

Instituto de Ciencias del Seguro

Encuentro Internacional sobre la Historia del Seguro

FUNDACIÓN MAPFRE

© FUNDACIÓN MAPFRE

Prohibida la reproducción total o parcial de esta obra sin el permiso escrito del autor o de FUNDACIÓN MAPFRE

FUNDACIÓN MAPFRE no se hace responsable del contenido de esta obra, ni el hecho de publicarla implica conformidad o identificación con la opinión de los autores.

Prohibida la reproducción total o parcial de esta obra sin el permiso escrito del autor o del editor.

© 2010, FUNDACIÓN MAPFRE
Paseo de Recoletos 23
28004 Madrid (España)

www.fundacionmapfre.com/cienciasdelseguro
publicaciones.ics@mapfre.com

ISBN: 978-84-9844-210-6
Depósito Legal: SE-6825-2010

PRESENTACIÓN

En el marco de los actos conmemorativos del 75 Aniversario de MAPFRE tuvo lugar en Madrid, los días 8 y 9 de mayo de 2008, el Encuentro Internacional sobre la Historia del Seguro en el que, con la participación de prestigiosos especialistas, se analizó la Historia del Seguro en Reino Unido, Alemania, Francia, Italia, España y Suecia, así como en Estados Unidos, Japón y los países de América Latina.

La idea de convocar este Encuentro Internacional surgió durante el proceso de elaboración del libro *De Mutua a Multinacional. MAPFRE 1933 / 2008*, por los historiadores Gabriel Tortella, Leonardo Caruana y José Luis García Ruiz.

La organización del Encuentro Internacional estuvo a cargo de Andrés Jiménez, Presidente de MAPFRE RE y de la Comisión del 75 Aniversario de MAPFRE, y del profesor Leonardo Caruana.

El Encuentro Internacional fue inaugurado por Filomeno Mira, Vicepresidente de MAPFRE, y clausurado por José Manuel Martínez, Presidente de MAPFRE. El historiador Gabriel Tortella, Catedrático de la Universidad de Alcalá, presidió y moderó las sesiones académicas.

El Encuentro Internacional concluyó con una mesa redonda sobre “La industria aseguradora hoy” en la que participaron José Manuel Martínez, Presidente de MAPFRE, que actuó también como moderador; Georg Daschner, Miembro del Consejo de MÜNCHENER RÜCK; José María Serra, Presidente del Grupo CATALANA OCCIDENTE, y Luiz Carlos Trabuco, Presidente de BRADESCO (Brasil).

Las ponencias de carácter histórico presentadas en el Encuentro Internacional están recogidas en este libro, que representa una contribución relevante al conocimiento y análisis de la Historia del Seguro mundial, sector de la historia empresarial al que los investigadores académicos prestan cada vez mayor atención.

FUNDACIÓN MAPFRE, en cuya colección “Cuadernos de la Fundación” se publica este libro, desarrolla actividades de interés general para la sociedad en distintos ámbitos profesionales y culturales, así como acciones destinadas a la mejora de las condiciones económicas y sociales de las personas y sectores menos favorecidos de la sociedad. En este marco, el Instituto de Ciencias del Seguro de FUNDACIÓN MAPFRE promueve y desarrolla actividades educativas y de investigación en los campos del seguro y de la gerencia de riesgos.

En el área educativa, su actuación abarca la formación académica de postgrado y especialización, desarrollada en colaboración con la Universidad Pontificia de Salamanca, así como cursos y seminarios para profesionales, impartidos en España e Iberoamérica. Estas tareas se extienden hacia otros ámbitos geográficos mediante la colaboración con instituciones españolas y de otros países, así como a través de un programa de formación a través de Internet.

El Instituto promueve ayudas a la investigación en las áreas científicas del riesgo y del seguro y mantiene un Centro de Documentación especializado en seguros y gerencia de riesgos, que da soporte a sus actividades.

Asimismo, el Instituto también promueve y elabora informes periódicos y monografías sobre el seguro y la gerencia de riesgos, con objeto de contribuir a un mejor conocimiento de dichas materias. En algunos casos estas obras sirven como referencia para quienes se inician en el estudio o la práctica del seguro, y en otros como fuentes de información para profundizar en materias específicas.

Desde hace unos años, Internet es el medio por el que se desarrollan mayoritariamente nuestras actividades, ofreciendo a los usuarios de todo el mundo la posibilidad de acceder a las mismas de una manera rápida y eficaz mediante soportes Web de última generación a través de la página www.fundacionmapfre.com.

ÍNDICE

PRÓLOGO	
Leonardo Caruana de las Cagigas	9
1. THE GROWTH, ORGANISATION AND DIFFUSION OF THE BRITISH INSURANCE INDUSTRY	
Robin Pearson	13
2. HISTORY OF THE INSURANCE INDUSTRY IN GERMANY	
Peter Borscheid	43
3. HISTOIRE DE L'ASSURANCE EN FRANCE JUSQU'À LA DEUXIÈME GUERRE MONDIALE	
André Straus	69
4. PRIVATE INSURANCE IN ITALY: A SECTOR FOR THE GROWTH OF THE NATION	
Tommaso Fanfani	97
5. A HISTORY OF INSURANCE COMPANIES IN SPAIN UNTIL 1936	
Jerònia Pons Pons	141
6. PRIVATE INSURANCE IN SPAIN, 1934-2004	
José Luis García Ruiz / Leonardo Caruana de las Cagigas	175
7. THE HISTORY OF INSURANCE COMPANIES IN SWEDEN: 1855-2005	
Mats Larsson / Mikael Lönnborg	197
8. INSURING AMERICA: MARKET, INTERMEDIATED, AND GOVERNMENT RISK MANAGEMENT SINCE 1790	
Robert E. Wright	239

9. HISTORY OF INSURANCE COMPANIES IN JAPAN, 1879-1945	
Takau Yoneyama	299
10. HISTORY OF SOCIAL SECURITY IN LATIN AMERICA	
Carmelo Mesa-Lago	309
11. EL SEGURO EN IBEROAMÉRICA: DESARROLLO ECONÓMICO, SEGUROS Y PENSAMIENTO POLÍTICO	
William R. Fadul	349
12. FROM MUTUAL TO MULTINATIONAL: THE HISTORY OF MAPFRE, 1933-2008	
Gabriel Tortella	433
Colección "Cuadernos de la Fundación"	
Instituto de Ciencias del Seguro	461

PRÓLOGO

Este encuentro internacional puso de manifiesto cuánto ha cambiado el mundo en todos estos años y que el conocimiento y análisis de los modos, costumbres, organización y legislación en otros países en materia de seguros es hoy indispensable para cualquiera en un mundo globalizado.

En los dos días se analizó la Historia del Seguro con diversos enfoques, ya que se examinó su evolución en algunos de los países con mayor tradición en la actividad aseguradora del mundo: Gran Bretaña, Alemania, Francia, Italia, Estados Unidos, España, Suecia y Japón, así como en el tan sugerente mercado latinoamericano.

En la Historia del Seguro en Gran Bretaña, el profesor Robin Pearson hizo una rápida descripción y análisis de su país, que históricamente tuvo una gran relevancia. Su expansión y difusión se extendió al mundo entero, gracias, en sus inicios, al seguro Marítimo, impulsado por ser el país que inició la revolución industrial y dominó los mares a lo largo del siglo XIX. En este logro se destacó la organización de empresa flexible y estable, y en la mente de todos está la mítica compañía de seguros marítimos Lloyd's. La explicación del éxito de estas empresas está, sobre todo, en dos acciones gerenciales que han sido puestas de manifiesto: por un lado, la autorregulación (al intervenir escasamente el Estado en la regulación del sector) y, por otro, minimizar el riesgo al repartirlo a nivel mundial.

En el caso alemán, el profesor Peter Borscheid destacó la más tardía evolución del sector del seguro en su país, seriamente afectado por ambas guerras mundiales. Pese a ello, tuvo una evolución muy positiva en el reaseguro, destacando la empresa *Münchener Rück* fundada por Carl Thieme en 1880, que estableció el reaseguro general obligatorio. Al conseguir superior eficiencia en el reaseguro obtuvo mayores beneficios en el seguro directo. Otra de las razones de su éxito fue su diversificación. También subrayó la relevancia de su expansión internacional, sobre todo en Estados Unidos y Rusia. Concluyó su ponencia destacando la realidad y reto actual en Europa, donde ya no se puede pensar en los mercados de los distintos países europeos sino más bien en el enorme mercado de la Unión Europea.

En el caso francés, el profesor André Straus expuso la evolución desde la Edad Media hasta 1939, explicándonos como en el inicio hubo un fuerte rechazo al seguro, que arrancó con enormes dificultades, superadas con el desarrollo del seguro Marítimo y más adelante con el seguro de Incendios. En la aportación francesa a la Historia del Seguro cabe señalar el importante avance introducido por Pascal en 1662 con el cálculo de probabilidades y por Deparcieux, junto con los suizos Euler y Bernoulli, con los primeros trabajos de estadística, que sirvieron para calcular la esperanza de vida basada en los cálculos realizados

por actuarios. En este caso, demostrando la diversidad de las opciones, se puso de manifiesto la relevancia que tuvo el Estado francés en el desarrollo del seguro, lo que contrasta evidentemente con el caso británico.

