurance Company established in 1848 commenced insurance policies providing insured passengers compensation in the event of railway accident. Railway Assurance Company established in 1848 was the other Accident Insurance Company which in 1850 merged with the new company Accidental Death
Indemnity company established in 1850, which introduced the cover to insure policyholders for annual premium of £ 1 per sum insured of £ 1000 against the rise of death from accidents of all types including Railway Accidents. This company advanced the scope of cover for compensation in the event of Non-fatal Accidents as well as the cover for payment of medical expenses of policyholders arising from the unfortunate event. Railway Passenger company merged in due course with North British Mercantile and Accidental Death Indemnity became part of Accident Insurance Company in 1867 which was subsequently amalgamated with Commercial Union in 1906. By 1860 Accident Insurance had developed with positive response from professional and mercantile classes.

Various types of policies had been developed to offer specific compensation against specific injuries - for the loss of one eye £ 100, and £ 250 for the loss of both eyes. Next major development came in 1885 when the Edinburgh based company Sickness & Accident Insurance Association started issuing policies that provided for compensation payment for disablement in the event of certain specified sicknesses. The policy terminated at the age of 65 and as an inducement to the policyholders
to continue his policy, a bonus, depending on the profit was to be paid at the terminal age of 65. Another company established in 1884, the Medical Sickness and Annuity & Life, transacted similar type of business for members of medical profession. With the advance of Medical science and availability of statistical data, Accident Insurance widened in scope and multiple types of cover.

Development of Accident Insurance was promoted with the passing of the special Act of Parliament in 1849, which granted the Railway Passengers Assurance Company special privilege that claims paid by them to their policyholders will not be deducted from the compensation due to them from Railway Companies.

With the extension of the cover granted under personal accident policies, insurance companies experienced adverse experience owing to the increasing incidence of fraudulent claims and inadequacy of rates to match liability. Statistical investigation as made by actuaries, concluded with observation that certain occupations were not insurable at any rate and for some occupations the rates charged were highly inadequate. Occupationwise classification of clients and practice of risk categorywise rates was thus introduced after 1860.
Personal Accident Insurance business thus matured as conventional type of business by the end of 19th Century. Moreover, even though the business was developed by specialist companies in the initial phase, they were taken over by Generalist Insurance companies in due course. By the end of 19th Century Underwriting of Personal Accident and Sickness Insurance became the part of the specialist department of a General Insurance Company offering their clients multi-sectoral insurance service. (Annexure 3.45)

b) **Miscellaneous Accident Insurance of Property**

Fire Insurance practice had developed to an advanced stage by the end of 18th Century. Success in this field encouraged Insurers to extend this method to cover other accidental damage risks of property and machinery in the era of fast progressing Industrial Revolution.

i) **Plate - Glass Insurance:**

Plate-Glass Insurance emerged as a commercial practice in the middle of the 19th Century.
Commercial enterprise had developed into expansion of shops with expensive plate-glass fronts. The demand for losses arising from the accidental damage of valuable decorative glass was met by the covers given by Plate-Glass Insurance Company established in 1852. With the specialist nature of business requiring local promotion and control, a number of companies were formed in larger towns to write Plate Glass Insurance and by the end of 19th Century over 50 joint stock companies and many more mutuals were established to function in this sector as independent units, though pioneer companies starting this business were taken over in due course by developing mega-size Composite Insurance Companies like Commercial Union or Royal Exchange group. (Annexure 3.46)

ii) Burglary Insurance:

Losses arising from theft had increased during the period of social turmoil accompanying Industrial Revolution. It was not until 1887 that the first Fire Policy was extended to include the Theft Cover. The term 'Theft' was then not prevalent and the crime was defined as Burglary. The Mercantile
Accident and Guarantee Insurance Company initiated in 1889 the practice of Burglary Insurance and they were followed in next 12 years by the formation of Fire and General Insurance Company, Goldsmith and General Burglary Insurance Association and National Burglary Insurance Corporation. Competition amidst these Specialist Insurance companies was very keen but they handled this new type of business by careful assessment of Moral Hazard aspect and Standardisation of Cover to promote Co-Insurance and reinsurance within group to cover risks of substantial amount. Fire Insurance Companies had to provide their clients this service of Burglary Insurance either through opening their Burglary Insurance Departments or by purchasing the specialist company writing this business. Before the end of the 19th Century all Fire Insurance Companies and a large number of Lloyds syndicates writing non-Marine Insurance started writing Burglary Insurance, registering substantial increase in Burglary Insurance policies. (Annexure 3.47)

c) **All Risks Insurance**

Towards the end of the 19th Century, as a logical development of Fire and Theft Insurance emerged the
practice of All Risks Insurance. This form of Insurance represented a wide form of cover against loss of or damage to property arising from almost any cause subject to certain exceptions. All Risks Cover was to meet the need of commercial class, for single umbrella cover of insurance against multiple type of risks arising from the dynamic environment of new socio-economic era of Industrial Revolution. This need of comprehensive package of covers has continued to widen the scope of covers under the policies in 20th Century, creating challenges to the continuity of conventional types of policies. The process of packaging of risks started in the last decade of 19th Century has intensified complexities of Insurance Cover in the last decade of 20th Century, raising a question of survival of General Insurance in conventional form to meet adequately socio-economic - technological needs of society in the 21st Century.

d) Engineering Insurance

The most specialist product of 19th Century Insurance Industry was the practice of Engineering Insurance. Industrial Revolution brought with its technological advance, the problem of risk of damage
and injury inherent in the operation of the new machinery. The most frequent occurrence in connection with machinery was the explosion of boilers and other pressure plant that was then being employed to run power machinery. With the advance of Industrial Revolution, the consciousness of society about exposure to Risk developed. The Manchester Steam Users Association was established in 1854 and maintained an independent existence till it was amalgamated with the British Engine Boiler Insurance Company in 1933. It is worth noting prompt response of Insurance Entrepreneurs of coupling Insurance Covers for Boilers Risk with Safety Inspection Service. In 1858, the Steam Boiler Assurance Company began issuing policies combined with inspection service. It changed into Boiler Insurance and Steam Power Company in 1865 and in 1896 became the Vulcan Boiler and General Insurance Company. After passing of Boiler Explosions Act by which severe penalties could be imposed for negligence of the Factory owner, the situation in respect of safety aspect of plants improved significantly, but initiative shown by British Insurance in the early phase of industrial revolution of taking responsibility of providing cover coupled with inspection system shows their vital contribution to the success of British
Industrial growth. The practice of coupling Fire Insurance with Fire Brigade service was the precursor of Boiler Insurance with Safety Inspection Service and had laid the foundation of Modern Risk Management System of Insurers. (Annexure 3.48)

e) **Financial Risk Insurance**

18th Century was the era of commercial capitalism. With the continued expansion of commercial enterprise in 16th - 17th Centuries, the development of financial infrastructure necessary to support it was vitally important to maintain smooth money transactions amidst members of trading and industrial community. Financial needs of these entrepreneurs promoted development of Financial Insurance covers like Fidelity Guarantee. The first venture in the field of guarantee insurance was Guarantee Society established in 1842 with the objective of obviating the defects of the system of suretyship by private bondsmen. The Guarantee Society undertook for the consideration of payment of small premium to make good in case of default by Fraud or Dishonesty of Surety any loss which may be sustained by the beneficiary under the deed. A private act of the Parliament was passed providing
for the usual legal proceedings for or against the Society in the name of the officer and setting out the nature of the business enabling the Treasury to accept the Security given by the Society. In 1845 British Guarantee Association was formed to provide financial Guarantee on similar lines. In following decades a number of Guarantee Companies were formed to underwrite this business and some of them did it in conjunction with Life Insurance business. For writing this business in conjunction with Life Insurance it was necessary to fulfil compliance with stipulations under the special act in respect of (i) subscribed capital, (ii) paid up capital, (iii) special fund to be invested in the name of nominees of treasury and (iv) the limit of any single guarantee in proportion to accumulated fund. The failure of European Life and Guarantee in 1872 was a historical event in the development of this business. The number of Guarantee Companies reached 30 by 1890 and the area of their business widened with the demand for a company’s guarantee in place of personal surety in connection with Court grants where the handling of money or securities occurred as in the case of receivers appointed by the court, managers, trustees, and liquidators in bankruptcy or under the probate act of 1857 auctioneers selling property under the order of the court.
As banking operation developed extensively insurance needs for cash in transit and cash in safe developed and Insurance companies developed these covers. Towards the end of the 19th Century in 1893 another form of pecuniary insurance began to be transacted providing Credit Insurance, insuring against the risk of non-payment of amount by the buyer of goods. By the end of the 19th Century Financial sector of Miscellaneous Accident Insurance Business was adequately developed to meet needs of Commercial and Financial Enterprises of capitalist era.

(Annexure 3.49)

f) Motor Insurance

With the arrival of Railways, for protection of the public a special act - Locomotive Act - was passed stipulating that vehicles moving on the public roads under power other than horse power should be in charge of three persons, the driver and two persons - one walking in the front with red flag warning the pedestrians of vehicle in motion, and the other one walking behind the vehicle. These stipulations made it impossible for the use of the newly designed vehicles propelled by petroleum, gasoline, steam and electricity on the public roads in Britain.
The trial runs between Paris and Bordeaux had inaugurated in Europe the age of automobiles. In 1896, the Law exempting carriages propelled by other than horse power from the regulations of the Locomotives Act was passed. Automobile Trial Run between London and Brighton commenced the Motor era in Britain. Scottish Employees Liability and Accident Company introduced the practice of Motor Insurance by covering the risks of damage to the cars, the accident risk to passengers and direct third party risks, excluding the accidents caused by frightened horses. As a major class, Motor Insurance developed in the 20th Century, but in the last five years of 19th Century, a number of Accident Insurance Companies were offering their client Motor Car Insurance - the leader amidst them being Law Accident Insurance Society.

(Annexure 3.50)

g) Liability Insurance

Industrial Revolution triggered simultaneously social revolution of British Society. Positive benefits of new production norm were appreciated but their negative impact in terms of increase in exposure of the members of society to the risk of
fatal and disability causing injuries had to be constrained. In Free Market scenario in its early phase the profit hungry capitalist entrepreneurs attempted to establish 'Volenti Non Fit Injuria' as the basic legal principle of Industrial Society, releasing them from the responsibility of operational liabilities causing injuries to workmen and third parties. This principle was later strengthened by the principle of Common-employment releasing the owner of the industrial establishment of consequences of acts of omission or negligence of fellow workers. But the socially conscious progressive citizens and organised Trade Unions succeeded in restraining the freedom of Industrial Employers under successively passed statutes of Employer Liability Act 1880 and Workmen's Compensation Act of 1897 providing for liability of Employers to financially compensate their workmen for fatal and disability injuries arising during the course of employment.

Watching the trend of events to come some entrepreneurs had already established even before the passing of Employers Liability Act, Employers Liability Insurance Corporation with the objective of protecting and indemnifying employers from liability arising from injury, damage, or loss.
occurring due to or caused by agents, servants and workmen or other employees or persons acting on their behalf. Technique of underwriting these risks in the initial stage on limited statistics of claims was difficult but with experimental rates technical basis was laid for this class of business. Before the end of the decade this first Liability Insurance Corporation developed its income to the level of £250,000 and dividend declared was 6¼%. Railway Passenger was another accident insurance company which wrote substantial liability insurance business. Most of the accident insurance offices wrote this business by the end of 19th Century and their estimated incomes are as per the schedule given in Annexure 3.51/A. The acts of 1880 and 1897 did not provide compensation for injury but only for loss of earning capacity and in subsequent years this liability was substantially enhanced to cover disability claims. Insurance Companies have kept pace in the widening cover of their policies to match the scope of legislation.

In 19th Century also started the development of the Pubic Liability Insurance providing cover for Legal Liability of owner of vehicle or business or industrial establishment to pay claims to persons other than employees who are injured or whose
property is damaged by acts arising from operation of their using. The earliest policies in this class towards the last quarter of the 19th Century related to horsedrawn coaches and this developed into 'Third Party' section of Motor Policy. (Annexure 3.51/B)

h) Macro Environment and Development of Miscellaneous Accident

As per the methodology adopted for this Research Thesis, this part of the Chapter-III will be also concluded by summarising the Macro Environment factors and the development of Miscellaneous Accident portfolio. Miscellaneous Accident is the typical product of the 19th Century environment of Commercial Capitalism and Industrial Revolution. It emerged to meet the technological, socio-economic needs of the society passing through the transformation from Agricultural phase of Industrial phase via the medium of commercial capitalism. Direct linkage between the various types of policies comprising Miscellaneous Accident portfolio and Macro Environment needs of society is summarised below and illustrated graphically in Annexure 3.52.
<table>
<thead>
<tr>
<th>Period</th>
<th>Macro Environment Factor</th>
<th>Need</th>
<th>Insurance Policy</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Insurance of Cash in Transit and Cash in Safe.</td>
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<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Second half of 19th Century</td>
<td>1. Social turmoil consequence Acts of Burglary, Thefts, Malicious damage Riots, etc.</td>
<td>Protection to Property</td>
<td>Burglary Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>All Risk Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Boiler Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Engineering Insurance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Accident Insurance - Professional risk.</td>
</tr>
<tr>
<td>Last decade of 19th Century</td>
<td>1. Beginning of use of motor vehicles on public road.</td>
<td>Protection against liability for injury / damage to public Accidental damage to vehicles.</td>
<td>Public Liability Insurance</td>
</tr>
<tr>
<td></td>
<td>2. Explosion of Trade on Credit Basis.</td>
<td>Insurance of Loss from Credit Transactions.</td>
<td>Motor Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Credit Insurance Policy.</td>
</tr>
</tbody>
</table>
B.3) DEVELOPMENT OF INSURANCE LEGISLATION

From time to time legislation was passed during the tri-centennial period from 1600 - 1900 to control development of Marine, Fire and Miscellaneous Accident Insurance allowing issue of policies and their acceptance by government authorities as securities. Case histories had also developed substantially stipulating basic principles under Insurance Contracts. Joint-Stock companies Legislation had also substantially advanced from the initial phase of Bubble Act in 1720. But the first piece of legislation designed specifically to regulate Insurance Business was the Life Insurance Companies Act of 1870. Although the act applied to Life business only, in so far as there were companies writing all classes of business Life, Marine, Fire and Accident, they were affected by the Act. The development of Insurance Legislation starting in 1853, was slow due to the complexities of problems arising from the diverse characteristics of various types of business and the organisational norm diversity of joint-stock companies, mutuals and Friendly Societies.

Since the Companies Act of 1862, offices writing Life and Fire Insurance had multiplied fast. The
instability and failure of Life Policies was highly significant and its impact on public exposure to loss of money was far more wide spread as compared to Fire or Marine sector and hence there was priority for introducing Insurance Legislation to regulate Life business as compared to General Insurance sector. Since the subject of study of this research paper is General Insurance, the features of this Act of 1870 are not considered in depth but it is worthwhile to summarise its vital stipulations which served in 1909 as the basis of the Insurance Act which covered all Insurers writing Life, Fire Accident, Employers' Liability and Bond Investment business.

Provisions of 1870 Act were divided into five main heads (i) Deposits, (ii) Separation of Life Fund, (iii) Accounts Returns and other information for members, (iv) Amalgamation and (v) Winding up. Objective of the Legislation as to ensure Financial Security of Policyholder by monitoring annually or periodically Financial Soundness of Insurance Company. Foundation was thus laid for the exclusive Legislative Control of operation of Insurance Companies besides their control under Company Acts applicable to all commercial joint-stock companies. (Annexure 3.53).
B.4) OVERSEAS OPERATION OF BRITISH INSURANCE COMPANIES

As concluded in the review of Macro Environment Britain had developed by the mid-19th Century as supreme Political -Economic Industrial power with her Colonies spread over all Continents constituting our Globe.

British Insurers followed the lead given by Commercial Companies in establishing their operating units in the form of Branches and Agencies in all Colonial Markets. Major part of this business came from the market of North-America in colonial and post-colonial period of their history. In second half of 19th Century, economic development in USA was faster than the pace of Britain and yet the British Insurance companies dominated in North American market owing to the trust generated by their prompt and satisfactory settlement of catastrophic claims arising in 1869 from Chicago Fire. British Companies operating in USA had bigger financial resources under competent management as compared to newly formed Small and Medium Size local companies. If this was the situation in financially strong market of North America, the dominant role of British Insurance companies in newly developing
markets of India, West Indies, Australia, Africa, can be well imagined.

Expansion of overseas business in Foreign Markets was initially through the network of Agencies, Branches and later on through the formation of Subsidiary Companies particularly in the markets of North America. In the colonies, the expansion of business was substantial particularly in Indian Market and relatively it was highly profitable as compared to North American market though premium quantumwise it was smaller. Spread of Business of British Companies in various sectors of global market is shown by the territorial spread of colonial Life Assurance Company's business in 1864. (Annexures 3.54)

Besides Agencies, Branches and Subsidiary Companies, the overseas business of British insurance companies was developed from the beginning of the 19th Century in the form of Foreign Risk written in London Market either by Companies or by Lloyd's brokers. Phoenix Insurance Company gets the status of establishing first overseas agency in 1805 at New York. This activity of British Insurance in North America was suspended in 1812 and restarted only in the second half of 19th Century. Alliance was the pioneer in
starting operation of British companies in India, West Indies, Canada. Annexure 3.54/A gives the data of operation of British Companies in Foreign markets.

Initially the overseas operation of British companies developed in European market through the medium of Reinsurance Treaties. Germany gets the credit for developing reinsurance Business and the treaty between British company Globe and German Company Wartretnobergeische was the first International Reinsurance Transaction in the form of treaty. From 1860 onwards the Reinsurance treaty operation between British companies and German and Swiss companies developed substantially and by the end of the 19th Century through the network of Reinsurance Treaties the British Insurance Companies became far more International sharing the major risks spread all over the world.

From the aspect of linkage between Macro environment and Insurance Business, it can be seen that British Direct Overseas Insurance operation is basically offspring of British colonial spread as well as Commercial Enterprise shown by British traders right from the early days of 16th Century. Reinsurance Business is the product of Global Industrial and
Financial Expansion of Commercial and Industrial Enterprise generating need for spreading of high quantum Risks amidst extensively spread out Financially strong Insurers with Technical Competence to underwrite complex Risks of advancing Technology.

Conclusion of Part V of Chapter III

To conclude our survey of business under Part V of Chapter III we can say that tri-centennial period (1600 - 1900) thus established General Insurance in Multiple Operational Norm in all sectors of Global Market whilst human society completed its transformation from Agricultural norm into Industrial norm in the Western World and the era of colonialism started the slow transformation of life of people living in the continents of Asia, Africa and Latin America from the feudal age into the era of modern political, commercial, industrial society.
The Accidental Death Indemnity made its first appeal to the working classes, and on their failing to respond turned to the professional and mercantile classes instead. Here they found a demand, and a rapidly increasing premium income was secured, as shown in the following figures:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PREMIUM INCOME £</th>
</tr>
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<tbody>
<tr>
<td>1850</td>
<td>1,228</td>
</tr>
<tr>
<td>1851</td>
<td>2,668</td>
</tr>
<tr>
<td>1852</td>
<td>6,326</td>
</tr>
<tr>
<td>1853</td>
<td>10,752</td>
</tr>
<tr>
<td>1854</td>
<td>15,103</td>
</tr>
<tr>
<td>1855</td>
<td>18,059</td>
</tr>
<tr>
<td>1856</td>
<td>21,762</td>
</tr>
<tr>
<td>1857</td>
<td>25,530</td>
</tr>
<tr>
<td>1858</td>
<td>33,260</td>
</tr>
</tbody>
</table>

In 1859 the business of the company was amalgamated with that of the Travellers and Marine Insurance Company, the amalgamated business continuing under the name of the Accidental Death Insurance Co., the shareholders of the original Accidental Death Indemnity being repaid with a bonus of 25 per cent.

(Source: A History of British Insurance - H.E. Raynes)
DEVELOPMENT OF SICKNESS INSURANCE

The railway Passengers Assurance Company was empowered by a special Act of Parliament in 1849, under which it claimed a special privilege, for when assessing the damages against a railway company in respect of a fatal accident any sum payable under its policy was not to be taken into account; without such provision any sum payable under the policy would have had to be brought in. This position held generally till the Fatal Accidents (Damages) Act, 1908, which enacted that any sum payable on death under any contract of insurance should not be taken into account in assessing damages. In 1855 the company enlarged the cover under its policies, so that it embraced compensation for death and disablement on account of accidents other than those arising from railway travelling. At the same time it withdrew the sum payable for fees for medical attendance, as it was thought by setting their maximum sum out in policies there was a tendency for medical attention and consequent incapacity to last till the sum had been exhausted.

(Source: A History of British Insurance - H.E.Raynes)
Plate-glass insurance was another class of accident insurance which made its appearance in the middle of the last century, a time when expensive plate-glass was used for shop fronts. The demand for insurance against loss by breakage was met by the foundation of Plate Glass Insurance Company in 1852, and two years afterwards by the National Provincial Plate Glass Co. The former maintained its independence till 1910, when it was absorbed by the Commercial Union; and the National Provincial, after certain changes in name, was in 1909, brought into the Royal Exchange group. From the nature of the business, plate-glass insurance lent itself to local promotions and local control, and a number of insurance companies to transact local business were formed in the larger towns. They were small and a semi-mutual type: among them may be mentioned the Bath (1872), Bradford (1874), Halifax (1871), Ipswich Mutual (1886), Isle of Wight (1889), Nottingham (1886), and Torquay (1885). Although there were, in 1890, about forty companies transacting this business. Since then many more mutual companies have sprung up locally and have maintained independence. The business is not one of those set out in Section I of the Assurance Companies Act, 1909, and no deposits are required on formation. A local mutual association may be efficiently administered.

(Source: A History of British Insurance - H.E. Raynes)
DEVELOPMENT OF BURGLARY INSURANCE
THE ORIGIN AND HISTORY OF BURGLARY INSURANCE

Burglary Insurance, under which comprehensive title is included insurance against loss by burglary, housebreaking, larceny of theft and sundry other risks, is a plant of comparatively modern growth, especially when compared with the older branches of insurance - marine, fire and life. It is now more than two hundred years since Insurance Companies were formed and established on a sound basis for the transaction of marine, fire and life business, yet although many attempts at the formation of companies to carry on burglary insurance may be traced during the past century, it was not until the year 1889, that the first successful attempt to launch a Burglary Insurance Company was made.

The late arrival of burglary insurance into the arena was no doubt chiefly due to lack of demand. The general public up to the closing years of the nineteenth century took no interest in this form of insurance cover, and there was without doubt not the same need for it. People in those days lived much more uneventful lives. They dwelt largely in "attached" houses, and their houses were seldom, if ever, left uninhabited. The development of the "villa" type of residence and the gradual alteration in the habits of the people, consequent upon improved methods of transport, had much to do with the development of burglary hazard. In any event, once the business became firmly established, it made sure of repute, and is in constant demand by all sections of the community.

The first recorded instance of a Company being formed for insurance against burglary occurred during the period of the South Sea Bubble. In 1720 four Robbery Insurance Companies were founded, all of which perished in the landslide which followed that ill-fated period.

Nothing further appears to have been done until more than a century later, when in 1865 a Company was registered under the title of the Burglary Insurance Company, with a capital of £ 2,000. No information is, however, available as to whether the company was ever floated, no record of any business done has been handed down.

It is true that burglary insurance was not to any extent transacted by the Companies till some years later, but in 1888 burglary risks were covered at Lloyd's by means of an endorsement on fire policies, whilst in 1889 a form of burglary policy was evolved for use by Lloyd's Underwriters.

(Source: Burglary Insurance - C.E.Golding)
Another branch of accident insurance made its appearance about the middle of the last century: this was steam boiler insurance. The Manchester Steam Users' Association was established in 1854 and maintained an independent existence till it was amalgamated with the British Engine Boiler Insurance Co. in 1933, which has been allied with the Royal Insurance Co. since 1942. Another company, the Steam Boiler Insurance Co., was registered on 11th March, 1858, and changed its name to the Boiler Insurance and Steam Power Co. in 1865; in 1896 it became the Vulcan Boiler and General Insurance Co., taking over in the same year the Yorkshire Boiler Insurance Co. IN 1920 the company, while retaining its independence, became allied with the London Assurance. Other companies came into existence about 1880, including in their objects employers' liability insurance as well as boiler insurance.

In 1882 a short Act was passed - the Boiler Explosion Act (45 & 46 Vict, c.22) under Section 5 of which notice had to be sent to the Board of Trade within twenty-four hours of the explosion of a boiler. In Section 3 a boiler mans "any closed vessel for generating steam or for heating water or for heating other liquid or into which steam is admitted for heating, boiling, or other purpose." The Act did not apply to domestic boilers or to a boiler on a steamship, not to an explosion as to which an injury could be made under the Coal Mines Regulation Act, 1872. The object of the Act, as given in its title, was "to make better provisions for inquiries with regard to boiler explosions," and this was covered by Section 6. On receiving notice of an explosion, the Board of Trade could, appoint a competent engineer to make preliminary inquiry, or it might without such preliminary inquiry direct formal investigation by a Court consisting of not less than two commoners, one at least of whom should be an engineer especially conversant with boilers, and one to be a competent lawyer, the Court to be presided over by one of the Commissioners to be settled by the Board of Trade. A report had to be made by the Court of the Board of Trade stating the causes and all the circumstances of the explosion, with evidence and any observations thereon. By a further Act of 1890 (55 & 54 Vict., C.35), which, the earlier Act was to be known as the Boiler Explosion Acts, 1882 and 1890, the Act of 1882 was extended to explosions of boilers in any British ship.

