CHAPTER 1

INTRODUCTION

PETER BORSCHEID

This period of global history is well known. It deals with how the West used its economic and military might to achieve global domination. It involves words such as imperialism, colonialism, industrialization and modernization. It describes how, in the opinion of John Darwin, the centuries-old balance between cultures and continents was shifted by the Eurasian revolution, which consisted of three closely related revolutions, a geopolitical revolution, a cultural revolution, and an economic one.[1] Less well known, however, is the part played by the world-changing transformation that led to the establishment of a global safety net in the shape of modern-day insurance. This was established during the economic expansion and migration of Europeans and today spans the entire globe. As a European invention and cultural concept, however, some other societies rejected insurance—at times violently—or deliberately ignored it. As it accompanied foreign trade, it tended to reach those countries that were integrated early into the global economy. In other regions the economic, political, and cultural conditions that existed proved conducive to its rapid spread. Overall, the establishment of this global network was not a steady process, but it was ultimately a successful one. This book looks at each of these aspects and how they interacted.

The expansion of the insurance industry from the end of the eighteenth century and the development of a global safety net by primary insurers and reinsurers are illustrated using the example of twenty of the largest insurance markets. The book will show how European emigrants and insurance companies exported the concept of insurance and modern underwriting from the British Isles and established them as a European invention and cultural asset throughout the world. The sections on individual countries look at how insurance as a concept and insurance companies became established, what favoured development, and what obstacles emerged. The individual authors follow the development of the national insurance markets, with all their peculiarities, and look at the economic, political, and cultural conditions that influenced cross-border insurance dealings. They also explore the different forms of cross-border activities undertaken by

[1] Darwin 2010, 156.

insurance companies including agencies, branches, local investments, subsidiaries, and co-operations or joint ventures and the role of business relationships for reinsurers. They examine the role of the actuaries, who, from the very outset, looked beyond national borders and worked towards global standardization and the further development of underwriting. They show how this global safety net functioned through the many minor and major disasters of the past two centuries and where it came up against its limits.

1 A European invention

The year 1763 was in many respects a key year for European expansion. In a sense it also marked the beginning of the modern insurance industry. Following the Peace of Paris between England, France, and Spain, which established British control of Canada, Europe was able to significantly expand its control of extensive areas around the globe. It used military might in India and the Black Sea and colonization in North America, Australia, and New Zealand, with settlers building a 'new Europe' in each of these places. At the same time, Europeans began to mechanize production, spurred on by their 'technology-centric' mind-set, thereby widening the gap between their productivity and that of the rest of the world. Production volumes increased, making Europe one of the world's most important goods manufacturers. This led to a new global division of labour, with Europeans dominating the rapidly growing intercontinental trade and its logistical bases, including marine insurance.

With their relatively low levels of capital, the merchants who had previously provided marine insurance cover as a supplement to their other businesses and at their own expense could no longer keep up with the risks involved in the rapidly expanding maritime trade. Public limited companies with substantial capital resources were established and provided marine and fire insurance services for global trade. At the same time, a group of underwriters that had been meeting for decades in Edward Lloyd's coffee house in Tower Street, London joined forces to create a powerful new marine insurance company. In 1763 they set up their own register of shipping and in 1771 founded the *Society of Lloyd's*, an official association. Three years later they moved to the *Royal Exchange*, previously described by Daniel Defoe as the 'Citadel' of trade.[2]

Perhaps an even more important development in the history of modern insurance was that of life insurance based on probability calculations and population statistics. This development came about as a result of the joint work of scientists from several European countries, and was in a sense the expression of a common European culture and way of thinking. Life insurance as a concept resonated with Europeans. It expressed their characteristic need for clarification and conformity with patterns, the statistical encapsulation of natural events and the calculation of future developments. Behind this

[2] Lehmann-Brune 1999, 88–92.

innovation was the conviction that the world could be predicted and computed, which, for Max Weber, was embodied in the principle of rational calculation.[3] Unlike other cultures, which viewed such a calculation of the future as a sacrilegious intrusion into the domain of the gods and rejected life insurance in particular, Europe's mortality tables were often the work of spiritual men who were looking to fathom the role and plans of a divine creator. They were attempting to prove the existence of clear rules and a divine order behind the apparent randomness of mortality. 'The divine order in the circumstances of the human sex, birth, death and reproduction' was the title given by Berlin theologian Johann Peter Süssmilch to his main work in 1741. This work, together with mortality tables, provided the basis of actuarial theory in Germany until the middle of the nineteenth century.[4] Only a few years later in 1755, the great earthquake of Lisbon shook the belief in a just God and the sense of harmony between heaven and earth. The theologians struggled to explain this devastating intervention of God and the optimism of the philosophers that the rational order of things would always lead to a good end wavered. Indeed, the catastrophe served for some as proof that a caring all-powerful God did not exist. The more than 100,000 victims, they argued, proved that if God is all-powerful, then He is not good and if He is good, then certainly not all-powerful. With this earthquake, then, the European conception of Nature began to change. It was increasingly seldom that Nature was presented as the unfolding of a holy plan or seen as a single, harmonic order. Rather it was viewed as a 'tragic play of chance', as Voltaire had to concede. It was then, after Lisbon 1755, that Europe took a decisive step towards managing catastrophes. Enlightened leaders and businessmen began shortly afterwards to develop techniques to deal with risk, which included preventative measures such as fire protection and building regulations.[5] In many countries state fire-funds emerged and the first life insurance company was founded in England in 1762, the *Equitable*. The company worked with a statistical mathematical approach from 1776.[6] After the mid-nineteenth century, the use of precise observations of natural events and statistical calculation to capture a perspective on the future was also adopted by property insurers. Increasingly, even the old fund-based schemes recognized modern underwriting as superior and abandoned their 'pay-as-you go' systems.[7]

The principle of rational calculation found its most extreme expression in the twentieth century. For the American Frank H. Knight, one of the fathers of modern risk research, a measurable uncertainty was no longer an uncertainty, as he put it in his 1921 book *Risk, Uncertainty and Profit*.[8] In Europe, and especially in north-western Europe, modern insurance was built on traditional cooperative structures. Some of these had

[3] M. Weber, *Wirtschaft und Gesellschaft* [1922], published by J. Winckelmann, 5th rev. edn, Tübingen 1980, 13.

[4] Koch 1998, 32–4; Schmitt-Lermann 1954, 111–12.

[5] Rüdiger Suchsland, 'Als ob der jüngste Tag kommen sey . . . ,' http://www.heise.de/tp/artikel/21/21280/1.html.

[6] Braun 1963, 145–7.

[7] Gesellschaft für feuerversicherungsgeschichtliche Forschung 1913, vol. 2, 593–607.

[8] Quote acc. Bernstein 1997, 277.

been in existence for centuries and functioned as collective bodies providing mutual assistance in situations of need. They were supplemented by individual state initiatives. It was, however, insurance on a commercial basis as applied for centuries in marine insurance that, from the end of the eighteenth century, contributed significantly to the refinement of underwriting. The initially most prominent form of non-life insurance, marine insurance, helped the Europeans protect their long and arduous sea journeys, beset by storms, shipwreck, and pirates, in order to satisfy their appetite for spices, coffee, sugar, and cotton. The nineteenth century saw the rise of fire insurance, which soon outshone all the other branches. The state fire insurance offices founded by individual absolutist governors in the eighteenth century had brought very little in the way of technical or organizational innovation. But by the mid-nineteenth century, the private fire insurance companies, in competition, generated a substantial impetus for the further development of underwriting. They were also the only bodies that accepted the new risks that followed in rapid succession in the early stages of industrialization: explosion risks from steam engines and increased risk of fire in gasworks, sugar factories, mines, and theatre-halls lit by gas. The private fire insurance companies ensured that underwriting spread from England to the rest of the world. The key drivers in this were the new uncertainties of the times and, in particular, the inflationary development of risks fuelled by industrialization.

These risks could no longer be equated with the natural hazards to which people were exposed independent of their own actions. They were a construct of society, produced by human activity and by the conversion of uncertainties and hazard into calculated decisions. Although risks led to losses, Europeans in particular increasingly took them on, as they not only constituted threats but opened up opportunity, first and foremost of a business nature. In Europe, uncertainties were now seen less as a threat and more as a challenge: hence, as risk.[9] Moreover, the Europeans were increasingly active in finding better ways to deal with uncertainties, both old and new, especially after the major earthquake of Lisbon in 1755. Thus, from the ninteenth century on, they invested substantial amounts in health-care systems and distributed the financial risk of the illness of individuals among bigger communities by means of insurance policies. In contrast, other cultures viewed health as a matter of fate and one which they could not—and did not want to—influence. Since the Age of the Enlightenment, Europe was less willing to see dangers as decreed by nature and God-given. God and religion had to give way to science, and scientists in particular replaced them with a firm belief in themselves. With industrialization, risks became commonplace as a mass phenomenon and the 'dominant pattern . . . for dealing with uncertainty'.[10] In parallel, the slowly changing mind-set of the Europeans in respect of uncertainties found its most visible expression in this economic revolution.

9 Johnson and Covello 1987; Luhmann 1991, 30–8.

10 Bonss 1995, 49.

2 The beginnings of internationalization

The expansion of the insurance industry since the end of the eighteenth century reflected this increased willingness to take on risk. This book looks primarily at the expansion of the industry via the British Isles and Europe to the rest of the world. The first question is: who were the agents of this expansion in the first hundred years or so until the beginning of the modern global economy in the 1880s? Beyond the sheer military might of the big European powers which, among other things, helped breach the hitherto insurmountable wall of China and enable European traders and insurers to enter the Middle Kingdom, there were five different elements which brought the 'British system' of risk insurance to the rest of the world: (1) scientists, (2) traders, (3) migrants, (4) reinsurers, and (5) imitators. There were also three different forces driving this expansionary surge: commercial, demographic, and cultural.

It is the combined work of scientists from various European countries that can be found at the beginnings of the modern insurance industry. Beyond national borders, they established the foundations of the industry using mathematics and statistics and proceeded to reinforce this foundation throughout the nineteenth century, adapting to the new risks that emerged. Freely accessible publications and national as well as international scientific associations also made it possible to open up access to the scientific underpinnings of the insurance industry for countries which, for a variety of reasons, lacked their own insurance sectors. With the International Actuarial Congress, first held in Brussels in 1895 and in London in 1898, the technical experts of the insurance industry developed their first transnational institution.