La Historia del Seguro en Italia fue presentada por el profesor Tommaso Fanfani. Cabe resaltar su temprano inicio en el periodo romano. En la Edad Contemporánea destaca, entre otras importantes aseguradoras en el siglo XIX, la Imperial Regia Compagnia nominata Assicurazioni Generali (fundada en 1831 por Giuseppe Lázaro Morpurgo), muy dinámica desde sus inicios, pues al cabo de diez años había abierto sucursales por toda la península itálica. En Italia, la industria del seguro se expandió con un elevado número de empresas en el siglo XIX y en el siglo XX, destacando por su singularidad el caso de INA (Istituto Nazionale delle Assicurazioni), creado en 1912, que tuvo el monopolio en el sector de Vida. Esta empresa fue privatizada en la década de los noventa, formando parte de Generali. Por último, en el caso italiano cabe resaltar que tanto Generali como UNIPOL han crecido tanto que tienen bancos controlados por las aseguradoras.

La Historia del Seguro en España fue presentada por los profesores Jerònia Pons, Leonardo Caruana y José Luis García Ruiz, que destacaron la presencia de las empresas extranjeras en el inicio, con gran relevancia del seguro de Vida. Hubo que esperar hasta el siglo XX para que apareciera ya el seguro de Accidentes de trabajo, en un primer momento para los asalariados de la actividad industrial, y que luego se extendería al sector agrario en la década de los años treinta. En los años cincuenta adquirió relevancia el seguro de Automóvil, lo que supuso una importante oportunidad de mercado, ya que MAPFRE, la empresa líder del sector, debe buena parte de su importancia actual al hecho de haber sido una de las más competitivas en esta modalidad de seguros. Con la llegada de la democracia y la apertura del mercado español, se intensifica la presencia de las grandes multinacionales del sector, que incrementaron la eficiencia y la competitividad del sector del seguro español junto con las grandes empresas españolas.

El caso del seguro en Suecia fue analizado por el profesor Mikael Lönnborg, revelándonos cómo la intervención del Estado puede expulsar del mercado nacional a las empresas extranjeras. Además, dentro de la dinámica del mercado sueco resulta esclarecedora la facilidad que tuvieron los gobiernos para que fueran aceptados cambios institucionales que reforzaron el control del Estado, debido al temor de las empresas a ser nacionalizadas.

La ponencia del seguro en Estados Unidos del profesor Robert E. Wright fue presentada por el profesor Robin Pearson, pues el profesor Wright excusó su asistencia.

La ponencia del profesor Wright reflejó un proceso de evolución bastante complejo, con situaciones bien diferentes, donde se puso en evidencia el poder de la regulación y de la presión fiscal como elementos que influyeron poderosamente en el mercado norteamericano. En ciertos momentos

realidades políticas, más que económicas, han determinado la evolución del seguro en Estados Unidos. De la potencia del seguro en aquel país basta resaltar que es una actividad que ocupa a más de dos millones de americanos y representa el 35 % de las primas directas a nivel mundial. Algo que evidencia la relevancia y la trascendencia que tiene como *global player*.

De la zona más expansiva en la actualidad mundialmente, del Lejano Oriente, el profesor Takau Yoneyama explicó la evolución del seguro en su país, Japón. Los inicios comenzaron como en el resto del mundo, con los seguros Marítimos y los seguros de Incendios, aunque aclara que la intervención del Estado fue mayor que en el caso británico, debido a que su país tuvo un proceso de modernización posterior y a que la activa participación del gobierno japonés facilitó el seguro Marítimo o los seguros Agrarios, tanto el seguro sobre el Ganado como el de Incendios forestales. Sobre el momento presente nos ha advertido del rápido cambio que se está produciendo.

La evolución en Latinoamérica fue presentada por el profesor Carmelo Mesa-Lago y por William Fadul (ex presidente de la Federación de Aseguradores Colombianos, FASECOLDA), con dos enfoques bien diferenciados.

Por un lado, Carmelo Mesa-Lago realizó un cabal análisis de la Seguridad Social, destacando la introducción en algunos países latinoamericanos de los beneficios sociales que implantó Otto Von Bismarck en Alemania, para continuar con los que incorporó William Beveridge en Gran Bretaña. La crisis en Latinoamérica en los ochenta animó un proceso de privatización, destacando el caso chileno, y alertó de los problemas financieros de sostenibilidad del sistema en la actualidad. Aunque se han producido mejoras evidentes, hay sustanciales diferencias entre los países latinoamericanos.

Por su parte William Fadul describió la evolución del mercado del seguro en Latinoamérica. En su estudio analizó el peso que tiene Latinoamérica en relación con los mercados mundiales, seguido de un análisis global de la zona en donde se evidencia que no hay un modelo único. Por último analizó los mercados de 18 países.

Finalmente, el profesor Gabriel Tortella sintetizó la Historia de MAPFRE, y su ponencia fue un anticipo del libro que realizó junto con los profesores Leonardo Caruana y José Luis García Ruiz, publicado en 2009.

Tal como el título sugiere, *De Mutua a Multinacional*, a grandes rasgos relata el camino recorrido desde una mutua de seguros de Accidentes de trabajo agrario, que comenzó en los complicados años treinta de la historia española, hasta su llegada al liderazgo en España a partir de 1983 y su expansión mundial, destacando que también es el líder en el seguro no Vida en Latinoamérica. En las conclusiones incide en los rasgos que definen a la empresa: independencia, una específica cultura de empresa, descentralización, estricto control en su gestión y, por supuesto, trabajo a lo largo de estos 75 años.

Este recorrido por la evolución en los países que han estado presentes, sin duda, pone de manifiesto que no existe una única manera de hacer las cosas, pero que han existido elementos comunes a grandes rasgos, tales como el origen o la visión del mercado, pero probablemente la clave está en que más que existir un modelo idóneo de empresa del seguro, existe un modelo idóneo de adaptación a necesidades cambiantes en cada sociedad.

Leonardo Caruana de las Cagigas

1

THE GROWTH, ORGANISATION AND DIFFUSION OF THE BRITISH INSURANCE INDUSTRY

Robin Pearson
University of Hull (United Kingdom)

During the course of the nineteenth century, as Great Britain became the greatest exporting nation on earth for goods, services and capital, its insurance industry also approached global domination. Lloyd's of London was the pre-eminent centre of marine underwriting and also emerged as the world's major centre of product innovation in non-life insurance. The giant British composite insurance companies captured the lion's share of many overseas non-life insurance markets, overshadowing local firms. During the twentieth century competition in international insurance became stiffer and the political and regulatory environment tougher, and the leading positions achieved by the British in many markets were eroded or lost. Nevertheless, in several fields British companies and Lloyd's remained competitive, although to do so they had to undergo major structural changes. The purpose of this essay is to provide an overview of this complex industry, and suggest some factors behind its long-run growth, organisation, and diffusion at home and around the globe.

1. MARINE INSURANCE IN THE EIGHTEENTH AND NINETEENTH CENTURIES

By 1700 century maritime insurance had spread from its Mediterranean origins to the Atlantic, Baltic and North Seas, and specialist communities of insurance brokers had developed in London as well as Antwerp, Amsterdam, Bruges and Hamburg. Policies could cover ships either for single voyages or for a specified period of time. As England's overseas trade expanded, so did mercantile demand for insurance. In London, where the market was to be found in the precincts of the Royal Exchange, there were some 150 marine underwriters by 1719 insuring cargoes and ships for "several millions yearly" (Cockerell and Green 1994, p.5). They were joined in 1720 by two chartered stock companies, the Royal Exchange Insurance and the London Insurance, which together enjoyed a monopoly on corporate marine insurance in Britain for the next 105 years.

Edward Lloyd's coffee house became the most important of many meeting places for underwriters, brokers, shippers and stockjobbers where the latest commercial news was exchanged. The advantage enjoyed by Lloyd's over

other centres of marine underwriting, lay not only in its concentration of underwriters and brokers in close proximity, but in the regular flows of shipping intelligence gathered in Lloyd's *List*, first published in 1734, and in Lloyd's register of shipping, established in 1760. Access to the registry was confined to members of a new society of underwriters based at Lloyd's, the first formal organisation there. While it continued to be difficult to measure all the perils of long distance voyages, the reputations of ship's captains and merchant's agents, and the dimensions and quality of the ships themselves, became well known within the circle of underwriters. This kind of information, probably – we have no exact data-helped marine insurance to keep pace with the five-fold expansion of English foreign trade during the course of the eighteenth century. Lloyd's also benefited from the existence of the two chartered corporations after 1720. On the one hand, the chartered monopolies prevented other groups of capitalists from collectively entering the market. On the other hand, Lloyd's information-gathering and monitoring activities gave the underwriters there a distinct competitive advantage, including lower costs and more flexible prices, over the corporations (Kingston 2007). Consequently, the latter never captured more than a small share of English marine insurance.

By the early eighteenth century the London market had already begun to extend beyond the risks of local or direct trade with the British Isles. In 1728-9 for instance, some 28 per cent of marine insurances taken by the London Insurance were so-called "cross risks", insurances of ships or cargoes between two or more foreign destinations. For the private underwriters this percentage was much higher. When the chartered companies withdrew from the "cross risk" business during the Napoleonic Wars, alarmed by the lack of information from overseas, the market was left to Lloyd's. In 1809 the two chartered insurers accounted for less than four per cent of the £163m estimated to be insured on marine risks. A further 14 per cent of marine insurance was written outside London, in English and Scottish ports, but Lloyd's transacted most of the rest (calculated from *Select Committee on Marine Insurance* 1810, Report, p. 6).