This legislation substantially added to the importance and functions carried out by the boiler explosion insurance companies, of which in 1890, there were eight main companies centered in the manufacturing districts. A further development took place with the passing of the Factory and Workshops Act of 1901 (1 Edw.VII, c.6) under which every boiler in a factory or workshop had to be examined thoroughly by a competent person at least once every fourteen months (Section 11). The regulations were strengthened in 1911 and 1920 under the Factory and Workshop Acts, 1901 to 1920. The provisions of Section 11 were in 1911 extended to coal mines.

(Source: A History of British Insurance - H.E.Raynes)
The first company established for granting insurance of this description was the Guarantee Society, with an authorized capital of £500,000 in £20 shares. It is in existence to-day as one of the allied companies of the Yorkshire, with which it became associated in 1914.

In 1845 another guarantee society was formed in Edinburgh, the British Guarantee Association, with an authorized capital of £250,000 in £10 shares, and in a private Act of 1850 the Treasury was permitted to accept their guarantee in a manner similar to that of the Guarantee Society of London. A Treasury Minute of 16th February, 1847, read: “My Lords have before them the form of a policy of guarantee which has been approved of and settled by the Law Officers of the Crown and which their Lordships' Solicitor has reported to be in proper form to be used in all the public departments and the same has been printed by the Association and copies thereof laid before the Board.” A number of other companies were formed to transact the business, some in conjunction with life assurance. The ill-fated European Life and Guarantee, which was wound up in 1872, acquired a guarantee business from an earlier company, and commenced a policy of expansion in 1859 both in life and guarantee insurance. For the latter business a special Act was obtained under which a reserve for the guarantee business was set up, commencing at £20,000, and to be increased yearly by £2000 till it should reach £100,000. The fund was to be invested in Government securities in the names of three or more directors to be named by the Treasury.

In 1867, before the crash of the European, an Act was passed setting out general conditions which had to be compiled with before the guarantee of a company could be accepted by Government Departments. They were: (a) a subscribed capital of not less than £50,000, with not less than £20,000 paid up; (b) special fund to be formed of not less than £10,000 to be increased in instalment of £1000 up to £20,000 to be invested in the names of three or more directors nominated by the Treasury. This fund was to be exclusively liable for guarantees after all the other assets had been exhausted; and (c) the limit of any single guarantee of £1500 while the special fund was less than £20,000, £3000 when the fund was between £20,000 and £30,000 and soon, rising to £10,000 when upwards of £50,000.

(Source: A History of British Insurance - H.E.Raynes)
DEVELOPMENT OF MOTOR INSURANCE

Locomotives on Highways Bill to the House of Commons. The object of the Bill, he said, was to exempt carriages propelled by other than horse-power from the regulations of the Locomotives Act in cases where they were not used for traction purposes. "Hon. Members," he went on, "who had recently visited Paris would have observed that there were a not inconsiderable number of carriages propelled by petroleum, gasoline, steam and in some cases by electricity. In a trial run between Paris and Bordeaux a carriage propelled by petroleum won, having travelled at a rate of fifteen miles an hour. These carriages were completely under command and horses were not frightened by them." He pointed out that the use of these carriages was practically prohibited in this country by the regulations of the Locomotives Act. Under the provisions of that Act it was necessary that such locomotives should be in charge of three persons at least, one walking in front (carrying a red flag), one behind, and one driving, and the engine could not proceed at a greater speed than four miles an hour in the country and two miles in a town.1 Owing to the change in Government this Bill was not passed, but a fresh one was introduced in the Lords on 23rd April, 1896, and became law without opposition.

To celebrate this freeing of the roads to motor traffic, a trial run between London and Brighton on the lines of that between Paris and Bordeaux was arranged for the 14th November, 1896. It is significant of the initiative of at least one accident insurance company, that the Scottish Employers' Liability and Accident Company (whose business was transferred to the London and Lancashire Fire Office in 1904) offered, through an agent, insurance for the competitors, which was to include accidents to passengers, damage to cars, and apparently direct third-party risks, for the letter offering the cover stated that "the above rates will not cover accidents caused by frightened horses." At the same time the office offered yearly insurances at the rate of 2 per cent of the sum assured plus £5 per car in London, and 70s. per cent and 30s. per car in the country.2

Before the end of the century a number of accident insurance companies were offering motor-car owners insurance, a pioneer in the business being the Law Accident Insurance Society. It became obvious in the first decade of the present century that a new class of insurance business of considerable magnitude was developing, and insurance companies, such as the Car and General Insurance Company, in 1903, were established for the purpose of working in this new area. Competition between the older accident companies, the new promotions, and Lloyd's underwriters depressed rates to

(Source: A History of British Insurance - H.E. Raynes)
DEVELOPMENT OF MOTOR INSURANCE

unremunerative levels. Under the Assurance Companies Act, 1909, motor vehicle insurance was not one of the branches of business to which the Act related, so that both before and after the Act coming into force, companies transacting motor insurance, but not one of the specified classes, might be established without making a deposit of £20,000, a weakness which was the cause of a certain unhealthy condition in motor insurance until the passage of the Road Traffic Acts, 1930-1934. Thereafter a company which transacted motor vehicle insurance had to make a deposit of £15,000 irrespective of any other deposit it made and, as the importance of the third-party risk covered has become greatly increased in consequence of compulsion under these Acts to cover it by insurance, the stability of insurers has become much more the concern of the Government.

Before the passage of the Road Traffic Act, insurance companies transacting one of the classes of business to which the 1909 Act related, and also motor vehicle insurance, carried the premium income from the latter into their general accident account (with other items such as burglary, fidelity guarantee, and foreign casualty insurance), so that the total premium income from motor vehicle insurance was not shown. From 1931, however, a separate revenue account had to be returned to the Board of Trade in the form required by the schedules to the 1909 Act, and the premium income from the companies could be seen. A table prepared by the Board of Trade and published with the minutes of evidence taken before the Departmental Committee on Compulsory Insurance, 1936, is of much interest. There is shown below, for a series of years, the premium income of the companies in their general or miscellaneous account, and from 1931 that also of the motor vehicle insurance (both home and abroad). Assuming that the

<table>
<thead>
<tr>
<th>Year</th>
<th>Miscellaneous</th>
<th>Motor Vehicle</th>
<th>Total</th>
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</thead>
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<tr>
<td>1925</td>
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<td>—</td>
<td>£44,454,000</td>
</tr>
<tr>
<td>1926</td>
<td>£48,748,000</td>
<td>—</td>
<td>£48,748,000</td>
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<td>1927</td>
<td>£51,851,000</td>
<td>—</td>
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<td>1928</td>
<td>£54,315,000</td>
<td>—</td>
<td>£54,315,000</td>
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<tr>
<td>1929</td>
<td>£56,312,000</td>
<td>—</td>
<td>£56,312,000</td>
</tr>
<tr>
<td>1930</td>
<td>£53,814,000</td>
<td>—</td>
<td>£53,814,000</td>
</tr>
<tr>
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<td>£53,750,000</td>
<td>£2,532,000</td>
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</tr>
<tr>
<td>1932</td>
<td>£21,587,000</td>
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<td>£23,382,000</td>
</tr>
<tr>
<td>1933</td>
<td>£1,891,000</td>
<td>£1,266,000</td>
<td>£3,157,000</td>
</tr>
<tr>
<td>1934</td>
<td>£23,710,000</td>
<td>£1,876,000</td>
<td>£25,596,000</td>
</tr>
</tbody>
</table>

Source: A History of British Insurance - H.E. Raynes)
MACRO-ENVIRONMENT TRANSFORMATION AND DEVELOPMENT OF MISC. ACCIDENT BUSINESS

- AUTOMOBILE TRANSPORT
- MOTOR INSC.
- FULL DEVP. ACCD. INSC.
- MEDICAL & SICKNESS INSC.
- ENGS. INSC.
- OVERSEAS INSC.
- OVERSEAS EXPANSION OF TRADE
- DEVP. OF ALL RISKS INSURANCE
- LIABILITY INSC.
- LAWS OF EMPLOYERS LIABILITY & WORKMEN'S COMPENSATION
- BURGLARY INSURANCE
- BOILER INSURANCE
- DEVELOPMENT OF INDUSTRY
- GEN. ACCIDENT INSURANCE
- DEVP. OF PLATE-GLASS INSURANCE
- DEVELOPMENT OF COMMERCIAL & FINANCIAL ENTERPRISE
- DEVP. OF BOND INSURANCE
- DEVELOPMENT OF RAILWAY TRANSPORT
- RAILWAY PASSENGERS COVER

TIME SCALE
1800 A.D. 1850 1860 1886 1900 A.D.
DEVELOPMENT OF INSURANCE LEGISLATION IN 19TH CENTURY

1) LIFE INSURANCE LEGISLATION 1870

In spite of the incidents leading up to it, the 1870 Act was no panic legislation. "It springs from the deliberate conviction of experienced men, whose attention has long been paid to the subject.... the Albert has fallen, but it has not fallen alone, it has dragged down with it twenty-four offices it had absorbed. Let the House consider: This expenditure thus represents twenty-five sets of promotions, twenty-five bills for promotion expenses, twenty-five bodies of officials, twenty-four purchases of business with all the payments to he negotiators, solicitors, and objecting shareholders and policyholders. It is not too much to say that £10,000,000 have been handled and tat almost no assets remain."

2) MR. CAVE'S REPORT TO PARLIAMENT

The provisions of the Act may be divided under five main heads: (1) deposits; (2) separation of the life fund; (3) accounts, returns and other information for members; (4) amalgamation; and (5) winding up. Every company established after the passing of the Act within the United Kingdom, and any company which commenced to carry on the business of life assurance after the passing of the Act, had to deposit the sum £20,000 with the Accountant General of the Court of Chancery, and no certificate of incorporation would be granted by the Registrar until the deposit had been made. A return of the deposit was to be made only when the life assurance fund accumulated out of the premiums amounted to £40,000. By an Amending Act of 6th August, 1872, it was provided that such deposit was deemed to be part of the life assurance fund. Thus the principle of the deposit recommended by the Select Committee of 1853 was carried out; the practice had already been adopted in America.

(Source: A History of British Insurance - H.E. Raynes)
DEVELOPMENT OF BRITISH GLOBAL INSURANCE OPERATION

17. Early in the 18th century societies were formed to conduct life assurance on a scientific basis and in due time the already established marine companies, such as the Royal Exchange and the London Assurance Fire and Life Business. These companies, with many others, were ready in the 19th century to conduct the various types of accident insurance that were the outcome of the Industrial Revolution.

18. Between 1760 and 1790 the urge had arrived for British companies to look for development beyond these islands. It was then that British fire insurance was abroad, and in the wake of Great Britain's expanding overseas trade but coincident with it. The companies, still few in number, which had commended their careers in the neighbourhood of the Royal Exchange or in Lombard Street, looked across the seas, as the merchants of London had done for three centuries or more, and did not shrink from their part in the adventure on which the whole nation had embarked.

DEVELOPMENT AND EXPANSION OF OVERSEAS BUSINESS

19. When the sea route to India was opened in 1600 and the new world of America discovered in 1700, Great Britain was relatively unmindful of international trade, except with Europe. Because of the initiative of marine adventurers, assisted by the conquest of the sea by British arms, many avenues were opened up for trade during the later 16th century. Companies of traders embarked upon particular areas of trade and were represented by agents at the principal centres, branches of Bristol and London merchant firms were established in foreign ports, such as the port also merchant in Spain. It was just about 200 years ago when U.K. insurance companies started to cover overseas risks - although they had no local agents - mainly as a result of tripping from requesting cover for losses held abroad. This was the beginning of what is termed home foreign business which is still conducted today, despite the present worldwide network of representation in over 100 countries. It was not long, in consequence of lengthy and unreliable communications, before merchants - first at the major European ports - were given full agency powers and such appointments formed the nucleus of their present-day insurance departments.

20. The first overseas agency opened was that of the Hanover in Hamburg in 1769. The following year an agency was opened in Portugal. Within the next 20 years agents had been appointed by British companies in Lower Canada, New York, Sweden and the West Indies. Immediately after the Battle of Trafalgar, one or two U.K. companies opened agencies in Brussels and Paris, this being a movement away from the ports to the capital cities in the interior. By 1850 agencies had been started in most European areas, and in India, Brazil and South Africa. By 1850 there was representation in Colon, Hong kong, Russia, Singapore, New Zealand and Australia. By 1870 there were very few countries in which U.K. companies were not operating. Today, despite exclusion from China, Russia, Poland and other Communist countries, British companies are operating in 120 overseas areas. Generally, U.K. companies were the pioneers of insurance in all areas where English was spoken. This was not so in other countries, but by adapting themselves to the local market they quickly pulled a strong parat.

(Source: 'Overseas Insurance' C.I.I. Publication IC 336)
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VI) Development of British and Global General Insurance Industry during period 1900 to 1950.

A) Macro-Environment Changes:

Macro-Environment transformation during the first half decades of the 20th Century was not through the process of smooth evolution but through shocks of violent mutation. It can be summarised in the following phases:

1) Competition for Colonial and Industrial Power
   (1900 to 1914)

In the winter of 1884-85, the great powers of the Western World, joined by a few smaller states met in Berlin to hammer out an international agreement over Trade, Navigation and Boundaries in their newly developing colonial empires in the continent of Africa. It was the Zenith of the old Europe's period of dominance in global affairs. The primary foci of international political affairs were located in the capitals of Britain, France and Germany,
with Russia and USA as recognised observers with interest from the periphery. No notice was taken of any power from Asia except observing with patronising curiosity aspirations of backward Far Eastern Island State of Japan for modernization on the lines of the civilised Western World. British hegemony of Political Colonial and Industrial Power in mid-19th Century was now on decline as her competition with France and Germany for colonial and industrial sectors intensified in the final decades of 19th Century. The system of political alliances on the one hand between established powers of Britain, France and Russia and on the other between newly emerged powers of Germany and restructured Austria, was in the tradition of the principle of Balance of Power. Had the scope of relation between the European Powers been limited within the continental bounds, this traditional system of balance could have served to preserve peace in spite of conflict of interests. But with the release of the new forces of competition for colonial and industrial power, the system of political alliances merely served the purpose of setting the stage for the Tragedy of the First World War.
2) Inauguration of the Age of Violence (1914 to 1918):

All contestants in the 1st World War expected it to end after brief duration with victory to their own camp. In fact, it lasted for four long years bleeding humanity with the cost of millions of lives and leaving three great states of Germany, Austria and Russia in total ruin and the other two great states of Britain and France economically crippled. It started the new phase in human history with the eruption of violent revolutions and civil strifes in many states of Europe which had enjoyed relatively peaceful 19th Century with significant Industrial and Economic growth of major powers. It was the end of European old world’s pre-eminence in economic and political sectors and beginning of shift of power to the new world of the United States of America. The global scenario will be henceforth dominated by USA though the main stage of action continued to be in Europe for the next four decades.
3) The Between War World (1918 - 1938):

The beginning of this historical period separating the extreme ends of the Age of Violence (1914 - 1945) started with the dawn of hope, when President Wilson descended from the mountain of USA bearing the tablet of the Law of Peace, announcing the new regime of peace under the aegis of the League of Nations. To his chagrin he found that the Europeans had no appetite for Peace based upon the Laws of political self determination and equitable economic settlement of reparations and debts but were hungry for solutions based on the vested self-interests detrimental to the survival of other states. Celebrated Treaty of Versailles was thus doomed from its inception to failure and merely served as the bed for planting the seeds of the second holocaust of 1938 - 1945. Major European powers were concerned only with the preservation of their colonial empires and industrial monopoly. Minor European powers had limited role to serve as puppets of some Major power. Newly emerged socialist state of USSR had to be vigilant for its survival. USA plunged back into traditional isolation from the old world. The
continents of Africa, Asia and Latin America were expected to play the role of markets for their colonial masters. From this scenario, following events followed as the natural offspring of the destiny:

i) The Rise and the Fall of the League of Nations:

League of Nations established in 1918 with the declaration of making war as the obsolete relic of the barbarous age collapsed in the conflagration of the Second World War owing to inherent weakness of structure constituted of National Sovereign units, and lack of power in imposing measures of collective security and international economic order.

ii) The rise of dictators and failure of democracy:

It was strange to witness that the war fought as per declaration of Western Powers for ensuring peaceful evolution in
the rest of the world of their Liberal political systems, triggered the rise of dictators in Russia, Germany, Italy, Spain, Portugal in Europe and emergence of militarist Japan in Asia. Socio-economic-political objectives of the various dictators and militarist powers differed but their end result was identical in the extinguishing of any hope for parliamentary democracy in these countries. With Fascist dictators and militarist leaders in power in newly emerged Militarily and Industrially strong countries of Germany and Italy and Japan, the outbreak of their war with established old industrial powers of Britain, France and USA with parliamentary democracies within and colonial empires in other parts of the world was inevitable. Moreover, new socialist regime of USSR which was an anathema for both camps was bound to be trapped within this conflict and hence had to prepare their political and military strategy for the ultimate eventuality of global conflict. Scenario was thus set for the final episode in 1939 of the age of violence which was ushered in 1914.
iii) The rise and fall of the Economic System:

The period between the two world wars witnessed the failure of classical model of Capitalist Economy - Laissez-Faire - which dominated the economic stage in the 19th Century. Manufacturing Statistics (Annexure 3.55) for the period 1913 - 1938 showed that the countries like Germany, Japan and USSR ruled by political dictators and militarist lobby, registered in the post-war decades relatively higher economic growth as compared to the politically democratic countries like UK, France and even USA which had emerged from the war with either improved or reasonably intact production base. The classical Economic theories of market force could not arrest economic crisis of global recession in 1930 and partial solutions to these problems were found in new Keynesian Model of triggering economic growth through state intervention. President Roosevelt’s strategy of New deal for pulling ideal state of Free Enterprise out of economic crisis and the establishment of socialist oriented labour governments
in Britain and France was the beginning of the new economic era of State Participation and control of Economy in the Western World. In spite of the criticism of political dictatorship in newly established socialist model of USSR, there was enthusiastic acceptance in the Western Liberal Economic circles of the new Soviet System of Economic Planning. After these developments, there could be no return to the era of classical capitalism of the 19th Century. Schumpeter published in his treatise theory of ultimate decline of capitalist society, not from the economic causes but social crisis. The models of SMITH and RICARDO, MILL & MARX and finally of KEYNES were challenged by SCHUMPTER sounding the note for expected Economic crisis in human civilisation in the second half of the 20th Century.

4) The Conflagration of the Second World War (1938 to 1945):

Second World War was an unprecedented tragedy in human history in terms of
parameters of loss of life and destruction of material resources suffered by humanity. It was acted on the global stage with territorial spread never seen before in human history. But its unique role in human history should be measured in terms of its impact on our civilisation leading to total multidimensional change of its characteristics. It restructured the pre-war Euro-centered Western World in distinct Bipolar divisions with the pole of Socialist world located in USSR and pole of Liberal world located in USA. Pre-war European foci of liberal Western civilisation centered in Britain and France were now reduced to the secondary status, whilst vanquished Germany was reduced to the status of political non-entity struggling in Economic disaster. On the Eastern horizon was witnessed the rise of Red China’s star whilst the island of Rising Sun was set into the process of political restructuring and economic revival under the vigilant supervision of USA’s military governor. The Second World War triggered the process of decolonisation in Asia, Africa and Latin
America with the political will and economic power of old colonial powers of Britain, France and other Western European powers substantially exhausted in the titanic struggle and now inadequate to withstand on the one hand the resistance of Nationalist Movements and on the other bear the monetary cost of preserving empires. Impact of World War-II on the changes in the National Income of Major Powers involved in the 2nd World War shows significant changes in their global status:

### NATIONAL INCOME OF POWERS

<table>
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<tr>
<th>Country</th>
<th>1937 (Bn $)</th>
<th>Rank</th>
<th>1950 (Bn $)</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>USA</td>
<td>68</td>
<td>1</td>
<td>381</td>
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<tr>
<td>British Empire</td>
<td>22</td>
<td>2</td>
<td>71</td>
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<tr>
<td>USSR</td>
<td>19</td>
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<td>17</td>
<td>4</td>
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</tr>
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<td>France</td>
<td>10</td>
<td>5</td>
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<tr>
<td>Japan</td>
<td>4</td>
<td>7</td>
<td>32</td>
<td>6</td>
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</table>
Economically dominant positions of USA and USSR were the justification of their political bipolar foci status besides their Military Might with new addition of Nuclear Arsenal.

5) Technological Transformation of Civilisation in the first half of 20th Century: Transformation of Technological Scenario:

Technological scenario transformed significantly in the first half of 20th Century starting the process of technological development on exponential scale. It will be interesting to note that catastrophes of the two world wars had contributed extensively to this Technological Revolution and the outcome of the two wars depended in no small measure on the Technological might of the victors. Technological Scenario Transformation can be measured in terms of following vectors:
a) **Energy Vector:**

Energy Level of the 18th Century was Thermal - with steam engines driving the machines which ushered in Industrial Civilisation. 19th Century energy level became Electrical with Dynamos generating Electricity to drive new engines of production. 20th Century started the new source of energy in the Cylinders of Petrol Engine and ended its mid-age by exploding device to release Nuclear Energy.

b) **Transport Vector:**

19th Century had introduced Railways, Automobiles, and large size Steam Powered Vessels. Twentieth Century developed further these modes of conveyance on bigger scale and simultaneously introduced the age of Aviation. Ships, Submarines, automobiles and armoured cars dominated war scenario in 1914 - 1918, aeroplanes thundered over the
skies in 1938 - 1945 and reached finale with unmanned Rockets traversing long distances to hit targets.

c) Production Vector:

Metallurgical and Chemical Industry took major strides in the first half of the 20th Century enabling manufacture of light weight petrol engines, which enabled manufacture of cars, planes, giants powered machine tools, taking industrialisation to the unprecedented high level. Manufacture of cycles, sewing machines, typewriters, adding machines led to the new culture of industrial-commercial civilisation. Mechanical Automation started the process which was to lead to Robots in due course. Chemical industry advanced to the stage of maximising use of all matter, animal, vegetable and mineral for human consumption as food, clothing, medicines and artifices.
d) **Communication Vector:**

The Telegraphic Communication of 19th Century was advanced to the use of Wireless in 20th Century. The age of broadcast started in 1921 and the age of television in 1936. RADAR was introduced in 2nd World War for detection of missiles and the age of Rockets took civilisation to the threshold of Conquest of Space.

6) **Social Scenario:**

**Legal Vector:**

Most important change in the social scenario of the Western World was the drastic change in the legal relations between the partners of Industrial civilisation—The Employers and the Employees. Tensions released by the inhuman process of primitive industrialisation were partially absorbed in the British Society of 19th Century which was the vanguard of Industrial Revolution, through gradual but substantial change by the end of 19th Century in the legal systems applicable to
the liabilities of Employers towards Employees from the bodily injuries and fatalities arising from accidents during the course of employment. British Common Law had always imposed a liability on the Employer for their negligence causing injury to their Employees and under the Fatal Accident Act of 1846, the right of action of the dependents of deceased workman was also protected. But the principles of 'Volenti Non-fit Injuria' (Voluntary acceptance of Risks by Employee) and Common Employment prohibited upto the end of 19th Century effective recovery of claims by Employees. Under the pressure of organized Trade Unions of Workers and liberal and socialist thinkers, this situation was changed partially under the Employers Liability Act of 1880 which eliminated defences of 'Volenti Non-fit Injuria' and Common Employment for employees engaged in defined categories of Employment like Railway Employees, Miners, Journeymen, Manual labour, handicraftsmen, etc. The quantum of liability was linked with the earnings of the employees. The Employer's
Liability Act did not introduce Social Legislation but lead to it in 1897 with the passing of Workmen's Compensation Acts in preliminary form and in 1906 in the Final form covering Employees from all classes of occupation, with precise definition of workmen and other Employees covered under the Act. The Acts started the procedure of establishment of united social welfare system in UK, which was finally introduced by the post-war Labour Government in 1945, covering Industrial Liability as its one part ending the period of Commercial Insurance in this sector.

Along with the development of Liability Legislation in UK pertaining to Employer's Responsibility towards Employees developed the Legal Liabilities of Industrial and Commercial sectors towards community with the extension of Common Law Liability in multifarious forms to unprecedented scale. This trend in legal sector developed in all Western Countries and particularly in USA. New Legal Environment was thus ushered in the Western World. In the
countries like Russia, where such systems could not be developed through evolution, Revolutions took place and in the name of Socialist Legality, new laws governed the relations between the state as the owner of entire production sector and the citizens who were its masters and workers in diverse capacities.

At the end of the first five decades, human civilisation stood on the threshold of the New World Order. Third Wave of Human Civilisation of post-Industrialisation Era started gathering momentum to restructure Global Order in following decades with its initial phase of destroying the edifice built in 19th Century.
B) General Insurance Industry Transformation:

Continuing the theme of this thesis attempt will be now made to demonstrate linkage between the change in structural and operational norm of General Insurance Industry during the period 1900 to 1950 with the corresponding changes in Macro-Environment.