The first most effective agents in bringing the modern insurance business to the international markets from the close of the eighteenth century, however, were entrepreneurs, and British entrepreneurs in particular. When the United Kingdom quadrupled its maritime transport capacities between 1780 and 1850 and saw more than a ten-fold increase in the value of its exports in the years from 1820 to 1870, marine insurers were the first to react, increasing their capacity and setting up new share-based companies in all North Atlantic ports.[11] In this respect, shipments to the remotest corners of the earth initially had little impact. When in 1787 the first consignment of prisoners arrived in Australia from Portsmouth after more than eight months at sea, marine insurance was not yet established on the 'fifth continent'. In addition to modern marine insurance, some of the existing forms of fire insurance expanded beyond their national borders. In the wake of the dramatic increase in world trade, it was both these elements that gave rise to an international safety net. These developments took place via three separate channels:

1 Traditional marine insurance offered by individual entrepreneurs or trading houses at their own expense and as a supplement to their main business. At the turn of the nineteenth century they could still be found in all the European

[11] Maddison 2001, 95 and 361.

seaports as well as those of the Spanish empire in Latin America, on North America's eastern coast and in India, in the form of the agency houses. Since their capital was limited, however, they were forced to give way to the public limited companies and *Lloyd's of London* early on in the nineteenth century.

2 In addition to *Lloyd's* it was primarily the fire insurance companies domiciled in Great Britain that took modern insurance to the rest of the world, with their 'British system' of risk protection. They provided insurance cover for the export and import of goods; of domestic, commercial, and industrial companies; and insured goods, warehouses, and properties abroad via their own insurance agents.

3 In contrast, the network in the Pacific region was established from the bases in Macau and Hong Kong. This was because the vast distance to Europe made it impossible for insurers in Europe to have an overview of risks involved and to calculate them. Powerful marine insurers had already emerged here at the beginning of the nineteenth century. With the help of Parsi and US entrepreneurs they later expanded to Singapore, China, Korea, Japan, and the United States and controlled the Asian part of the Pacific in particular for decades.

Apart from that, it was British marine and fire insurers who were at the forefront in developing a worldwide safety net. Their international activities were initially purely business motivated. They were driven by trade and consumption, as the UK—more so than any other nation—developed an insatiable appetite for imported goods, particularly those from the Caribbean and Asia. Marine insurers were joined by a few fire insurers in discovering foreign trade as an additional way to make money, after the UK had secured the bulk of shipments to Europe of increasingly sought after goods such as sugar, coffee, tea, tobacco, and cotton by the end of the eighteenth century. They were quick to use agencies in key trading centres to tap supplementary sources of growth and revenues. The agents of both marine and fire insurers stuck exclusively to the trade routes and expanded along them, with fire insurers initially only covering goods, warehouses, and factories in the big seaports of Europe's Atlantic coast, the North Sea, and the Baltic Sea. They then quickly went on to add the Caribbean and North America's east coast. By insuring a vast number of sugar and cotton factories, within around three decades they had built up valuable experience in industrial fire insurance, laying the foundation for their superiority over rivals in mainland Europe. With faster transport and communications brought by railroads, steamers, and telegraphy and the closely related development of infrastructure provided from Europe, the overseas activities of European property insurers expanded significantly from the second half of the nineteenth century. From this point on, they could also better assess the risks involved at their overseas locations.

Marine and fire insurers used the development of trade to establish themselves around the world in the nineteenth century and also deliberately used trading companies for their own purposes. They commissioned most of the big trading companies to represent them abroad as, in the nineteenth century, no one understood the risks involved in transporting and storing goods better than the agents of these companies. They conducted their business in ports around the globe and, in their own interests, ensured maximum safety for the goods. The insurance companies also benefited from the expansion of these trading companies, which opened more and more offices in their quest for new markets and even built up their own trading networks. Until well into the second half of the nineteenth century, foreign business was limited to exporting insurance cover through a domestic insurer and to the activities of agents of domestic insurers abroad. The insurance companies thus succeeded in significantly reducing the risks of doing business abroad, particularly as, at this time, only a few insurers had sufficient experience of and expertise in the peculiarities of the foreign markets and local specialist staff were not available. Since insurers had to be extremely cautious and operate with relatively low limits, particularly when great distance was involved, the trading companies were forced to represent several insurers if they were to insure entire shipments or warehouses. In effect, as special reinsurance was not completely established and representative offices had not yet been set up in countries distant from Europe, co-insurance was the only feasible option for insuring large individual objects in their entirety. Individual trading companies therefore usually worked for around forty insurance companies at the turn of the twentieth century. The trading house *Gibb, Livingston & Co.* based in Hong Kong even represented some 120 marine insurers from around the world at this point.[12]

Distance continued to restrict the expansion of the insurance industry until the age of the steamer and telegraphy. Indeed, the industry did not reach South America until the middle of the nineteenth century. It had reached India a little earlier, after the UK had started to bring more and more of the country under its control in the second half of the eighteenth century. Once the USA gained independence, India represented the most lucrative pillar of the British Empire. In addition—unlike China and Japan—India was freely accessible, open to new developments and trade, and equipped with a well-functioning credit system. Communications between the UK and India started to accelerate at the beginning of the nineteenth century, and British insurance companies rapidly learned to turn this acceleration to their advantage.[13] The first fire insurers arrived in India in the middle of the 1820s, and by the beginning of the 1830s the agency houses, which had also acted as marine insurers in this market, had disappeared from the scene. By the end of the nineteenth century the British had built up a trading empire beyond India with a number of overseas companies made up of banks and insurers, shipping companies and railroads, telegraph companies, mines, and plantations.

Backed by clear principles and ideology, as well as superior manufacturing and military techniques, from the middle of the nineteenth century the British set about forcing through universal free trade and releasing market forces with almost crusade-like devotion.[14] British trading companies were underpinned by the belief in the civilizing influence of commerce, as advocated by David Hume and representatives of the Scottish

12 S. Jones 1986, 185.
13 Borscheid 2004, 141.
14 Darwin 2010, 205.

Enlightenment. Adam Smith, too, proposed that economic liberalism was the safest way to material progress and prosperity, while Immanuel Kant saw free trade as a way of promoting global harmony. British insurers, who had close ties with commerce, benefited from this zeal and immediately established themselves in the countries and ports opened up by the British for free trade: in Latin America, the Near East, India, and the treaty ports in China and Japan. They also used the massive indebtedness of the Ottoman Empire, Egypt, and Tunisia to leverage inspection and control regimes. These measures acted as Trojan horses, permitting free access and circulation within these countries. It was not until several decades later that insurance companies from other European countries followed these trade routes and the example set by the British.

After foreign trade, which brought marine and fire insurance in its slipstream, the third big network-builder was European migration. This took 'Europe' to the rest of the world and thus brought all forms of insurance—and not only the marine and fire sector—in its wake. It was primarily British emigrants who spread the concept and techniques of insurance to the rest of the world. From the early seventeenth century until the 1950s, during the population explosion in north-west Europe, over 20 million people left Britain to begin a new life overseas. Only a tiny minority returned. No other nation in the world exported as many people in such a way. No other exodus changed the world so definitively. Indeed, no other emigration involved such a large-scale transfer of culture and institutions and turned entire continents 'white'.[15] Moreover, in America and Australia, entire peoples and cultures fell victim to the demographic imperialism of the 'white plague' (Niall Ferguson). In South Africa, Cecil Rhodes pursued the ambitious goal of turning the entire subcontinent into a 'white man's land', in the same way as the United States and Canada.

One of the cultural 'assets' the British and the Europeans took with them wherever they went was insurance. For the European emigrants of the eighteenth century it went without saying that in their new homes protection was also necessary, in the form of help from family and friends but also mutual help from cooperative-like associations. Fire cooperatives and widows' funds were still operating on their traditional 'pay-as-you-go' basis, but modern insurance was a concept known to sections of European emigrants as early as the mid-nineteenth century. This was true primarily for British emigrants, while those from southern European countries still tended to stick with cooperative-based structures and their old methods. They were comparatively reluctant to accept modern underwriting practices. The same cannot be said of the United States, with which the UK did more trade than with the richest countries in Europe. Thanks to its rapid urbanization and massive amounts of capital invested by the British, the United States soon became the biggest insurance market in the world. In some cases, British immigrants acted as the catalyst for and provided assistance to 'native' entrepreneurs in setting up insurance companies, in countries such as India, Turkey, Egypt, and Chile.

15 Ferguson 2004, 53–4.

The European trading companies exported exclusively marine and fire insurance to the rest of the world. Initially they only insured the Europeans living in the trading towns against fire and provided life insurance policies on a merely sporadic basis. Emigrants were thus the most important and most successful agents of personal insurance. In India, British immigrants had already set up their first life insurance company for expatriates by the very beginning of the nineteenth century. In South Africa, Dutch and British immigrants were active in the foundation of combined fire and life insurance companies in the early 1830s. *Australian Mutual Life* was founded by immigrants in 1849 and served as the template for development on the 'fifth' continent.[16] On Java, Dutch colonists were responsible for the emergence of the island's insurance industry from the middle of the nineteenth century, in the same way as French and Italian colonists were in the French colony of Algeria. In the twentieth century, Jewish immigrants brought insurance to Palestine. To this very day, insurance density there is higher than in the surrounding Arab regions. In contrast, North American companies were responsible for bringing life insurance to countries little affected by European emigration. Ultimately, however, the immigrants from Europe proved to be the most successful conveyors of insurance concepts and techniques.