There were always rival centres where one could obtain insurance. Groups of brokers operated in Bristol, Liverpool, Glasgow and Edinburgh, while from the 1790s growing numbers of brokers and marine insurance companies could be found in ports in north-western Europe and Scandinavia, in Nova Scotia, Newfoundland and the eastern seaboard of the United States, in Italy, India, China, and the East and West Indies. Towards the end of the eighteenth century several mutual associations of ship-owners were formed to provide insurance for their members' ships (*Select Committee on Marine Insurance* 1810, Report, p. 10). These were particularly important for the collier fleets of the north of England and for fishing-boat owners in the south-west. After 1800 underwriters at Lloyd's and the two chartered companies came under persistent attack, the former for the alleged inadequacy of their capital reserves, the latter for their monopoly privileges. In 1811 a deed of association for Lloyd's subscribers was drawn up, a new house committee was established, a salaried secretary appointed, and the first Lloyd's agents appointed, whose tasks included sending shipping intelligence, taking charge of salvage and overseeing

claims and ship repairs. By 1820 there were over 100 agents located at UK ports and over 150 abroad. These agents shared their shipping and political intelligence with the British Foreign Office which often depended upon them for reliable information about international events.

Following the repeal of the chartered monopolies in 1824, several new marine insurance companies were formed, but operating in a depressed market with falling trade values, they were mostly short-lived. The first serious inroads to Lloyd's market share were made by the rapid growth of marine insurance in European ports, especially Hamburg where sums insured more than doubled between 1815 and 1830 under a lower tax burden, and by the new companies established in London and Liverpool, whose success was ensured by the huge transfer of American marine business to Britain at the outset of the US civil war. These were boom times for corporate marine underwriters. By the 1870s there were several dozen stock companies underwriting marine insurance, together accounting for perhaps 40 per cent of the market (Raynes 1948, pp. 316-23). The economic conditions of the 1870s and 1880s, with the slow down in international trade, the lower premium rates required for steamships, and the competition from the new companies, who often pooled information and standardised practice in trade associations -notably the Institute of London Underwriters (ILU) founded in 1884- made life tougher for the private underwriters. The ILU drafted policy clauses for various risks that were adopted throughout the marine market, and operated a set of tariffs, especially for the Australasian and Far Eastern trades (Cockerell and Green 1994, p.10).

Lloyd's survived this crisis through embracing regulatory and organisational change, through attention to technology, and through diversification and product innovation. Lloyd's became incorporated by an act of parliament in 1871 which created a deed of association and a set of by-laws, though it did not remove the personal liability of members for losses. Between 1870 and 1887, deposits and guarantees became compulsory for members to help safeguard against underwriting failures. The number of members and the average size of syndicates also began to increase. There were 378 underwriting members in 1870 and 476 in 1883. In the 1880s there were few syndicates with more than six names. By the First World War syndicates of several dozen names were not uncommon. From the third quarter of the nineteenth century a number of large broking firms emerged to control these syndicates. In the early 1880s the average Lloyd's broker ran a family firm, often combining commodity trading and shipping agencies, with no direct interest in underwriting. During the following decades, however, he became increasingly involved as a member of underwriting syndicates, managing an ever larger volume of business through agencies in Britain and abroad. Before the First World War many of the larger broking firms had become limited companies, placing risks with the syndicates or insurance companies they controlled.

In sum, the success of British marine insurance in the eighteenth and nineteenth centuries was the product of both external political and economic factors, and internal structural and operational change. The growth of British

trade and colonial expansion pushed up demand. Between the early eighteenth and the late nineteenth century, foreign trade growth accelerated from around one per cent a year to over four per cent (Deane and Cole 1962, p. 29). During the eighteenth century, the mercantilist political and legal framework -the Navigation acts forcing British trade into British ships, the chartered corporations of 1720 leaving the field free of other corporate entrants, the absence of onerous regulatory constraints on individual underwriters- also facilitated marine insurance. Underwriting at Lloyd's, in particular, profited from its efficiency and low overheads -around two to four per cent of its premiums were absorbed by costs compared to 30 per cent or more in the corporations- and from its flexibility, which was especially suited to non-standardised risks, such as marine cargoes and hulls. Efficiency and customer confidence were also served by the establishment and refinement of rules and administrative structures beginning in the late eighteenth and continuing, periodically, throughout the nineteenth century. For example, Lloyd's took the lead in founding the Salvage Association in 1856, with a view to reducing levels of moral hazard. This association helped work out industry rules for dealing with ship stranding or scuttling -which were regular occurrences at the time, for instance, in the Dardanelles and the Black Sea. By the end of the century Lloyd's had developed an efficient contract between shippers and salvors, one that protected the interest of insurers, provided incentives for preserving a damaged ship and its cargo, and established arbitration procedures for settling salvage disputes. New technologies also required a response. The replacement of wood by iron in ships, the introduction of steam engines from the 1820s and the replacement of sail by steam power from the 1860s, all placed greater emphasis on the need for underwriters to monitor and influence technological change. Other technical innovations such as the telegraph and telephone helped marine underwriters by facilitating the speedy acquisition of information over long distances, for instance about shipping conditions or wrecks.

2. THE GROWTH AND EXPORTATION OF FIRE INSURANCE

British fire insurance had an entirely different lineage from its marine insurance counterpart. It was corporate from birth, and its rise was sustained, not by commercial or industrial expansion, but by population growth and urban house building, what one contemporary described as the "quieter risks of town" (Trebilcock 1985, ch. 9; Pearson 2004a, ch.1). Fire insurance was initially the product of the rebuilding of London after the Great Fire of 1666. Before the Fire, those who lost property through conflagrations were compensated, if at all, by "briefs", charitable collections organised after the event by the parish. This *post hoc* method of reducing the impact of losses from fire survived until the early eighteenth century. From the 1680s, however, several new offices emerged in London, organised either on a mutual basis, where all members were policyholders and vice-versa, or as stock companies with shareholders and transferable shares. When the Bubble Act of 1720 banned the formation of the latter without legal incorporation, the industry developed over the following 40 years with just six offices dominating the market - three mutual and three stock,

including the two corporations. Most of the business of these companies was confined to London and the Home Counties. There were just a handful of other offices located outside London, most of them mutual, in Glasgow, Edinburgh, Dublin and Bristol, and all founded by 1720.

The industry began to change from the 1760s. The London stock companies began to expand their agency networks more vigorously across Britain and Ireland in response to the growth of towns and rising property values. New provincial stock companies emerged, the Bubble Act notwithstanding, to serve urban and county markets outside London. The London mutual offices failed to keep pace with this expansion and suffered from having their insurances heavily concentrated in the capital where the fire risk grew with every building boom. From the end of the eighteenth century, the industry became characterised by recurrent rounds of oligopolistic cooperation between the dominant companies, interspersed by upsurges of market entry, intense competition and corporate mergers and acquisitions. In the 1780s and 1790s, for example, increasingly complex premium tariff schedules were constructed by the largest London companies, and their cooperation extended to a range of other mutual interests including agents' commissions, office opening hours, and a common fire brigade for the capital.

This was followed by waves of company promotions in the 1800s and 1820s, a collapse of the cartel, price cutting and take-overs, and then eventually renewed efforts to restore stability to the industry, efforts which culminated in a new tariff scheme in the early 1840s (Pearson 2004a, ch.5).

Unlike early fire insurance in continental Europe, the British state had no direct role, except a fiscal one, in the development of the industry. New fire insurance companies were entirely the product of private initiatives by networks of merchants, manufacturers, bankers and professional men, the very groups who dominated local government in towns and districts across England and Scotland. Thus, the line between public and private investment was distinct for much of this period. A further dimension is the multiple links to overseas trade possessed by many insurance company promoters and investors. The first fire insurance exported anywhere overseas was sold by the Phoenix Fire Office, a joint-stock company formed in 1782 by London sugar refiners. The latter exploited their trading connections in the West Indies and in Hamburg, Nantes and Bordeaux -all centres of the sugar industry- to quickly establish the world's first foreign agency network in fire insurance. By 1815 the Phoenix had made 42 agency appointments in Europe, North America, the West Indies, Buenos Aires and the Cape. During the following decade overseas insurance, which was generally very profitable, accounted for half of the company's premiums (Trebilcock 1985, pp. 248-67). Other fire offices with global ambitions followed, all with some ties to overseas trade. The Imperial (1802) was founded by the West India Dock Company. It quickly extended its operations to the West Indies and Europe, insuring mercantile property around the rim of Napoleon's empire in Memel, St Petersburg, Gothenburg, Gibraltar, Italy and Heligoland. The Alliance (1824) was a Rothschild-Montefiore collaboration and exploited those

financiers' excellent business connections to Europe. By the early 1830s some 45 per cent of the Alliance's fire insurance premiums came from abroad (Pearson 2004a, pp.157, 159, 184). The Liverpool & London (1836) and the Royal (1845) were both offshoots of the Liverpool cotton trading and banking community, and grew quickly to join Britain's major insurance exporters.