1) Impact of Shift of Centre of Political and Economic Power from Britain to USA:

As concluded in the review of historical development of Insurance Industry, in tri-centenial period 1601 - 1900, by mid-19th Century, British General Insurance Industry had become the premier ranking General Insurance Industry and London developed as the Cynosure of Global Insurance Market. This status of British Insurance Industry was befitting Britain's then status of Hegemon in Political Arena and Supreme Industrial Power of that era.

However, in the final decades of the 19th Century and the first two decades of the 20th Century the Centres of Political and Economic Power in the World shifted from Britain to USA. Post-Civil War decades (1870 - 1920) in the history of USA had registered vigorous growth of all sectors of her Economy at unprecedented pace in human history. In striking contrast was the Economic exhaustion of major European Powers of Britain, France and Germany resulting from the 19th Century internecine competition for political supremacy and colonial Empire exploding into war in 1914. Economic supremacy
gave USA in 1918 the role of Arbitrator for political settlement of Post-War Europe and Financier of her Economic Recovery.

Economic boom of USA in the final decades of 19th Century had generated fast growth of her Insurance Industry, at exponential scale, developing it in terms of gross-Premium on par with British Insurance Industry. By the end of the second decade of the 20th Century, with USA’s Gross National Product far exceeding war ravaged Europe’s cumulative level, her Insurance Market acquired the distinction of premiumwise biggest unit of the global market.

Right from the beginning of the development of USA’s Insurance Market it was subject to statutory control, initiated in 1850 by New York State and followed in other states by similar legislation, requiring paid up capital of $100,000 and additional Reserves of $100,000 invested in approved securities. But the spate of major Fire losses occurring from time to time from high concentration of industry in urban centres and finally 1906 catastrophe of San Francisco Earthquake exposed financial fragility of USA’s market constituted
of a large number of small and medium size American companies. In significant contrast to this was the demonstration of Financial Strength of leading British Insurance Companies operating in USA. This unique status of British Insurance prevailed even in the post-war period in spite of drastic post-war decline in British Economy. Even though British Insurance Industry lost in 20th Century decades premier rank in terms of premium income, London continued to be the cynosure of International Insurance Market.

Heavy Loss exceeding $ 45,000,000 in 1906 suffered due to catastrophe of San Francisco Earthquake by global Insurance industry set seal on the fate of a large number of small domestic companies operating in USA and also terminated operation of small and medium size Foreign Insurers in that Market. London market comprising well established big size companies, Lloyds Syndicates and companies of Europe continued to provide adequate Financial capacity for absorption of Mega size Risks from USA and other developed markets in the world coupled with technical expertise to underwrite such risks. British Insurance Industry had
developed through experience during the period of preceding three centuries of gradual overseas expansion territorial spread covering markets, of North America, Australasia, Asia, Africa, South America and Caribbean Region. London retained the status of primary centre of exchange of business in International Insurance Market, though USA became its premier ranking unit in terms of premium volume.

With the opening of Japan in 19th Century for international trade and her steady economic growth Japanese Insurance Industry developed by the end of second decade of 20th Century as a new sector of International Market with the peculiar feature from its very inception of government's active role in the support of private sector Insurance Industry in the development and control of business on sound financial basis.

In the colonies of Britain and other European Powers, Insurance Industry had started in 19th Century in the form of Branches and Agencies of colonial companies controlled from Metropolitan centres. In the 20th Century domestic companies started development in countries like
India, China, adding a new stream of developing Insurance industry to the international market which was predominantly controlled by the Insurance Industry of USA, UK and Western Europe. Frontierless Expansion of Insurance Industry initiated in the 19th Century expanded substantially in the 20th Century. It did suffer setbacks in the years of two global wars and Economic Recession of the decade of thirties but its basic Structural Norm established with its Business Volumewise Predominant Market in USA and Primary Centre of International Exchange of business located in London Market and with its Territorial Spread covering all Markets in the World was preserved in the decade of forties.

By the end of that decade with the political split-up of globe in bi-polar sectors of Western Powers and Communist States, International Insurance market was restructured as follows:

Market of Western Block lead by USA constituted developed Insurance markets of USA and Canada, UK and Western Europe, Australia and New Zealand. Japan, starting its political
restructuring and economic revival under the patronage and supervision of USA restarted development of her Insurance Industry in new form as the member of Western Block. Insurance markets of colonies being dominated by foreign Insurance companies continued mainly as the appendage of Insurance Industry of colonial powers with some markets like India registering impressive growth of domestic industry. Markets of Eastern European countries and China which became part of Communist Block led by USSR virtually ceased to exist with the Nationalisation of their Private Sector Insurance Industry and limitation of State Insurer’s business to exclusive Marine Sector as per the norm adopted on the model of USSR in post-revolution period.

Premium-wise apportionment of the Global General Insurance market in the year 1950 has not been available for reference. But based on the 1950 figures of GNP (Annexure 3.56) of various Markets and taking into consideration the level of their development at that point of time, it is possible to approximate it as follows, with the adjustment of data available for later decades (Annexure 3.57):
USA & Canada : 55%
UK and Western Europe : 33%
Australia and New Zealand: 5%
Japan : 3%
Colonial Markets : 2%
Communist States : 2%

With the predominant share in the International Market being now contributed by USA, it was a challenge for the traditional London Market to preserve its status as the Cynosure of Global Insurance Industry and retain the conventional model of Underwriting General Insurance Business of the basis of pure underwriting surplus basis under the pressure of excessive competition in USA's market and increasing role in it for the factor of investment income in producing cumulative surplus in General Insurance operation.

2) Impact of Social - Environment Changes on the development of Accident Insurance

The major change in the Social - environment of the 20th Century Western World was introduced by the Laws which imposed liabilities, on the
Employers in respect of their Employees, on the Manufactures of Products and Services in respect of their Consumers, on the Industrialists in respect of Community at large and on the Operators of Transport Vehicles towards their Passengers, Customers and the members of Public. Liabilities emerging from these Laws became the subject matter for Insurance and developed the new branch of Liability Insurance which was covered under the wide span of Accident Business which had been the new product of the 19th Century.

Development of Workmen's Compensation Insurance:

Being the leader of Industrial Revolution in the Western World Britain became the pioneer state to develop Workmen's Compensation Insurance under the impact of Successive Employer's Liability Acts of 1880, 1897 and 1906 widening the scope of legislation covering employees from the various sectors of Industry. (Annexure 3.58). Employers' Liability Insurance Corporation was established in 1881 through partnership of Financial group and firm
of Solicitors and support by leading group of Employers from various Industrial Sectors. Within a decade the number of Insurers writing this specialist business became 25. With the passing of 1906 Act widening Liability Legislation to all sectors of Industry and escalation of liability quantum linked now with remuneration of employees, the market demand linked now with remuneration of employees, the market demand for WC Insurance increased substantially and with the increase in the exposure of Insurers under claims, business had to be written under better underwriting control. Accident Offices' Association was formed to deal collectively with these problems and advise members on framing of rates for covering various categories of Employees for W.C. Insurance. Government involved itself to check complaints of Employers' about excessive premiums being charged by Insurers Lobby and found out as per review published by Committee in 1919 that during the period 1911 - 1918, total premium written by W.C. Insurance Companies was £5,000,000 with profit of 15% after providing for the outgo on commission, claims, expenses and reserves. Criticism of excessive premium rates, lead to the 1924
supplementary act of WC, improving further benefits under WC Liability Act and regulation of rates was introduced through the voluntary agreement of AOA with the Government. Further, investigation of WC Insurance was undertaken in 1938 and Beverage's Report which followed later on recommended take over of WC Insurance under Government's Scheme of Social Insurance's which was done in 1945, ending thereby the era of WC Insurance (Annexure 3.59). In most of the Western European Countries and USA developments took place on similar lines, and Employer Liability Insurance now continues in Private Sector as an additional cover for liabilities under Common Law exceeding WC Act limits covered under Government Social Insurance Schemes.

**Industrialists’ Public and Product Liability Insurance:**

Common Law liability of Industrialists towards community at large was traditionally recognised under the Common Law of UK and special codes of the various Western Countries. Liability of Manufacturers of various products towards their
consumers was also recognised under UK's Common Law and the Laws of various Western Countries. In the 20th Century vigilance of community towards fulfilment of legal obligation by Industrialists and Manufacturers became increasingly sharper and the trend of liberal legal awards in favour of victims of breaches by industrialists and manufacturers generated demand for Liability Insurance covers from Industrialists and Manufacturers' sectors. Public Liability Insurance with inclusion of Products Liability cover developed fast as a new branch of Accident Insurance in 20th century. (Annexure 3.60).

Transport Liability Insurance - Vehicle Owner's Liability:

The other major change in the global legal vector was in term of imposition of liability on the vehicle owners under the Road Traffic Acts. In UK Road Traffic Acts of 1930 - 1934 imposed compulsory Insurance cover for T.P. liability on the owners of the vehicles. It also provided the Insurance companies writing Motor Business had to make deposit of £ 15,000
irrespective of any other deposit made under the Insurance Act, and under the Board of Trade Returns Separate figures for Motor Insurance had to be given. (Annexure 3.60). The passing of compulsory T.P. Insurance provision under the road Traffic Act and the trend of liberal legal awards created Liability exposure of Motor Insurance Companies to such an extent that their stability became an important concern for the controller of Insurance. This development was to lead to the critical situation of General Insurance Industry in the second half of the 20th Century. The involvement of Insurance Industry in fulfilling the Social obligations under the road Traffic Acts was in the 1945 agreement of Accident Offices' Association and Lloyds Syndicates, with Transport Ministry for fulfilling T.P. Motor Claims for judgments not satisfied, whether or not the person is covered under a contract of M.V. Insurance.

Developments in other Western Europe states and USA followed the same trend and for Motor Insurance T.P. liability linkage became the major source of problem for underwriting profitability.
Marine and Aviation Liability Insurance:

Carriers Liability Acts in all countries developed the market for Insurers of Liability of Carriers of goods and passengers. Under the various international agreements liabilities were fixed for carriers in respect of claims on loss/damage to goods or death/injuries suffered by passengers. Liabilities of operators of ships - Aviation transport towards community at large were also given increasingly special legal importance. Liability Insurance started developing as an important factor linked with Marine - Aviation Hull Insurance, leading to the situation of crisis in the following year arising from old claims in the second half of 20th Century like Asbestosis Claims of earlier decades. (Annexure 3.61).

3) New Products for covering Technological Changes

Major change in Technological scenario in the 20th Century was the introduction on large scale of New Sources of Energy of Electricity and Petroleum Products and use of new types of Machinery. With this change in the systems of
production, their new demand for Insurance of Engineering Risks developed, (Annexure 3.62). With the increase in the frequency of quantum of Fire damage enforcing long period stoppage of production Fire Insurance had to expand its scope of cover to insure Loss of Profits and turnover. Development of Fire tariff and Engineering Tariff had to match the advance of technology. New techniques for Risk inspection and loss prevention had to be developed and underwriting became more complex to meet the demands of Technology. Exposures of Risks escalated to an unprecedented level and new techniques of Reinsurance arrangements (Annexure 3.63) had to be developed. Motor Insurance had started in 19th Century the new area of Vehicle Insurance. In 20th Century Aviation Insurance started on small scale in 1919, when risks were underwritten by Union of Canton. Its full development was in 1931 with the establishment of British Aviation Insurance Company formed by seven leading British Insurance Companies, Union of Canton and Heath Syndicate and Excess Insurance Co. followed in 1935 by formation of Aviation and General Insurance Company by a group of Composite Insurance Company and Lloyds syndicates.
British General Insurance Industry kept its leadership of Global General Insurance Industry in the development of advanced forms of Fire Insurance, Engineering Insurance, Motor Insurance, Aviation Insurance coupled with Liability Insurance, to meet demands of New Technological - Social scenario but the quantumwise lead in international market shifted to USA with its share of 50% of the total Global General Insurance premium. With such predominance in global market of USA’s Insurance Industry, it was expected that the lead for developing new products and systems of Insurance will be shifted to USA in the second half of 20th Century.

4) Cumulative Impact of Macro-Environment Change on the Structure of International Insurance Industry

a) Change in Norm of International Market Structure:

Whilst discussing in the earlier para the impact of change in Political - Economic
environment of the shift of centre of political power and Economic supremacy form UK and Western Europe to USA, we had concluded that the structure of International Insurance Market changed with Premium-volumewise premier rank shift to USA but continuation of the centre of the International Exchange of Insurance Business in London Market. We had also pointed out emergence of the bi-sectoral form of global General Insurance Industry of Private Sector and Nationalised Insurance Markets in accordance with the bi-polar political split of Globe in Western-liberal Economy states led by USA and Communist Block led by USSR. In this part of the chapter unit size-wise change in the Company markets of Western group is dealt with.

b) **Formation of Composite Companies:**

For pointing out the change in the unitwise characteristics of the markets of the Western Block comprising primarily USA, UK and Western Europe Markets, the
change in British General Insurance Industry during the first half of 20th Century is considered. The total number of domestic companies operating in UK market at the end of the 19th Century was 435 as against the total number registered in UK in 1939 was 456. Minimal change in the number of domestic companies is not an indication of unitwise stagnation of British Insurance Industry but it shows the significant change entailed by the process of absorption of the large number of small domestic companies through merger or purchase by big-size Insurance companies. This change was the most important contribution of the first 2 decades of the 20th Century arising from the following developments in terms of formation of Composite Insurance companies.

To conclude we can summarise that for the process of formation of Composite Insurance Companies the nucleus was big size Fire Insurance companies which had developed successfully in 18th - 19th Centuries. However, it should be noted
that the takeover process did not indicate that the units absorbed were Financially weak Companies. As specialist units in their own sector of operation they were strong and the business had to be purchased at good price for shareholders. Business financial capacity needed to match escalation in exposure of Accident Portfolio. The mergers were from the concept of ability of Insurers to provide multi-sectoral Insurance Service coupled with Financial Security. From the underwriting aspects, composite Insurance Portfolio provided productwise spread of portfolio, which had better potentiality of producing overall stable claims ratio, in spite of classwise fluctuation of claims ratios. The Economy of scales also contributed to the control of expense ratio for composite companies. Similar trend of changes in the unitwise characteristics of the market took place during this period in the industry of other Western European countries as well as USA. (Annexure 3.64).
Most significant development in London Market in the early decades of 20th Century was of the commencement of the significant role of Brokers Lobby. Institutions of the Broker had been traditionally strong in London Market and the Institution of Lloyds had emerged out of it. With the entry of Lloyds Brokers in Non-Marine sector in the closing decade of 19th Century substantial business was controlled by Lloyds syndicates. With this favourable trend for Brokers business, New firms C.T.Bowering & Co., Heath & Co., Sedgwick Collins, Willis Fabre and Dumas were formed with connection at Lloyds. Insurance companies had to compete with organized professional Brokers to provide good service to clients and from this aspect the formation of composite Insurance Companies was an important step. Brokers position in the London Market developed a strong base in the first half of the 20th Century. The impact of this development on the severe competition in London market for business
affecting underwriting results of International General Insurance Industry and British Insurance Industry in particular was to be experienced in the second half of the 20th Century.

d) The Development of International Reinsurance Industry:

Reinsurance Business had started on steadily increasing scale in the 18th Century in the form of facultative Insurance contracts in exchange of business between British and continental insurers. In the 19th Century with the expansion of Industrial and Commercial activities in UK, Western Europe and USA, the scope of Insurance business widened requiring support of Reinsurance protection. Reinsurance Business developed as professional activity in Europe with the development of Cologne Re in 1856, Swiss Re in 1863 and Munich Re in 1880.
The development of Reinsurance Market is closely linked with the development of direct Insurance Companies. As per the record (Annexure 3.65) the number of Insurance Companies in the World in 1800, was 30, with territorial split up as follows: UK - 14, USA - 5, Germany - 3, Denmark - 3, France - 2, Austria - 1, Holland - 1, Switzerland - 1. In 1850, this number had developed to 306 in 14 countries. In 1900 the number had increased to 1272 in 26 countries. In 1910, the number increased to 2540 in 29 countries. With this development of Primary Insurance Market, the scope for the Reinsurance Market also increased and the major role in this sector was played by Continental Reinsurers. With the concentration of value per risk increasing in 19th Century and 20th Century, the need for Reinsurance cover of primary insurers escalated and this lead to the development of the new types of Insurance in the form of Treaties under annual contract between companies. The well developed British Insurance Market established treaty relations with Continental Insurance.
Companies which were formed by combinations of Banking and Insurance Interests. In the case of traditional primary Insurance Market of UK, First Reinsurance Company - Mercantile and General Insurance Company was established as a subsidiary of Swiss Re. The large British Insurance Companies established Reinsurance Business with other primary companies by way of exchange of business on reciprocal basis. However, specialist British Brokers like Sterling offices developed in reinsurance sector. 20th Century decades introduced change in Reinsurance transactions with increasing shift from the facultative placements to treaty transactions. The techniques of Reinsurance of retention of Risk, the types of treatise, ranging from quota-share to various types of proportional treatise and excess of loss agreements developed during the first half of the 20th Century albeit in simple forms as compared to their complex versions to follow in the second half of the 20th Century.
In the review of British Insurance Development in 18th Century, the development of British Insurance upto 1870 act was covered. In 1909, the Insurance Companies Act was passed to apply to the activities of all companies carrying out following business in UK:

i) Life Insurance Business
ii) Fire Insurance Business
iii) Accident Insurance Business
iv) Employers' Liability Insurance Business
v) Bond Investment Business

The main provision of the 1909 Act were covered under the following heads:

i) Deposits
ii) Separation of Funds
iii) Accounts, Balance Sheet, Valuation and Report
iv) Amalgamation
v) Winding up
1. With the development of the Liability Insurance Sector from New Socio-Legal scenario, the exposures of Insurance Companies under policies of W.C., Motor Insurance, Industrial and Commercial T.P. Insurance escalated to such an extent that only Financially strong companies would be in a position to withstand the impact of catastrophic losses likely to arise from some claims. Business in this sector could not be thus exclusively written by specialist companies of medium financial capacity as was the case in 19th Century second half decades. The process of formation of Composite Insurance Companies thus started (Annexure 3.66) showing the takeovers of 21 out of 24 specialist Accident Insurance Companies by big-size Insurance Companies.

2. The process of amalgamation also spread into the sector of Marine
Insurance Companies (Annexure 3.67). Out of 16 pure Marine Insurance Companies, only one remained by the end of the 2nd decade of 20th Century, with the rest taken over by big-size companies writing Fire Insurance Business. However, it is worth noting that after 1st World War in the atmosphere of Economic Boom forty new small size companies were registered in 1918 in Marine Sector but by the end of the decade of twenties this trend was arrested.

3. The process of merger spread also into Life Insurance Sector with (Annexure 3.68) takeover by 1925 of 25 out of 29 companies writing only ordinary Life Business in 1899 by Insurance Companies writing Non-Life business.

4. Merger took place amidst Fire Insurance (Annexure 3.69) companies themselves, in view of Financial capacity needed for writing large size risks and meeting catastrophic
losses like San Francisco Earthquake. Out of 30 companies writing Fire Insurance Business, nearly 50% got merged with bigger units leaving substantial reduced number of big size fire Insurance Companies; which in turn became Composite Insurer.

Financial Stipulations for Composite Companies

Provisions were made for the deposit of £20,000 for each class of business with some reduced requirements for companies registered earlier to 1909. The primary objective for passing of this act was to ensure the security of the policyholders by imposing financial restrictions and administrative control on the conduct of Insurance business.


The Act was reviewed by Clauson Committee in 1924 which pointed out the main faults in 1909 Act as follows:

1. That the inclusion of Marine Business within the area of the Act was only when it was associated with one of
the five defined classes as wrong and all Marine Insurance Companies should be included under the Act.

2. That the powers of the Board of Trade were not sufficient to complete the winding up of the company when the assets were not sufficient to meet its liabilities.

During the period 1924 - 1945, there was no major change in Insurance Registration, with the Government maintaining the attitude to impose as little regulation as possible. But the imposition of compulsory Motor T.P. Insurance and W.C. Insurance, Aircraft Insurance made it necessary to exercise stiffer financial control on Insurers (Annexure 3.70). In 1946 Act, Clauson Committee’s recommendations were implemented by bringing under the Act Marine, Aviation and Transit Insurance. (Annexure 3.70).

Types of business were now clearly demarked in (1) Long term Business and (2) General Business - which is defined as
Assurance Business to which principal Act applies not being Long Term Business.

Provisions were also made to impose (Annexure 3.70) requirement of £ 50,000 paid up capital and Margin of solvency of £ 50,000 or 1/10th of the Financial Insurance premium in last preceding Financial Year. (Annexure 3.70). Special provisions were made in terms of paid up capital and solvency requirements for Lloyds and other underwriters and Mutual Association. The approach adopted by the UK Government was to protect the Financial Security of policyholders by ensuring that Insurance Companies are financially sound but allow maximum Freedom of Operation to Insurers recognising that Commercial Enterprise requires freedom for operation in Domestic and International Market Competition.

In other Insurance Markets of the Western World, similar trends of Insurance Legislation developed. Restrictive Legislation of States in USA and Nationalisation of four leading companies
in France in 1948 are worth noting. Nationalisation of Insurance Industry in China and eastern European countries was to follow their joining the block of Communist states led by USSR.

5) Case Study of Development of British Insurance Industry (1850 - 1950):

After our review of Macro Environment in Britain and Transformation of British General Insurance Industry during the period 1850 - 1950, it will be worthwhile to present a case study of the development of a leading British Insurance Company which was established during this century and developed to the status of a leading composite British Insurance Company. The salient landmarks in the historical century in the life of this company are summarised from the excellent book "A Century of Insurance" published by The Commercial Union to mark its centenary in 1961. Historical development of Commercial Union can be summarised as follows:
<table>
<thead>
<tr>
<th>TIME</th>
<th>STAGE OF DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1861 Sept.</td>
<td>Formation of Company as the outcome of Merchant Community’s collective protest against excessive upward revision of Fire Insurance Premium rates by Tariff Companies following “Great Tooley Street Fire” Loss.</td>
</tr>
<tr>
<td>1863</td>
<td>Commercial Union joins Tariff system revised on new basis of classification of risks.</td>
</tr>
<tr>
<td>1862 - 1900</td>
<td>Vigorous Growth of Non-Life and Life Business in environment of Economic prosperity of Victorian era. start of Foreign Operation in Europe, USA and Colonies of British Empire.</td>
</tr>
<tr>
<td>Year Range</td>
<td>Description</td>
</tr>
<tr>
<td>------------</td>
<td>-------------</td>
</tr>
<tr>
<td>1890 - 1914</td>
<td>Take over of companies in tune with Market trend of Merger of small-medium size companies in Mega-size Cos.</td>
</tr>
<tr>
<td>1914 - 1930</td>
<td>Impact of 1st World War on domestic portfolio but vigorous growth of Foreign business in USA.</td>
</tr>
<tr>
<td>1930 - 1939</td>
<td>Impact of Global recession on overseas portfolio expansion.</td>
</tr>
<tr>
<td>1939 - 1945</td>
<td>Commercial Union’s active participation in government’s War Insurance schemes - Heavy Losses under Marine portfolio.</td>
</tr>
<tr>
<td>1945</td>
<td>Commercial Union emerges as a strong company with Fire Fund of £ 8 million, Marine Fund of £ million, Accident Fund of £ 7 million, Life Fund of £ 33 million and Groups total assets of £ 85 million.</td>
</tr>
</tbody>
</table>
To conclude this case study, it can be stated that the individual company's growth and profitability of operation depends upon its Management's ability to promptly assess the prospects and problems arising from Macro Environment for its growth and profitability and plan the operational strategy to extract maximum advantage from opportunities and minimise to the minimum degree adverse impact of threats.