Alongside marine insurers, reinsurers were prominent among the insurance companies that adopted an international approach. From the close of the nineteenth century, they brought together the individual strands of the insurance markets and became one of the most important pillars of the global safety net. For a long time the big seaports had very little need for reinsurance, as traders and ship-owners preferred other ways of protecting their interests and there was a sufficient number of parties willing to underwrite risks as co-insurers. Reinsurance achieved its first breakthrough when the threat caused by the accumulation of risk increased for fire insurers operating regionally and so restricted the opportunities for growth. Primary insurers started to conclude reinsurance agreements with each other in the 1820s. Long-term agreements with foreign companies gradually became the rule, particularly in Central Europe with its many small countries. In contrast with these first reinsurance arrangements, in the second half of the nineteenth century professional reinsurers established business dealings with as many domestic and foreign primary insurers as possible in a bid to achieve more comprehensive risk distribution on a cross-regional basis. In their attempts to distribute risk, they also made use of the varying business cycles in the individual markets and the different political, social, and demographic developments. For the first time they formed a truly international safety net in the place of what had previously been merely isolated alliances between primary insurers, most of them geared to London. In addition, market leaders such as *Swiss Re* or *Munich Re* acquired interests in domestic and foreign primary insurers, which extended their influence beyond their national borders and meant they were also represented on the boards of these companies.[17]

[16] Swiss Re 1964, 388 and 515.
[17] Arps 1965, 204–6.

The fifth group which drove the spread of the insurance industry were imitators. They were just as much an indispensable part of the spread of underwriting as they were in the industrialization of continental Europe and other parts of the world. The development started in continental Europe, where already at the close of the eighteenth century entrepreneurs, collaborating with specialists from England in some places, set up the first life insurance companies, such as in Hamburg in 1778. More important, however, were the activities of the former agents of British marine and fire insurers, which used the expertise they had built up to found their own companies. A great many companies developed in this way in Europe, America, and Asia. In China, native wholesalers—the 'compradores'—sometimes functioned as intermediaries between European and North American trading companies on the one hand and the well organized, but, for Westerners, relatively opaque Chinese business communities on the other. They were helped in this by the increasing prevalence of publications focusing on the science of insurance from the beginning of the nineteenth century. This inspired the Japanese especially and their government sent students to Europe and the United States to study actuarial science and techniques as well as the organizational structures of big companies. When they returned to Japan they were able to build up a sophisticated insurance industry, which then went on to force the foreign companies out of the Japanese market.

3 Obstacles to Internationalization

Unlike colonists and traders, Europe's 'civilizing mission' played no part in the spread of insurance, although from the end of the eighteenth century Europe was convinced that, with its culture and institutions, it was the world's leader and knew what was best for the rest of the world. While the British, for example, were busy introducing the principles of European law in India and propagating European lifestyles and behaviour, they notably did not go as far as recommending that the British system of risk protection be adopted. This was because they did not want to see their profits eroded by additional competition. They believed that other peoples were incapable of using underwriting correctly and feared it would be misused. In the Ottoman Empire, South America, India, and China, for decades the European companies only insured European expatriates or inhabitants of European descent. Life insurers generally cited a lack of official documents on family status, and fire insurers blamed the increased fire hazard posed by houses built by the native population. Insurers consistently implied that a lack of moral rigour among the native populations meant they would be unable to resist committing insurance fraud.

This viewpoint constituted a first hurdle to a more rapid spread of insurance. Essentially, there were two different types of obstacles: (1) those that were self-imposed and (2) those that were established by others. The latter can be further split into political, legal, and cultural obstacles. Among the self-imposed obstacles were a restriction to a certain type of client, the forgoing of business in specific regions due to excessive information and monitoring costs, a lack of trading goods or an underdeveloped monetary economy. Added to this were the refusal of any risks that were too large or unknown and the outright rejection of any foreign business, the result of a regional restriction set out in the articles of association. When these factors changed as a result of economic and social shifts, a number of insurers that had previously dealt solely in domestic business moved into foreign business. New companies focusing exclusively on international business were also set up. This is how British firms discovered Argentina as a worthwhile source of business in the mid-nineteenth century, after the country gained in importance as an exporter of agricultural products. Until the 1860s European insurers hardly dared venture into south-east Asia, India excepted, due to the extreme remoteness of this region, the level of information required and the excessive administrative costs. Various factors subsequently reduced the costs and risks involved in doing business with the region: the opening of the Suez Canal, the establishment of intercontinental telegraph lines, and the significant improvement in transport infrastructure. This led to a significant increase in the number of foreign insurance companies active there within just a few years.

On the other hand, political influence grew and cultural resistance combined with economic problems to ensure that the internationalization of the insurance industry did not follow a steady path, but instead developed in waves. Global interconnectedness started to intensify in the nineteenth century, reaching a peak shortly before the First World War. The downturn which began in 1914 hit the bottom in 1930, remaining there until the 1970s. The subsequent upswing accelerated after the mid-1990s. Today, global interconnectedness has reached a density that has never been seen before.

From the end of the nineteenth century, the agents of internationally active insurance companies complained primarily of legal obstacles placed in the way of doing business outside the British Empire. Some governments targeted foreign competitors directly, using protectionist measures to make business difficult for them or eradicate them entirely in a bid to strengthen domestic insurers. In countries with a negative balance of payments, this was intended to halt actual or supposed outflows of currency and in times of economic crisis reduce unemployment. In countries fighting for independence or which had just become independent, a flurry of measures against foreign firms was used to demonstrate sovereignty, as witnessed in the United States in the nineteenth century and in Turkey, India, and Africa in the twentieth century. Declarations of war were often accompanied by sanctions against foreign companies. Finally, in the twentieth century, communist and socialist countries eradicated foreign competition completely. Various other state measures targeted foreign companies more indirectly. This was the case primarily with insurance supervision laws that were in part meant to protect consumers. Through their material provisions, however, they in particular forced insurers with smaller market shares out of the market and thus affected primarily foreign companies.

The first political measures of the nineteenth century did not initially have much impact on the increasing internationalization of the insurance industry. This was true, for example, of the licence requirement in Prussia and other countries in continental Europe, and of the closing of the Chinese and Japanese markets. The licence requirement introduced in Prussia in 1837, which forced all French fire insurers to leave the country, had the effect of generating intensive cross-border reinsurance dealings between Prussian and French companies. The self-imposed isolation of China and Japan also favoured the creation of strong insurance companies on the borders. Insurance companies immediately started doing business in these countries after both opened up to the outside world, and these companies dominated the Pacific area for decades. State sanctions against individual foreign companies had only a short-term impact on the process of internationalization, as did retaliatory measures. When Russia, Prussia, and other countries on the European continent prohibited the 'tontine' schemes operated by US life insurers, the state of New York responded in 1896 with a law refusing a licence for all foreign companies whose home countries restricted or prohibited business with American companies.[18] Even more negative for the internationalization of insurance was the legal fragmentation due to the system in the United States that gave much power to the various individual states, and a similar situation in the German Empire that was founded in 1871. It was not until the German insurance supervision law of 1901 that the insurance legislation of the individual German states was unified.

The supervision laws at the close of the nineteenth century signalled the end of the boom period of economic liberalism in the insurance sector. After the stock market crash of 1873, the leading industrial nations, with the exception of the UK and the Netherlands, brought to an end the period of unconditional free trade in the subsequent depression and deflationary phase. Calls for the state to protect the domestic market, provide cover for social risks, and protection against speculators became more vociferous.[19] While the British continued to vigorously advocate a strengthening of market forces, the countries in continental Europe looked more to the interests of the socially vulnerable and consumers. Social security began to be established in continental Europe in the 1880s, initially in the German Empire, which simultaneously reinforced the protection of creditors' interests. Switzerland went ahead with insurance supervision in 1886. From the viewpoint of the British and a number of internationally active companies, such legislation violated the spirit of economic liberalism. Under protest, several insurers immediately withdrew from the countries involved. For continental Europeans, however, such legal measures were the only possible answer to an unacceptably high number of companies collapsing in countries such as the USA and the UK. Such political interference was also in line with the traditionally caring role of the state in continental European countries. They protected insured parties and, in this, promoted the concept of insurance more so than an insurance industry which, given the number of companies failing, itself constituted a major risk. The advocates of material insurance supervision could also point out that the state was thus acknowledging underwriting as the most suitable and developed form of risk protection for the industrial world.

Nevertheless, supervision legislation came under repeated criticism, and not only from the proponents of doctrinal theory. Some governments could not resist the temptation to misuse such laws for their own interests. They forced insurers operating in their

[18] Arps 1965, 428.
[19] Plumpe 2010, 68.

countries to deposit a majority of premium revenues in domestic government bonds with low rates of interest; Latin American governments, in particular, demanded higher taxes, duties, and deposits from foreign companies than from domestic ones. In practice, all supervision laws resulted in an immediate drop in the number of foreign companies and an increase in the market share of domestic insurers. Although the British responded to this legislation with threatening gestures and diplomatic intervention, in Latin America especially, they could not prevent protectionism from becoming rampant in insurance following the economic crisis of the 1870s and 1880s. The negative consequences of this were fairly limited up to the First World War, but as premium income in foreign business continued to increase globally and, with the expansion of foreign trade, more insurance companies were venturing beyond their national borders. Under these circumstances, almost all internationally active firms turned a blind eye to the fact that the domestic companies were able to steadily increase their market share. Only in Japan, with its meticulous and highly effective system of filtering foreign influence, did the supervision laws enacted at the turn of the century quickly lead to painful losses, despite the fact that the wording of these laws did not actually contain any discrimination against foreigners. The organization of sales channels, combined with language barriers and a strong sense of nationalism, were the decisive factors.

In their protectionist measures most governments could count on the cooperation of native insurers, particularly as the British insurers were calling for the same rights as with trade: free access to foreign markets, exemption from taxes and duties and the unrestricted transfer of premium income back to domestic markets. Native insurers thus saw very little opportunity to stand up to the British companies without state assistance. These companies, with their superior capitalizations and techniques as well as their close ties to the British merchant fleet, enjoyed decisive advantages. As long as trade and premium volumes were increasing, unrest bubbled just under the surface, but seldom erupted. When the economic situation worsened, however, and a crisis threatened, the opponents of free trade benefited and governments forced through protectionist measures. This was true primarily for Latin America.