Almost all of these companies followed the Phoenix in establishing networks of sales agents abroad. A further means of exporting developed in the mid-1820s, when bilateral quota treaties began to be struck between British insurers and several new German, French, Belgian and Russian insurance companies to reinsure property in the UK and Europe (Pearson 1995). From its early centres in Europe, North America and the West Indies, fire insurance then spread to British India, China and the Malay Peninsula during the 1830s and 1840s, largely through the agencies of British insurers, although local companies were also set up by colonial merchants in Bombay and Canton (Dickson 1960, p. 192). After 1850 it became truly global, diffusing to Australia, New Zealand, South Africa, Asia, Latin America and the Middle East, and reaching those parts of Europe hitherto largely untouched, such as Spain, the Balkans and Eastern Europe. Agreements were made between British companies, and sometimes between British and foreign companies, to reinsure risks in markets where it was unsuitable or, as in Russia, legally impossible to insure directly. Thus the Scottish company North British & Mercantile joined the London-based Phoenix Fire Office to operate a reinsurance agency in Vienna in the 1870s. From the 1870s reinsurance constituted a major part of British fire underwriting in Europe. It compromised, for instance, over half of all premiums earned by the Phoenix Fire Office on the continent before 1900 (Trebilcock 1998, vol. 2 p. 139). In North and South America, however, the importance of reinsurance declined relative to direct underwriting, especially after 1879 when New York banned reinsurance with companies not registered in that state, and when other states began to increase regulatory control over foreign insurers operating within their borders. Regulation, high brokerage fees, increasing international competition, and technological advances in long distance communications -notably the telegraph and later the telephone- encouraged many British insurers to convert their reinsurance operations into a direct sales presence by expanding their agency networks, and by reorganising the largest agencies into branches, with salaried officers managing a system of sub-agencies across large territories. Another vehicle for foreign entry that developed during after 1880 was the acquisition of foreign companies or the establishment of foreign subsidiaries. This occurred in sporadic fashion across the globe. Examples include the Sun Fire Office's purchase of the Watertown Insurance Company of New York, the Frontier Insurance Company of South Africa, and the Asiatic Insurance Company of Bombay in 1882, 1891 and 1897 respectively, or the London and Lancashire's purchase of five companies in the US and two companies in Buenos Aires between 1879 and 1900 (Dickson 1960, pp.193, 201, 227-31; Francis 1962, p. 116; Jones 1984, p. 126).

As with the branch office system, sales representation under a local flag of convenience gave British companies a better foothold in increasingly competitive

markets. As early as 1862 there were 15 British and nine Dutch fire insurance offices operating in Singapore. In 1871 there were nine British and five local offices operating at the Cape, and 13 British, six Canadian and four US offices in Canada (Trebilcock 1998, vol.2 p.194; *Spectator* XI, 1873, p. 539). The post-bellum period in the United States also witnessed growing numbers of British fire insurers, especially after the failure of American companies in the wake of the giant conflagrations in Chicago (1871) and Boston (1872). In the older centres of underwriting in Europe competition became increasingly fierce. By 1863 there were 75 fire insurance agents operating in Hamburg alone (Trebilcock 1985, vol.1 pp. 315-16). There were 30 foreign fire insurers in Sweden in 1862, but 79 by 1884. There were nine in Spain in 1880 and 24 by 1898 (Bergander 1967; Rosales and Quiza 1996).

One outcome was the relative decline of the British share of European markets. British offices lost out to their European rivals in the scramble for business after the Hamburg fire of 1842, after the fire at the port of Memel on the Baltic in 1854, and again following the deregulation of the German insurance markets at the end of the 1850s. As European premiums declined, other regions of the world, particularly North and South America, India and the Far East gained in importance for British insurers. While Europe accounted for 60 per cent, and North America 17 per cent, of Phoenix's net premiums in the decade after 1815, these proportions were reversed by the First World War (Trebilcock 1985, vol. 1, table 5.6; *idem*. 1998, vol. 2, table 2.3). In underdeveloped economies around the globe British fire offices often dominated the supply of insurance. In Sierra Leone, for instance, only four fire insurance offices were counted in 1905, all of them British. In Morocco, six of the seven fire offices were British. In Bombay, there was one local fire office and 39 foreign insurers, of which 27 were British (US Department of Commerce and Labor 1905). At the same time, the UK was declining in importance for many of Britain's companies. By 1913, for example, the home market accounted on average for about one-third of UK companies' gross premiums. For several firms the share was much lower (Supple, 1984, p.6; Trebilcock, 1998, vol.2 table 2.20). This was largely because of the greater competition at home and the stronger export orientation of UK insurers, not because of foreign penetration of British markets. We do not have exact figures, but it appears that only a handful of foreign companies entered the UK before 1914, and they captured little market share.¹

The great global expansion of British fire insurance also coincided with the collaborative organisation by the industry of formal attempts at the control of world markets. From its origins in the regular meetings of major companies during the early 1840s to collaborate over premium tariffs for a wide range of domestic industrial and mercantile risks, the Fire Offices Committee (FOC) was formed in 1868. By 1903 some 73 different domestic tariffs were administered by the FOC and its specialist committees (Westall 1984, p. 133). The FOC also

¹ There were four US insurance companies –two fire and two life– in the UK by 1871. *Spectator*, VI, 1871, pp. 119-20. The US consular report of 1905, however, was silent on US fire insurers in Britain, presumably because their presence was minimal. On US life offices in the UK see below.

worked towards a standardisation of policies and towards improving education about fire hazards and safety. Through its Foreign Committee, and through a growing network of loosely affiliated local agents' boards, usually led by the overseas representatives of British companies, it also attempted to regulate prices and enforce market discipline in a range of territories around the globe. A pattern emerged by the 1880s in which the FOC in London set the tariff for local risks -jute mills in Calcutta, warehouses in Valparaiso, for example- but that tariff was operated, extended, amended, and, on occasions, suspended by the board of local agents. Local boards also organised protests against state fiscal policies or forms of regulatory intervention, and negotiated agreements over brokers' commissions, as in Argentina in 1888 (Jones 1984).

The tariff offered its members the benefits of lowering the cost of collecting and processing information in a world of increasingly distant and complex risks and rapidly changing political and legal structures. In general, notwithstanding periodic breakdowns in tariffs, it enhanced the stability of the industry. Non-tariff competition, and rogue behaviour by tariff members, was controlled by an array of devices, ranging from a general withdrawal of cooperation, to the specific denial of reinsurance facilities to miscreants. The latter occurred, for example, in Chile in the 1880s and in Argentina and New Zealand in the 1890s (Trebilcock 1998, vol.2 p.180). Generally, with a few exceptions, non-tariff firms were small, specialised in niche markets or discounted at the margins of the industry, and were not a threat to the major firms, accounting for just five per cent of fire insurance before 1914. Indeed they also benefited from the relative price stability that the tariff organisation could bring and therefore had a vested interest in its survival. The outcome of the tariff was to drive most forms of competition away from price into other areas, such as policy terms and insurance limits, claims-related services, product innovation and marketing (Westall 1998). The British fire insurance industry also exported its market organisations and forms of inter-firm cooperation to the Empire. For instance, four of the five people responsible for drafting the Victoria fire insurance tariff of 1896, the first in Australia, were managers of British companies there. This in turn provided the model for tariffs in other Australian states and in other branches of insurance, so that by the First World War all major lines sold by general insurers, including marine, accident, and motor vehicle, were covered by a tariff (Keneley and McDonald 2007, pp. 282-3).

3. THE RISE OF LIFE INSURANCE

British life insurance developed along a very different path. Unlike marine insurance, which operated with a heterogeneous product in a bipolar market of corporate and individual underwriters, and unlike fire insurance, which had a relatively integrated market dominated by stock companies, the life insurance market in Britain by the nineteenth century was fragmented by social class, by product type and price, and by type of company and marketing organisation. After a brief flurry of speculative insurance projects in early eighteenth-century London, ordinary life insurance -insuring lives for the whole of their term and

paying out upon death- emerged in a more prudential guise with the Society for Equitable Insurances on Lives and Survivorships, founded as a mutual in 1762 (Clark 1999; Ogborn 1962). Its actuary William Morgan completed the world's first valuation of a life insurance business in 1776, which helped place the Equitable's underwriting on a scientific footing. Over the following quarter century the Equitable towered above the handful of other mutual and stock companies in the market, accounting for around half of the £10m of life insurance sold in the UK by 1800. The business, however, being confined to the nobility, wealthy merchants and military officers, remained tiny in comparison with £206m insured against fire or the £150m or so insured on marine risks. The industry began to change rapidly after 1800 with the promotion of new companies, sometimes combining fire with life insurance, and mostly designing their policy contracts on the actuarial principles devised by the Equitable. One driver of growth was the increasing number of offices offering with-profits policies, by which bonuses were added out of profits to the value of policies at regular intervals (Trebilcock 1985, vol.1 pp. 586-9). Also important was the increased use of life insurance policies as securities for different types of loans (Pearson 1990). A third factor was the growing demand from professional and occupational groups for life cover. Several new companies specialised in insuring the lives, as well as the property, of doctors, lawyers, clergy, university teachers, farmers and licensed victuallers.

By 1850 the total sum insured in Britain on lives had risen to about £150m, written by 141 stock and 42 mutual offices (Supple 1970, p.131). From 1853 life insurance policies became deductible against income tax, providing a further boost to demand. Volatility accompanied growth to a far greater degree than in fire insurance. There were frequent frauds and scandals and the turnover of offices was extraordinarily high. Of 219 life insurance companies founded between 1843 and 1870, no fewer than 170 had collapsed by the latter date (Trebilcock 1985, vol.1 p.572). Yet while the net number of offices was reduced, by take-overs as well as by bankruptcies, the market continued to grow rapidly. By 1870 there was some £293m insured in ordinary life policies issued by about 100 offices, and life insurance had begun to penetrate lower middle class groups such as shopkeepers, clerks and schoolteachers (Supple 1970, p.220; Treble, 1984). By 1914 some £870m was insured in 94 offices, a growth rate that outstripped that of population and National Income (Supple 1970, p. 220).

While savings and thrift had become the dominant objectives extolled in the industry's advertising by 1850, the investment element in life insurance also became more important to policyholders as the nineteenth century drew to a close. The most rapidly increasing section of ordinary life insurance was the endowment business. Endowment insurance -which guaranteed payment at the end of a fixed term or earlier if the insured died during the term- had been pioneered by the National Mercantile from 1837 (Cockerell and Green, 1994, pp. 65-6). Premium rates were higher than for ordinary whole-life policies, but the attraction lay in the prospect of having a return during the policyholders' lifetime. By 1890 endowment insurance still accounted for only 19 per cent of all

ordinary life insurance policies and nine per cent of sums insured. By 1913 the figures were 62 per cent and 39 per cent respectively (Supple 1970, p.221).