6) Conclusions:

From the survey of Macro environment and transformation of British General Insurance Industry during the period 1900 - 1950 the linkage between them can be summarised as follows, giving validity to the hypothesis of this thesis:
<table>
<thead>
<tr>
<th>MACRO-ENVIRONMENT FACTOR CHANGE</th>
<th>GENERAL INSURANCE INDUSTRY NORM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1900 - 1945</strong></td>
<td></td>
</tr>
<tr>
<td>1. Shift of Centre of Political - Economic Powers to USA in XXth Century.</td>
<td>Shift in premium-wise premier rank from UK to USA market.</td>
</tr>
</tbody>
</table>
Need for Substantial reinsurance requirements with diverse schemes.
Professionalisation of underwriting of risks.
Professionalisation of Marketing of business.

| 6. Financial Scenario of Steep increase in values of Assets - Turnovers and liabilities. | Steep Increase in Insurers exposure to losses and liabilities leads to stiffening of Financial regulations under statutory requirement of UK an all other markets. Trend of take over of medium size insurers by mega size companies in UK and other Western Markets. |

The changes in other sectors of International market like Western Europe and USA were also on similar lines. For the purpose of showing Linkage between Macro Environment changes and Insurance development of other sectors of International Market the case studies of Japanese Market and Indian Market will be now undertaken.
GLOBAL ECONOMIC SCENARIO

Table 28. Annual Indices of Manufacturing Production, 1913–1938

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>U.S.</th>
<th>Germany</th>
<th>U.K.</th>
<th>USSR</th>
<th>Italy</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1920</td>
<td>93.2</td>
<td>122.2</td>
<td>59.0</td>
<td>92.6</td>
<td>70.4</td>
<td>12.8</td>
<td>95.2</td>
</tr>
<tr>
<td>1921</td>
<td>81.1</td>
<td>98.0</td>
<td>74.7</td>
<td>55.1</td>
<td>61.4</td>
<td>23.3</td>
<td>98.4</td>
</tr>
<tr>
<td>1922</td>
<td>99.5</td>
<td>125.8</td>
<td>81.8</td>
<td>73.5</td>
<td>87.8</td>
<td>28.9</td>
<td>108.1</td>
</tr>
<tr>
<td>1923</td>
<td>104.5</td>
<td>141.4</td>
<td>55.4</td>
<td>79.1</td>
<td>95.2</td>
<td>35.4</td>
<td>119.3</td>
</tr>
<tr>
<td>1924</td>
<td>111.0</td>
<td>133.2</td>
<td>81.8</td>
<td>79.8</td>
<td>117.9</td>
<td>47.3</td>
<td>140.7</td>
</tr>
<tr>
<td>1925</td>
<td>120.7</td>
<td>148.0</td>
<td>94.9</td>
<td>86.3</td>
<td>114.3</td>
<td>70.2</td>
<td>156.8</td>
</tr>
<tr>
<td>1926</td>
<td>126.5</td>
<td>156.1</td>
<td>90.9</td>
<td>78.8</td>
<td>129.9</td>
<td>100.3</td>
<td>162.8</td>
</tr>
<tr>
<td>1927</td>
<td>134.5</td>
<td>154.5</td>
<td>122.1</td>
<td>96.0</td>
<td>115.6</td>
<td>114.5</td>
<td>161.2</td>
</tr>
<tr>
<td>1928</td>
<td>141.8</td>
<td>162.8</td>
<td>118.3</td>
<td>95.1</td>
<td>134.4</td>
<td>143.5</td>
<td>175.2</td>
</tr>
<tr>
<td>1929</td>
<td>153.3</td>
<td>180.8</td>
<td>117.3</td>
<td>100.3</td>
<td>142.7</td>
<td>181.4</td>
<td>181.0</td>
</tr>
<tr>
<td>1930</td>
<td>137.5</td>
<td>148.0</td>
<td>101.6</td>
<td>91.3</td>
<td>139.9</td>
<td>235.5</td>
<td>164.0</td>
</tr>
<tr>
<td>1931</td>
<td>122.5</td>
<td>121.6</td>
<td>85.1</td>
<td>82.4</td>
<td>122.6</td>
<td>293.9</td>
<td>145.1</td>
</tr>
<tr>
<td>1932</td>
<td>108.4</td>
<td>93.7</td>
<td>70.2</td>
<td>82.5</td>
<td>105.4</td>
<td>326.1</td>
<td>123.3</td>
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<td>1933</td>
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<td>111.8</td>
<td>79.4</td>
<td>83.3</td>
<td>119.8</td>
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<td>133.2</td>
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<td>1934</td>
<td>136.4</td>
<td>121.6</td>
<td>101.8</td>
<td>100.2</td>
<td>111.4</td>
<td>437.0</td>
<td>134.7</td>
</tr>
<tr>
<td>1935</td>
<td>154.5</td>
<td>140.3</td>
<td>116.7</td>
<td>107.9</td>
<td>109.1</td>
<td>533.7</td>
<td>162.2</td>
</tr>
<tr>
<td>1936</td>
<td>175.1</td>
<td>171.0</td>
<td>127.5</td>
<td>119.1</td>
<td>116.3</td>
<td>693.3</td>
<td>169.2</td>
</tr>
<tr>
<td>1937</td>
<td>195.8</td>
<td>185.8</td>
<td>138.1</td>
<td>127.8</td>
<td>123.8</td>
<td>772.2</td>
<td>194.5</td>
</tr>
<tr>
<td>1938</td>
<td>182.7</td>
<td>143.0</td>
<td>149.3</td>
<td>117.6</td>
<td>114.6</td>
<td>857.3</td>
<td>195.2</td>
</tr>
</tbody>
</table>

Table 30. Shares of World Manufacturing Output, 1929–1938

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>USSR</th>
<th>Germany</th>
<th>U.K.</th>
<th>France</th>
<th>Japan</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>43.3</td>
<td>5.0</td>
<td>11.1</td>
<td>9.4</td>
<td>6.6</td>
<td>2.5</td>
<td>3.3</td>
</tr>
<tr>
<td>1932</td>
<td>31.8</td>
<td>11.5</td>
<td>10.6</td>
<td>10.9</td>
<td>6.9</td>
<td>3.5</td>
<td>3.1</td>
</tr>
<tr>
<td>1937</td>
<td>35.1</td>
<td>14.1</td>
<td>11.4</td>
<td>9.4</td>
<td>4.5</td>
<td>3.5</td>
<td>2.7</td>
</tr>
<tr>
<td>1938</td>
<td>28.7</td>
<td>17.6</td>
<td>13.2</td>
<td>9.2</td>
<td>4.5</td>
<td>3.8</td>
<td>2.9</td>
</tr>
</tbody>
</table>

(Source: The Rise and Fall of the Great Powers - Paul Kennedy)
GLOBAL ECONOMIC SCENARIO

TOTAL GNP AND PER CAPITA GNP
OF THE POWERS IN 1950
(in 1964 dollars)

<table>
<thead>
<tr>
<th></th>
<th>TOTAL GNP</th>
<th>PER CAPITA GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>381 billion</td>
<td>2,536</td>
</tr>
<tr>
<td>USSR</td>
<td>126</td>
<td>699</td>
</tr>
<tr>
<td>UK.</td>
<td>71</td>
<td>1,393 (1951)</td>
</tr>
<tr>
<td>France</td>
<td>50</td>
<td>1,172</td>
</tr>
<tr>
<td>West Germany</td>
<td>48</td>
<td>1,001</td>
</tr>
<tr>
<td>Japan</td>
<td>32</td>
<td>382</td>
</tr>
<tr>
<td>Italy</td>
<td>29</td>
<td>626 (1951)</td>
</tr>
</tbody>
</table>

(Source: The Rise and Fall of the Great Powers - Paul Kennedy)
REGIONAL BREAKDOWN OF NON-LIFE BUSINESS IN 1985
(US$ BILLION)

(Source: 'Sigma'/Swiss Re 5-87)
The Bill proceeded on very different lines from the Employers' Legislation Act of 1880; the latter had simply placed the employee on the same position as a member of the public as to right of action against the employer in the event of negligence of the latter or his agent. Mr. Asquith, now in the Opposition, was quick to pick up the new situation introduced by the Bill. In the course of the debate, he said: "This Bill has been received from the first with such good will ... that those who wish it well, as I certainly do, might on this occasion content themselves with the expression of the hope that it may weather the perils it has still to encounter elsewhere. What is the principle upon which the Bill rests? It is that it is to the interest of the community, as a matter of public policy, that the workman who sustains an injury in the course of his employment should, as far as money can do it, have the right to be indemnified. It is a new right you are creating for the workman, and a new obligation you are imposing on the employer. ... we are creating a new legal right and obligation similar in character when carried to its legal development to that which our ancestors created in the time of Queen Elizabeth when they established the poor law and recognized the right of every human being in the country; as a last resource, to food and shelter at the expense of the State.

The Act was duly passed. It applied to specified employments and occupations of the more hazardous description, among which were railways, mines, quarries, factories, engineering work, or buildings of over 30 feet in height. In 1900 it was extended to include agriculture, a departure from the principle that the Act should extend to hazardous occupations. Although of an experimental character, the legislation was effective in achieving what it set out to do. In 1903 a Departmental Committee was set up to inquire and report "what amendments in the law relating to compensation for injuries to workmen are necessary to desirable and to what classes of employment, not now included, the Workmen’s Compensation Act can properly be extended, with or without modification." The Committee reported in 1904, and the 1906 Workmen’s Compensation Act was the result. This Act extended the benefits to workmen generally and to other workmen whose remuneration did not exceed £250 per annum. It did not extend to persons whose work was of a casual nature and who were employed otherwise than for the purpose of the employers' trade or business, or to members of a police force, or to outworkers, or to members of the employer's family dwelling in his house, "but, save as aforesaid," it did cover "any person who has entered into or works under contract of service or apprenticeship with an employer whether by way of manual labour, clerical work, or otherwise, and whether the contract is expressed or implied, is oral or in writing."

(Source: A History of British Insurance ~ H.E. Raynes)
TAKE OVER OF WORKMEN’S COMPENSATION SCHEME

BY STATE IN 1945

As social insurance in the shape of pensions, health and unemployment insurance has developed during the present century, workmen’s compensation has become more and more related to these, and it was perhaps inevitable that a time would come when all four would be State-administered within one or more related schemes. In December 1938, a Royal Commission appointed to examine the law of workmen’s compensation and the relation of the system to other statutory schemes for giving benefits or assistance to incapacitated or unemployed workmen. The Commission did not report and the war put an end to their activities, but in 1941 Sir William Beveridge was invited to make an inquiry into social insurance and allied services, with specific request to include workmen’s compensation in its scope. His report recommended that the existing system of workmen’s compensation should be superseded and that provision for industrial disability should be made a part of a unified scheme of social insurance of a contributory character—the benefits being paid out of a central fund which would be maintained by contributions payable by employers, workmen, and the State, and to be administered by a Ministry of Social Security. While the Government have not adopted all the recommendations embodied in the Beveridge Report in their proposals for social insurance published in September, 1944, and the Bill submitted in October, 1945, they do endorse generally the criticism of the existing system and propose to make a complete change by removing from the employer the liability to pay compensation for industrial disability. The new scheme is to be based on the accepted principles of social insurance, and in that scheme the assistance of the insurance company and underwriter will find no place. So ends a period of fifty years in which commercial insurance has played an important part in assisting in the administration of measures affecting profoundly the status and well-being of a large section of the public. The termination of the workmen’s compensation departments of the composite insurance companies is not in the nature of a disaster, for profit arising from the business has been severely limited since the introduction of the agreement with the Board of Trade; it is, however, a matter of some concern to those offices which have made a speciality of this class of business.

(Source: A History of British Insurance - H.E. Raynes)
MOTOR INSURANCE LIABILITY
UNDER U.K. TRAFFIC ORDNANCE

On point (IV) of the Channon report, the Government took action. In consequence of the failure of certain smaller companies transacting motor insurance, greater powers were given to the Board of Trade to bring about the winding-up of insurance companies in virtue of two Amalgamation Companies (Winding-up) Acts, 1933 and 1935. The powers given applied in respect of all classes of insurance business. In virtue of these Acts the Board of Trade may present a petition for the winding-up of an insurance company on the ground that it is unable to pay its debts within the meaning of Section 501 and 159 of the Companies Act, 1939. Information for this purpose may be called for and an investigation made by the Board of Trade.

In the main the attitude of the State towards insurance companies was to impose as little regulation as was possible. During the last half-century, however, the activities of the State generally have taken on a more positive aspect than would have been thought right or proper in the individualistic Victorian period. The change seems to have originated from two sources: the first an anxiety to safeguard the public from the results of accidents, whether in industry or on the road, in a highly mechanised society; and the second, the growing social conscience showing itself in social legislation. In compulsory third party insurance under the Road Traffic Act, 1930, we have an example of the first; in the system of national health insurance an example of the second; and in the history of workmen's compensation insurance we see a combination of the two.

So far we have had insurance in three spheres made compulsory for the effective protection of the public: (i) The owner or other person using a motor vehicle must be insured against third-party claims in respect of death or injury to any person arising out of the use of the vehicle on the road; (ii) the owner of a coal mine must insure against all liability under the Workmen's Compensation Acts in respect of employment of workmen for the purpose of the undertaking carried on at the mine; and (iii) the owner of an aircraft must insure against liability which he may incur in respect of loss or damage to persons or property by an aircraft while in flight, taking off, or landing. So far as the workmen's compensation insurance is concerned, this will be wholly revised under the Bill before Parliament (1942) and will form part of the social insurance system of the country.
CARRIERS ACT, 1830, AND EXPLANATORY NOTES

An Act for the more effectual Protection of Mail Contractors, Stage Coach Proprietors, and other common Carriers for Hire, against the Loss of or Injury to Parcels or Packages delivered to them for Conveyance or Custody, the Value and Contents of which shall not be declared to them by the Owners thereof.

(23rd July, 1830)

WHEREAS by reason of the frequent Practice of Bankers and others of sending by the public Mails, Stage Coaches, Wagons, Vans, and other public Conveyances by Land for Hire, Parcels and Packages containing Money, Bills, Notes, Jewellery, and other Articles of great Value in small Compass, such valuable Property is rendered liable to inspection, and the Responsibility of Mail Contractors, Stage Coach Proprietors, and common Carriers, to such great extent, and demands such greater Caution, that the Party delivering and the Party receiving such Articles is greatly increased; And whereas Through the frequent Delusion by Persons sending such Parcels and Packages to notify the Value and Nature of the Consists thereof, as to enable such Mail Contractors, Stage Coach Proprietors, and other common Carriers, by due Vigilance, to protect themselves against Losses arising from their legal Responsibility, and the Difficulty of being Parties with Knowledge of Notices published by such Mail Contractors, Stage Coach Proprietors, and other common Carriers, with the Intent to limit such Responsibility, they have been exposed to great and unavailing Risks, and have thereby sustained heavy Losses: Be it therefore enacted by the King's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, That from and after the passing of this Act no Mail Contractor, Stage Coach Proprietor, or other common Carrier by Land for Hire shall be liable for the Loss of or Injury to any Article or Articles of Property of the Description following, that is to say those of Silver Coins of this Realm or of any Foreign State, or any Gold or Silver in a manufactured or unmanufactured State, or any Precious Stones, Jewellery, Watches, Clocks, or Any Items of any Description, Tickets, Bills, Notes of the Government and Company of the Bank of England, Scotland, and Ireland respectively, or of any other Bank in Great Britain or Ireland, Orders, Notes, or Securities for Payment of Money, English or Foreign, Stamps, Stamps, Writs, Bills of Exchange, Engravings, Pictures, Gold or Silver Plate or plated Articles, Glass, China, Silks in a manufactured or unmanufactured State, and whether wrought upon or wrought upon with other Materials, Bars, or Later, or any of them, contained in any Parcel or Package which shall have been delivered, either to be carried for Hire or to accompany the Person of any Passenger in any Mail or Stage Coach Conveyance, when the Value of such Article or Articles of Property delivered contained in such Parcel or Package shall exceed the Sum of Ten Pounds, unless at the Time of the Delivery thereof at the Office, Warehouse, or Receiving House of such Mail Contractor, Stage Coach Proprietor, or other common Carrier, or to his, her, or their Bookkeeper, Carrier, or other Servant, for the Purpose of being carried or of accompanying the Person of any Passenger or as aforesaid; the Value and Nature of such Article or Articles of Property shall have been declared by the Person or Persons sending or delivering the same, and such increased Charge as herein after mentioned, or an engagement to pay the same, be accepted by the Person receiving such Parcel or Package.

II. And be it further enacted, That when any Parcel or Package containing any of the Articles above specified shall be so delivered, and its Value and Contents declared as aforesaid, and such Value shall exceed the Sum of Ten Pounds, it shall be lawful for such Mail Contractors, Stage Coach Proprietors, and other common Carriers and others to demand and receive an increased Charge for such Parcel or Package to be notified by such Notice in the following Form, or other Breviary House where such Parcel or Package may be delivered, according to the increased Rate of Charge required to be paid over and above the usual and customary Rate of Charge for the delivery of such Parcel or Package containing such valuable Articles; and so long as such Parcel or Package shall remain in the custody of such Mail Contractor, Stage Coach Proprietor, or other common Carrier, or to his, her, or their Bookkeeper, Carrier, or other Servant, for the Purpose of being carried or accompanying the Person of any Passenger or as aforesaid; the Value and Nature of such Article or Articles of Property shall have been declared by the Person or Persons sending or delivering the same, and such increased Charge as herein after mentioned, or an engagement to pay the same, be accepted by the Person receiving such Parcel or Package.

III. Provided always, and it be further enacted, That when the Value shall have been so declared, and the increased Rate of Charge paid, or an Engagement to pay the same as aforesaid, and such Parcel or Package shall have been accepted as hereinafter provided, the Person receiving such increased Rate of Charge shall at his or her own Risk and Expense. And in case such Parcel or Package shall be returned or delivered elsewhere than at the Office, Warehouse, or Receiving House, according to the Notice, and the increased Charge paid, and in case such Parcel or Package shall be opened or searched in any manner, or in case such Parcel or Package shall be destroyed or damaged or in any manner lost or injured, or in case such Parcel or Package shall be delivered elsewhere than at the Office, Warehouse, or Receiving House, the Person receiving such increased Rate of Charge shall be answerable for such Loss, Damage, or Injury as aforesaid, and shall be liable to such increased Rate of Charge.

IV. Provided always, and it be further enacted, That from and after the First Day of September next ensuing no public Notice or Declaration of any Nature shall be hereinafter provided, or in any manner notified to the Public, in case such Parcel or Package shall have been accepted as aforesaid, or in case such Parcel or Package shall have been opened or searched, or in case such Parcel or Package shall have been destroyed or damaged or in any manner lost or injured, the Mail Contractor, Stage Coach Proprietor, or other common Carrier shall not be answerable for such Loss, Damage, or Injury as aforesaid, or shall be liable to such increased Rate of Charge.

(Source: Inkeepers and Carriers)
Not only individual processes in factories are automated but, to an increasing extent, the whole production process, starting with the arrival of goods, extending to the furnishing of raw and auxiliary materials and fuels, to production, final assembly and shipment (automation).

2.1 Machinery insurance

Through automation, the production process previously carried out by hand is replaced by a more or less automatic process. Experience has shown that, when automated production processes are being commissioned, a fairly long start-up period is necessary so that all sources of malfunction can be recognized and eliminated. For a machinery insurer, the susceptibility of machinery to malfunctioning and the exposure to loss during this start-up period are greater than in the case of a non-automated production process. On the basis of experience gained so far, one can assume that, after the start-up period, the exposure will be slighter than with non-automated production, since the possibility of faulty operation due to human inadequacy (lower-quality staff during periods of full employment) is limited, if not eliminated altogether. The claims frequency will consequently decrease.

However, an additional cause of losses is the failure of measurement and control devices. In such cases, there may be a total loss. Thus although the claims frequency is lower, the loss amount can be greater.

As regards partial losses, it should be borne in mind that automated systems must be repaired by highly skilled staff; repair costs are thus increased. It is therefore likely that repairs will prove uneconomic, the result being a total loss.

In order to decrease the hazard of losses, particularly of total losses, due to the failure of measurement, control and regulating devices, steps must be taken to ensure that:

- measurement and control devices are inspected at regular intervals;
- a sufficient number of mechanical or electrical overload safety devices are provided to prevent the effects of overloading becoming critical (e.g., friction clutches, over-voltage or over-current relays) and to shut down the system before any damage is done;
- so-called 2 out of 2 or 2 out of 3 switching circuits are provided at all critical points. 2 or 3 identical meters are installed in parallel in these switching circuits. Necessary action is taken only when at least 2 meters give the same reading. This ensures that, in the event of only one meter indicating disturbances or malfunction, an incorrect remedial process is not set in motion and that, when contradictory meter readings are given, the installation is brought to a standstill.

The underwriter has to bear in mind that the exposure to loss is extremely great particularly during the start-up period, i.e., in the first 6 months, and makes a premium loading necessary. A careful investigation must also be made into the degree of hazard involved after the start-up period. The exposure to total loss should be taken into account when the PMI is being fixed.

(Source: Munich Re Publication)
13' Historical Aspects

It appears that at the beginning of their activity, insurers only accepted risks which they could entirely handle themselves, for there is no indication that they had recourse to reinsurance. In studying the history of marine reinsurance, probably the oldest class of insurance, one finds a reinsurance contract concluded in 1370. But is it necessarily the first operation of this kind? Much later, reinsurance is referred to in legal texts, indirectly in 1681, in the ordinances of Louis XIV and directly in 1746. British legislation forbade maritime insurance, unless the insurer became insolvent, went bankrupt or dioc, and it remained forbidden until 1804.

In fire business, reinsurance is not mentioned until 1778, and the first contract to have been concluded in this class was as late as 1821.

At first, reinsurance was only effected on a facultative basis. Then, in the 19th century, with commercial and industrial progress, insurance rapidly expanded and required more effective forms of cover. This is why the automatic reinsurance contract, which covers practically all the business accepted by the insurance company in one branch, became indispensable.

Insurance companies then practised both direct underwriting and reinsurance. With the increase in demand for cover and keener competition between insurance companies, specialized reinsurance companies, called professional companies, were formed. The Collogno Reinsurance Company, founded in 1840, though it did not start operations until 1862, is the oldest professional company still in existence today. In Switzerland, the first company to be formed was the Swiss Reinsurance Company, which started business in 1863. The Munich Reinsurance Company was founded in 1880. Because of the very special position of Lloyd's, England was very slow in founding professional reinsurance companies, in fact the Mercantile and General was not established until 1917.

Reinsurers immediately realized that they could establish a certain influence in their portfolios only by spreading their business on a very wide basis and therefore tried to extend their relations to as many countries of the world as possible.

(Source: Swiss Re Publication)
FORMATION OF COMPOSITE INSURANCE COMPANIES

This does not explain all the acquisitions which were made by the large companies. There were cases where a profitable business, but a stagnant or restricted business, was purchased such, for example, as some of the fire insurance companies, the County Fire, the Law Fire, and the British Law. In these cases it was not a question of the purchasing company opening up a new branch of business, but of acquiring a new and profitable connection in the provinces or among solicitors with considerable insurances to place on behalf of clients. To canvass such for other business as well as the fire insurance would lead to an access of business which the subsidiary had been unable to transact in its independent days. So the single-line fire insurance companies disappeared; they had to choose between absorbing or being disappeared; they had to choose between absorbing or being absorbed.

With the completion of their organization by the composite companies, a new phase was entered which may be dated as commencing a few years after the 1914-18 was, when amalgamation slowed down. The reorganization of British insurance to meet the changed conditions due to the opening up of the new fields had been achieved, and the large companies had no incentive to offer fancy prices to shareholders for the goodwill of a business similar to their own. The policy which existed was one based on a number of competing units, any one of which was as competent as another to handle the business of brokers or the public. Any further amalgamation would have to be an association between equals more in line with the association of the Royal and the Liverpool & London & Globe than by way of purchase of goodwill at a price much in excess of the market's valuation. For such closer association among the composite offices there has been as real incentive as yet. While no doubt there would ultimately be reduction in expenses by the closing of redundant branch offices, the strain of expenses has not been sufficiently felt to drive in the direction of amalgamation. Apart from the branch system, the large composite insurance companies are highly organized for the handling of business and intimately rely upon each other for reinsurance, giving thus by their treaty arrangements a service as good as they would if the units were reduced in number but increased in magnitude.

(Source: A History of British Insurance

H.E. Raynes)
HISTORICAL DEVELOPMENT OF REINSURANCE

According to Monos, at the turn of the 19th century, there were only 30 insurance companies (14 in England, 5 in the United States, 3 in Germany, 3 in Denmark, 2 in France and one in Austria, Holland and Switzerland). Through other sources we know that there was also one each in Spain, Cuba and Argentina.

In 1850, there were already 300 insurance companies in 14 countries. In 1900, this number had reached 1,272 in 20 countries. In 1910, 2,640 in 20 countries and today more than 10,000 insurance companies are working in over 100 countries, and some 2,600 agencies of foreign companies can be added to this number. Approximate percentages show that 41% of the companies are in the United States, 39% in Europe, 7% in Latin America, 4% in Australia, 3% in Africa, and 0% in Asia.

However, the increase in the number of insurance companies due to the extraordinary economic development is not the only explanation for the growing importance of reinsurance. The cause of this phenomenon must be found in an evolution which started with the industrial revolution, and — far from slowing down — is today accelerating at a quicker pace than ever. On the one hand, the value of risks is increasing, and, on the other, these values are more concentrated. For example, let us compare the sum insured of a ship insured in 1850 with that of a supertanker of 800,000 DWT, or the cost of rented property around 1900 with that of a skyscraper containing numerous electronic computers, or even a craftsman's workshop with the plant of a car factory with all its complex and expensive machinery.

The creation of new states also proved favourable to the development of reinsurance, for where political and economic independence is achieved, a local insurance market is formed which limits the activities of foreign agencies. In general, local companies have a smaller financial basis than foreign companies with agencies in the country, because local investors naturally prefer more lucrative short-term activities than insurance. Moreover, new markets only have a small volume of premiums and are limited to small reten-tions, so that they make intensive use of reinsurance.

Because of the worldwide population explosion, even regions exposed to natural catastrophes (hurricanes, earthquakes) are now densely populated, so that risks are concentrated and the demand for cover increases.

Economic development and its social consequences have also caused a loss potential which national insurance markets are unable to cover alone.

Finally, let us mention that reinsurance has become a highly specialized profession: An underwriter must not only know the characteristics of different branches and markets, but must also find answers to coverage problems. As a result of the development of portfolios and the greater variety of the risks they contain, the composition of automatic treaties has developed so much that the drafting of a modern reinsurance programme requires the cooperation of numerous specialists.