Private insurers reacted differently to fluctuations in the development of state social insurance from the end of the nineteenth century. Marine, fire, and general property insurers were not directly affected. As the level of intervention increased, life, accident, and health insurers tended to leave the field to the state without comment, as the measures tended to deal with the working class. Until the end of the Second World War the masses had low and irregular incomes and were therefore not potential clients of the insurance industry. Life insurers simply referred these workers to the saving societies and health insurers referred them to communal or work related organizations. With the sharp rise in incomes in the 1950s in the western industrialized countries, however, social insurance tended to become a broader form of protection, and the private insurers started perceiving it more as competition. The differing levels of insurance penetration can partly be explained by the variations in the spread of social insurance in each country.

The expansion of the insurance markets was not only an economic phenomenon; it also involved cultural and political elements. People in many countries felt that the

Europeans, with almost missionary zeal, were confining them in a cultural straitjacket, and they resisted. In Japan, India, the Middle East, and Egypt, the calls for social cohesion and the protection of cultural identities started to grow stronger from the end of the nineteenth century. At the height of their imperialism, Europeans began to present their way of thinking, their scientific methods, social structures, and moral attitudes—in short, their entire culture—as being the standard to be achieved. As they became arrogant and overbearing, resistance intensified. In the Islamic countries, this sparked strong reactions among believers, particularly as the new 'masters' regarded Islam as a backward-looking religion. They presented European culture as a substitute that, in their view, had overcome superstition and ignorance with its systematically acquired, empiric certainties. The Muslim peoples reacted in different ways to the economic and military superiority and the cultural attacks of the Europeans. Some followed the European example and adopted European culture. Other groups resisted this cultural offensive by forming 'fundamental' religious movements opposed to all innovations introduced by the Europeans, including insurance and—in particular—life insurance. Hinduism saw similar reactions. In India, Mahatma Gandhi's manifesto for cultural resistance published in 1909 and entitled 'Hin Swaraj' called for a purified Hinduism as a moral basis for society and as a strategy for cultural reincarnation. He underscored the moral superiority of village communities over the artificial and exploitive communities imposed by the West.[20] He called for a strengthening of village-based solidarity as the most effective form of insurance against the hazards and risks encountered in life.

Although resistance to free trade and the free movement of insurance grew towards the end of the nineteenth century, internationally active insurers continued to look to the future with optimism during the period of European imperialism. They were convinced that technical progress would produce the continued expansion of world trade, foreign investments, and improved work opportunities. They saw the imperialism of the major European powers as an attempt to integrate other countries into the European political, economic, and cultural system. Overall, they believed the European influence would continue to grow. In fact, world trade exploded from just below three billion British pounds in 1880 to approximately eight billion before the First World War. The primary beneficiaries of the global economic boom, which was further fuelled by the discovery of gold in Canada and South Africa, were internationally active insurance companies. The boom also bolstered the gold standard, which provided a stable platform for the international exchange of money and goods and considerably simplified the global distribution of labour. Added to this was the expansion of the European financial system with London at its centre from the 1870s. This made it much easier to raise funding for speculative foreign investments. The European insurers that had dared to venture into other continents at the turn of the century benefited from the fact that much of the world had—in political and legal terms—effectively become an offshoot of Europe.

[20] Darwin 2010, 324–9.

They made use of the rapid enlargement of ports such as Buenos Aires, Cape Town, Bombay, Singapore, and Shanghai, where investments in port facilities, railway stations, banks, hotels, and companies, combined with high population density, opened up considerably more business opportunities for insurance companies than inland. In addition, they soon discovered native trade as a source of potential clients, as—despite all the cultural differences involved—native entrepreneurs did have much in common with their European counterparts. Most native entrepreneurs, who worked in exporting and importing, held liberal views on the economy, were meticulous in complying with agreements and needed stable currencies and a well-functioning banking sector. They knew better than most how to use the advantages brought by insurance.[21]

On the eve of the First World War, primary insurers and reinsurers had already established a dense net around the globe, with London as the undisputed centre. This was where most threads converged. Yet, insurers from the USA and Germany were extremely dynamic prior to the First World War and gave the British a run for their money. The highest insurance densities were to be found in those parts of the world most heavily involved in international trade and which had the most immigrants from the UK. Alongside Western Europe, this was clearly North America, which was ahead of other parts of the world. In addition, Europe and North America were also closely interlinked through reinsurance arrangements. The San Francisco earthquake of 1906 made this global safety net visible on a broad scale for the first time. At the same time, Japan was preparing to play a major role in this global network. After its military victories against China and Russia and its acquisition of Western institutions, it was set to take insurance to the parts of Taiwan and Korea under its control. Insurance companies from the big ports in China and Australia had already begun establishing networks in the Pacific area. Some even made their way into 'dark' Africa, riding on the coat-tails of traders, conquerors, and the colonial powers.

The appeal of the insurance industry was bolstered by the additional risks created by technical progress and the application of underwriting techniques to new areas of risk. Workers' compensation insurance, which had been specially introduced for factory workers in some places, brought the concept of insurance to the lower social classes. At the same time, the scale of the new risks meant that broad-based risk diversification was required. Reinsurers benefited from this, condensing and expanding their safety net. The fact that European, and specifically British, insurers concentrated on risks connected with trade and transport generally left growth opportunities for the native insurers which had since emerged. 'Native' insurance companies already dominated life and accident insurance almost everywhere. Outside of Western Europe and North America, sophisticated underwriting techniques continued to be restricted to trading centres. In Asia and Africa in particular, as well as in Latin America, traditional instruments and mutual assistance tended to predominate or, indeed, be the sole recourse should assistance be required.

[21] Darwin 2010, 313–17.

4 The great self-isolation

The outbreak of the First World War not only brought an end to the upturn in the global economy and blocked the international division of labour; it also shattered the global monetary system, and hampered currencies and payments. It tore gigantic holes in the worldwide safety net established by insurance. Furthermore, a deep ideological divide developed between Russia and the Western world. The myth of Europe's advanced culture exploded on the battlefields of France and Russia. The global economic crisis and the Second World War continued this destruction. The insurance industry did not regain its former level of interconnectedness until decades after 1945.

It was clear even in 1914 that a return to 'business as usual' would not be possible after the end of the war. The countries which had been at war were determined to reshape the structures of the global economy in their favour. The politically induced obstruction to the global division of labour continued after 1918. Following the collapse of the Russian monarchy, the Soviet Union largely closed itself off from the rest of the world. The Treaty of Versailles, which was aimed at severely weakening the defeated nations, brought an additional disruption to the former division of labour. Attempts to bring the inflationary consequences of the war under control resulted in economic slumps all over the world and in the UK in particular. Added to this was the economic weakening of all the major European countries that faced the social consequences of the war. In Germany, monetary and fiscal policy was geared solely to domestic and social issues and no longer took any account of global economic relationships. This ended in a complete devaluation of the currency and the destruction of the economic system, leaving an impoverished population in its wake.[22] The slump in world trade, the poverty among large parts of the European population, inflation and hyperinflation in a number of countries, and the change in the economic system in former Russia took a tremendous toll on the entire insurance industry, which also lost part of its assets. This was also true of the internationally active companies, which were either prevented from carrying out any business in the countries of former enemies or which were unable to conduct business as a result of the fanatical patriotism developing everywhere.

Most companies again expanded abroad as the mid-1920s political and economic structures improved. They were responding to the growing need for insurance produced by economic and social change. Population growth and continuing urbanization, industrialization and mechanization ensured a more favourable framework that benefited both property and personal insurance. Despite this, in the 1920s the insurance industry was not able to escape the problems in real economies of over-production and underconsumption. Although industrial and agricultural capacities had been increased during the war, this had not been accompanied by a corresponding increase in mass purchasing power. Furthermore, most governments now gave domestic and social

[22] Plumpe 2010, 72–8.

OUP CORRECTED PROOF – FINAL, 07/25/12, SPi

problems priority over problems related to the global economy.[23] This was reflected in the economic policies of a number of Asian and Latin American countries, which tried to reduce their dependence on imports from Europe. Issues related to the global economy and the global division of labour were forced into the background. In the colonial empires, there were increasing calls for independence or self-administration and, in China, India, and Egypt, for a cultural renaissance that was seen as resistance to the imperial powers. Turkey, the rump state of the Ottoman Empire, and Iran showed how reformed national governments could take a successful stand against the major powers. The Chinese nationalist movement gained in strength, and the country succeeded in gradually eliminating all the foreign enclaves on Chinese territory, abolishing extraterritorial privileges, introducing customs autonomy, and making a start on ending the 'unequal treaties'.[24]

In the insurance sector domestic companies were able to expand their market share as this rejection of a globalized economy and concentration on local concerns was matched by a growing nationalism and a wariness of foreigners. There were four reasons for this: (1) the state's policy of giving targeted support to domestic companies, combined in some instances with active protectionism; (2) foreign insurance companies' no more than half-hearted interest in personal insurance, combined with the withdrawal of the major American life insurers; (3) the boycott of insurance companies belonging to the enemy triggered by the world war, and (4) the problems foreign companies faced when it came to making payments due to war and inflation at home. The establishment of state-owned monopolies also testified to the continuing repudiation of international trade and of the global market. Uruguay had led the way in 1911 and stepped up the policy after the war, while Costa Rica followed its lead in 1924 and Chile three years later. In 1929, Turkey, too, gave a hybrid state-private institution a monopoly on reinsurance, and the mid-1930s saw the Iranian government start using a state monopoly as a means of banning foreign companies.[25]

Efforts to re-establish and extend the global insurance networks came to an abrupt end in the autumn of 1929, when the speculation bubble on Wall Street burst and the global economy plunged into a deep and lasting crisis with the United States at its epicentre. These efforts had lasted but a few years. The pre-eminent characteristic of this era was the politicization of trade; combined with the conviction that trade was less important than production. The unprecedented global economic crisis forced those in positions of political power to urgently find new ways of stemming unemployment. Governments set up stimulus programmes to boost their domestic economies, again largely ignoring the global market. The progressive adoption of economic policy with a national focus was seen in the abandonment—again—of the gold standard, competitive devaluation, foreign exchange controls and increased customs duties, which followed the implementation of the protectionist Smoot-Hawley tariff in the United

23 Eichengreen 2008, 71.
24 Darwin 2010, 371.
25 Furlan 1933, 167–8.

States. The Soviet Union distanced itself still further from global commerce, and both the British and French colonial empires cut themselves off from the rest of the world and barred free trade. Economic liberalism came in for a barrage of criticism and began to decline. All this threw the global economy into disarray and made the holes in the international insurance net even bigger. Both Germany and Japan adopted policies of autarky that banished almost all foreign insurers. British and French insurers kept their foreign competitors out of their own colonies and protected territories, as did Japanese insurers in the Japanese colonies of Korea and Taiwan.[26] With the collapse of the Central European financial market countries responded to the worldwide mood of insecurity and fear by rebuilding the walls on their frontiers and making them secure. The division of labour across borders died out, and cross-border insurance relationships shrank to a minimum.