The stock and mutual companies selling different forms of ordinary life insurance, however, formed only part of the market. As with other financial services in Victorian Britain, there were a range of life insurance vehicles serving a market that was highly differentiated by social class. While ordinary life insurance was geared to the needs of the middle class - the annual premiums were beyond the pockets of most labouring men and women - a new type of life insurance emerged around 1850 to serve the needs of the 'industrial' classes. Industrial insurance - based on the doorstep collection of weekly or monthly payments of small amounts - was explicitly aimed at the wage earner who wished primarily to cover the cost of burials, rather than to provide for dependents. In 1905 the average sum insured in an industrial life policy was less than £10, compared to the average of £345 insured in ordinary life policies. From 1854 the Prudential Mutual Insurance Investment and Loan Association came to dominate this business. Through a series of amalgamations with other insurance companies and friendly societies, and by pioneering innovations in office organisation and data processing which helped to minimise management and collection costs, its business increased from 33,000 policies in 1860 to 10m by 1891 (Cockerell and Green 1994, pp. 69-70; Campbell-Kelly 1992). By 1905 some 25m Prudential policies were held by a UK population of 43m, reflecting a massive shift in the savings habit of the British since the beginning of the nineteenth century (Supple 1970, p. 219). This shift was also mirrored, albeit less dramatically, in the declining average values of ordinary and endowment policies. The latter fell from £215 in the 1880s to £175 by 1913 (Supple 1970, p. 223). The spread of life insurance was encouraged by rising levels of real wages, the extension of elementary education after 1870, falling premium rates, improvements in actuarial methods, the increasing standardisation of policy contracts, and, not least, by new aggressive marketing techniques that emphasised the investment element in life insurance. These techniques were most associated with the entry of a few large US life offices into Britain -the Equitable Life and the New York Life in 1869-70, and the Mutual Life in the 1880s. These American giants never captured a big share of the British market -they earned less than £1m of £31m total premiums before 1914- but their influence in pushing British companies towards more adventurous sales strategies helped fuel competition and the expansion of demand (Supple, 1970, pp. 223-4, 276).

The export of British life insurance originated from the same source as the first fire insurance exports, namely the sugar industry. The Pelican Life Insurance Company was founded in 1797 as a sister company of the London sugar refiners' Phoenix Fire Office. From its earliest years the Pelican insured British and foreign nationals residing abroad as well as military and naval personnel travelling overseas for terms of duty. Other offices followed. The war helped increase the demand for term life insurances, and the principal difficulty was how to price the widely varying risks associated with conflict, climate and disease. Despite very high surcharges for some areas of the world, especially

West Africa and the Caribbean, the business was not uniformly profitable, and some early exporters withdrew from markets altogether in the face of losses. Many early export risks were underwritten in London rather than through overseas agencies. Some offices like the Pelican had access to an established fire insurance agency system, but even the Pelican had only made seven foreign sales appointments by 1825. The Standard Life of Edinburgh opened an agency in Quebec in 1833, the Scottish Amicable opened agencies in the West Indies in 1845 and Montreal in 1846, and the Gresham Life, founded in 1848, established branches and agencies in Europe, Canada, Egypt, India and South Africa (Cockerell and Green 1994, p.70). Large fire exporters such as the Royal and the Liverpool, London & Globe also captured overseas life business through their network of fire insurance agencies. Yet British life insurance never achieved the powerful foothold in world markets enjoyed by its fire and marine counterparts. In the US, competition from local mutuals and stricter regulation of foreign life insurers from the 1850s discouraged British offices. By 1914 just ten per cent of British offices' life premiums were earned overseas compared with around 67 per cent of fire insurance premiums (Cockerell and Green 1994, p.71).

The First World War sharply reduced foreign underwriting for all UK life offices as communications were disrupted and markets were left to local offices (Trebilcock 1998, vol.2 p.407). Over the next 40 years the UK life insurance industry continued to struggle to make an impression abroad. In 1953 just 11 per cent of the aggregate life premiums of UK insurers came from overseas, about the same proportion as in 1914. At the same time, however, UK offices remained relatively untroubled by foreign competition on home soil. UK life insurance premiums going to non-UK companies in 1953 amounted to just seven per cent of the total (Johnson and Murphy 1956-7, p.12n6).

In the light of Britain's export success in other insurance lines, the low levels of foreign income earned from life insurance needs some explanation. The late start of life insurance in Europe -it was banned in many European countries between the fifteenth and eighteenth centuries- meant that demand was very underdeveloped compared to fire and marine insurance. When these prohibitions were gradually lifted during the early nineteenth century, the industry was slow to expand. There were no more than 44 life offices in the whole of Europe in 1852. In the US, where there had been no such proscription, the number of companies rose from 52 in 1851 to 135 in 1870. In this context of late start, it can be argued that the performance of early British life insurance exporters was not unimpressive. However, the very rapid growth of the home market -sums insured on lives rose by a factor of 15 between 1800 and 1850- meant that opportunities closer to home remained more attractive to most offices than underwriting on a large scale overseas. Moreover, it was always difficult to sell life insurance in some places for political and social reasons. Life insurance in the US, for example, was highly regulated and highly competitive. In Australia and Canada from the 1870s the life insurance market became quickly dominated by a small number of local offices and British market share was in steep decline before World War One.

4. ACCIDENT INSURANCE: EXPONENTIAL GROWTH BEFORE 1914

From the 1840s, as British industry began to diversify away from its staples of textiles, iron and coal, and as the railways and the service economy expanded, new specialist companies were promoted in novel lines of insurance. Between 1845 and 1850 13 stock companies were launched to underwrite railway passengers' accident insurance, though only two of these projects eventually succeeded. In the 1850s other accident insurance companies were formed, that did not restrict their underwriting to railway travel, but also sold personal accident, plate glass insurance and disability insurance (Raynes 1948, pp. 284-5). Insurance against steam boiler explosions was pioneered by the Manchester Steam Users Association from 1854. Other new lines that emerged in the 1840s and 1850s included hailstorm, livestock and fidelity guarantee insurance.

The expansion of new lines, with the exception of reinsurance, slowed down after the financial crash of 1873. By 1880 there were about 15 lines of accident insurance available in Britain, compared to about six in 1850. From the 1880s, however, the accident insurance market developed quickly as companies began to diversify their range of products, which allowed them to cover the cost of larger marketing organisations. By 1900 there were at least 40 different lines of accident insurance, and some 50 by the First World War (Pearson 1997). There had been 23 accident insurance companies in the UK in 1861. By 1900 the number was 241 (Westall 1991a, p.198). UK accident premiums grew from £0.5m in 1884 to £16.7m by 1914, excluding the unknown quantity of business done by Lloyd's (Supple 1970, pp. 228, 417). This was more than half the total fire premium income of UK offices of £28.9m in 1914 (Westall 1991a, p.194). New lines included sickness, credit and loss of profits insurance, and different sorts of indemnity and liability insurance, including employers' liability in the wake of the Employers' Liability Act of 1880, which made it easier for injured workers to sue their employers for damages. Public disquiet at the high rate of accidents at work that continued to go uncompensated led to the Workmen's Compensation Act of 1897, which made compensation automatic in some hazardous trades. From 1906 this principle was extended to all workers, which rapidly increased the demand for employers' liability cover. (Cockerell & Green 1994, p. 88). In the same year 48 of the 65 companies transacting workmen's compensation insurance formed the Accident Offices' Association (AOA) in an attempt to regulate the competition (Raynes 1948, p.308).

Demand for other types of indemnity and liability insurance also multiplied between the 1880s and the 1900s. Cyclists' liability, parcel post, elevator, mortgage guarantee, engineering, machinery, motor cycle and motor car insurance appeared. Shortly before World War One aviation insurance was also sold. Professional indemnity insurance became available for doctors, druggists, licensed victuallers and caterers (against beer and food poisoning) (Dinsdale 1954). Lloyd's played an important role in many of these developments. The market had begun underwriting fire insurance as a marginal business in 1874, but the great pioneer of non-marine insurance at Lloyd's was Cuthbert Heath. In 1885 Heath accepted fire reinsurance from the Hand-in-Hand office, where his

father was a director. He wrote the first burglary insurance policy at Lloyd's in 1887, two years before the first company to do so, the Mercantile Accident and Guarantee Corporation of Glasgow. In the 1890s he developed jewellers' block policies to cover diamonds in transit, as well as "all risks" policies against accidental loss, and earthquake insurance. In the 1900s he underwrote smallpox insurance, workmen's compensation insurance, trade credit insurance, excess-of-loss reinsurance and, in 1914, insurance against air-raid damage. Heath also helped push for reforms at Lloyd's which underpinned the expansion of underwriting there. In 1902 he persuaded Lloyd's Committee to accept security deposits for non-marine business. Six years later Lloyd's also accepted Heath's idea of a compulsory annual audit of members' accounts, and this, together with non-marine business, became incorporated in the Lloyd's Act of 1913 (Pearson 2004b; Brown 1980; Gibb 1957).

Lloyd's thus became a great laboratory of insurance innovation and a major competitor in these burgeoning non-marine markets. It also captured a share of what became the largest market of all. Motor vehicle insurance was pioneered by the Scottish Employers Liability and Accident Company at the first London-to-Brighton trial in 1896. Although it was not made compulsory in the UK until the Road Traffic Act of 1930, the business was probably generating about £1m in premiums by 1914 (Raynes 1948, pp. 294-6; Supple 1970, pp. 233-7). By 1920, when the number of vehicles on British roads reached 650,000, the domestic market was earning £3.4m. At this date British insurers were also earning £5.6m from international motor insurance. British motor insurance continued to be an export success -£37.9m premiums earned abroad in 1938, compared to £28.8m from the UK. By the latter date there were some 3.1m vehicles in the UK (Westall 1992, p. 200).