After the Second World War, insurance companies played an important part of their business on the reinsurance market by means of exchange on an international reciprocity basis. However, technical results suffered several setbacks and mutual exchange lost its importance. On the other hand, numerous reinsurance companies have been founded, especially in recent years, with private and state capital in the same way as banks and reinsurance would have been formed.
MERGER OF INSURANCE COMPANIES

PROPRIETARY ASSURANCE COMPANIES DOING ONLY ORDINARY LIFE BUSINESS, 1899

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Established</th>
<th>Premiums (£) 1899</th>
<th>Purchasing Company</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accident, Injury, and Life Assurance Co.</td>
<td>1829</td>
<td>5,705</td>
<td>Commercial Union</td>
<td>1866</td>
</tr>
<tr>
<td>Accident, Injury, and General</td>
<td>1830</td>
<td>6,135</td>
<td>Commercial Union</td>
<td>1867</td>
</tr>
<tr>
<td>Globe Accident</td>
<td>1833</td>
<td>7,177</td>
<td>Commercial Union</td>
<td>1868</td>
</tr>
<tr>
<td>Horse Carriages and General</td>
<td>1835</td>
<td>7,353</td>
<td>Commercial Union</td>
<td>1869</td>
</tr>
<tr>
<td>Insurance Office</td>
<td>1837</td>
<td>7,636</td>
<td>Commercial Union</td>
<td>1870</td>
</tr>
<tr>
<td>Law Accident and General</td>
<td>1839</td>
<td>7,870</td>
<td>Commercial Union</td>
<td>1871</td>
</tr>
<tr>
<td>Law Accident and General</td>
<td>1840</td>
<td>8,098</td>
<td>Commercial Union</td>
<td>1872</td>
</tr>
<tr>
<td>London Assurance Company and General</td>
<td>1842</td>
<td>8,340</td>
<td>Commercial Union</td>
<td>1873</td>
</tr>
<tr>
<td>National Power and Light</td>
<td>1844</td>
<td>8,590</td>
<td>Commercial Union</td>
<td>1874</td>
</tr>
<tr>
<td>National Life Assurance Company</td>
<td>1846</td>
<td>8,800</td>
<td>Commercial Union</td>
<td>1875</td>
</tr>
<tr>
<td>National Life Assurance Company</td>
<td>1848</td>
<td>9,010</td>
<td>Commercial Union</td>
<td>1876</td>
</tr>
<tr>
<td>National Life Assurance Company</td>
<td>1850</td>
<td>9,220</td>
<td>Commercial Union</td>
<td>1877</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1852</td>
<td>9,430</td>
<td>Commercial Union</td>
<td>1878</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1854</td>
<td>9,640</td>
<td>Commercial Union</td>
<td>1879</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1856</td>
<td>9,850</td>
<td>Commercial Union</td>
<td>1880</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1858</td>
<td>10,060</td>
<td>Commercial Union</td>
<td>1881</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1860</td>
<td>10,270</td>
<td>Commercial Union</td>
<td>1882</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1862</td>
<td>10,480</td>
<td>Commercial Union</td>
<td>1883</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1864</td>
<td>10,690</td>
<td>Commercial Union</td>
<td>1884</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1866</td>
<td>10,800</td>
<td>Commercial Union</td>
<td>1885</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1868</td>
<td>10,910</td>
<td>Commercial Union</td>
<td>1886</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1870</td>
<td>11,120</td>
<td>Commercial Union</td>
<td>1887</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1872</td>
<td>11,330</td>
<td>Commercial Union</td>
<td>1888</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1874</td>
<td>11,540</td>
<td>Commercial Union</td>
<td>1889</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1876</td>
<td>11,750</td>
<td>Commercial Union</td>
<td>1890</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1878</td>
<td>11,960</td>
<td>Commercial Union</td>
<td>1891</td>
</tr>
<tr>
<td>Premier Light and Heating</td>
<td>1880</td>
<td>12,170</td>
<td>Commercial Union</td>
<td>1892</td>
</tr>
</tbody>
</table>

(ANNEXURE 3.66)

Source: A History of British Insurance by H. E. Raynes
(ANNEXURE 3.68)

MERGER OF INSURANCE COMPANIES

<p>| Marine Insurance Companies Transacting Business in 1899 (Other than the Three Composite Companies) |
|--------------------------------------------------|---------------------------------|-----------------|-------|</p>
<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Initial Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliance Marine and General</td>
<td></td>
</tr>
<tr>
<td>hull Underwriters</td>
<td></td>
</tr>
<tr>
<td>Inland Marine</td>
<td></td>
</tr>
<tr>
<td>London and Provincial</td>
<td></td>
</tr>
<tr>
<td>marine</td>
<td></td>
</tr>
<tr>
<td>Northern Marine</td>
<td></td>
</tr>
<tr>
<td>Ocean Marine</td>
<td></td>
</tr>
<tr>
<td>Railway Marine</td>
<td></td>
</tr>
<tr>
<td>Standard Marine</td>
<td></td>
</tr>
<tr>
<td>Union and others</td>
<td></td>
</tr>
<tr>
<td>Upper Marine</td>
<td></td>
</tr>
<tr>
<td>Union Marine</td>
<td></td>
</tr>
<tr>
<td>Alliance Assurance</td>
<td></td>
</tr>
<tr>
<td>Mercantile</td>
<td></td>
</tr>
<tr>
<td>Thinnes</td>
<td></td>
</tr>
<tr>
<td>London &amp; Lancashire</td>
<td></td>
</tr>
<tr>
<td>London &amp; Commercial</td>
<td></td>
</tr>
<tr>
<td>London &amp; Commercial &amp; General</td>
<td></td>
</tr>
<tr>
<td>London &amp; Commercial &amp; General (subsequently Union)</td>
<td></td>
</tr>
<tr>
<td>Lloyds</td>
<td></td>
</tr>
<tr>
<td>London &amp; Manchester</td>
<td></td>
</tr>
<tr>
<td>London &amp; Manchester</td>
<td></td>
</tr>
<tr>
<td>Liverpool &amp; London &amp; Globe</td>
<td></td>
</tr>
<tr>
<td>Manchester</td>
<td></td>
</tr>
<tr>
<td>Norwich Union Fire</td>
<td></td>
</tr>
<tr>
<td>Falmouth</td>
<td></td>
</tr>
<tr>
<td>Scottish Alliance</td>
<td></td>
</tr>
<tr>
<td>Union</td>
<td></td>
</tr>
<tr>
<td>Westminster Fire</td>
<td></td>
</tr>
</tbody>
</table>

(ANNEXURE 3.69)

<table>
<thead>
<tr>
<th>Office</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Fire</td>
<td></td>
</tr>
<tr>
<td>Equitable Fire and Accident</td>
<td></td>
</tr>
<tr>
<td>Hand-in-Hand</td>
<td></td>
</tr>
<tr>
<td>Imperial</td>
<td></td>
</tr>
<tr>
<td>Lancashire</td>
<td></td>
</tr>
<tr>
<td>Law Fire</td>
<td></td>
</tr>
<tr>
<td>Law Union and Colony</td>
<td></td>
</tr>
<tr>
<td>London</td>
<td></td>
</tr>
<tr>
<td>Liverpool &amp; London &amp; Globe</td>
<td></td>
</tr>
<tr>
<td>Manchester</td>
<td></td>
</tr>
<tr>
<td>Norwich Union Fire</td>
<td></td>
</tr>
<tr>
<td>Palatine</td>
<td></td>
</tr>
<tr>
<td>Scottish Alliance</td>
<td></td>
</tr>
<tr>
<td>Union</td>
<td></td>
</tr>
<tr>
<td>Westminster Fire</td>
<td></td>
</tr>
</tbody>
</table>

ANNEXURE 3.68

(ANNEXURE 3.69)

SASNCE:

HISTORY OF BRITISH INSURANCE

H. E. RAYNES
DEVELOPMENT OF U.K. INSURANCE LEGISLATION

INSURANCE ACT 1909

(ANNEXURE 3.70-A)

The Act also provided for certain changes in the law of insurance, which were intended to give greater security to policyholders in the event of the failure of an insurance company. The provisions of the Act are as follows:

1. Any company (including any of the above classes of assurance, and
   (i) Accounts, business summary and reports;
   (ii) Amortisation; and
   (iii) Wind-up.

Every insurance company to which this Act applies has, under Section 10, to make and keep deposited the sum of £1,000 with the Paymaster-General. There is no provision for returns when the life assurance fund amounts to £5,000 as under the 1909 Act, and no company which had undertaken life assurance had to make it again. The provision that section (1) provided that when a company ceased on more than one class of insurance business to cease, and a separate £1,000 sum was to be deposited for each class. This provision, however, was considerably modified in a later part of the Act relating to the five individual classes of business. If a five

In respect of — Assurance, business summary and reports.

In the case of employers' liability business, the deposit was not required if the company was under £100,000 before the 1909 Act.
DEVELOPMENT OF U.K. INSURANCE LEGISLATION
INSURANCE ACT 1946

ACT 1946

The licensor, the advisory committee, and the central fund are features which indicate a new phase of the relations between the State and insurance companies.

While not attempting to give full effect to the recommendations of the Division Committee of 1912, the Government in 1913 took steps to prevent the promotion of weak companies, which might occur, following the termination of war in any class of business, such as marine, aviation, and transit insurance, now yet included as one to which the 1909 Act applied. To this end a Bill was drafted which, in collaboration with insurance interests, was accepted as non-contentious. The Bill received Royal Assent in March, 1916 (5 and 6 Geo. VI, c. 28). In it the 1909 Act is referred to as the Principal Act, and the four pieces of legislation—the 1909 Act, the Assurance Company (Winding-up) Acts, 1933 and 1945, and the 1911 Act—are to be known as the Assurance Companies Acts, 1911.

Before the passing of the 1916 Act the classes of business to which the 1909 Act applied were—

(a) Life assurance,
(b) Industrial assurance (governed by the 1913 Act),
(c) Fire insurance,
(d) Accident insurance,
(e) Employers' liability insurance,
(f) Bond investment,
(g) Motor vehicle insurance;

and to this list the 1916 Act added another class entitled marine, aviation, and transit insurance. These eight classes the 1916 Act then separated into two divisions—

(i) "Long-term business," which is defined in the Act as all or any of the following: life assurance, industrial assurance, and bond investment business.

(ii) "General business," which is defined as assurance business to which the principal Act applies, not being long-term business.

It will be noticed that the two divisions do not exhaust the insurance business undertaken by insurance companies. There are, for instance, sinking fund and reinsurance disability insurance, having characteristics akin to the defined long-term business, and there are miscellaneous classes of business, such as burglary, plate, glass, and fidelity guarantee.
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HISTORICAL REVIEW OF GENERAL INSURANCE DEVELOPMENT
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3.73-B Impact of Global Economic Recession on Japan (1928-1930)

3.74 Post-World War-II Restructuring of Japan

3.75-79 Chronology of Historical Development of the Tokyo Marine and Fire Insurance Company of Japan (1879-1979)

*****

After detail review of Historical Development of British General Insurance Industry for demonstrating the linkage between Macro-Environmental changes and Insurance Industry developments a further case study of Japanese Insurance Industry is selected. Japanese Insurance Industry though a leading member of the developed Insurance Industry Sector of International Market represents a unique class of its own befitting her special Macro-Economic Model emerging from the traditional close co-ordination between the government control and Freedom of Private sector Enterprise described in the jargon of Management Profession as Japan Incorporated.

A) Macro-Environmental Transformation of Japan during the period 1850 - 1950

Introduction to Japan’s Macro - Transformation is best given in the words of Paul Kennedy - "Japan had been ruled for centuries by a decentralized feudal oligarchy consisting of territorial lords (daimyo) and an aristocratic
caste of warriors (Samurai). Hampered by the absence of natural resources and by a mountainous terrain that left only 20% of the land suitable for cultivation, Japan lacked all of the customary pre-requisites for Economic development. Isolated from the rest of the World by a complex language with no close relatives and an intense consciousness of cultural uniqueness, the Japanese people remained inward looking and resistant to foreign influences well into the second half of the nineteenth century. For all these reasons, Japan seemed destined to remain politically immature, economically backward and militarily impotent in World Power Terms."


Yet within two generations Japan became a major player in the Political and Economic arena of the orient and played in due course a major role in global affairs. This transformation was possible due to the determination of the influential
members of the Japanese elite to avoid being dominated by and colonised by the West as was happening elsewhere in Asia, even if the reform measures to be taken involved the scrapping of the feudal order against the opposition of the powerful Samurai clans. Japan needed modernization for the survival as the independent state in the modern world.

The opening of Japan's trade ports in 1859 under the threat of Western Naval invasion and the subsequent development of foreign trade dealt a decisive blow to the already weakened feudal system. Modernisation proceeded with vigour and commitment which was unprecedented even in the development of Western Countries.

A new constitution based upon the Prusso-German Model was established and legal system was reformed. The educational system was vastly expanded to achieve in short duration high literacy rate. All sectors of social life witnessed changes including the calendar and dress.
Most important sector undergoing change was Japan's international trade. From the mid-sixteenth to the beginning of the seventeenth century, Japan's overseas trade had boomed covering the sectors of China, Korea. With the adoption of seclusionist policy by Ming China, the Japanese Merchants had developed trade relations with Philippines, Indo-China, Java and Thailand. However, Tokugawa Government which came in power in 1639 issued the order isolating Japan from the global connection and for two centuries Japan was sealed within Japanese ports for international trade. Japan had to undergo total transformation in terms of Financial, Industrial, commercial and transport sector.

A modern banking system was introduced. As its model the new government adopted the economic pattern of Western Nations. Its primary objective was to develop modern industries and to create a strong military structure. Feudal Society was to be transformed fast into industrial modern
state. The Meiji government had to invest initially substantial capital in the development of modern industries and transport infrastructure of rail, roads, communication, ship-building, munitions, mining and steel manufacturing, supportive industries such as cement, bricks and glass, textile, silk, woolen industries. The Meiji government provided the initial financial investment and laid foundation of Japan's rapid industrial transformation to be developed further by Private Sector enterprise in its second stage. Behind the miracle of Modernisation lay the inspiring spirit expressed in the national slogan Fokoku Kyone; rich country with strong army. For the Japanese, Economic power and military / naval power went hand in hand.

Financial strategy needed for supporting this experiment of crash modernisation was designed by Masayoshi Matsukata who became Minister of Finance in 1881. He brought under control crisis of paper currency put in circulation by the Government in
previous decade for supporting new ventures in Industrial - Commercial sectors, through the effective strategy of increasing taxation and reducing national budget. This policy resulted in initial depression but laid sound foundation for the post 1886 industrial progress on steady sound basis.

Lead in industrialisation process was now taken over by wealthy Merchants who had survived critical periods of Tokugawa period. Historical groups like Mitsui, Sumitomo took initiative in this phase along with new entrepreneurs like Mitsubishi group which had origin in petty Samurai or merchant families. The state developed factories and mining ventures were sold to these private sector entrepreneurs, who also developed ventures without state involvement in sectors of textiles and other commodities. Coordination between outstanding leaders of bureaucracy like Matsukata and Private sector entrepreneurs like Shibusawa resulted in the emergence of Industrial
power of Japan by the end of the 19th Century. However, inspite of the impressive industrial progress registered by Japan in relation to the Asian neighbours like China or Korea in comparison to the Western powers it still remained far from the predominant status. (Annexure 3.71). On the one hand the Industrial progress had its limitations for squeezing the backlog in development of two centuries in four decades and on the other topographical problem and backward farming infrastructure and techniques made it difficult to achieve agriculture transformation on par with British Model.

As against this continued light-weight status of Japan in global Economic scenario, Japan did acquire glorified status in political arena due to her historical defeat of Russia in 1905 naval hostilities. No significant settlement of political issues in the Far East could henceforth be settled without taking into consideration Japan’s response.
First World War provided Japan an opportunity for gathering unprecedented momentum in her process of industrialisation. Owing to the demand of Allied Power for supply of munitions and shipping from Japan and Japan’s expansion of trade in Asian Markets which the West could no longer supply, Japanese production of steel-cement doubled, Export-Import tripped, great advance was made in Chemical and Electrical industries and at the end of the War in 1918 Japan’s foreign debts were liquidated and it became a creditor state, major ship building nation and industrial power registering highest growth rate in the world with continued economic progress. Japan’s economic statistics for the decade of thirties showed the possibility of her likely take-over of the output of major power like UK before the end of the decade of forties. (Annexure 3.72)
3) Impact of Global Recession - Tragedy of World War-II:

However, the following decade of global economic recession had its intensive adverse impact on Export-oriented Japanese Economy. On the one hand stiff competition for shrinking global market of textiles, ships, steel from partially recovered European states decimated Japan's exports and on the other hand her need for imports of rice and other agricultural produce from Korea, China for feeding population increased creating an economic crisis which lead to the downfall of sober economist administration in Japanese government and take over of Power by adventurist Militarist Lobby leading to Japan's suicidal involvement in the tragedy of the World War-II. The economic recession in 1931 had generated decline of industrial production by 7%, exports decline by 50%, resulting in steep escalation in unemployment in urban as well as rural sectors. Military adventures in Manchuria and China did generate short time Economic boom and
public applause but entailed long term disaster ending in the humiliating defeat under the catastrophic Nuclear Blast on August 7, 1945. (Annexure 3.73)

4) The end of Era of 1945-50 and beginning of Resurrection:

At the end of the War, the loss of National Wealth amounted to one quarter of its quantum in 1935. Most effective indicator of Japan’s Economic disaster is the figure of the total shipping tonnage left at the end of the War at 1.5 million tons as against 6.5 million tons in 1940.

Under the supervision of General Head Quarter of Allied Forces, new phase of Political - Economic restructuring of Japan started as per the directives issues by General Macarthur. Establishment of Democracy as per Western Model with the retention of the traditional monarchy as titular head was the major political change in Japan in the post-War years. The most important change on the economic
front was the directive for break-up of the Zaibastu business conglomerates. 1945 GHQ ordered dissolution of the leading four conglomerates of Mitsui, Mitsubishi, Sumitomo and Yasuda leading to the virtual end of family monopolistic control of industry.

The end of World War-II was thus the inauguration of the new era in Macro restructuring of Japan starting at the economic level almost on par as at the end of the 19th Century. (Annexure 3.74)

B) Historical development of Japanese Insurance Industry 1550 - 1950

For reviewing historical development of Japanese Insurance Industry, I have made substantial use of the book 'The Tokio Marine (1879 - 1979)' published to celebrate their First Century of operation. Tokio Marine started the development of General Insurance Industry in modern form in Japan and hence data extracted from this source forms the most
valuable record for the study of Japanese Market case study. I have also used the book 'Building Protection' - the story of Mitsui Marine and Fire (1919-1993) for reviewing historical development of Japanese Insurance Industry.

1) **Historical Beginning of Insurance in Japan**

From the mid-16th Century to the beginning of the 17th Century Japan's overseas trade had boomed. While the bulk of the trade was with Ming China, Japanese merchants were also active in commerce with Korea, Philippines, Indo-China, Java Borneo. Ships of Namban - Southern Barbarians as the Portuguese, Spaniards and other Europeans were commonly known to the Japanese also visited Japan with regularity for trade and spread of Christianity. Even though trade flourished, Japanese Navigational Technology was in infancy and the ships were small with tonnage around 100 tons.
For supporting this highly insecure overseas trade, an indigenous financing system evolved under which a Merchant arranged loans for the shipowner to undertake voyage for export of goods and after the ship's safe return, the loan was returned to the investor with a high interest rate and the profit was shared between the Merchant and the Ship Owner. This method which resembles the bottomry contract developed 2000 years BC in Babylonia was introduced to Japan by the Portuguese traders. The terms of the loan which were normally for a single voyage of duration upto six months ranged with interest rate from 35 - 50% at times climbing to 80% - 90%. Interest rate covered transit risk and the system was thus the beginning of Marine Insurance in primitive form. With the closure of Japan for Foreign contact by Tokugawa government in 1639, the overseas trade and its by-product of primitive Marine Insurance practice died out.
With the closure of overseas trade after 1639, coastal shipping remained effective means of transportation of commodities between the coastal cities. The trading boats were small sailing vessels and exposed to numerous mishaps at sea. Towards the end of the 17th Century an indigenous system came into existence to cover financial risks of traders and shipowners in coastal trade. Under this system known as Kaijo-uke-oi or Marine undertaking the shipowner in consideration of a charge in addition to the normal freight accepted responsibility for the loss of the cargo and compensated the trader. The shipowner thus also assumed the role of the insurer guaranteeing against General and Particular Average losses. The Marine undertaking note was a combination of the Bill of Lading and the Marine Insurance policy. However, this indigenous practice did not mature into Marine Insurance as independent business. The rates were based on a
rule of thumb and the Law of Large Number did not evolve in Japanese trade practice. This practice also developed to cover land transit through contracts based on premium, written by Japanese postal dealers. In the late 17th Century, Mutual Insurance Scheme was also developed under which shippers formed a Union and allotted assessment among themselves after a shipwreck.

Owing to the limited exposure arising from the coastal transits, the indigenous systems of Insurance provided adequate cover for normal ventures inspite of their lack of precision in rating and defining scope of cover. However, with the expansion of trading activity, the limitations of these primitive Insurance systems were exposed and uncertainty of losses resulted in the rise and fall of many business houses engaged in trade and shipping. Nevertheless, these indigenous systems of Insurance laid the
foundations upon which the introduction of Modern Insurance in the Meiji era was based - Origin of Insurance in Japan is thus from the financial need of overseas and domestic trade and Marine Insurance is thus the mother of Japanese Insurance Industry. (Annexure 3.75).

2) Commencement of Modern Insurance Practice 1859 -1900

Entry of Foreign Insurance Companies:

With the signing of the full treaty of amity for, commerce and navigation in 1858 between Japan and USA and similar conventions with European countries in the following years, Japanese ports of Yokohama, Nagasaki and other places were opened for global trade. Along with imported goods and new social and cultural ideas the practice of Marine Insurance as developed in the Western countries made its entry in Japanese
commercial scenario. In the foreign settlements established in these parts, the foreign Non-Life Insurance companies appointed their agents to cover Fire and Marine Insurance risks of their clients.

Imperial Fire Insurance Company, appointed Macpherson and Marshall - British Merchant as their Yokohama agents in 1861. In the following years many Insurance companies followed, with their number reaching 21 by the end of 1870. Out of these initial 21 insurers, nineteen were British and two were Dutch. Such agencies were also established by Foreign Insures in Nagasaki, Kobe and other parts. These insurance companies restricted their covers to only Foreign Merchants, covering their properties and goods in Japan.

However, with the establishment of a bonded warehouse at the Yokohama Customs House, fire Insurance on commodities in custody with them was
arranged with seven foreign insurers through the contact with their agencies. A major loss of £197,000 was soon paid by foreign Insurers under this contract.

After this loss, the Japanese government initiated their self managed insurance scheme for competing with Foreign Insurance Companies. Foreign Insurers started in the decade of Seventies gradual acceptance of Insurance risks of Japanese clients.

3) Establishment of Domestic Companies in Japanese Insurance Market

a) The basic concepts of modern insurance were introduced to Japan by Yukichi Fukazawa. His books giving his observations during his 1860-62 visits to USA and Europe included chapters giving precise information of Marine, fire and Life Insurance practice. After the establishment of Keio University, Fukuzawa and his
students promoted spread of information concerning Western practice of Insurance.

Arising from these efforts, efforts were made to establish marine insurance companies. Honin-Sha was the first Japanese Shipping Company established in 1873 by the Meiji Government. This company was primarily a shipping company providing shipping service from Hakodate to Tokyo and Osaka. In due course it also provided additional service of Marine Cargo Insurance. Within one year of operation Honin-sha failed as a shipping service venture, but its Marine Insurance service had attained a measure of sophistication and its policies were based on the model of Lloyds.

After this attempt sponsored by the government, some attempts were made by the private sector entrepreneurs to establish Marine Insurance companies but lacking in expertise
for developing business on sound basis these efforts also proved a failure.

Marine Insurance division of Dai-Ichi National bank was established with government approval in 1877, to underwrite Marine Insurance Risk. Out of the bank's total capital of ¥1,500,000 the sum of ¥30,000 was set aside for Insurance business. Dai-Ichi National Bank’s Marine Insurance dept. was very successfully managed and produced satisfactory profits. However it was discontinued with the establishment of Tokio Marine Insurance Co. in 1879. Dai-Ichi Marine Insurance business was transferred to the new company. (Annexure 3.76)

b) The establishment of Tokio Marine Insurance Company: Development of Marine Insurance Market: – The formation of the Tokio Marine Insurance Co. is an outcome of Complex interplay of private and
government financial interests in the project of construction of Railway system. Arising from some difficulties the original Railway Project was dropped and it was decided to utilise the part of the subscribed capital for establishing a Marine Insurance Co. which was vitally needed to support Financial Infrastructure for the needs of fast expanding Investment in ship building, Export and Industrial sectors. Formation of Tokio Marine was the outcome of joint efforts of leading business conglomerates lead by Mitsubishi group and supported by the Govt. Rapid expansion of Marine Cargo Insurance business on the base of Marine portfolio transferred from Dai-Ichi National Bank, was possible due to the support of agencies given to the trading houses of Mitsubishi and Mitsui & Co. Development of cargo business came from Mitsubishi owing to their shipping interest and from Mitsui trading Company due to their large scale trading turnover.
through domestic and global business. In spite of the major losses suffered by the company in the early years, owing to the support by the Govt. and the major trading conglomerates the company continued to develop Cargo insurance business and in 1883 was given permission to write Hull business. For enabling it to write Hull business Govt. agreed to make initial contribution of ¥ 4,00,000 out of total additional capitalisation of ¥ 1,000,000 and provide free of charge inspection of Hull and Machinery. Development of Hull portfolio subject to the condition of inspection by Govt. surveyors and high rate of the level of 8% was at slow pace but on sound basis.