In Latin America, the crisis pushed export-oriented countries off the world economic stage for a number of years and populist politicians took over. They enforced import substitution, and through monopolies and protectionism made it difficult for foreign insurers, to the point at which it became impossible for them to operate at all. Asian and African countries also stepped up their efforts to repel European culture. In China, the New Life movement prompted a revival of Confucianism and its concept of obligation to the community. In India, religious revival movements lauded the ideal of the natural, rural, and pious life; Jomo Kenyatta played a similar role in Kenya.[27] All this constituted irrefutable evidence that internationalism and foreign culture were less popular or were no longer desirable. It meant insurance companies operating internationally had to contend with a large number of opponents, all of whom, whether directly or indirectly, demanded that they limit their operations to their own countries or compelled them to do so.

It was not long afterwards that Japan occupied Manchuria, then went to war with China in 1937, marched into Indochina in 1941, attacked Pearl Harbour, and in the following year, overran Singapore. Meanwhile, Germany, now ruled by Hitler, occupied Poland and Western Europe. At the height of their powers, both Germany and Japan spent two to three years carving up Eurasia. Insurers in both countries prepared to assume a leading role in all lines of insurance, which until then had been dominated by British maritime and fire insurers. The big insurers in the Axis powers of Germany and Italy sought to jointly take over the role played by *Lloyd's* and the other British insurers on the Continent.[28] The entry of the United States into the Second World War frustrated their plans. The rebirth of the pre-1914 global economic order was prevented, halting a return to the high degree of internationalization that the insurance industry had known before the First World War. Indeed, for several decades, insurers in most countries kept each other at a distance more than they had done before.

[26] Yaofen Tseng (2008), 'The Impact of Legal Infrastructure and Public Health on Taiwan. Life Insurance Development under Japanese Colonial Rule, 1895–1945', in http://www2.hull.ac.uk/fass/insurance-in-history/draft-programme.aspx?theme%20=%20print; Borscheid 2001, 343–4.

[27] Darwin 2010, 387.

[28] Feldman 2004, 53–4.

The barriers established between national insurance markets after 1945 were attributable to five different causes, not including the sanctions imposed immediately after the end of the war on those who lost it.

First, the creation of blocs, with the division of the world into West and East, resulted in the complete isolation of the Eastern bloc. This separated countries with relatively high insurance density—eastern Germany and Czechoslovakia, for example—from the worldwide insurance network and denied virtually any insurance whatever to Maoist China, North Korea, North Vietnam, and Cuba. The Chinese revolution alone, by trebling at a stroke the number of people living under Communism, stopped insurance in its tracks as it tried to recover its global reach.

Second, colonies continued to exist over two to three decades. The UK, France, the Netherlands, and Belgium sought to use them to re-establish and secure their war-battered economies. This meant that the shielding of the colonial empires that had begun between the wars continued. Between the world wars Great Britain had set up the sterling area, encompassing itself, its colonies, the independent states of the Commonwealth, including India, and a number of countries in the Middle East. Insurance companies from other countries had little or no access to this area. The same held true for France's colonies as well.

Third, after many countries achieved independence, their governments adopted policies that prioritized self-sufficiency and sovereignty. In pursuit of these goals they nationalized their countries' insurance industries or allowed only companies based in their own territories to carry on insurance business. Seeking a renewed appreciation of their own country's cultural values, they questioned those that had originated in Europe. Among the countries that did this were populous ones such as India, Pakistan, and Indonesia, as well as those with fast-growing economies such as South Korea, oil-producing countries in the Gulf, and so-called third-world countries attracted by socialism. As other former colonies—the Congo, for example—sank into chaos, so did their insurance industries. With the exodus of many Europeans from the newly independent colonies, those countries' insurance companies also lost their most important customers. As a whole, the insurance sector in this Third World declined to establish international links.

Fourth, the closing of the Latin American insurance markets that began between the two world wars not only continued but was accelerated, as part of the policy of import substitution adopted by populist governments. The market shares of foreign companies in the larger countries were thus reduced to a residual minimum by the 1970s. High inflation rates in most of these countries prompted more and more foreign companies to leave while also weakening the domestic companies.

Fifth, with very few exceptions, western European and North American insurers limited themselves to writing business in their own home markets. Because of the advent of mass motoring and rapid increases in the public's income, much larger profits were guaranteed at home than in overseas business, with its many risks and higher costs.

Compared with the years before 1914, when the concept of insurance had caught on rapidly, becoming accepted as a modern and better way of hedging against perils and risks, the post-Second World War era was one in which the idea of insurance was, in many respects, losing ground. For insurers, this was an age of de-globalization, one in which worldwide networks were unravelled, although this may have been masked by the number of domestic policyholders and the volume of insurance being written increasing by leaps and bounds, and underwriting covering more and more risks. As potential risks multiplied in tandem with technical and economic progress, reinsurance stepped in to spread the risks. They also started targeting small and mid-size companies in markets such as Latin America providing underwriting capacity that helped fill the vacuums left by foreign insurers.

With trade and economic blocs established and colonial empires closed to the outside world, it was impossible to return to the state of affairs prevailing at the beginning of the century. While many countries, from the 1950s onwards, found themselves experiencing an 'economic miracle' or living in a 'Golden Age', and global trade grew faster than production, major plans for liberalization were shelved or abandoned for reasons of domestic or economic policy. The stringent application of the Bretton Woods principles had to give way to partial and geographically very limited schemes for liberalization. The creation of the European Economic Community (EEC) is an example of this. In the first instance, it did next to nothing to really promote the re-establishment of the international insurance network, even within the borders of Western Europe. Moreover, the immense shifts of population did nothing to extend insurance underwriting internationally, after supporters of the insurance concept returned to their ancestral homes in Europe, as the imperial powers' resources were depleted and their empires broke up. The partition of British India and the mass exodus of Muslims to Pakistan saw the self-isolation of a faith community that had always taken a sceptical view of insurance. As its contacts with Western culture declined over the following decades, it received fewer incentives to adopt the practice of insurance. After 1945, Portugal—at the time ruled by Salazar—was alone in pursuing the systematic colonization of its two great possessions in Africa, Angola and Mozambique, and the insurance industry there enjoyed a boom as a result.

Increasing state intervention in economic matters led to the further demise of a global approach or thinking. The creation of the global economy and of the worldwide insurance network in the nineteenth century had largely been attributable to the efforts of the private sector. Both before and after the Second World War, however, the state was more prone to exercise its power to shape policy and events by intervening in economic activity. This was most of all the case in the Communist world, in which China and North Korea pursued economic, political, and cultural self-sufficiency to an extreme degree. It also happened in such countries as India and Indonesia, whose economic policies were strongly influenced by the USSR's planned economy and which took key sectors of the economy into state control. Insurance, being a European invention and part of European culture, was to suffer the consequences of this state intervention. The primary concern of the governments of the post-colonial states was to secure their own markets for their own enterprises, substitute home-produced goods for imported products and keep foreign companies at bay. By adopting import substitution and import duties as policies, they withdrew from the worldwide market, which they saw as threatening, as a source of violent economic downturns, overwhelming competition, and financial dependency. The states adopting such policies included even those in the Middle East who supplied crude oil and were thus tied in to the global economy. By industrializing with a focus on exports, however, the smaller East Asian states of South Korea and Taiwan adopted the model of 'educational tariffs' devised by Friedrich List in the mid-nineteenth century as a way of achieving economic growth and prosperity.[29] While they shielded their own insurance markets against foreign competition, they also fostered its development. Even in the open market of Australia, the government intervened by way of regulation in 1973, and the number of insurance companies—foreign ones in particular—was promptly reduced by more than half. Most countries wanted nothing more than a partial connection to the global insurance market through foreign trade insurance or reinsurance. Here, too, though, tendencies towards nationalization prevailed. The insurance sector could not escape the same fate that had befallen most of the other channels by which the world economy was held together, namely capital markets, shipping and aviation, postal services, and telecommunications, all of which had been subject to tight regulation by the state since the interwar years.[30] In many countries, the state also interfered with entrepreneurial freedom by dictating to motor insurers the premiums they should charge.

An additional factor was the expansion of state-run social insurance in the leading industrial countries of the West, in which the public sector increased its share of GDP from 27 per cent to 43 per cent between 1950 and 1973. Everywhere except in Japan, governments protected their citizens against such risks as unemployment, sickness, disability, old age, and poverty.[31] Although this meant that the insurance industry had to relinquish areas of business, it did benefit from the associated free advertising for the insurance concept and the financial security offered to society's vulnerable members. Whilst the industrialized West followed a middle path between internationalization and national autonomy, insurers tended more towards autonomy than did manufacturers.