Product innovation was clearly driven by new technological opportunities (motor vehicles, aeroplanes), by legislation (employers' liability), by improved communications enhancing risk assessment and loss adjustment (especially the telegraph, but also transport improvements), and by increased competitiveness, not least with the expansion of Lloyd's. It has also been argued that insurance product innovation stood in a lagged inverse relationship with cycles of activity in the industrial economy. Periods of high aggregate levels of capital formation and innovation, when the uncertainties of new technologies were at their greatest, and when the cost of finance capital was often rising, such as the early decades of the nineteenth century, were not the most active periods of product innovation in insurance. On the other hand, periods of low manufacturing investment, for example during the 1840s and late 1870s, corresponded with (lagged) periods of greater organisational change and product innovation in insurance (Pearson 1997).

5. THE RISE OF THE COMPOSITES

In 1899 there were only a handful of offices in the UK transacting more than two lines of insurance. The big fire and life insurance corporations had yet to diversify. Accident insurance was still largely conducted by specialist companies

and by Lloyd's. In the following two decades this picture changed completely. By 1923 21 of the 24 largest accident insurers had been amalgamated, or controlled through the purchase of their shares by fire and life companies, to form large composite groups. The remaining three themselves became the major partners in such groups. The wave of mergers and acquisitions transformed the entire industry. Of 16 UK marine companies in 1899, all except one were absorbed by a composite office between 1905 and 1927. Twenty-two of the 29 largest joint-stock life offices in 1899 were absorbed or themselves became the core of a composite by 1933. Between 1900 and 1925 15 of the top 30 fire offices in 1899 suffered the same fate. One of the great composite groups, the Commercial Union, absorbed no fewer than 21 companies between 1900 and 1939: 11 by amalgamation, and 10 as a controlling interest through the purchase of shares (Raynes 1948, pp. 373-80).

During the great M&A wave of 1900-20 the purchasing offices were chiefly concerned to increase shareholder value and to diversify, and, through diversification, to spread the fluctuations in their business (Supple 1970, pp. 438-41). As demand for insurance cover broadened to include the new areas of risk, the large fire and life offices were anxious to retain their customers by offering burglary, vehicle, workmen's compensation, fidelity guarantee, boiler, personal accident and other forms of general insurance in addition to their staple line. The quickest way of obtaining the expertise in these lines was to purchase them outright. The experience and staff of the acquired companies were often more important than the profit from the business taken over. Increased competition from large broking firms such as Bowring or Willis Faber & Dumas also encouraged the companies to respond or risk losing ground. As the composite corporations entered the accident insurance market, they strove to restrict competition in the way they had successfully done in the UK fire market. By 1920 the AOA had agreed tariffs for workmen's compensation insurance, and private and commercial vehicle, motor cycle and engineering insurance.

6. GENERAL INSURANCE BETWEEN THE WORLD WARS

Financial instability, depression and unemployment, economic nationalism and civil conflict in large parts of Europe, Asia and South America together made the inter-war years a miserable time for many areas of general (non-life) insurance. UK fire insurers suffered from idle plant and high levels of claims. All major fire offices experienced rising loss ratios between 1927 and 1930. While UK fire premiums remained fairly stable during the 1920s, they fell by 15 per cent between 1929 and 1938 (Supple 1970, p. 427) (see table1). With a nearly saturated home market, expansion there depended on the growth in the real value of insurable assets, but inflation and unemployment depressed these. Older fire insurance markets such as textile mills, metal workshops, and warehouses stagnated, while newer industries such as electrical engineering and chemicals, and risks in the service and distribution sectors such as shops, cinemas and petrol stations grew (Trebilcock 1998, vol.2 pp. 509-12). The greater problems,

however, were experienced in abroad. Stagnation, unstable currencies, increased competition from local offices, and tighter regulation were troublesome for UK insurance exporters. UK fire offices earned £20.3m from the US in 1928, compared to £17.4m in 1918, but these figures represented a decline in the contribution of the US to total fire premium income from 42 to 34 per cent (Supple 1970, p.427n). Operating costs rose while premium rates fell. In the 1930s the global depression reduced UK offices premium income by about 15 per cent. Losses in the US and Canada remained exceptionally high throughout the Depression. Even as fire losses began to decline in the late 1930s, taxation in many markets rose where governments sought revenue for reconstruction or rearmament (Trebilcock 1998, vol.2 pp. 531-2).

After the First World War, UK international trade, which averaged only one per cent growth between 1924 and 1954, was never the driver of British marine insurance that it had been before 1914 (Deane and Cole 1969, p. 29). At the same time, a large number of new companies had been attracted into the marine market by the wartime boom, and fierce competition in the years after 1920 pushed down rates. The Joint Hull Agreement on rates between the companies and Lloyd's broke down in 1921, with the former blaming the latter for trying to squeeze their market share (Trebilcock 1998, vol. 2 p. 562). In the years 1921-2 alone 59 offices writing marine insurance were either liquidated or withdrew from the market (Trebilcock 1998, vol.2 p.559). Thereafter, things got worse. Ship-owners neglected maintenance while cruise lines built ever larger vessels that pushed marine engineering technology and underwriting capacity to their limits. Losses at sea mounted and income fell. In 1922 UK corporate marine insurance premiums were £21m. Between 1931 and 1937 they averaged just £11m (Supple 1970, p.437). During the late 1920s and early 1930s a series of disasters involving luxury passengers liners reflected the malaise of most of the maritime industry. The companies responded by improving the efficiency and lower the costs of their internal organisations and by trying to restore the tariff agreement that had collapsed in 1921, with limited success. Lloyd's responded by further diversification into other lines of general insurance, by tapping economies of scale -the number of members at Lloyd's rose from 473 in 1883 to 1,532 in 1933- and by consolidation. The latter took place through mergers between brokers, which were often a way of securing specialist underwriting skills in non-marine branches of insurance. In this way much general insurance became channelled through Lloyd's, forcing the large composite companies to compete by extending services through their branch offices, including surveying, inspection, and claims settlement. This, in turn, undermined the competitiveness of the remaining single-line companies in general insurance.

Market conditions were difficult in accident insurance too. UK premiums from employers' liability insurance fell from a peak of £8.9m in 1920 to £4.9m in 1933, recovering to £6m in 1936, while claims rose and profits fell. Higher levels of unemployment, wage cuts, and state regulation of profits from 1923, reduced this revenue stream for insurers. Burglary and personal liability premiums rose slowly from £23.3m in 1920 to £27.1m in 1937. Personal accident premiums

grew rather more quickly from £27.3m in 1920 to £45.1m in 1937 (Westall 1992 pp. 195, 198). Much of this type of business remained very price elastic, as it continued to be regarded by many policyholders as optional. This left little scope for rate cutting though loss ratios were low. An increasing proportion of this business, however, was acquired through comprehensive household policies, developed by the FOC from 1920, in which the element of the premium paid for burglary and accident insurance was relatively small (Westall 1992 pp. 195,199).

The most dynamic sector of accident insurance was motor vehicle cover. Falling car prices, the expansion of hire purchase, greater congestion and faster speeds on unimproved roads, led to fierce competition, rising claims and falling revenues. The number of vehicles on UK roads rose from 160,000 in 1918 to 2.6m by 1938 (Supple 1970, p. 430). AOA tariff premium rates rose to reflect the deteriorating trends in claims and road safety. Higher rates attracted new offices to the market. By 1921 there were 120 companies accepting motor risks (Westall 1992, p. 203). Like fire insurance, motor vehicle insurance was weakly oligopolistic -five tariff companies controlled just over half the market by 1931- but it was far more rate competitive. The large number of new policyholders had little brand loyalty, and the regular replacement of vehicles provided opportunities for motorists to change their insurer. High street brokers and garage agents offered insurance at every point of vehicle repair or sale. The tariff offices contributed to competition by large branch extensions. The Commercial Union, for example, opened 60 new offices between 1921 and 1935. All this made it difficult to impose AOA membership on new entrants. As in fire insurance, but to a greater extent, the rigidity of the AOA tariffs created space for competition from non-tariff offices, as well as from Lloyd's. Non-tariff mutual offices, often based on employers' trade associations, expanded their share of the home market from 10 per cent in 1922 to 24 per cent by the mid-1930s, which squeezed the profits of the tariff companies. The persistent upward drift of claims meant that AOA spent most of its time between the wars trying to raise rates, rather than cutting them to counter non-tariff competition. By 1938 there were 39 tariff and 27 substantial non-tariff offices. The largest of the latter, the General Accident, was the largest British motor insurer. Moreover, underwriters at Lloyd's earned on aggregate even more from domestic motor insurance than the General Accident -£2.1m in 1931 compared to £1.5m (Westall 1992, p.209).

Non-tariff offices also increased their share of British earnings from vehicle insurance overseas - from 28 per cent to 35 per cent between 1932 and 1938 (Westall 1992, p. 208). Foreign vehicle and other accident insurance markets were also growing. In the US, for instance, where there had been 1.8m registered vehicles in 1914, there were 26.7m in 1929, and 31m ten years later (Supple 1970 p.431). US motor insurance helped drive up the dependency on foreign income of some office's accident insurance accounts. The London Guarantee and Accident, for example, earned over 85 per cent of its accident premiums from abroad during the 1920s and 1930s. Overseas markets accounted for over 60 per cent of the accident premiums of the Phoenix

Assurance between 1925 and 1939, and over half the accident premiums of the Royal Exchange Assurance, with the most of the latter coming from its branches in North America, Western Europe and Australia (Trebilcock 1998, vol.2 p.570; Supple 1970, pp.472-81).