Tokio Marine started its agency in UK in 1890 and in San Francisco in 1893. Overseas business increased in 1892 to ¥ 50,000 but the trend of losses reaching level of ¥ 750,000 made the foreign operations scenario grave.
Whilst this situation prevailed in overseas market, the domestic market also showed deterioration owing to the competition by new companies Nippon Kariku, Imperial Marine established in 1893. By the end of the 19th Century, Japanese Marine Insurance market was thus established with three operating units of domestic industry and foreign insurers competing for Marine Cargo and Hull business. (Annexure 3.77)

c) Establishment of Meiji Fire Insurance: The Fire Insurance Business in Japan started later than Marine Insurance Sector. In 1887 the Tokyo Fire Insurance Co. was founded pioneering Fire Insurance Business. At the same time, Fire Insurance Union was started by executives of Meiji Life Insurance Company - the pioneer in Life Sector. This company became later Meiji Fire Insurance Company and was acquired by Tokio Marine to strengthen their Fire business. Owing to the high hazard of
wooden houses and risk of conflagration in cities, setting up of Fire Insurance Companies in Japan was a test case. However, contrary to the original forecasts there were no claims for the first few years and with the accumulated reserves Fire Union was reorganised into a joint stock company in the form of Meiji Fire Insurance Co. Meiji Fire Insurance co, and Tokio Fire competed in rates for business. Meiji's development was faster owing to competitive rates and innovative schemes like profit return giving return to the insured of 40% of the net profit on policies above a fixed amount. For warehouse risks company gave 10% discount for no return policies. For supporting the volume of business, the capital of the company was raised to ¥1,000,000 with investment support from leading houses of Mitsubishi, Mitsui, Sumitomo, Yasuda. Meiji Fire covered risks in all sectors, residence, warehouses, shops, as well as factory
risks. Since Meiji Fire was underwriting Fire risks at lower premium rates, it initiated the system of risk inspection and promotion of Loss Prevention techniques, which was the beginning of Risk Management. With the increasing exposure of industrial risks started the system of sharing risks between domestic company of Meiji and Foreign Insurers. Thus by the end of the 19th Century, Fire Insurance had developed a good base in Japanese Market with participation of two domestic companies and some Foreign Insurance agencies.

d) The development of Japanese Insurance Market in 20th Century
First Three decades: The Russo-Japanese war heralded the entry of Japan as political industrial power to be noticed on the oriental horizon. Eventhough prosperity which followed Russo Japanese war (1904-05) proved short lived during the period 1907 - 1915 Japan underwent substantial
growth in industrial trade sectors. Concentration of capital arising from production trade turnover led to the emergence of the great Zaibastu combines. Mega size Banks had developed from 1901 and backed by them Zaibastu combines registered rapid growth in the first one and half decades of 20th century. Non life Insurance business after the Russo-Japanese war displayed various important characteristics. Competition amidst established Japanese companies and Foreign Insurance companies for fast developing Fire and Hull Insurance business became stiffer with the entry of new foreign insurers and establishment of new domestic companies by Zaibastu combines. At the end of the 19th Century there were only three Japanese Insurance companies writing Marine Insurance and two Japanese insurance companies writing Fire business. But by the end of the first decade of 20th Century, there were 10 companies.
Among the newly established companies the most important were the Kydo Fire Insurance Co. formed by Mitsui and Sumitomo combines and the Kobe Marine and Fire Insurance Company formed by prominent financiers in the Osaka - Kobe region. Development of Japanese Insurance companies had stagnated after 1910 but in 1918 two new leading companies entered the market - Taisho Marine and Fire Insurance Company formed by Mitsui Co. and Mitsubishi Marine & Fire Insurance Co. formed by Mitsubishi group. During this period 18 companies were formed and by the end of 1919 there were 34 companies writing Marine Insurance, 37 writing fire insurance and 22 writing other types of non-life insurance with the total number of the companies reaching 42.

The Fire Insurance Industry, which had been constantly beset with the problem of excessive competition amidst domestic and foreign insures finally entered the period of
prosperity with the establishment of Industrywise Association - Fire Insurance Association of Japan - to control competition and regulate rates ensuring profitable underwriting of business. The association had 18 domestic and 24 foreign firms as members.

This period also witnessed the development of new types of Insurance and new companies specialised in writing it. Credit Insurance and boiler turbo set insurance were initiated in 1905, personal accident insurance in 1911 and automobile insurance in 1914. Even though Motor Insurance was started the number of automobiles in Japan was very small. The overall prosperity resulting from World War Insurance produced excellent results for Japanese insurers in Marine and fire Insurance and the industry as a whole made great progress. (Annexure 3.78).
The impact of the Global Recession in the decade of 30s: A Serious financial crisis developed in Japan in 1920, almost as a forerunner of global depression to follow in 1929. With Japan's export market in post-war depression, Japanese industry which had enjoyed unprecedented prosperity in the decade of war had problems of overproduction leading to financial crisis. Japan's shipping then registered at 3,350,000 tons had no trade with the decline of Japanese trade by 50% from its 1920 level of ¥ 4824 million. Then occurred in 1923 the great Kanto earthquake which killed 99,331 persons, 44,476 were reported missing, 1,28,266 buildings, collapsed, 447,128 buildings burnt - producing in one blow economic losses of ¥ 10 billion. The financial panic of 1927, promoted government to adopt financial retrenchment and lifting of gold embargo, but global recession of 1929 made this domestic strategy ineffective.
This scenario was bound to affect adversely prosperity of Japanese non life Insurance Industry shown in 243% dividend declared by Tokio Marine at one point. The extended duration of the worsening depression resulted in the realignment of the companies and also fostered Tariff Agreements and Reinsurance Pools.

Fire Insurance association made an attempt to enforce agreements by resorting to various measuring including expulsion of members. The burden imposed by the repayment of earthquake disaster relief and loans and stiff competition for business, made profitable operation of companies very difficult. Yet Fire Insurance Industry survived without any majority collapse. Role of Japanese Insurance companies at the time of great Kanto disaster is worth recording.
General Condition of Fire Insurance excluded losses arising from earthquake and initially the Fire Insurance Association rejected claims. But with the mounting pressure from the Govt. and the public, the association accepted to contribute voluntarily to the relief of policyholders. The collective contribution made under this schemes amounted to ¥ 8 million on the basis of 10% of insured sums on the property. The government contribution was ¥ 64 million by way of loans. The controversy over Fire Insurance claims from earthquake damaged insured properties was thus resolved. 28 foreign insurers refused to honour this decision and also did not pay reinsurance claims of Japanese insurers. Even though technically they were justified their action was severely criticised by Public and thereafter their share of business shrank rapidly in Japanese market.
Marine Insurance Companies suffered due to post war depression much more intensively with the drop in the insured value of the ships built in war years by 80% and the drop in premium rate by 50% and escalation in claims ratio to the level of 150%. For facing this situation in 1927 eight Hull Insurers formed Hull Insurers' Union and entered into tariff agreement and formation of Reinsurance pool. Some shipping companies did protest against the high rates and stiff underwriting terms imposed by Hull Insurers body and tried to insure their vessels in London Market or under self insurance schemes but on the balance, they accepted these changes with good grace. In the sector of Marine Cargo Insurance also, pools were formed to control excessive competition though it was not fully effective due to competition from insurers out of pool.
After the short term economic recovery of Japan, following Japan's militarist ventures in Manchuria, the non life business developed smoothly with the industrial growth in heavy industry and chemical sectors and establishment of new companies by Zaibastu groups like Nissan. During this period Mega size companies of leading Zaibatsu groups showed development relatively higher than smaller companies indicating growing concentration of business in their hands.

f) Impact of War Years: With the increasing involvement of Japan in II World War, the individual companies which were under self imposed control of tariff associations and pools, came increasingly under the control of government. The Law for the extraordinary Regulation of Funds, promulgated in 1937, controlled investment of Funds by insurers. New Autonomous council of Non Life insurers was formed from members of
Japan fire Insurance Association reorganised in 1939 and 7 non-members companies - 8% of the working assets were utilised by members to purchase governments war bonds to finance war with China. Price control ordinance of 1939 froze Fire Insurance premium. Reinsurance transactions which showed net deficit of ¥ 2 million were directed to be reduced. Most Fire insurance of Japanese market was placed in the London Market. In view of the political situation arising from the anti-comintern pact between Germany, Italy and Japan, it was realised that Reinsurance relations with London market will be snapped in time to come and alternatives should be considered. With the necessity for substantial retention of Fire and Marine Hull premium within domestic market, steps were taken to form Marine Fire Insurance exchange. With the eruption of war in 1939, London - Reinsurance arrangement was terminated. The Law for State Reinsurance of Non-Life Insurance
enacted in May 1940 started the reinsurance arrangement by the state. The government would take war risk insurance but normal fire Marine Risks were to be retained by individual companies. To expand the collective capacity for reinsurance in domestic market, it was decided to form a domestic reinsurance company with the participation of all non-life insurance companies and this company was to perform as the window for the government reinsurance. TOA Fire and Marine Reinsurance Co. was thus established with the capitalisation of ¥ 50 million and with 42 domestic companies as shareholders. TOA Re concluded treaties with all companies and accepted a certain portion of reinsurance received by them from special cargo and hull syndicates. TOA Re retroceded a part of their acceptances to the Govt. authorised under Law of 1941 to cover ordinary insurance. The fortunes of the war worsened in 1943 with the allied air
raids hitting Japan’s main urban centres. War time special non-life Insurance, promulgated in 1944, expanded the existing scheme for war insurance and all insurance companies were busy after servicing it. The number of war risk policies issued between 1942 - 45 exceeded 10 million with income of ¥ 500 million against payment of 46 billion Yen. 20% of the payment were made in cash and the balance was placed in blocked account as special deposits for payments to be done after war from these deposits with limit of ¥ 10,000 per individual claim and limit of ¥ 100,000 for corporate accounts.

In April 1945 as the war was coming to close the Central Non-Life Insurance Association was formed to handle reinsurance arrangements serviced by TOA Re Insurance Administrative control exercised by Ministry of Finance under the war time statutes.
g) Developments in Post War Period:
With the total economic disaster resulting from the tragedy of World War-II Japanese Non-Life Insurance Market of 16 companies was in calamitous state. Japanese non-life Insurance companies not only suffered almost total loss of business on domestic properties and commodities but also lost large amounts of overseas assets and the destruction of infrastructure of international network built in South East Asia and Western Markets.

Moreover, like all other sectors of National activity, Non-Life Insurance came under the control of occupation authorities. In September 1945, the Occupation Authority decreed dissolution of Non-Life Insurance Control Society, but Non-Life Insurance Association continued, till it was declared as closed and all its rights and obligations were transferred to TOA Fire and Marine Insurance Co. Ltd. In January 1946,
Marine & Fire Insurance Association was formed under the leadership of Tokio Marine.

The major directive of the Supreme Commander of the Allied Forces which affected Non-Life Insurance sector was the dissolution of Zaibastu under which assets of the four major conglomerates - Mitsui, Mitsubishi, Sumitomo and Yasuda were frozen. The leading seven Non-Life Insurance Companies were designated under the imperial order relating to the dissolution of business to forestall any possible moves to avoid dissolution. Under another directive SCAP decree forced over 2000 top executives in about 250 companies to resign their posts due to their holding of influential posts in War time. Tokio Marine, Yasuda Fire, Taisho Marine, Sumitomo Marine were designated private financial institutions operating monopolistic business and many of their executives were forced to resign. Besides this
reorganization of companies, it was expected that Anti-Monopoly legislation introducing major reform in Japanese Commercial Sector will prohibit continuation of Tariff in Non-Life Insurance Sector. To avoid this, in 1948, Fire and Marine Insurance Rating Association was formed on the model of the relative provisions of Insurance Law of New York States. All rates established by the Association were to be approved by the Ministry of Finance prior to imposition under the system. It was in 1951 that by law it became mandatory for Rating Association Members to observe these rates. Under the Law concerning the control of Insurance Soliciting all life and non-life Insurance agents had to register. These laws pertaining to rating and Agency registration laid the foundation of highly disciplined Insurance market of Japan in the post War years, even though at that time insurers felt it was imposition by occupying power. Moreover, the law
for the elimination of excessive concentration of Economic Power was not made applicable to Financial Institutions, and hence Non-Life Insurance Market retained its basic structure of five leading Mega size companies and remaining 15 medium size companies in tact. With the retention of Tariff System and introduction and control on Agency registration and preservation of basic pre-war structure of Industry, inspite of discontinuation of Zaibastu ownership and close continued support of Ministry of Finance Insurance Industry was well established to face the challenge of the period of Japan's economic resurrection which was to follow in the decade of 60s.

4) Conclusion:

To conclude, we can interlink development of Japanese General Insurance Industry to Macro Environment changes as follows:
<table>
<thead>
<tr>
<th>Period A.D.</th>
<th>Political System</th>
<th>Economic System</th>
<th>Technological System</th>
<th>Insurance System</th>
</tr>
</thead>
<tbody>
<tr>
<td>1550 - 1850</td>
<td>Feudalism of warlords 1639-1850 Tokugawa government</td>
<td>System of trade supported by individual financiers at arbitrarily high rates of interest <strong>Export</strong> - Metallic items of bronze, steel, bamboo fans and screens, lacquer products sulphur. <strong>Import</strong> - silk items, fabrics, sugar, etc.</td>
<td>Development of Mining &amp; Agricultural sectors Building of small size ships</td>
<td>Linked to loans given by individual financiers to traders Insurance covered by shipowners under their agreement with shippers Shipper's Mutuas for sharing of losses in transit under collective agreement</td>
</tr>
<tr>
<td>1850 - 1900</td>
<td>Meiji Era of Japan's Modernization Monarchy with elimination of control of warlords Administration and legal system based on European patterns</td>
<td>Financial institutes on the models of Western banking system <strong>Institu-tions</strong> developed by government and handed over to leading private sector Market opened for global trade</td>
<td>Modernizatio of Metallurgica l and Mining sector Opening of textile sector, woolen industry Development of ship building on bigger scale.</td>
<td>Start of Modern Insurance systems by agencies foreign companies Establishment of Japanese Insurance Companies Formation of three Marine Insurance companies, one Life Insurance Company and two Fire Insurance Companies</td>
</tr>
<tr>
<td>1900 - 1920</td>
<td>Continued development of Monarchical system with government administration on the lines adopted from Western countries Japan's emergence as politically</td>
<td>Vigorous Economic growth Industria-ly powerful country Financially creditor nation in International Market</td>
<td>Substantial progress in all industrial sectors Increasing share of global market</td>
<td>Rapid growth of Insurance Industry - 42 local 24 foreign Insurance companies General Insurance developed fully to cover all sectors</td>
</tr>
<tr>
<td>Year</td>
<td>Event Description</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
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</tbody>
</table>
From the review of the above developments we can conclude that the Law of Linkage between Macro Environment and Micro Insurance Service Sector is well demonstrated by the historical development of Japanese Insurance Industry during the period: 1550 - 1950 A.D. Case Study of development of leading Japanese Insurance Company Tokio Marine and Fire Insurance Company during the period 1879 - 1950 is given in Annexure 3.79. It illustrates the Law of Linkage between Macro environment and General Insurance Industry.
ECONOMIC DEVELOPMENT OF JAPAN
1880 - 1905

The Development of Modern Industries and Non-Life Insurance

The Japanese economy in these early days was punctuated by periods of boom and depression. And during this period two especially significant events occurred, both of which had great influence upon Japan's economic growth. The first was the Sino-Japanese War of 1894-95 and the second was the Russo-Japanese War of 1904-05.

Before the first of these important landmarks, and following the recession of the early 1880s (which lasted for several years), modern industries developed with an almost feverish haste. Although this development was centered in light industries such as cotton spinning, a large speculative investment wave also affected the railways, sparking considerable growth in the existing systems. However, the pace was too rapid and uncontrolled and finally resulted in an economic crisis in 1890 — an interesting consequence of which was that the spinning industry, due to lack of demand in the domestic market, switched its attention to the export trade. The aftermath of the Sino-Japanese War, which, among other things, resulted in the payment of reparations from the Ch'ing dynasty, spurred the government to attach its currency to the gold standard and provided Japanese industry with its first opportunity to enter the Chinese market. In particular, the cotton industry experienced amazing growth through the processing and exporting of raw materials imported from America and India.

The expansion of industries provided the impetus for still further expansion in the transport systems. In the boom years that followed the war with China, most of the main railway trunk lines were completed and the merchant marine, under government protection, acquired larger vessels. This period saw Japanese vessels edging their way into the routes hitherto dominated by the Conference lines, and Nippon Yusen Kaisha began service to Bombay and Australian ports. However, true to the patterns of previous years, all this great industrial activity led to yet another crisis in 1900, with the failures of banks and companies, and this led directly in turn to Japanese commerce becoming more and more concentrated within the hands of large financial blocs — a phenomenon which quickly became a major feature of Japanese trade.

In 1904, when the economy had eventually recovered from the newest crisis, the Russo-Japanese War broke out. Its conclusion in 1905 was followed by yet another boom period, but with an important difference: this time the major expansion was to take place within the existing companies rather than through the creation of new companies, and considerable growth was seen in mining and manufacturing, particularly in electric power and coal. The boom was also characterized by a hectic buying up of shares of the South Manchuria Railway Company. This period, between the Russo-Japanese War and the outbreak of World War I in 1914, witnessed an expansion of Japanese overseas trade particularly into Korea and Manchuria; China especially became a vast new market for the cotton spinning industry.

(Source: The Tokio Marine & Fire Insurance 1879-1979)
The prosperity which followed the Russo-Japanese War (1904-05) was short-lived, and the postwar fiscal retrenchment policies of the government contributed to a general economic standstill which lasted, with only one brief respite, until 1915. During the period from about 1907 to 1915, however, much progress was made in the development of heavy industry, and an important change took place in Japan's industrial structure. Previously, as we have seen, the economy was based mainly on light industry, but the postwar Lauraan encouraged large investments in such industries as chemicals, machinery, shipbuilding and electric power. Iron and steel production showed impressive development, reaching a point where domestic production met 60 percent of the nation's pig iron needs and 40 percent of its steel needs. This change brought about shifts in this country's overseas trading position, with an increase in exports of finished textile products and a decrease in tea, food stuffs and raw materials, while imports witnessed an increase in the proportion of raw cotton and a decrease in machinery. Along with this change the trade with other Asian countries increased, and vis-a-vis those countries Japan solidified its position as an advanced industrial nation. During this period Japan, for example, eclipsed England in -- and thus shared with India -- the cotton yarn market in China, and also took over the cotton piece goods market in Korea and Manchuria from the United States.

More important, these years saw the concentration of production and capital in Japan, and with these the full emergence and consolidation of the great zaibatsu combines. From about 1901 the banking industry had begun a merger trend, and at a retail of financial trusts bank deposits came to be concentrated in the zaibatsu-related banks, which were regarded as more secure. These large banks, then, began to dominate the financial scene in Japan. Racked by abundant capital from their banks, the zaibatsu increased their investments in various sectors of the economy and gradually achieved dominant positions. By early in the 1910s they had achieved the completion of their central control structures.

The outbreak of World War I in July 1914 and the accompanying interruption of shipping and trade did much of the Japanese economy into disarray. But although it participated in the war on the side of the Allies, Japan was not directly affected by hostilities, and from mid-1915 a demand for Japanese commodities rose in the Allied countries, increasing dramatically by 1916. Exports were not limited only to the European countries: trade also expanded in the Asian markets, which were cut off from imports from the West. During the four-year period of war, from 1914 to 1918, exports tripled and Japan's balance of trade, which had shown a surplus of imports since about 1900, radically shifted to an export surplus. This increased activity in trade also naturally brought prosperity to the shipping industry: shipping had previously been stagnant due to a surplus of boats, but the expanding export trade and the rapid shift to a worldwide shortage of tonnage -- combined with the increasing need for ships as a result of Japan's participation in the war -- transformed the shipping business overnight.

Shipping also brought prosperity to other domestic industries; with the Asian markets now open to Japan, there was an across-the-board increase in demand in all sectors, and industrial production multiplied fivefold during the years from 1914 to 1919. Production increases in the heavy industry and chemical fields were especially striking: the percentage of total production accounted for by the output of these industries rose from a prewar level of 28.8 percent to 36 percent by 1920. Indeed it can be said that these two industries, which had only begun to develop following the Russo-Japanese War, fully came of age after World War I.

(Source: The Tokio Marine & Fire Insurance 1879-1979)
THE IMPACT OF GLOBAL ECONOMIC RECESSION ON JAPAN
1920 - 1930

The Showa Financial Crisis

THINGS OF UNEMPLOYED WORKERS with no homes to return to filled the streets. Sharp-eyed men appeared in the villages, hounding young women to be sold into prostitution. Ever since the Great Earthquake, Japan had been sinking further into the thick mud of recession. There was a general yearning for a brighter, more harmonious future as a youthful new Emperor ascended the throne in December, beginning the era of Showa, “bright harmony.”

Within a week, the first year of the Showa era dawned to a close, and the following March: hopes for a better future were betrayed by events that were neither bright nor harmonious. The Tokyo Watanabe Bank suspended payments. There had already been several runs on banks, and the government and the Bank of Japan had intervened to prevent a collapse. However, banks were staggering under the burden of bad loans, and public distrust continued to mount. With the closing of the Tokyo Watanabe Bank, the public’s worst fears became a reality. Then in April, Suzuki & Co., a giant trading company whose sudden rapid growth had for a time made it a rival of Mitsui & Co., declared bankruptcy. Suzuki had amassed debts of phenomenal proportions, and its main bank, the Bank of Taiwan, was also forced to close.

Runs on banks continued throughout the country. As many as thirty-seven banks shuttered their entrances, among them the famous bank patronized by the Imperial Household Department.

As the crisis spread, all banks in Tokyo and Osaka closed for two

THE IMPACT OF GLOBAL ECONOMIC RECESSION ON JAPAN

1920 - 1930

After the Showa Crisis

The first acid smell of gunpowder smoke arose in September of 1931 from an explosion on the Manchurian Railway in northeastern China, in Liaotung near Mukden (Shenyang). Using this explosion as a pretext, the Japanese Army moved northward from the Korean peninsula, thus creating what came to be known as the Manchurian Incident. This in turn ignited the Shanghai Incident of the following year. As the conflict grew, Chinese opposition to Japan became increasingly violent. That same year, 1932, a new state, Manchukuo, was proclaimed in Manchuria, whence Japan immediately garnered recognition and began setting up systems of national government. The age of those days has been paved down to later generations through the motion picture The Last Emperor.

The great powers of the U.S. and Europe felt that Japan's actions constituted a major threat, and applied pressure through the League of Nations by withholding recognition of Manchukuo and condemning Japan's behavior. This international pressure provoked denunciation within Japan. Japan rejected the censure, and went so far as to withdraw from the League of Nations, choosing to follow its own independent course. In 1934, Japan notified the U.S. that it was amending the Washington Naval Treaty, and in 1935, Canada notified Japan of the resuscitation of the commercial treaty between the two nations.

Japan's external show of power diplomacy was accompanied internally by a rash of political terrorism intended to intimidate the public. In early March 1932, less than one month after the assassination of Minister of Finance Inoue Junnosuke, Han Tsuchiya, one of the founders of Tōkō Kaitō and president of the Mitsui Group, was shot to death by a right-wing radical.

The government adopted a radical new policy with regard to the shipping industry, greatly affecting the marine insurance business as well. This was the First Ship Insurance Subsidy Program, which took effect in October 1932. The measure was intended both to stimulate the shipbuilding industry, which had suffered deeply as a result of the depression, and to improve the international competitiveness of the Japanese shipping industry, which was hampered by a large and growing number of obsolete vessels. At the time, a 7,000 ton high-speed cargo ship of modern design cost about 12,300,000 yen to build. Under the new program, a shipping company would receive 7,600,000 yen subsidies, and another 1,400,000 yen for selling the old vessel as scrap, thereby enabling it to build a new ship for only 1,500,000 yen.

This program had tremendous results. One after another, the ships of the famous Japanese "silk boat" were rolled into the waters and crossed the Pacific. The government enacted a second and a third round of such shipbuilding subsidies in 1935 and 1936. In all, this period produced some fifty new ships, which crossed and re-crossed the seven seas, propelled by the strong tailwind of Japan's thriving export business.

(Source: Building Protection - The Story of Mitsui Marine & Fire Insurance 1918 - 1993)
THE POST-WORLD WAR-II RESTRUCTURING OF JAPAN

The breakup of the Mitsubishi Group and Mitsubishi & Co.

After the shock of defeat in World War II, the attention of the Japanese government and of economic circles focused on a single point—GHQ (General Headquarters at the Allied Control, located in the Dai-Ichi Mutual Life Building in front of the Imperial Palace). It was here that the policies of the Occupation were announced to the world as "Mr. Churchill's commands," which carried the stamp of absolute authority as the Emperor's commands had during the war. High government officials and business leaders, along with returnees, helped formulate ideology or seek peace, making deals, etc., in this new phase of the (GHQ).