In the West, the retreat behind the battlements of national insurance markets took place whilst an unprecedented economic boom was underway in the 1950s and 1960s. This retreat was also hidden from view due to the beginnings of the European unification process and the expansion of the multinationals, which, although largely American in origin, marketed their products to consumers around the world.[32] In the insurance sector, however, American companies made very few such direct foreign investments. When the insurance markets that led the world at the time started to enjoy unprecedented growth in the wake of urbanization and mass car ownership—a boom from which even Africa benefited—almost all insurers concentrated on their own rapidly growing markets to the exclusion of all else. Even the insurers who had specialized in

29 Frieden 2007, 317–20.

30 Osterhammel and Petersson 2003, 94–9.

31 Frieden 2007, 297.

32 G. Jones 2005, 92–3.

international business hardly raised any protest against the fencing off of the markets, in contrast to their response in the decades before the First World War. Most had lost the desire for business abroad as a consequence of the major crises since 1914, some of which had entailed huge losses in overseas business. Another consideration was the lack of any political framework or of any international order of the kind on which businesses that operate across national frontiers depend. In foreign markets the insurers also found themselves coming up against a plethora of obstacles that they were powerless to overcome—xenophobia, products tailored to specific countries, special distribution organizations, and currency controls. In many countries, too, legal restrictions were in force that prohibited foreigners from acquiring a majority interest in a national company. In France, the state held shares in all the major insurance companies, and in Germany, the links between the companies were so dense that shares in insurance companies rarely came on the market.[33]

Reinsurance developed in a quite different way. It became increasingly important despite the fact that the large Latin American countries and a number of the former colonies had established state-owned reinsurance monopolies in order to secure independence from the world market and reduce currency outflows. It was to a large extent attributable to the new peak risks that the reinsurers' total net premium revenues rose between 1950 and 1970 by an average of 11 per cent year on year, faster than those of the primary insurers. Reinsurers had been in demand particularly since the 1960s. In order to supply the West with the fuel required for the mass ownership of motor cars, more and bigger super tankers were being built in the shipyards. In 1959, in Japan, the *Universe Apollo* was the first tanker with over 100,000 tonnes of capacity to be built; by 1973, the two new super tankers *Globtik Tokyo* and *Globtik London*, both 378 metres in length, already had the capacity to carry 478,000 tonnes.[34] When the *Torrey Canyon* went down off the coast of southern England in 1968 with 115,000 tonnes of crude oil on board and unleashed the first great oil spill, it was a calamity that made the large-scale risks associated with oil visible to all. There were more major risks to manage when, in 1970, the *B 747 jumbo* jet took to the air and began the era of super jets in civil aviation. Whereas, back in 1958, it had been possible to insure a *Super Constellation* for something like USD 5 million, by 1970, the cost of insuring a *Boeing 747* had risen to a little over USD 140 million for just one aircraft. Manufacturers' liability was also becoming more significant. The mass production and mass consumption of medicines made it more likely that their unseen adverse side-effects would be a source of harm for tens of thousands of people. Even greater risks were associated with the peaceful use of nuclear power. Following the commissioning of the first nuclear power station in 1954 near Moscow, and then a second one in the north-west of England one year later, the 1960s saw the systematic expansion of nuclear power in the leading industrialized

[33] *Versicherungswirtschaft. Halbmonatsschrift der deutschen Individualversicherung* 1948–2010 (hereafter *VW*) 1966, 93.

[34] W. R. Stanley and J. M. Goicoechea, 'New dimensions in world shipbuilding', *Geoforum*, 1973, 4: 4, 47–66.

nations. Risks of such a size could no longer be handled by the national insurance markets alone. Primary insurers and reinsurers responded by establishing pools, which had capped limits of indemnity, although these did progressively increase. Without the global reinsurance network, it would not have been possible to release the insurance capacity required for such peaks risks, that were relatively few in number and unlikely to occur, but could lead to huge losses.[35] After Hurricane Betsy in 1965 caused the highest losses ever recorded in the United States, amounting to some USD 715 million, experts began saying in the 1970s that, where natural catastrophes were concerned, the limits of insurability were coming into sight.[36]

The immediate post-war era was brought to an end by the first oil crisis in 1973. The insurance industry noted to its chagrin that, despite the increase in world trade and the expansion of industry across national frontiers, insurers were no more international than they had been before. A study by *Swiss Re* in 1971 showed that the number of foreign insurers had continued to fall in most markets during the preceding decade in both absolute and relative terms. Their share of premium income had also been reduced still further. Primary insurers had increasingly withdrawn behind their countries' borders. At the same time, though, premium income worldwide had more or less trebled in the course of the 1960s alone. Industrial enterprises, meanwhile, were again investing more abroad, and increasingly working towards supranational integration. And technology was rapidly advancing, which with satellites, televisions, and radios treated national borders as irrelevant.[37] There were also already the first stirrings of Asia's rise, as Asia showed the greatest increases in insurance penetration.[38]

5 The second globalization

From the beginning of the 1970s onwards, the world's economic, political, and cultural structures started to change. In addition, spectacular advances were made in the field of communications technology. The second globalization—for many, the real globalization—gradually got underway. When considering the changes that redrew the map of the insurance industry, a distinction has to be made between those that were universal in their effects and those that mainly affected insurance alone.

Among the generalized changes, five in particular stood out:[39]

1 With the erosion and collapse of the USSR and of the Soviet bloc, economic reforms in China, and debt crises in Latin America, these countries became more

35 *VW* 1966, 1284; 1971, 733–4; 1972, 1128.
36 *VW* 1968, 515.
37 *VW* 1972, 719–20.
38 *VW* 1975, 37–9.
39 See Osterhammel and Petersson 2003, 105–8.

open to economic reform and liberalization, including the return of private sector, foreign insurers and a closer integration into the global reinsurance network.

2 The successive rounds of GATT talks had, by 1994, brought about the general liberalization of international exchange and established the *WTO* as an international organization. This went hand in hand with the opening up of more markets to which the insurance industry had formerly had limited or no access.
3 Following the abandonment of the Bretton Woods system of fixed exchange rates in 1973, cycles of economic growth and crises of the kind known before the First World War resumed their upward and downward rhythm. The massive swings that have made their presence felt on the stock markets since the year 2000 have had a major impact on insurers' cross-border operations.
4 The crisis in the welfare state benefited life and health insurers in particular.
5 Advances in communications and data processing have enabled transnational and transcontinental groups to become better organized and allowed global financial markets to expand. In the insurance industry, they made it easier for insurance companies operating internationally to rise and assume the status of global players.

In addition, there were changes for the insurance industry:

1 The extension of liability through both legislation and legal decisions caused, especially in the United States, a veritable explosion in insured losses. It also triggered the crisis at *Lloyd's* and that market's subsequent reform and brought about the rise of new insurance locations, Bermuda in particular.
2 The dissolution of the legal boundaries between banks, insurers, and other financial service providers resulted, in some instances, in the creation of financial conglomerates, some of which were enormous. This was the beginning of the rise of integrated financial services (also known as 'bancassurance').
3 As international industrial groups grew at a rate, and to sizes, above the average, they triggered the establishment of captives, that is, companies' own insurance companies.
4 The size of international primary insurers, as well as their rapid growth, made them less dependent on specialist reinsurers for mass business lines. Reinsurers consequently concentrated more on the acceptance of peak risks.
5 The number and size of such peak risks have increased sharply over recent decades and have highlighted the limits of insurability. Around the world, the loss curve was climbing steeply, as more and more single risks were affecting one another and natural disasters triggered domino effects. One example of that occurred in March 2011, when the earthquake in Japan triggered not only the subsequent tsunami but also the nuclear catastrophe at Fukushima.

For internationally active insurance companies, probably the most significant event since the 1970s was the opening up of markets that had for a long time been entirely or partially closed off. While it was in the 1990s that liberalization really took hold in earnest, the depth charge that unleashed it had been detonated to some degree by disastrous planning failures in the socialist countries. Most of these states responded to their economic failures and their backwardness compared with the West by embarking on market-oriented reforms and progressively opening themselves up to the world market. The same approach was taken by the larger countries of Latin America, whose high levels of sovereign debt, combined with inflation rates reaching in some instances five figures, forced them to adopt a new development strategy under the name of the Washington Consensus. Its principal components were the liberalization of trade and the movement of capital, and, in line with the trend towards globalization, privatization and the deregulation of the economy. Mexico also joined the NAFTA free trade area, and the South American customs union MERCOSUR was set up.[40] The opening up of all these countries in East and West made immediately visible to the insurance industry the enormous backwardness of their state-run monopolies and of the private companies that had been operating behind an impenetrable wall for so long. When the Berlin Wall came down at the end of 1989, the German Democratic Republic's state-run insurer, the *Staatliche Versicherung der DDR*, had, for the use of its 10,000 staff, no more than 450 PCs, only half of which were in optimal working condition, while 40 of its over 230 offices were still accommodated in barracks.[41] In Latin America, too, the opening up of the markets immediately revealed just how deficient most companies were in business and underwriting terms. The foundation of the *WTO*, of which 153 countries,[42] accounting for over 90 per cent of world trade, became members, was followed by the opening up of more markets. In these countries as well, previous economic calamities and their contrast with the successes achieved under trade liberalization played a crucial part in bringing about market-oriented reforms. These reforms made it possible, from the 1990s onwards, for the holes in the global insurance net that had developed since 1914 and the establishment of communist states to be closed within the space of only a few years and for new mesh to be woven as economic and technical advances were achieved.

Globalization, with its tendency to draw in more markets also led to the internationalization of credit insurance. Since the beginning of the twentieth century this had been limited to domestic business, a situation that held somewhat after the Second World War, when credit insurers would provide cover to foreign companies, but only for those servicing clients in their own country. In this sense they only covered domestic risks. It was only during the globalization phase at the end of the twentieth century, then, that the credit insurers, the largest of which were based in Europe, offered their services in many countries. They developed the necessary knowledge of credit risks in other countries through joint ventures with foreign credit insurers and collaboration with global composite insurers, as well as with the use of modern communications and information technology.[43]

[40] Bernecker 2007, 60–3.
[41] Eggenkämper, Modert, and Pretzlik 2010, 123 and 154.
[42] Until October 2011.
[43] Swiss Re, *Sigma* 7, 2000, 5.