7. LIFE INSURANCE BETWEEN THE WORLD WARS

The popular savings movement in the UK during the First World War helped shape the huge growth of British life insurance in the twentieth century. Insurance companies embarked on noisy advertising campaigns in the wake of the great success of the wartime publicity for National Savings, and soon began to encroach on the business of the savings banks (Pearson 1999). Between 1920 and 1939 industrial life and ordinary life insurance premiums doubled (Supple 1970, p. 427). There was a complex interaction of factors behind this growth. The postponed demand for saving left unanswered by the war, and the needs of demobilised servicemen and their families was one such factor. Wartime inflation had also cut the value of existing life policies and savings assets. The increasing purchasing power of the new salariat of white collar workers, and rising life expectancy increased, respectively, the capacity and the demand to invest for old age. By 1925 up to three-quarters of all new life business was sold in the form of endowment policies incorporating this investment element. Tax relief on life insurance at the rate of ten per cent, as well as the resistance to inflation demonstrated by life policies as offices reduced premium rates, gave life insurance the edge over many other forms of savings and investment. Moreover, unlike equities, life insurance contracts did not suffer from a precipitous decline in their values during the Crash of 1929-32, while the UK government's deflationary policies after 1932 reduced the yields on alternative investments such as gilts (Trebilcock 1997, pp.128-33).

Another force behind the inter-war expansion of UK life insurance was the growing demand for company pensions. By the end of the First World War UK offices still had limited experience of occupational pension schemes². The Standard Life, for example, sold its first group pensions contract to the chemical company Brunner Mond (later part of ICI) in 1910, but had no marketing strategy for this business until 1929 (Moss 2000, pp.167-9). The real stimulus came with the arrival of the Metropolitan Life Insurance Company of New York into the UK in 1927, aggressively selling US-style group life and pensions contracts to UK branches of big US companies such as Kodak, Woolworths and General Motors. The US life insurers that pioneered group insurance, with hundreds of workers insured under one policy, promoted it as a new industrial relations method, even offering business advice on constructing the internal labour markets and personnel management routines necessary to sustain group insurance (Klein 2001). UK insurers such as the Legal & General and the

² These, however, did have a long history in the UK. They were pioneered by the Provident Mutual in the 1840s. The Post Office agreed a pension insurance scheme for its employees with the Provident Mutual and the Pelican Life Office in 1859, that was operated by deductions from the employer's payrolls (Cockerell and Green 1994, p.65).

Prudential quickly followed suit, developing marketing strategies of their own. The transaction costs were lower and rates cheaper than ordinary life insurance, so that group pensions offered insurers the possibility of a large and permanent increase in premium income at a relatively low cost. Companies also anticipated that employees in group schemes would provide a ready market for other insurance products at a discount (Moss 2000, p. 205). In 1931 the members of the Life Offices' Association agreed not to compete on group insurance commissions to brokers. As most insurers received this type of business via brokers' contacts with companies, this helped reduce cost of underwriting group schemes.

Not all was plain sailing. Competition from self-administered schemes remained strong, especially as manufacturing companies, grown bigger through the mergers of the 1920s, felt that they were in a position to establish their own insurance schemes and spread the risk among a large enough number of staff, without the help of insurance companies. They were encouraged in this belief by the growing ranks of consulting actuary firms hiring out their services to companies looking to establish their own in-house insurance. Moreover, tax relief for in-house pension schemes provided by the 1921 Finance Act was greater than the tax relief on pension contributions paid to insurance companies. This gave the in-house schemes a competitive edge -the 1921 tax concessions were not extended to insured schemes until 1956. Most small and medium-sized firms, however, still needed an insurance company to provide their employee pensions. Most of the growth in private sector pensions between the early 1930s and the early 1950s came via insurance schemes run by the big five insurers: the Legal & General, Prudential, Eagle Star, Friend's Provident, and Standard Life. By 1934 these five had sold group pensions covering 120,000 members. By 1956 the figure was over 2m. Within two decades of entering the mass market for group occupational pensions, life insurance companies had become dominant (Hannah 1986, pp. 36-8).

8. UK GENERAL INSURANCE IN THE SECOND HALF OF THE TWENTIETH CENTURY

The second half of the twentieth century was one of growth, increasing market volatility and, from the 1970s, profound structural change in UK insurance. By the early years of the twenty-first century every one of the fire and life offices that had founded the industry in the eighteenth-century had disappeared as independent businesses, and the organisation of Lloyd's had been completely transformed after its near death experience.

Table 1: UK insurance companies - global net premium growth
(average annual % growth rates of net premiums, current values)

	Fire	Accident*	Motor	Fire/Accident/ Motor	Marine/ Aviation*	Life (Ordinary)
1882/1913	4.5					5.3
1920/1937	-0.9	4.0				6.5
1946/1960	19.2	22.1	42.1		22.4	20.2
1960/1980				39.5	23.0	60.3

Notes: *Aviation included from 1965. Accident includes motor until 1946.

Sources: Trebilcock 1998, vol.2 tables 8.1, 12.1, 12.17; Supple 1970, pp. 213, 220, 417, 427, 520-1; Johnston and Murphy 1956-7, pp. 74-5.

As table 1 shows, with the revival in global trade and world shipping after the war, corporate marine insurance was able to keep pace with the growth of most other branches of the UK insurance industry between the late 1940s and 1960. Thereafter, as the locus of international shipping services shifted to the Far East, that growth slowed down relative to other forms of insurance. The increasing size of tankers and tanker disasters, and the greater use by not-always-reputable ship-owners of “flags of convenience”, contributed to the difficulties that marine underwriters faced. In 1947 the ILU abolished the marine tariffs that had given some protection to companies, and a growing volume of business was taken by Lloyd’s, where economies of scale and scope were tapped with growing enthusiasm. The upward trend in the number of members and the average size of syndicates accelerated. There were 1,532 members in 1933, 7,000 in 1970 and nearly 11,000 by 1977 (Cockerell and Green p.18). By the 1980s some syndicates had more than 1,000 members. The broking firms that controlled these syndicates also grew larger and more powerful. By 1978 68 per cent of total premiums at Lloyd’s was placed by the dozen leading broking firms.

Although much of its activity now lay in non-marine business, including motor insurance, reinsurance, and non-standardised forms of insurance such as large industrial and technological hazards and catastrophe risks, Lloyd’s continued to hold competitive advantages in the international marine insurance market in respect of costs, information, flexibility and the close proximity of a range of specialist underwriting expertise. From the 1970s, however, some of its share in this market was lost to corporate insurers and brokers based in Bermuda.

The curious structure of Lloyd’s was a major source of the problems which nearly crippled the institution. The potential for a damaging conflict of interest, between brokers who sought the lowest rates for their clients and underwriters who sought the best risks at the highest obtainable rates for their members, became increasingly apparent to many observers. To raise underwriting capacity in the face of rapidly rising risk values and increased competition, the barriers to entry were lowered and thousands of new members were recruited. Membership rose to a peak of 34,000 in the 1980s. Many newcomers who were

attracted by the prospect of high returns had inadequate financial resources to back up their unlimited liability. Reports commissioned by Lloyd's in 1970 and 1980 recommended changes in its organisation and system of self-regulation, but these failed to avert the mounting problems. Asbestosis and pollution liabilities in the US, which had begun to worry Lloyd's in the late 1960s, began to pour in as claims. Meanwhile, as capacity increased and underwriters desperately sought more business, more syndicates were underwriting excess of loss ("London Market Excess of Loss" or LMX) reinsurance on dubious risks as cheaply as they could. Many marine underwriters took their syndicates into this market even though they had little experience of the business, especially of reinsuring catastrophe risks. Some LMX syndicates began to reinsure other LMX syndicates, so that instead of liabilities being dispersed, which was the classic function of reinsurance, they circulated around the same market, beginning the LMX spiral which nearly destroyed Lloyd's. The spiral was kept going by the inadequate monitoring of syndicate capacity, of rates and of the provenance of risks being insured, as well as by the conflict of interests inherent in Lloyd's structure, as managing agents and underwriters earned profit commissions from too rapid expansion upon inadequate reserves.

From 1987 a series of disasters, including oil rig explosions, earthquakes, storms and hurricanes, triggered massive losses for those syndicates at the top of the spiral which had failed to pass on their liabilities. Over \$8bn was lost in the five years between 1988 and 1992 alone, the number of syndicates fell by half, and some 10,000 members were ruined. A further series of losses afflicted the market from 1996, capped by the record £2bn net exposure from the terrorist attacks on the World Trade Centre on September 11, 2001. The number of active names collapsed to below 2,500. Where there had been over 400 syndicates in 1982, there were just 86 by 2002. Corporate capital with limited liability, first introduced in 1994 as part of a wave of reforms following the LMX crisis, rose to 80 per cent of the market capacity. In 1998 the UK government announced that Lloyd's would be independently regulated by the Financial Services Authority from 2001. The traditional three-year accounting system was abolished, as was unlimited liability for members. Against the odds, Lloyd's survived, albeit as a very different form of organisation from its historical predecessor. It remains important in the markets it has long specialised in. In 2002 it accounted for up to 15 per cent of the global market for large industrial risks and reinsurance, 40 per cent of aviation insurance, over 60 per cent of the market for offshore oil and gas rigs, and a large share of the world's marine insurance outside Japan.