The fact of "Mr. Churchill's commands" had a great deal of weight for the state. In September 1945, GHQ ordered the dissolution of the four largest financial institutions—Mitsubishi, Mitsubishi, Sumitomo and Nippon. Each of the holding companies of the nation was appointed to the chair of the shares and all linked businesses. Instead of acquiring financial business, in place of other actions, GHQ ordered the dissolution of these companies.

As a result, the Mitsubishi Group was severely damaged about these events. During the war, Mitsubishi had been accused by the military of being pro-German and was highly connected with production industries. Then, the group fell in a good position to take the lead during the present moment. Thus, it had already begun to prepare for great economic and constant leaders. Even after Washington announced its policy for the initial setup of the Japanese economy, including a desire regarding the dissolution of the Mitsubishi Group, no one could be sure that the great Mitsubishi would actually be broken up.

Yet in the details emerged, Mitsubishi learned its lesson that it was actually by the first stage of the GHQ order. Top Mitsubishi executives were appointed to the GHQ to explain the dissolution, but no one. Foreign Minister Yosuke Matsuoka also informed that the real reason for dissolution had been the newly emerging nations, and that the old nations, including America, were taken into a role in the war. Churchill would not consider the facts. The news of the announcement was released to the world, but GHQ did not consider the facts. The news of the announcement was released to the world, but GHQ did not consider the facts.

Yoshu Matsuoka and all Mitsubishi executives agreed to the dissolution of the Mitsubishi Group by a group. And in November 1946, GHQ issued a letter of acknowledgment to the Japanese government. Thus the Mitsubishi Group could continue, gaining the "normal" for dissolution of the Mitsubishi Group.

As such, GHQ was praised to have an accurate and responsible role. But in July 1946, just a year after the dissolution of Mitsubishi by GHQ, a group of overseas Mitsubishi executives led by "Mr. Churchill's commands." This group was to prepare for the dissolution of the Mitsubishi Group. The dissolution of the Mitsubishi Group was decided in September 1946. The dissolution of Mitsubishi Group was announced to the world, and the dissolution of the Mitsubishi Group was announced to the world.

(ANNEXURE 3.74)

(Source: The Tokio Marine & Fire Insurance 1879-1979)
<table>
<thead>
<tr>
<th>YEAR</th>
<th>EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1879</td>
<td>Tokio Marine Insurance Company is established with capital of ¥600,000, specializing in marine cargo insurance. Mitsubishi, Mitsui &amp; Co. and others appointed as agents.</td>
</tr>
<tr>
<td>1880</td>
<td>Paris, London and New York Branches of Mitsui &amp; Co. are appointed agents.</td>
</tr>
<tr>
<td>1881</td>
<td>Meiji Life Insurance Company, founded in 1880, starts operations - first life insurer in Japan</td>
</tr>
<tr>
<td>1883</td>
<td>Tokio Marine is granted license for marine hull insurance, with ¥400,000 government capital.</td>
</tr>
<tr>
<td>1887</td>
<td>Tokio Fire Insurance Company is established - first fire insurance company in Japan.</td>
</tr>
<tr>
<td>1888</td>
<td>Fire Insurance Union, forerunner of Meiji Fire, is established.</td>
</tr>
<tr>
<td>1890</td>
<td>Government relinquishes its stockholder status in Tokio Marine and extends guarantee of up to ¥400,000 insured Capita is expanded to ¥1.2 million with ¥600,000 paid up, and company name changed to Tokio Marine Insurance Company, Limited.</td>
</tr>
<tr>
<td>1891</td>
<td>Meiji Fire Insurance Company is established with capital of ¥600,000, one-quarter paid up.</td>
</tr>
<tr>
<td>1893</td>
<td>First competitors in marine business emerge</td>
</tr>
<tr>
<td>1895</td>
<td>Dividend payments are suspended.</td>
</tr>
<tr>
<td>1897</td>
<td>Capital is expanded to ¥3 million, one-quarter paid-up.</td>
</tr>
<tr>
<td>1899</td>
<td>Reduction of capital by one-half is decided. London branch is closed down and Willis, Faber &amp; Co. accept Tokio Marine agency. Cargo cover is arranged through Willis Faber. New fire Insurance Companies are established in rapid succession.</td>
</tr>
<tr>
<td>1900</td>
<td>Insurance Business Law is promulgated and put into effect. Hull cover is arranged through Willis Faber. After successful recovery of Tokio Marine, dividend payments are resumed.</td>
</tr>
</tbody>
</table>
CHRONOLOGY OF HISTORICAL DEVELOPMENT OF
THE TOKIO MARINE & FIRE INSURANCE 1879 - 1979

STAGE - II

TIME : 1900 - 1920

1. RUSSO-JAPANESE WAR
2. FIRST WORLD WAR

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1904</td>
<td>Russo-Japanese War</td>
</tr>
<tr>
<td>1906</td>
<td>San Francisco Earthquake. Tokio Marine’s capital is expanded to ¥3 million, one-quarter paid-up.</td>
</tr>
<tr>
<td>1907</td>
<td>Fire Insurance Association is founded, with participation of five fire insurers.</td>
</tr>
<tr>
<td>1908</td>
<td>Overseas training of personnel starts.</td>
</tr>
<tr>
<td>1912</td>
<td>Tokio Marine’s capital is expanded to ¥4 million, one-quarter paid-up.</td>
</tr>
<tr>
<td>1914</td>
<td>Tokio Marine starts writing fire, transit and automobile insurance - first automobile insurer in Japan. World War I.</td>
</tr>
<tr>
<td>1915</td>
<td>Tokio Marine expands its capital to ¥15 million and acquires about 95 percent of Meiji Fire share and 99 percent of Tomei Fire shares. Tokio Marine pays 48 percent plus special 200 percent dividend.</td>
</tr>
<tr>
<td>1917</td>
<td>Joint Fire Insurance Association of Japan is founded with participation of 18 domestic and 24 foreign insurers.</td>
</tr>
<tr>
<td>1918</td>
<td>Company name is changed and present name “The Tokio Marine &amp; Fire Insurance Co., Ltd.” is adopted. Tokio Marine starts fire Insurance operation in USA. Mitsui &amp; Co. establish Taisho Marine &amp; Fire Insurance Co., Ltd. with capital of ¥5 million, one-quarter paid up.</td>
</tr>
<tr>
<td>1919</td>
<td>Mitsubishi Marine &amp; Fire Insurance Co., Ltd., is established with capital of ¥5 million, Tokio Marine holding one-quarter.</td>
</tr>
</tbody>
</table>

(Source: The Tokio Marine & Fire Insurance 1879-1979)
### STAGE - III  TIME: 1920 - 1937

1. GREAT KANTO EARTHQUAKE  
2. GLOBAL DEPRESSION  
3. SHOWA CRISIS  

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>Tokio Marine's capital is expanded to ¥30 million, one-half paid up.</td>
</tr>
<tr>
<td>1922</td>
<td>Tokio Marine establishes Standard Insurance Company of New York with capital of $1 million and paid-up surplus of $1 million.</td>
</tr>
<tr>
<td>1923</td>
<td>Great Kanto Earthquake. Major controversy arises over payment by insurance companies.</td>
</tr>
<tr>
<td>1924</td>
<td>Tokio Marine begins uniform goodwill payments to 10 percent, covered entirely by own fund. Many other companies receive government loans to make payments of up to 10 percent.</td>
</tr>
<tr>
<td>1926</td>
<td>Mitsubishi Marine appoints Willis, Faber &amp; Partners as agents for non-marine treaty exchanges. Tokio Marine opens its Shanghai Branch for joint operations with Cornhill Insurance Co., Ltd., which is later joined by Assicurazioni Generali.</td>
</tr>
<tr>
<td>1927</td>
<td>Fifteen or so marine insurance companies from underwriting pools for various types of cargo. Hull Insurers' Union is formed.</td>
</tr>
<tr>
<td>1929</td>
<td>Meiji Fire starts writing marine, transit, automobile, personal accident, etc. insurance. New York stock market crash triggers worldwide panic.</td>
</tr>
<tr>
<td>1930</td>
<td>Meiji Fire and Mitsubishi Marine set up joint U.S. insurance account with capital of $3 million and start writing fire risks there through Johnson &amp; Higgins.</td>
</tr>
<tr>
<td>1931</td>
<td>Tokio Marine establishes Eastern Trustees Ltd. in London with capital of £10,000/.</td>
</tr>
<tr>
<td>1933</td>
<td>Tokio Marine's capital is expanded to ¥35 million. Non-Life Insurance Institute of Japan is established with initial fund of ¥1 million contributed by Tokio Marine.</td>
</tr>
<tr>
<td>1936</td>
<td>Tokio Marine is granted license for aviation insurance.</td>
</tr>
</tbody>
</table>

*(Source: The Tokio Marine & Fire Insurance 1879-1979)*
## CHRONOLOGY OF HISTORICAL DEVELOPMENT OF
THE TOKIO MARINE & FIRE INSURANCE 1879 - 1979

### STAGE - IV  
**TIME:** 1937 - 1950

1. **CHINA - JAPAN WAR**
2. **GLOBAL WAR**
3. **POST-WAR RESTRUCTURING**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937</td>
<td>War between China and Japan</td>
</tr>
<tr>
<td>1938</td>
<td>Special Hull Reinsurance Syndicate is formed; reinsurance accord is reached by member companies of Joint Five Insurance Association of Japan. Both actions are taken to minimize reinsurance payments out of country.</td>
</tr>
<tr>
<td>1939</td>
<td>Insurance Business Law is revised.</td>
</tr>
<tr>
<td>1940</td>
<td>Law for State Reinsurance of Non-Life Insurance is put into effect. Germany, Italy and Japan sign treaty of alliance. Tokio Marine, Meiji Fire and Mitsubishi Marine halt their fire operations in USA. Tao Fire &amp; Marine Reinsurance Co., Ltd., is established with capital of ¥50 million.</td>
</tr>
<tr>
<td>1941</td>
<td>USA and Britain freeze all Japanese assets. Japan Non-Life Insurance Association is established following dissolution of Japan Fire Insurance Association and Hull and Cargo Reinsurance Syndicates. Mergers and consolidations of insurance companies are started. Japan joins war. War insurance for properties starts.</td>
</tr>
<tr>
<td>1942</td>
<td>Non-Life Insurance Control Society is established following dissolution of Japan Non-Life Insurance Association.</td>
</tr>
<tr>
<td>1944</td>
<td>The three insurance companies are dissolved and new Tokio Marine &amp; Fire Insurance Co., Ltd., is established with capital of ¥80 million.</td>
</tr>
</tbody>
</table>
1946 Marine & Fire Insurance Association of Japan is founded. Staff Unions are formed.

1947 Series of large fire losses results in raising of fire tariff rates. Antimonopoly Law is promulgated and put into effect.

1948 Law Concerning the Control of Insurance Soliciting and Law Concerning Non-Life Insurance Rating Organizations are promulgated and put into effect. Fire & Marine Insurance Rating Association of Japan is established.

1949 Law Concerning Foreign Insurers is promulgated and put into effect. Foreign insurance companies are granted licenses to operate in Japan for first time after World War II.


(Source: The Tokio Marine & Fire Insurance 1879-1979)
ASHOKA'S EMPIRE

(Source: Discovery of India - J.Nehru)
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Chapter - III

HISTORICAL REVIEW OF GENERAL INSURANCE DEVELOPMENT
2000 BC TO 1950 AD

PART VIII

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<td>The Vision that Prevailed</td>
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</tr>
</tbody>
</table>

*****
VIII) Development of Indian Insurance Industry

during the period 2000 BC to 1950.

Case Study of Indian General Insurance Industry is important as it represents a typical case of the development of Third World Insurance Sector of the Global Market. Insurance of Third World Countries developed as they passed through the phases of rise and decline of their Ancient and Medieval Civilisations, Colonisation by Western powers, Struggle for Freedom, Collapse of Colonial Rule and Emergence of Independent State.

A) MACRO-ENVIRONMENT TRANSFORMATION OF INDIA FROM 5000 BC TO 1950 AD

Historical development of India through almost epic stretch of period from 5000 BC to 1950 is covered in brief summary to demonstrate according to the theme of this paper the linkage between Macro-Environmental Transformation of Nation and its highlight the salient characteristics of Society in terms of political, socio-economic, technological
developments during the various phases of India’s historical development categorised as follows:

1. Ancient Indian Civilisation: 5000 BC – 8th Century
2. Medieval Indian Civilisation: 8th Century-mid-19th Century
3. Modern Indian Civilisation: Mid-19th Century to Mid-20th Century

1) Ancient Indian Civilisation

Indus Civilisation dating back to 5000 BC is as per recorded history beginning of Indian civilisation. According to the archaeologists who excavated ancient cities of Mohenjodaro and Harappa, Indus Valley civilisation was highly advanced in comparison to other contemporary Civilisations in terms of its political, administration, multi-sectoral production sectors, commercial and economic activities and overall materialistic and cultural standards. It was well connected in terms of trade and cultural exchange with then advanced Civilisations in Egypt, Sumeria and Mesopotamia. Decline and end of this well
developed society by 4000 BC is still a mystery. As per archaeological findings there are indications of its gradual decline through the successive natural catastrophies of floods, sand-storms and famines.

The new phase of development of Indian Civilisation started thereafter in 3000 BC with the arrival of Aryans from North-West. This long stretch of ancient Indian Civilisation continued from 3000 BC to almost 8th Century without radical disruption in spite of its passage through the various phases of political - socio-economic - cultural and technological transformation.

Most important part of this history from the global perspective is the period of Ashoka’s rule from 268 BC to 226 BC which witnessed within the country Consolidation of a political State of unprecedented territorial size and internal stability. (Annexure 3.80)

In the international arena historical Indian achievement was her promotion of Buddha’s message of peace in China, Japan, Korea and Sri Lanka.

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With her philosophical conquest ancient Indian civilisation had also thrived well materialistically as indicated by the level of India’s trade in global market with China in the East and Rome in the West covering diverse mix of exports of agricultural produce, minerals and metal products, textiles, silk, pharmaceuticals showing multi-sectorally advanced production system of this civilisation. Particular mention must be made of advanced ship-building sector which provided vessels of medium size tonnage for global communication.

However, in spite of the economically prosperous and technically advanced civilisation with well spread contacts with other countries in the world Indian Society continued to be bound within the limitations of Manusmriti - the ancient social code which imposed rigid caste system on Indian society. This system gave religious power to priest class, political power to warriors’ class, monetary power to traders whilst the vast majority of population was expected to perform manual work either in agriculture sector or in artisan crafts for
providing the materialistic needs of three privileged minority classes and finally the lowest category of menial work was reserved for the other minority caste of untouchables. This fragmented social system which promoted in initial phases specialization of trade and crafts continued silently but surely to dehydrate the body of society from within and by the 8th century its dilapidation had affected all sectors of community life destroying creativity and zest both in materialist enterprise and intellectual pursuits. Economic growth of this society shrinked as a consequence of total sclerosis of productive system, intellectual stagnation and cultural atrophy.

Medieval Indian Civilisation

At this point of time in the 8th century a new phase started in the development of Indian civilisation with the invasions of Afghans and Mongols who were new converts to the dynamic faith of Islam. These new invaders settled in India and in due course got assimilated in ancient Indian Civilisation adding to it their
contribution of Islamic culture. The climax in this process of assimilation reached during the reign of emperor Akbar (1556 - 1605) (Annexure 3.81)

Akbar's regime witnessed after Ashoka's time political consolidation of India to an unprecedented level. Under his predominantly secular administration Indian civilisation prospered economically and enjoyed social stability arising from the synthesis of diverse cultural and religious strains. Indian agricultural and artisans' production sector, which formed the primary source of National Wealth thrived under the conducive patronage of reasonably well organised revenue system and adequate legal codes pertaining to the ownership of land, transaction of commerce or employment of labour.

However, inspite of progressive philosophical outlook and curiosity of spirit of Akbar and his brilliant team of administrators, they did not fully realise the importance of inculcating in Indian civilisation scientific spirit of the new age which had dawned in Europe. In spite of their contact with the Western dignitaries
and merchants who visited their courts Indian rulers and their advisors did not care to find out the new source of power which enabled Western powers to spread their colonies in different parts of the world separated by highseas from their homeland. Failure to start in time participation in the new human ventures of Scientific discovery and global trade entailed during the post-Akbar period retardation of Indian manufacturing sector's progressive development resulting in due course in the dependence of Indian Rulers for modern armaments on Western Powers. This dependence of rulers on foreign powers for arms and ammunition gave latter an opportunity for involvement in the domestic political arena. Moreover, the lack of scientific spirit lead in due course to the revival of religious bigotry destroying Akbar's secular philosophical outlook and liberal administration triggering internecine fights between various regional and communal groups for religious and political supremacy in the parts of India under their control.

After a century of political and religious strifes amidst diverse groups by the end of the
18th Century Indian political structure had fragmented into a large number of small units ruled either by local military commanders or by powerful administrators. For financial support or Military strength these rulers of the balkanised states, depended on foreign mercenary groups from Britain or France who had entered India during Akbar’s glorious days as mere traders. Within two centuries these overseas trading organisations had started playing the role of arbitrators of India’s political destiny.

3) Modern Indian Civilisation (1800 - 1950 AD)

With the collapse of National frontiers in the Global era of Naval Expansion, Industrialisation, Financial Capitalism and Colonisation, it was inevitable that politically fragmented, socially decadent, financially weak and scientifically backward country like India offering foreign entrepreneurs attraction for her substantial hidden potential for generation of wealth, would become a colony of a Western Power backed by Modern Military Industrial Financial combine. Tripartite competition,
initially for Market of India and later on for her colonial domination between Portugal, Britain and France had started in 1499, when Vasco-de-Gama’s vessels reached Calicut. Britain was the ultimate winner in this contest owing to some fortuitous historical events but largely due to her relatively higher developed form of capitalist economy backed by modern industrial and better organised combination of military and naval forces.

British interests in India were promoted by traders of East India Company, who used fine mix of gambler’s instinct and well planned political strategy to develop almost un-noticed fast grip on Indian rulers. Anti-British National sentiment did ultimately gather momentum in 1857 to explode into the historical munition, which was suppressed by vastly superior modern British army turning India into the jewel of Empress Victoria’s Crown. (Annexure 3.82)

Having taken India under her direct rule from London, Britain had to establish new political administration through the Control of Vice-Roy and his team of administrators appointed by the
Crown. For developing the infrastructure of this administration and running it to control the Indian sub-continent it was inevitable that a large contingent of Indian manpower would be required. For building this team of Indian workforce comprising Administrators and Technicians Western education had to be introduced in India. (Annexure 3.83)

Educated Indians inspired by political-economic-scientific values of modern Western civilisation organised India's National Movement initially for modest political rights, which in due course under the outstanding leadership of Mahatma Gandhi developed into mass movement for full Freedom. Simultaneously with the political movement started the development of Indian enterprise in Commercial, Industrial and Financial service sector under leadership of eminent entrepreneurs like Jamshedji Tata. Critical study of expropriation of Indian industrial and agricultural economy by British capitalist was made by Indian economists and criticism was made by Indian members of British Parliament exposing hollowness of British claim for promotion of India's welfare.
With the passage of decades in the first half of the 20th Century, Indian Political Movement and Socio-Economic Technological development gathered noticeable momentum. Indian Commercial - Industrial - Financial service units not only competed with British firms operating in India but they also established their overseas operation through branches or Agencies on the lines adopted from the study of Western companies. India's political role championing the cause of liberation of colonies in international arena also started during this period.

Intermix of domestic and international political factors emerging in post-World War-II years ultimately resulted on 15th August, 1947 in the establishment of Independent States of India and Pakistan on the Indian subcontinent after 100 years of colonial rule. This event was historical as it started the end of Global Western Colonialism and emergence of Independent Third World in the 2nd half of the 20th century.

In spite of her vested interests as a colonial power, Britain did some useful contribution to
develop a base for India's Industrial, Commercial and Financial service sectors. But British rule not only failed miserably in developing but almost totally destroyed traditional self-sufficient Indian agricultural sector leaving the legacy of vast spread rural sector poverty. Permanent contribution of Britain to India's development was in the political sector, with India's successful adoption of Western democratic system. Recognition of this is seen in India's important role to develop British Commonwealth in the new form as a voluntary association of members of now defunct British Empire.

B) MICRO- INSURANCE INDUSTRY TRANSFORMATION

5000 BC - 1950 AD

Having covered Macro-environment Transformation in India from ancient times to the end of the 1st half of the 20th century, attempt will be now made to demonstrate transformation of Indian Insurance Industry in general and Indian General Insurance Industry in particular in pace with Macro-environment changes.
In the Part I - (ii) of Chapter-I whilst dealing with the origin of Insurance Practice in Ancient Human Civilisation the contribution made by civilisation of India has been discussed in detail. Suffice it to summarise at this stage salient deductions of that review:

Time of Origin: Even though as stated in Macro-Environment review, earliest historical record of Indian Civilisation is in Indus Civilisation of 5000 B.C. which was well advanced in terms of commercial and financial sector, there is no evidence of Insurance Transaction in rudimentary form in this record. Since there is evidence of developed domestic and international trade in this early part of ancient Indian civilisation, there is every possibility of development at that stage of Marine Insurance Transaction in the rudimentary form of loan transactions of bottomry contract as recorded in Babylonian Civilisation of 2000 B.C. As per the documentary evidence, transaction of purchase of Financial Security
by a trader from the Financier Sponsor of venture is in Manusmriti—Social code of Ancient India developed during the period 2000 BC - 200 BC. Manusmriti also stated under specific articles obligations of shipowners and the members of crew towards cargo owners and passengers for the damage and loss caused by their default. It is worth noting that shipowners and crew are exempted from the consequences arising from the causes categorised as Acts of God.

This rudimentary practice of Marine Insurance in Ancient Indian Civilisation did not develop in other sectors of Insurance like collective schemes for protection of life and property of members of Artisan Guilds as was the case with Greek Civilisation, since in Indian society, under the social concept of Banyan Tree, family and community took care of the dependents and individual victims of fortuitous losses.

On the basis of above information, it can be concluded that during the phase of ancient civilisation ending in 8th Century, Indian Society was well advanced in commercial and financial transactions as compared to other
contemporary civilisations in Insurance contract India custom of trade was on par with Global Norm of that period developed from Babylonian Bottomry contract.

2) **Historical development of Insurance in Medieval period - 8th Century to mid-19th Century**

As stated in the review of Macro environment the climax of political stability and economic prosperity in medieval India was during the period of Emperor Akbar’s regime in 16th Century.

Outstanding feature of Akbar’s administration was revenue system developed by his revenue Minister Todarmal, from the combination of India’s traditional system under Royal patronage with principles of Islamic equity covering entire community. The state recognised its responsibility of providing safety and security to the bulk of the population from the rural sector who generated substantial source of revenue for the state through their payment of taxes on agricultural produce or artisans production. As per
historical records towards the close of the 16th Century the rupee purchased in the vicinity of capital at least as much grain as seven times as could be bought during the British period in 19th Century.

Society predominantly devoted to the agricultural pursuits in self-sufficient village units and the exchange of goods and services being largely on barter basis did not require the umbrella of protection of either Life or Accident Insurance particularly when the state took responsibility to provide the low income strata protection under liberal revenue system in the time of poor harvests or other natural calamities.

From this system of State providing cover for losses from natural catastrophies emerged the practice of War Risk Insurance under which compensation was paid to the farmers for damage to their crop due to the passage of royal troops through farms.

India's International trade was well developed during this period and hence the practice of Marine Insurance in terms of loan transaction
developed in ancient Indian civilisation had continued in new form of commercial contracts. Travel accounts of Alburini and Marcopolo state that "The practice of Marine Insurance was quite common and we read of war risks being dealt and also of an overdue market but the names and the positions of the insurers are not stated and it is perhaps more probable that the risks were undertaken by ordinary merchants." It is interesting to note that the earliest known Marine policy in English issued in 1555 is expressed as "on the good ship Sancta Crux from any port of isles of India of Calicut into Lixborne".

However, in the post 17th Century period marked with political unstability entailed by strifes for religious and regional supremacy, Indian civilisation's political and socio-economic development stagnated. Since India did not participate in time in human civilisation's new scientific era, her technological sector remained backward ruling out prospects for industrial progress and development of commercial and industrial sectors in Modern norm. Owing to the lack of political
stability, inadequacy of usage of custom and lack of progressive economic policies, India's Insurance Sector, remained after 17th Century at the same level, till under the British influence in 18th Century started the development of Indian Insurance sector on Modern lines.

3) Historical Development of Insurance Industry in Modern Times 1700 - 1950 A.D.

a) Period 1700 - 1900:

The process of political and military dissolution of India's Central and Regional state which had started in the 18th Century reached its completion in mid-19th Century. This process had created spiritual and intellectual vacuum which was filled in by Western Socio-economic - political and religious values. Exposure of the Indians to the Western Industrial and Commercial systems in Banking and Insurance sector started during this phase of Indian history.
As early as between 1680 - 1690, there was directive by British East India Company board to then Governor of Bombay to constitute an Insurance Office on the island under his jurisdiction. In 1793, a few leading British Merchants started the first Indian insurance company - "Bombay Insurance Society". The first life insurance company on Indian soil was established in 1818 in Calcutta by a group of British residents under the name of "Oriental Life Insurance Society".