This transformation of the institutional frameworks went hand in hand with the rise of financial capitalism. Using modern communications technology, financial transactions multiplied much faster than foreign trade or foreign direct investments. After currencies were allowed to float in 1973, the profit drive following the liberalization of the financial markets shifted more to financial investments and speculation, centred on a boom in the number of derivatives. Derivatives made speculation easier and added to the instability of share prices, while driving interest rates, commodity prices, and exchange rates skywards. Industrial conglomerates chasing higher returns tended more and more to accumulate financial capital rather than real capital. Expectations of profit focused no longer on the dividends paid out to shareholders but on the fluctuation of share prices. In the past, the person or institution providing capital to a business would remain constant through profit and loss. But they have now given way to the transient investor. Investing in business became more and more a matter of gamble and chance. At the same time, an increase in employment schemes and rising social security expenditure in the old industrialized states resulted in increased public debt, which prompted calls for the welfare state to be slimmed down and arguments that private retirement provision was a matter of necessity. This, combined with the partial privatization of social security in many countries, was a factor in the rise of pension funds, which were nourished by the equities boom of the 1990s and the one following the turn of the century. Companies saw their share prices and market capitalization rise faster than their net aggregate value.[44]

Insurance companies also profited from the increased value of the equities in their portfolios. This was particularly true of European life insurers in the 1990s, which owned relatively large portfolios of shares. They seized the opportunity and used their significantly enlarged capital base and bigger profits to embark on the expansion of their of mergers and acquisitions (M&A) activities worldwide. Between 1998 and 2004, the globally active life insurance groups managed to increase their share of the global market from 19.8 per cent to 28.2 per cent, not least by way of mergers and acquisitions. The *CGU* together with *Norwich Union*, later merged into the British *Aviva* group, took over the most life insurance companies, while *AIG* achieved far and away the greatest premium volume.[45] In addition, for the first time since the First World War a foreign life office managed to re-establish itself with a foothold in Japan, where the equity boom and bust cycle had set in ten years earlier than in the West. The mid-1990s had seen a number of Japanese life insurers already hit by crises brought on by their own insufficiency of capital and lower interest rates.

Whilst the first life insurers were going under in Japan, the onslaught of neo-liberal arguments was progressively demolishing the segregation of banks and insurers. There was a trend towards 'bancassurance', or integrated financial services. It caught on particularly in countries with low levels of insurance penetration and few distribution channels.[46] Insurers merged with banks, pension funds, and investment companies, in a

[44] Schulmeister 2007.
[45] Swiss Re, *Sigma* 1, 2006, 2 and 20.
[46] Swiss Re, *Sigma* 5, 2007.

variety of permutations. In the United States, the tendency was for big banks to acquire insurance brokers in order to build up huge distribution systems that covered the whole country.[47] The rapid growth of publicly quoted insurance companies also triggered a wave of de-mutualization, as the mutuals, too, wanted better access to capital for themselves. After the year 2000, the market share of life insurance associations went into marked decline, especially in the US, the UK, and Japan.[48]

The swift rise of the major international insurers, which increasingly presented themselves as broad financial service players, also influenced the composition of their Boards. The members increasingly came from all sectors of the globe rather than from the company's home country, as was the case through much of the twentieth century. At the same time, these 'global players' which had grown through merger and acquisition, waived their single national identity. In Europe, they took on the legal form of European companies and their foreign business was undertaken no longer in France, Germany, or Italy, but outside the European Union.

The dotcom crisis in 2000 and the 9/11 attack the following year saw the end of the first stock market boom and of the international insurers' great period of expansion. Now, as their Japanese competitors had already done, European life insurers also had to endure a loss of capital, not to mention falling returns on investments on account of lower interest rates. They started to seek out new areas of business with greater urgency. One beneficiary of this was micro-insurance, which companies used to carve out a new client bracket around the Asia-Pacific region.[49] During the renewed equities boom of 2003, which ended in the financial crisis of 2007–08, the insurance companies managed to recapitalize themselves and consolidate their foreign business. But the banking crisis and the debt crisis that followed it, however, had, from 2008, a detrimental effect on the life business in particular. Low interest rates robbed life insurance of some of its appeal as a way of providing for old age. Although premium volume in US dollars rose between 2000 and 2010 by an average of 5.2 per cent per year, insurance penetration fell from 4.9 to 4.0 per cent during the same period.[50] Such a trend is problematic because well-financed private retirement provision is increasingly necessary, given the dramatic ageing of the population in many countries, combined with high levels of public debt. Japan had piled up sovereign debt amounting to 204 per cent of GDP even before the 2011 nuclear disaster, while 23 per cent of its people are over 65 years of age. The latter figure will rise to some 40 per cent by 2050. China is facing even more rapid demographic change due to its one-child policy as the country tries to get rich quickly before it gets old.

The subprime and banking crisis spread from the United States in 2008, again reducing to nothing those large and fictive paper assets that the preceding boom period had conjured. The insurance industry also lost part of its reputation due to the near-collapse

[47] Swiss Re, *Sigma* 7, 2001.
[48] Swiss Re, *Sigma* 1, 2006, 10.
[49] Swiss Re, *Sigma* 6, 2010.
[50] Swiss Re, *Sigma* 6, 2001, 37 and 2, 2011, 43.

of *AIG*, the world's biggest insurer. A bankruptcy was avoided only through government aid. The group had, through a London subsidiary, sold unregulated credit default swaps (CDSs) worth USD 562 billion, most of which were not hedged. When the crisis struck, the losses in 2008 alone amounted to around USD 100 billion, and the US government used USD 182 billion of taxpayers' money to rescue the company. *AIG*'s market capitalization by early 2009 was no more than USD 6.6 billion. The government's concern was not so much to rescue *AIG* as to save the many banks around the world who had bought credit default insurance from *AIG*.[51] Apart from this exceptional case the insurance sector survived the 2008–09 banking crisis without major damage, although, as with every other economic crisis, the growth in premium volume flattened out and—when measured in US dollars—declined slightly in 2009. Trust in the insurance industry remained intact as it was not responsible for the finance and economic crisis. Individual insurance companies were again separated from finance conglomerates, so that they would not be endangered by the potential failure of the banks within a group. It was to the insurers' advantage that they—unlike banks—were not dependent on short-term financing. The example of *AIG* however, makes it all the more clear how necessary it is to regulate all economically relevant parts of a group.[52]

Escalating liability claims and the liability crisis in the United States were the causes of yet another important change in the global network of insurers. The trigger was a legal dispute about the effects of asbestos on health. It became the longest-lasting class action of all time in the United States, and involved legal expenses that, at between USD 200 and USD 300 billion, were the highest ever incurred in a personal injury case. It also involved costs of another USD 100 billion elsewhere in the world. Several insurers found their asbestos-related liability commitments dragging them into bankruptcy, while others found themselves in grave financial difficulties. Some insurers, believing that US risks had become incalculable, withdrew from the American market altogether.[53] Premium rates in liability insurance shot sky-high, and this in turn prompted a number of American insurers and capital providers to establish new operations in Bermuda from the mid-1980s onwards. The islands of Bermuda, thanks to their lower tax burden and much less onerous regulatory regime, had already become a core base for captives. As the 1990s dawned and the number of catastrophe risks increased, Bermuda continued its rise to become the third-biggest insurance centre in the world after the USA and Europe. US liability claims played their part in eventually driving *Lloyd's of London* to the brink of disaster. It was able to save itself from complete downfall only through root and branch reform. This was the biggest crisis in the long history of *Lloyd's*, and it had an impact also in the United States, as London had for many years been the main source of reinsurance for the American insurance industry. From 1994 onwards, *Lloyd's* managed to sharply increase its capacity, as corporate capital largely replaced the private individuals, so-called 'names', who had been liable up to the full extent of their assets. Insurers

[51] Roubini and Mihm, 2010, 155.

[52] Swiss Re, *Sigma* 3, 2009, 41; 3, 2010, 1 and 2, 2011, 37.

[53] http://www.rzuser.uni-heidelberg.de/~b53/KTS/Faust.pdf. C. Schmidt 2007, 143.

from the USA and Bermuda in particular used their involvement in *Lloyd's* to gain direct access to the London market, whose accumulation of expertise represented by the brokers, underwriters, and many other insurance specialists working there cheek by jowl with one another made it the central marketplace for the world. However, other places, Bermuda among them, have also in the meantime established themselves as locations for capital.[54]

As the twenty-first century began there was an increase in the number of disasters and crises, combined with heightened public awareness of them. Both have since increased still further as a consequence of climate change and the liberalization of markets. The planet is home to more people, many of whom who receive news 'live' from the media, travel more, use up resources, and settle in large numbers in hazardous places—areas at high risk of earthquakes, in coastal areas, on steep slopes, and river deltas. The effect is of both perceived and real events piling up, tumbling into one another as their interconnections are seen. As the world becomes smaller and life in it is lived at a faster pace, it becomes a more dangerous place. It is highly probable that one or more megacities such as Tokyo, San Francisco, and Istanbul are heading for their next major earthquake in the next thirty years. This is where insurance is needed, and especially reinsurance and the experts in this industry. Over the past two decades in particular, it has been the reinsurers—who used to work more out of sight—who have quite consciously stepped into the spotlight and the public eye when spectacular disasters have occurred, contributing their knowledge to public debates and getting the close interconnection between global risks—economic, social, geopolitical, technological, and environmental—onto the agenda of, for example, the annual *World Economic Forum* in Davos, so that decision-makers consider these risks as a whole and take them into account in their decisions.[55]

Over the past decades, the inordinate growth of insurance groups operating on an international scale, combined with the growth in catastrophe risks, brought about changes in the fields in which specialist reinsurers operated.[56] Whilst the size and spread of the globally operating primary insurers, which are also the fastest growing, enables them to bear an ever-larger proportion of mass risks themselves, they are more than ever reliant on help from reinsurers when dealing with peak risks. This is true above all of insurers in North America, from which half the risks covered by reinsurers come. This is evidence of just how much the United States is exposed to natural catastrophe and liability risks. In 2005, when the country was hit by Hurricanes Katrina, Rita, and Wilma, about a third of all primary insurers in the USA would have found themselves in serious trouble had it not been for payments from reinsurers. However, emerging markets such as Indonesia or Chile, which are more at risk of natural disasters, are much

[54] Swiss Re, *Sigma* 3, 2002.

[55] This was initiated by the companies *Marsh & McLennan, Swiss Re*, and *Zurich Financial Services* together with the Wharton Center for Risk Management, University of Pennsylvania. World Economic Forum (ed.), *Global Risks 2011*. 6th edn, January 2011.

[56] On the following comments: Swiss Re (ed.), *Wegweisende Einführung in die Rückversicherung*. Zurich: Swiss Re 2010.

more dependent on reinsurance cover, as insurance has penetrated to a far lesser degree and the local primary insurers have relatively little capacity. The sharp rise in losses over the past two decades, with which the insurance industry's capacity has not been able to keep pace, has prompted reinsurers to devise new forms of reinsurance which they can use to transfer peak risks to the capital markets. One of the ways of doing this is to issue catastrophe bonds. The main guarantee, though, for the specialist reinsurers' being able to continue to function successfully is still, alongside their expertise, to which they are constantly adding, primarily their global organization, without which it would be impossible to break down the major risks.

At no time in the course of their history have insurers taken on all risks; instead they have tried to calculate the limits of insurability. As their financial resources, knowledge, and technical expertise have increased they kept on progressively setting them wider and wider. In so doing, they have kept in step with technical and economic progress while also setting limits to it. They have kept individuals and society as a whole from taking on irresponsibly large risks that would, in all probability, have brought ruin upon them. Moreover, insurability was and is limited by the capacity of the whole sector, which today amounts to more than several hundred billion US dollars.[57] There is nothing new about any of this. What is new is that the triumphs of modernization and technical progress are now producing quite new uncertainties and risks, which are themselves changing dramatically in terms of reach, quality, and the speed at which they spread. Unlike those of former ages, today's problems are not attributable solely to the errors of scientists and technologists, but often to their outstanding achievements, which have won them renown and reward. There are above all three types of risk whose global dimensions overstretch the capacities of insurers in their role as sources of security: ecological, economic, and terrorism-related risks. The effects of global warming and of climate change are now seen to be just as uninsurable as a grave recession or the nightmarish sovereign debt, resulting from the 'organized irresponsibility' of global money and finance markets and prosperity funded by debt over decades. Similarly substantial risks result from the activities of global terrorist networks that set out to exploit the vulnerabilities of modern societies and cause incalculable losses—exacerbated by the high level of fear they generate.[58] It is becoming more evident year by year just how climate change in particular is behind a positively explosive increase in the incidence of losses caused by drought, flooding, and cyclones, although the triggers and the persons affected vary from one place to another and over time. The potential for catastrophe unleashed principally by the populations of industrialized countries affects mainly people in other countries and future generations.[59] An additional factor is the propensity of risks associated with complex technologies and financial methodologies to treat every border with disdain, something that, ever since the Chernobyl reactor disaster and the banking crisis of 2008, has become increasingly evident. The extreme speed at which diseases, for

[57] Swiss Re, *Sigma* 3, 2011, 5.
[58] Beck 2007, 355–61.
[59] Beck 2008.

example, can spread, is also new. In early 2003, the SARS virus had claimed its first victims in North America even before it had been identified in the Chinese province of Guangdong, where it had originated.

The entire insurance industry today is by no means able to keep pace with this expansion of risk. Although most individual risks of sub-systems are recognizable as such and capable of being calculated, it is extremely difficult to assess the overall risk presented by the interplay of all the sub-risks. As a consequence of globalization and its extension of value chains throughout the world, cumulative risks are becoming more complex. It is also extremely difficult to evaluate the risks presented by new large-scale systems, which may usually function very well but are highly vulnerable under certain very rare circumstances.[60] As demonstrated by the combination of earthquake, tsunami, and nuclear hazards in the March 2011 catastrophe in Japan, a chain of individual risks can entail such enormous losses that insurers are scarcely able—if at all—to compensate for them. The situation for the insurance industry is also made more difficult by the growing risks on the bond markets in the wake of the increasing and escalating sovereign debt.

The very speed of modernization presents insurers with enormous problems. Innovations are being discovered, produced and distributed worldwide with ever-increasing rapidity. The creation of communications and transport networks that span the globe has made it possible not only for innovations but also computer viruses to be shared with the whole world at the click of a mouse, and both goods and diseases to be transported to the other end of the world in the space of a day. Thus risks that are not even yet known can cause losses not only locally and progressively, but also cumulatively and everywhere. But when not every dimension of a risk is known, it cannot be estimated or funded with anything like approximate accuracy. Under such circumstances, the insurance industry is forced to limit the scope of cover or refuse it outright.

These and other developments have led the German sociologist Ulrich Beck to suggest that the insurance industry is undergoing a creeping loss of significance. He suggests that the increasing numbers of policyholders and the on-going increase in premium volume do little to undermine this conjecture. Seeing uncertainties as not only increasing but also uncontrollable, Beck speaks of modern society in its dealings with risks as 'an unsecured society, one in which the protection afforded by insurance decreases as the size of the peril increases'.[61] In an age in which the economy's demand for security increases as a consequence of globalization, deregulation, and changes in global politics, the world is evidently becoming less secure at the same time as the insurance industry is expanding. One indicator of this is the rapid rise in the number of uninsured economic losses, which have increased much faster than the number of insured economic losses as a consequence of the natural disasters occurring since the mid-1990s. Between 1985 and 1995, over 42 per cent of losses of this sort were still insured. That figure fell to 28 per cent by 2008 and to 25 per cent by the summer of 2011. Over the same period, average annual losses increased two and a half times over, even without taking

[60] Swiss Re (ed), *Risikolandschaft der Zukunft*. Zurich: Swiss Re 2004, 24–9.

[61] Beck 2007, 208 and 239.

the many deaths into account.[62] In light of the enormity of the disasters, the state has had to intervene increasingly more often as a reinsurer of last resort. There have, however, been instances when the state has gone into partnership with private insurers. In Japan, earthquake insurance entails private insurers compensating their own policyholders for claims up to a total of USD 1.4 billion per loss event, while the state pays for most of the remaining losses up to a cap of USD 66.3 billion. A comparable partnership has been in place in the United States since 2002 to deal with terrorism risks.[63] While the insurance industry has not declared the terrorist threat to be uninsurable, it does not cover attacks involving chemical, biological, and nuclear weapons, which are major risks, instead transferring them to the state.[64] During the financial crisis of 2008–9 as well, many states had to step in as reinsurer of last resort, but found it so difficult to extricate themselves from the resulting debts that they will not have the resources for any such rescue missions in the future. While many criticisms are levelled at the insurance industry, it is often forgotten that it has from the very outset seen itself as one hedging device among many rather than claiming to be the only one. It always accepts only those risks that can be calculated. That is its strength, but therein lie its self-imposed limits.

The growing discrepancy between the amount of the total losses and insured losses is explained in part by the rapid increase in the amounts claimed and in part by the low level of insurance penetration in many countries regularly hit by major disasters. As these countries develop economically, insurance will increasingly be able to help, as it has done in Europe since as long ago as the eighteenth century. In certain parts of the world this means reducing cultural barriers and traditional objections against 'predicting the future'. Now, in the early twenty-first century, this is already beginning to happen in some countries and cultures that have hitherto been somewhat wary of the whole idea of insurance. Modern insurance, which started to expand as a European invention in the late eighteenth century, has now cast a dense safety net over the whole world; it may still have some substantial holes in it and it may well not be able to protect against every peril or risk, but, without it, there would surely be much more poverty, need, and fear in the world than there actually are.

6 How this book is structured

The main topic of this book is the process by which the modern insurance industry, which started in the form of primary insurers and reinsurers based in England, expanded globally to spread a safety net across the world. Economic historians from around the

[62] Figures according to Swiss Re, *Sigma* 2, 2009, 7; 1, 2010, 4; 1, 2011, 4 and Swiss Re press release of 9 September 2011 on the preliminary catastrophe balance sheet in the first half of 2011.

[63] Swiss Re, *Sigma* 3, 2011, 18–21.

[64] R. V. Ericson and A. Doyle, 'Catastrophe Risk, Insurance and Terrorism', in *Economy and Society* 33: 2004, vol 2, 135–74, here 169.

world have made contributions. They analyse this development, which began in the second half of the eighteenth century, from the standpoints of the world's principal markets. They have also analysed a number of countries in which insurance underwriting came into use only a few decades ago and in which it is still little used. Their studies show the channels by which insurance found its way into each country, how it became more widespread there, and how it played its part in the further development of the cross-border network. They focus their attention on the factors that were decisive in this process of diffusion, as well as on the obstacles—whether economic, political, cultural, or religious—that stood in its way. All of the above has determined how the book is put together.

It starts with Europe, specifically Western Europe, where modern insurance underwriting was developed by experts in its theory and practice working across national borders and inspired by the European Enlightenment, finding its way to continental Europe as a 'British system' of hedging risks and hand in hand with commerce. A change of focus to the other continents reveals that it was primarily emigrants from the British Isles who took insurance with them to the territories where they settled—mainly North America and above all the United States, and then Australia, New Zealand, and South Africa—as part of their European cultural heritage. However, modern insurance was a latecomer to Latin America, where it was for a long time limited to the insurance of commerce and was slow to catch on among a population that consisted mostly of immigrants from Southern Europe.

Apart from the Western Offshoots, insurance underwriting practices were adopted with the greatest alacrity in a number of east and south-east Asian countries, initially—and most thoroughly—in Japan, while India and China did so with greater caution. All three countries took insurance with them to other countries—Japan, in the course of its conquests, to Korea and Taiwan; the Chinese as many of them migrated to other countries around the Pacific; and Indians similarly through migration to places as far away as Polynesia, East Africa, and the Arabian Peninsula.

However, insurance has still not found widespread acceptance in sub-Saharan Africa. Although the penetration rate for the insurance industry in white South Africa during the twentieth century was the highest in the world, the insurance industry only slowly gained a foothold in North Africa under the influence of white settlers and increasing trade with Europe. This approach to risk management remained largely unknown elsewhere in Africa until much later in the century. Only with the use of motor cars did insurance become more common in Africa.

The Muslim countries on the eastern and southern coasts of the Mediterranean—from Turkey to Morocco, taking in the Arabian Peninsula and Egypt—again developed differently. While they had come into fairly close contact with insurance through settlers and traders since the mid-nineteenth century, their adoption of its methods was hesitant and beset by concerns. The Arabian Peninsula offers a particularly good example of how underwriting, being based on the calculation of future risks, is rejected by strictly observant Muslims and of how the system can be adapted to still respond to economic pressure by nonetheless finding acceptable ways of using insurance.

In addition to the countries discussed in the various essays, there are many others whose history has been remarkable and worthy of mention, and without which the insurance safety net spanning the globe would be scarcely conceivable. Bermuda is one of them. An attempt has therefore been made to do justice to these country-specific characteristics in the introductions to the individual chapters. These introductions are to be seen less as summaries than as supplements to the studies of the countries concerned. They help make this volume a history of insurance around the world.