In General Insurance Sector, beginning was made by British Insurers by appointing their agencies in the ports of Bombay, Madras and Calcutta in the second half of the 18th Century. Response from the local British and Indian entrepreneurs was not lacking far behind and by the beginning of the 19th Century there were seven companies in Calcutta and five in Madras undertaking Marine Insurance. However, in the politically and economically unstable environment these companies could not survive for long time. Triton Insurance Company established in 1850 for writing
general insurance was an exception which survived till taken over by General Insurance Corporation of India in 1973.

This development of Indian Insurance sector was disrupted due to the political turmoil following 1857 mutiny and political changes with shift of power from British East India company to the Crown.

After the firm establishment of British Rule in India, development of Insurance sector restarted in India. There was no legislation to govern insurance. Foreign Insurers were governed by the laws of the country of their origin. The Joint-Stock Companies Act of 1860 was the first to govern the operations of Indian Insurance Companies.

b) **Period 1900 - 1950:**

Even though Life Insurance Sector of Indian entrepreneurs had developed significantly in the 19th Century, domestic general insurance on modern lines...
had made little progress inspite of operation by 1870 of agencies of British Insurance Companies.

With the increasing growth of Indian commercial and industrial sector in the 20th Century, there was growing demand for the services of the Indian General Insurance companies to break monopoly of British and other Foreign Insurers. On the political front, under the leadership of Mahatma Gandhi, the National Movement had discarded its moderate objectives of gradual evolution of political representation and started demanding SWARAJ - Freedom as its goal. Economic strategy of this political movement was Swadeshi Movement extending to exclusive support of domestic commercial and manufacturing sector and boycott of Foreign goods. Impact of this was also seen in the development of domestic institutions in Financial service sector covering banks and insurance companies. Mahatma Gandhi’s famous dictum ‘Swaraj means Insurance with Indian Insurance Companies’ imparted boost to
the development of domestic Insurance Industry.

Following companies were established in General Insurance sector in this period (1900 - 1917):

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of Company</th>
<th>Location</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1906</td>
<td>Cooperative Insurance Co.</td>
<td>Amritsar</td>
<td>Fire/Marine/Misc.</td>
</tr>
<tr>
<td>1906</td>
<td>National</td>
<td>Calcutta</td>
<td>- ' ' -</td>
</tr>
<tr>
<td>1907</td>
<td>General Assurance Society</td>
<td>- ' ' -</td>
<td>- ' ' -</td>
</tr>
<tr>
<td>1907</td>
<td>Indian Mercantile</td>
<td>Bombay</td>
<td>- ' ' -</td>
</tr>
<tr>
<td>1917</td>
<td>Zenith</td>
<td>Calcutta</td>
<td>- ' ' -</td>
</tr>
<tr>
<td>1917</td>
<td>Clive</td>
<td>- ' ' -</td>
<td>- ' ' -</td>
</tr>
</tbody>
</table>

In spite of the support of domestic manufacturing sector to Indian General Insurance activity, business in this sector continued to be written predominantly by Foreign Insurers. Relatively Life Insurance activity of Indian insurers was developing business at
a faster pace giving increasing competition to Foreign Sector.

It was in post-war period (1917-1939) that domestic General Insurance Industry developed substantially. Along with the increase in the number of domestic insurers, the number of foreign insurers operating as branches and agencies also increased substantially. (Annexure 3.84) gives the schedule of Indian General Insurers established during this period.

The year 1919 was the landmark in the history of Indian General Insurance for as many as five General Insurance Companies were set up in that year. Most important addition was the New India Assurance Company established by the House of Tatas, who lead Indian entrepreneurs on the Industrial front.

The General Insurance business developed to such an extent towards the end of the decade of 30s that it had to brought under the purview of the Indian Insurance Act.
The Indian Insurance Act of 1912 had covered only Life Insurance Business.

Indian General Insurance Companies faced problems of stiff competition from well established foreign insurers of relatively much bigger size. Indian insurers also faced difficulties in getting reinsurance covers from London Market at terms on par with Foreign Insurers. Under this pressure, Indian Insurance Industry in General Insurance Sector found it difficult to grow on financially sound basis.

For correcting this situation the Indian Insurance Companies (Amendment) Act, 1928 and Indian Insurance Act 1938 were passed. With the adequate control on Insurance Business covering all aspects of Management Amalgamation, Investigation, Licenses of Agents and winding up of Insurers the confidence of the public in Indian Insurance increased.

Mahatma Gandhi's appeals for support to domestic insurers lead to the extension of
boycott on Foreign Goods to cover also Financial service sector of Insurance. This move generated strains in the relations between domestic and foreign insurers, with their respective associations blaming each other for misleading public and clients by mix of political motives and financial soundness of business. Moreover, some of the Indian Insurance companies like New India Assurance Company had also started their overseas operations in the markets of Colonial Empire. It can be concluded that by the end of the decade of the 30s, Indian General Insurance Industry was firmly established with twin sectors of domestic and Foreign Insurance though predominant part of business continued to remain under the control of the foreign stream. (Annexure 3.85)

The decade of 40s - War years as it was known during the first half and pre-independence years, as it was known for the second half, saw further rapid growth of Indian General Insurance Sector (Annexure 3.86). As many as 37 New
Companies were established with location of head offices spread all over the country. Volume of General Insurance Business developed at rapid pace with significant commercial-industrial growth of India in war years. Out of the New Insurance Companies which were started during this period 4th were from exclusive General Insurance Sector. The number of Non-Life Indian Insurers exceeded that of Indian Life Insurers.

The post-War period of the decade of 40s was marked with political uncertainty and pre-independence turmoil which retarded further growth of Indian General Insurance Industry, which was well established by the end of 1945. In 1947 when India and Pakistan emerged as independent states General Insurance Industry in pre-partition Indian sub-continent was well developed with sizable premium income and territorially spread infrastructure. In spite of shift during decade of 40s of major part of general insurance business to the domestic sector it’s large part continued under the control of Foreign
Insurers through their branches and agencies operating for a long period starting from the 19th Century.

Insurance statistics published by Government department for period 1946 - 1950 shows (Annexure 3.87) at the end of this period Indian Market's General Insurance premium position as follows:

<table>
<thead>
<tr>
<th>Class</th>
<th>Total Premium (Rs.Crores)</th>
<th>% of Indian Insurers</th>
<th>% of Foreign Insurers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>8.06</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Marine</td>
<td>3.83</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>Misc. Accd.</td>
<td>4.80</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16.63</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the recorded reinsurance Transactions as per government statistics it is seen that approximately 50% of the business was ceded in overseas market. During this period Indian General Insurance Market matured and the growth of new domestic units almost stopped. During the war time
over 60 Foreign Insurers had withdrawn from Indian Market. After the end of war, a large number of Foreign Insurers returned expecting fast development of business in post-freedom period.

c) Case Study of The New India Assurance Co. Ltd.

From the point of view of tracing development of Indian General Insurance Industry in tune with Macro Environment changes development of the New India Assurance Co. Ltd. provides an interesting Case Study.

i) Formation of New India Assurance Co. Ltd.

Jamshed Tata - the founder of the house of Tatas had started the development of India's Industrial sector with the establishment of Tata Enterprise in commercial and industrial sector in the second half of the 19th Century. True to this
pioneering tradition Dorab Tata at the helm of the organisation started in 1919 the Indian Insurance Venture in the financial service sector.

With his realisation of the cooperative nature of Insurance enterprise, Dorab Tata started New India as the joint enterprise of leading Indian business houses. Conscious of the need for broad spread support of community for Insurance venture New India was organised from its very inception as a public enterprise. For ensuring sound Financial basis for this project the authorised capital was kept at Rs.20 crores and issued capital was Rs.12 crores in 480,000 shares.

Recognising the intricate nature of insurance business to ensure the development of the company on sound financial basis, the management of the company was entrusted to the team
lead by experienced executives from British Insurance Market.

It is remarkable that as per the statement of their founder Chairman Dorab Tata it was decided from beginning to develop New India as a world wide company (Annexure 3.88).

New India's foreign operation started with the establishment of London Agency through Sedgwicks' in 1920. New India became a member of prestigious Institute of London Underwriters through connection with Commercial Union in 1922. Within following one & half decades New India started operation in Burma, Ceylon, Singapore, Aden, East Africa, South Africa, Mauritius, Hong Kong, Egypt and other foreign countries.

Premium fund-wise New India showed following growth during the period 1925 - 1950, showing healthy position.
<table>
<thead>
<tr>
<th>Year</th>
<th>Premium (Rs. lacs)</th>
<th>Total Fund (Rs. lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>77.83</td>
<td>159.26</td>
</tr>
<tr>
<td>1930</td>
<td>77.11</td>
<td>134.40</td>
</tr>
<tr>
<td>1940</td>
<td>137.00</td>
<td>354.05</td>
</tr>
<tr>
<td>1945</td>
<td>254.82</td>
<td>712.16</td>
</tr>
<tr>
<td>1950</td>
<td>588.21</td>
<td>1709.43</td>
</tr>
</tbody>
</table>

The company had started its operation with General Insurance business and by the end of the first decade of its operation had developed sectors of Fire, Marine and Misc.Accd. insurance. In 1929 it started its Life Insurance department and thus started functioning as a Composite Insurance Company giving service to its clients in all sectors of Insurance. Historical event in New India's technological development was the issue of Aviation Insurance policy to cover J.R.D.Tata's historic Bombay - Karachi flight in Puss Moth in 1933.
It is worth noting the names of Chairmen and Chief Executives of New India Assurance Co. during the first four decades of operation showing gradual phase of takeover of administration by India Chief Executives though Chairman of New India Assurance had been Indian from inception. (Annexure 3.89).

Management of company was thus fully taken over by Indians in 1946 and New India was thus well established to face the challenge of New era of independence.

4) Conclusion

As per the theme of this thesis interlinkage between the Macro Environment transformation and Micro General Insurance Industry will be demonstrated during the various phases of development of Indian Society.
<table>
<thead>
<tr>
<th>Period</th>
<th>Political Development</th>
<th>Economic Level</th>
<th>Technological Level</th>
<th>Insurance Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>5000 BC - 8th Century</td>
<td>Feudal Society</td>
<td>Well developed agricultural and artisan sectors</td>
<td>Manufacturing with manual skills and labour</td>
<td>Rudimentary forms of loan linked contracts of Bottomry type.</td>
</tr>
<tr>
<td></td>
<td>Rulers from warrior class supported by priest class</td>
<td>Trade developed on International Scale Mediterranean and Far East</td>
<td>Production of Textiles, Metal works, art pieces, pharmaceutical products, ship building.</td>
<td>Liabilities of carriers well defined.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social Code of Manusmriti</td>
<td>Social decline stagnated productive systems by 8th Century</td>
<td>Financial Service sector development stagnated by 8th Century</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decline by 8th Century</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8th Century to Mid-19th Century</td>
<td>15th - 17th Century Mogul State of large size.</td>
<td>15th - 17th Century - Well established Revenue system and administration.</td>
<td>15th - 17th Century - Well developed agriculture and artisan manufacturing sector.</td>
<td>Marine Insurance continued development</td>
</tr>
<tr>
<td></td>
<td>17th - mid-19th Century Decline of Central state and balkanisation of country in Regional Units.</td>
<td>17th - mid-19th Century - Decline of Revenue and administration.</td>
<td>Decline in 18th-19th Centuries.</td>
<td>War Insurance schemes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No progress in scientific sector.</td>
<td>State Welfare schemes for farmers</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Political Turmoil of internecine fights between Regional powers with gradual takeover of power by British in 1857. 1859-1947 British Colonial Rule</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1850-1900</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Political and Administrative system. 1900 - 1947 National Movement for independence End of British Rule</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India independent state.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the above review it can be concluded that like the British and Japanese case studies, Indian example also demonstrates the Law of Linkage between Macro-Environment transformation and development of General Insurance Industry.

*****

336
AKBAR'S EMPIRE

INDIA—Showing extent of the MUGHAL EMPIRE IN 1603 A.C.

(Source: Discovery of India - J.Nehru)
BRITISH INDIA

ANNEXURE 3.82

(Source: Discovery of India - J.Nehru)
COMMENTARY ON BRITISH INDIA

British rule' a policy of balancing and counterpoise of different elements, and the encouragement of fissiparous tendencies and division amongst them.

The princes and the big landlords were the basic vested interests thus created and encouraged; but now a new class, even more tied up with British rule, grew in importance. This consisted of the Indian members of the service, usually in subordinate positions. Previously the employment of Indians had been avoided except when this could not be helped, and Munro had pleaded for such employment. Experience had now demonstrated that Indians employed were so dependent on the British administration and rule, that they could be relied upon and treated as agents of that rule. In the pre-mutiny days most of the Indian members of the subordinate services had been Bengalis. These had spread out over the upper provinces wherever the British administration needed clerk and the like in its civil or military establishments. Regular colonies of Bengalis had thus grown up at the administrative or military centres in the United Provinces, Delhi, and even in the Punjab. These Bengalis accompanied the British armies and proved faithful employees to them. They became associated in the minds of the rebels with the British power and were greatly disliked by them and given uncomplimentary titles.

Thus began the process of Indianization of the administrative machine in its subordinate ranks, all real power and initiative being, however, concentrated in the hands of the English personnel. As English education spread, the Bengalis had no longer a virtual monopoly of service and other Indians came in, both on the judicial and executive sides of the administration. This Indianization became the most effective method of strengthening British rule. It created a civil army and garrison everywhere, which was more important even than the military army of occupation. There were some members of this civil army who were able and patriotic and nationally inclined, but like the soldier, who also may be patriotic in his individual capacity, they were bound up by the army code and discipline, and the price of disobedience, desertion, and revolt was heavy. Not only was this civil army created but the hope and prospect of employment in it affected and demoralized a vast and growing number of others. There was a measure of prestige and security in it and a pension at the end of the term of service, and if a sufficient subservience was shown to one's superior officers, other failings did not count. These civil employees were the intermediaries between the British authorities and the people, and if they had to be obsequious to their superior they could be arrogant to and exact obedience from their own inferiors and the people at large.

(Source: Discovery of India - J.Nehru)
INSURERS SET UP DURING 1919-39
AND EXISTING IN 1964

<table>
<thead>
<tr>
<th>Year of foundation</th>
<th>Name of Insurer</th>
<th>Class of business for which registered</th>
<th>Location of head office</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919</td>
<td>British India General</td>
<td>F. M. Misc.</td>
<td>Bombay</td>
</tr>
<tr>
<td></td>
<td>Jupiter General</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>New India</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Universal Fire &amp; General</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vulcan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1922</td>
<td>Indian Guarantee &amp; General</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jahanthi</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1924</td>
<td>Calcutta</td>
<td></td>
<td>Calcutta</td>
</tr>
<tr>
<td></td>
<td>Millowners' Mutual</td>
<td>Misc.</td>
<td>Bombay</td>
</tr>
<tr>
<td>1929</td>
<td>Commonwealth</td>
<td>F. M. Misc.</td>
<td></td>
</tr>
<tr>
<td>1929</td>
<td>Hukumchand</td>
<td>F. Misc.</td>
<td>Calcutta</td>
</tr>
<tr>
<td>1930</td>
<td>Neptuno</td>
<td></td>
<td>Bombay</td>
</tr>
<tr>
<td>1931</td>
<td>Concord of India</td>
<td>F. M. Misc.</td>
<td>Calcutta</td>
</tr>
<tr>
<td>1933</td>
<td>Pandyan</td>
<td></td>
<td>Madras</td>
</tr>
<tr>
<td>1934</td>
<td>Premier</td>
<td>Misc.</td>
<td>Madras</td>
</tr>
<tr>
<td></td>
<td>Sanyasati</td>
<td>F. Misc.</td>
<td>New Delhi</td>
</tr>
<tr>
<td></td>
<td>South India</td>
<td>F. M. Misc.</td>
<td>Bombay</td>
</tr>
<tr>
<td>1935</td>
<td>Heracles</td>
<td></td>
<td>Calcutta</td>
</tr>
<tr>
<td></td>
<td>Hindustan Ideal</td>
<td></td>
<td>Hyderabad</td>
</tr>
<tr>
<td>1936</td>
<td>New Merchants</td>
<td>M.</td>
<td>Forbesdar</td>
</tr>
<tr>
<td></td>
<td>Ruby General</td>
<td>F. M. Misc.</td>
<td>Calcutta</td>
</tr>
<tr>
<td>1937</td>
<td>Vanguard</td>
<td>Misc.</td>
<td>Madras</td>
</tr>
<tr>
<td>1938</td>
<td>United India Fire &amp; General</td>
<td>F. M. Misc.</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: ORGANISATION OF INSURANCE
S. P. SHARMA.
MAHATMA GANDHI'S SUPPORT TO INDIAN INSURANCE INDUSTRY

"The keynote of our Swaraj is placing of our insurance with our Indian Companies"

- Mahatma Gandhi

"The Keynote of Swaraj is placing our insurance with our Indian Companies"

- Mahatma Gandhi

Indian General Insurers established in 1940-1950 and operating in 1964

<table>
<thead>
<tr>
<th>Year of foundation</th>
<th>Name of insurer</th>
<th>Class of business for which registered</th>
<th>Location of head office</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>Motor Owners’ Mutual</td>
<td>Misc.</td>
<td>Madras</td>
</tr>
<tr>
<td>1941</td>
<td>Co-operative Fire and General</td>
<td>F.M. Misc.</td>
<td>New Delhi</td>
</tr>
<tr>
<td></td>
<td>Central Mercantile</td>
<td>F.</td>
<td>Bombay</td>
</tr>
<tr>
<td></td>
<td>Desikarnan Nandji</td>
<td>F.M. Misc.</td>
<td>Bombay</td>
</tr>
<tr>
<td></td>
<td>Indian Merchants’ Marine</td>
<td>M.</td>
<td>&quot;</td>
</tr>
<tr>
<td></td>
<td>Liberty</td>
<td>F.M. Misc.</td>
<td>&quot;</td>
</tr>
<tr>
<td>1942</td>
<td>Anand</td>
<td>F.M. Misc.</td>
<td>Madras</td>
</tr>
<tr>
<td></td>
<td>Advance</td>
<td>F.M. Misc.</td>
<td>Madras</td>
</tr>
<tr>
<td></td>
<td>Howrah</td>
<td>F.M. Misc.</td>
<td>Calcutta</td>
</tr>
<tr>
<td></td>
<td>Madura</td>
<td>&quot;</td>
<td>Madura</td>
</tr>
<tr>
<td></td>
<td>Pioneer Fire and General</td>
<td>&quot;</td>
<td>Calcutta</td>
</tr>
<tr>
<td></td>
<td>Jayibharat</td>
<td>&quot;</td>
<td>Bombay</td>
</tr>
<tr>
<td></td>
<td>Mother India Fire and General</td>
<td>&quot;</td>
<td>Madura</td>
</tr>
<tr>
<td></td>
<td>New Great</td>
<td>&quot;</td>
<td>Haroda</td>
</tr>
<tr>
<td>1944</td>
<td>All India General</td>
<td>&quot;</td>
<td>Calcutta</td>
</tr>
<tr>
<td></td>
<td>Hinduistan General</td>
<td>&quot;</td>
<td>Bombay</td>
</tr>
<tr>
<td></td>
<td>Indian Ocean</td>
<td>M.</td>
<td>Bombay</td>
</tr>
<tr>
<td></td>
<td>Indian Trade and General</td>
<td>F.M. Misc.</td>
<td>Calcutta</td>
</tr>
<tr>
<td></td>
<td>Marine and General</td>
<td>&quot;</td>
<td>&quot;</td>
</tr>
<tr>
<td></td>
<td>Merchants’ General</td>
<td>M.</td>
<td>Bombay</td>
</tr>
<tr>
<td></td>
<td>Shri Mahasagar Vinta</td>
<td>&quot;</td>
<td>Porbandar</td>
</tr>
<tr>
<td></td>
<td>Sterling General</td>
<td>F.M. Misc.</td>
<td>New Delhi</td>
</tr>
<tr>
<td>1945</td>
<td>Canara Motor &amp; General</td>
<td>Misc.</td>
<td>Mysore</td>
</tr>
<tr>
<td>1946</td>
<td>Indian Mutual General</td>
<td>F. Misc.</td>
<td>Madras</td>
</tr>
<tr>
<td></td>
<td>Northern Indian General</td>
<td>Misc.</td>
<td>Bombay</td>
</tr>
<tr>
<td></td>
<td>Orissa Co-operative</td>
<td>F. Misc.</td>
<td>Cuttack</td>
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<tr>
<td>1947</td>
<td>Co-operative General</td>
<td>F.M. Misc.</td>
<td>Hyderabad</td>
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<td></td>
<td>Oriental Fire and General</td>
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<tr>
<td></td>
<td>Pinchil</td>
<td>Misc.</td>
<td>Cuttack</td>
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<tr>
<td>1948</td>
<td>Calcutta Hospital and Nursing Home Benefits Association</td>
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<tr>
<td></td>
<td>Northern Indian Transporters</td>
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<td>Jullundur City</td>
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<td></td>
<td>Shri Vijaysagar</td>
<td>M.</td>
<td>Bombay</td>
</tr>
<tr>
<td>1950</td>
<td>Madras Motor &amp; General</td>
<td>F.M. Misc.</td>
<td>Madras</td>
</tr>
</tbody>
</table>

(Source: ORGANISATION OF INDIAN INSURANCE
S. P. SHARMA)
(ANNEXURE 3.87)

PREMIUM EARNED BY INSURERS IN INDIA

<table>
<thead>
<tr>
<th>Year</th>
<th>Indian</th>
<th>Non-Indian</th>
<th>Total</th>
<th>Indian</th>
<th>Non-Indian</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indian</td>
<td>Crores of Rupees</td>
<td></td>
<td></td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Fire</td>
<td>1946</td>
<td>3.83</td>
<td>2.19</td>
<td>6.02</td>
<td>64</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>1947</td>
<td>4.74</td>
<td>2.13</td>
<td>6.87</td>
<td>69</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>1948</td>
<td>5.02</td>
<td>2.37</td>
<td>7.39</td>
<td>69</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>1949</td>
<td>5.37</td>
<td>2.33</td>
<td>7.70</td>
<td>69</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>1950</td>
<td>5.55</td>
<td>2.45</td>
<td>8.00</td>
<td>69</td>
<td>31</td>
</tr>
<tr>
<td>Marine</td>
<td>1946</td>
<td>1.10</td>
<td>1.12</td>
<td>2.22</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td>1947</td>
<td>1.51</td>
<td>1.39</td>
<td>2.90</td>
<td>52</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>1948</td>
<td>1.78</td>
<td>1.87</td>
<td>3.65</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td>1949</td>
<td>1.94</td>
<td>1.84</td>
<td>3.78</td>
<td>51</td>
<td>49</td>
</tr>
<tr>
<td></td>
<td>1950</td>
<td>2.03</td>
<td>1.80</td>
<td>3.83</td>
<td>53</td>
<td>47</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1946</td>
<td>1.76</td>
<td>1.56</td>
<td>3.32</td>
<td>53</td>
<td>47</td>
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<tr>
<td></td>
<td>1947</td>
<td>2.15</td>
<td>1.84</td>
<td>3.00</td>
<td>54</td>
<td>46</td>
</tr>
<tr>
<td></td>
<td>1948</td>
<td>2.48</td>
<td>1.55</td>
<td>4.03</td>
<td>61</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>1949</td>
<td>3.07</td>
<td>1.74</td>
<td>4.81</td>
<td>64</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>1950</td>
<td>2.08</td>
<td>1.82</td>
<td>4.80</td>
<td>62</td>
<td>38</td>
</tr>
</tbody>
</table>

The table clearly shows that even after the attainment of Freedom, foreign insurers continued to attract a little less than 1/3rd of the fire insurance business, a little less than 1/2 of the marine insurance and more than 1/3rd of the miscellaneous insurance. Most of the business was attracted by the U.K. insurers. More than Rs.7 crores were earned by the Indian insurers by the export of general insurance business.

Source: Organisation of Indian Insurers

S. P. Sharma.
THE VISION THAT PREVAILED

"THE NEW INDIA constitutes the commencement of a new and large commercial undertaking for India. It is not a Bombay Insurance Company, or a Company working solely in India, but may claim to be A WORLD-WIDE COMPANY...It is anticipated that a very large proportion of the income, in future years, will be obtained outside India. It will be necessary to see that our Company is run and our reserves are accumulated on lines which have been proved sound."

SIR DORAB TATA
Founder-Chairman

21st September, 1921.

Source: The New India Assurance Co. Golden Jubilee Publication
Opening of the Life Department

Having thus laid the foundation for a sound development of general insurance business, the Company, in 1929, started its Life Department to complete its insurance service to the public. In the next few years, the Company established a network of branches for general and life business; the two sides of the Company's business thus complemented each other.

The First Subsidiary

In 1941, the Company acquired control of the South India Fire and General Insurance Company Limited. The 'South India' continues to be a subsidiary of the 'New India' today and ranks amongst the first ten general insurance companies of India in the private sector.

Management

The first General Manager of the Company was Lt. Col. Reid Hyde, followed two years later in 1921 by Mr. R. G. Duff. In 1939, Mr. W. Millard became the General Manager and was succeeded by Mr. B. K. Shah in 1946. Since then, the Company's management has been largely under Mr. B. K. Shah, who later became a member of the Board as its Managing Director. The credit for the Company's remarkable and sustained progress during the last 23 years is in a large measure due to him and his management team working with a succession of patriotic and forward-looking Chairmen.

Mr. B. K. Shah became the first Indian General Manager of the Company when he succeeded Mr. W. Millard in 1946.