Fire insurance, one of the three traditional staples of the industry, ceased to be a separate line during the twentieth century, as it came to be wrapped up in a package of insurance covering diverse hazards in one comprehensive household policy. As table 1 shows, premium growth was also slower in fire than in other lines. In the 1950s, with the spread of automatic sprinklers, fire alarms and telephones, and improvement in fire fighting methods, however, the tariff companies benefited from fixed premium rates and falling losses in the UK market. In the 1960s, however, technological change, for example with the

growth of the petrochemical, plastics and electrical industries, brought new hazards. UK fire losses rose from £24m in 1958 to £100m by 1968. Fierce competition broke out between the members of the FOC, the non-tariff offices, and the large broking firms who had been attracted to the market by the profits of the previous decade. By the 1960s there were around 2,000 broking firms in the general insurance market, aside from the thousands of small brokers who sold motor insurance. In addition, there were growing problems -high losses, high expenses and rising levels of litigation- in overseas markets, particularly the US, for those companies heavily involved there

One response of the tariff companies was to seek economies of scale through mergers and acquisitions, as well as integrating subsidiary companies into their composite groups. This merger wave helped reverse the previous trend towards market diffusion. In 1928 the 12 largest composite general insurers had accounted for 75 per cent of UK companies' global fire and accident premiums. This proportion had fallen to 70 per cent by 1956, but in 1968, at the height of the mergers and acquisitions, it rose to 87 per cent. Large mergers forced many of the composite companies to adopt fundamental organisational reforms in order to integrate their constituent companies and rationalise operations. This was done either by adopting a full multidivisional structure, or by some form of centralisation. In the Royal Exchange Assurance group, for example, until the 1960s the constituent companies continued to write their own fire insurance both at home and overseas, and to run their own different accounting systems.

The reforms of the mid-1960s brought centralised strategy-making and the strengthening of group identity, notably in overseas markets. In the UK group area offices were established to take over back-office functions from the branches, such as issuing policies and handling claims, leaving the branches to concentrate on sales (Supple 1970, pp. 536-42). This trend towards the centralisation of routine operations was given added impetus by the adoption of computer technology for policy and claims processing, although UK insurance companies were generally rather slow to follow the lead of the Prudential in this respect (Pearson, 2002).

Another response of general insurers to increasing competition was to revise the tariff rates upward. As profits fell, reinsurance capacity contracted, which limited the non-tariff companies' competitiveness and tightened the control of the FOC, whose members held 63 per cent of the domestic market by 1968. Under these circumstances the government referred the fire insurance industry to the UK Monopolies Commission. The Commission reported in 1972. It found evidence of collusion between the FOC and non-tariff offices, and recommended that rate fixing be ended, though some of the FOCs other activities, such as collecting and disseminating information on claims could be continued. The decision to end the fire tariff was delayed by the government's reluctance to intervene in a market that became ever more volatile and unprofitable during the crises of the 1970s. The fire tariff was finally abolished and the FOC wound up in 1985 (Westall 1991, pp. 154-5).

The collapse of the fire tariff and the new scale of state regulation amounted to a seismic shift in the governance of UK general insurance. The same developments were also experienced in accident insurance. Although there had been some legislative intervention in motor and other accident lines in the 1930s and again immediately after the Second World War, UK insurance regulation continued to be based on the Victorian principle of “freedom with publicity”, with the onus on policyholders and shareholders to use the published information to monitor companies and their governance, and on self-regulation by the tariff companies themselves. Government interference with self-regulation was viewed by policymakers as inevitably reducing consumer welfare, the opposite of the regulatory tradition in Europe and the US. At the same time, as Westall has argued, this approach “sanctioned a level of market power whose cost to consumers was never appraised” (Westall 1991b, p. 146). Self-regulation and tariff pricing channelled competition into non-price areas such as marketing and branch office organisation which had the effect of raising barriers to entry, but which may have also raised costs. As a system designed to protect consumers from insurer insolvency, self-regulation worked in fire insurance, judging from the few bankruptcies in the industry. It worked less well in accident insurance because there innovation was more important, niche markets more numerous and barriers to entry lower.

These structures of control came under severe pressure during the 1960s, especially in motor insurance, and then collapsed. Motor insurance was one of the most rapidly growing branches of the industry. There were 3.4m vehicles on UK roads in 1950, and 20.8m in 1984. The greater volume of traffic increased the incidence of collisions, while inflation drove up the cost of repairs (Trebilcock 1998, vol.2 p.953). Competition increased for motor insurers with the growth in lower value car sales and a consequent rise in the price elasticity of demand for motor insurance. New entrants included some companies that were fraudulent, most notoriously the Fire Auto and Marine, that went bust in 1966 leaving 200,000 policyholders high and dry. It also produced one of British television’s defining moments when the company’s founder, an unremorseful and somewhat perplexed Dr Emile Savundra, was confronted by an outraged David Frost on the latter’s popular chat show.

The AOA floundered in its response to this new generation of sharp operators. Its rating structure remained tied to the pre-1914 principles based on the power and value of cars, ignoring the huge changes that had taken place in the social, age and gender composition of the motoring public. By the mid-1960s the tariff share of the motor market crumbled to less than one-third. In the face of these trends, leading members of the AOA successfully proposed in 1968 that the accident tariffs be ended from the start of the following year. In the maelstrom that followed, ex-tariff offices competed with the newer companies to see who could hold their prices down for longest as claims rose. The most active of the latter, the Vehicle & General (V&G) collapsed in 1971 leaving 800,000 policyholders without cover or compensation. The V&G collapse led to a series of legislative interventions, consolidated in the Insurance Companies Act of 1974, which included provision for vetting new entrants and gave powers to the

Department of Trade and Industry to intervene in the running of any company whose solvency was doubtful. This was followed by the Policyholders' Protection Act in 1975, which guaranteed policyholders 90 per cent of the benefits promised in their policy, and was funded by levies on other insurers in the market. This marked a revolution in UK insurance regulation - a shift from "freedom with publicity" to "freedom with responsibility", with the government rather than the companies to be the arbiter of the latter.

After the abandonment of the tariffs, the general insurance markets were plunged into a further round of price-cutting, bankruptcies and mergers as they rode the economic crises of the 1970s and early 1980s. The shake out saw the disappearance of the last surviving eighteenth-century British fire office, the Phoenix, as it was absorbed by the Sun Alliance in 1984. By 1992 the general insurance market was dominated by seven large groups that increasingly depended not on general insurance but on life underwriting and investment income to generate their profits.

9. UK LIFE INSURANCE SINCE 1945

As table 1 shows, the net premium income from ordinary life insurance grew more rapidly between 1946 and 1980 than that from general insurance. As the latter swung in and out of profitability, life insurance proved consistently profitable. The insurance companies were able to exploit the new attitude towards savings after World War Two. With the establishment of the welfare state, high levels of employment and rising earnings, there was a widespread desire for an end to wartime austerity. This undermined the older habit of short-term saving for hardship, and encouraged the growth in the habit of saving for deferred consumption via life insurance policies and pensions. National Insurance never provided a competitive substitute for private life insurance, as the maximum death benefit under the state scheme remained £30 and it was never adjusted for inflation (Cockerell and Green 1994, p.71). Other factors included rising life expectancy, the falling cost of life insurance as rates were cut, and, in the 1950s, the onset of the long-run rise in inflation that moved people to think more carefully about the value of their assets. Ordinary life premiums grew by around 10 per cent p.a. between 1946 and 1967, compared to a growth rate below five per cent in the inter-war years. This was more rapid than the growth of personal incomes in the UK (Supple 1970, pp.524-6). Pensions continued the growth path that had been set before the war. In 1956 the tax relief on pension trust funds was at last extended to insured schemes. This allowed the market leader, the Legal & General, to cut premiums for group pensions by 25 per cent. By the late 1950s, pension policies accounted for more than two-thirds of the premium income of the Standard Life, one of Britain's big five life insurers.

Furthermore strong economic growth between 1950 and 1973 and buoyant financial markets also encouraged pension funds and insurance schemes to seek higher returns so they could offer more generous benefits in this more

competitive market. After the Second World War, there was a temporary return to UK government securities, which accounted for 29 per cent of insurance assets by 1954. Thereafter, however, as inflation eroded the value of fixed interest securities, insurers tried to develop more adventurous investment policies. The pre-war move into equities was resumed (Scott 2002). By 1991 fixed interest securities represented just 12 per cent of the total of £357bn insurance company assets (Cockerell and Green 1994, pp. 114-15). Companies such as the Prudential became major institutional shareholders, whose investment or withdrawal of capital could decisively influence the fortunes of leading British industrial companies (Bowden 2002). Insurers also invested more heavily in the booming commercial property market in two main ways. First, loans were made by insurers to developers in return for a share in the equity of their companies. Second, insurers directly purchased property that they then leased back to developers (Supple 1970, p.527).

By the 1960s higher returns on their investments allowed insurance companies to develop unit-linked policies, where the bulk of premium income was invested in a basket of securities whose value was reflected in the sum payable when the policy came to term. These products were popular because, in a period of rising stock prices, they gave policyholders the full benefit of capital appreciation. Investment income also allowed life insurers to promote “deferred benefits” pension schemes which carried a guarantee of the pension being paid as a proportion of final salary and proved popular in the UK. There was strong growth in some overseas pensions markets too, notwithstanding the difficulties caused by the introduction of compulsory state pension schemes in some countries. Overseas policies accounted for just three per cent of the Standard Life’s new premium earnings from pensions in 1950, but 24 per cent by 1970 (Moss 2000, appendix 2).

High levels of demand also encouraged the entry of non-insurance financial intermediaries, such as stock broking firms and merchant banks, into the market for selling management and investment services to self-administered company pension funds on a fee-basis. By the early 1970s the leading insurance companies in the pensions market were establishing their own fund management services. During the 1970s, however, the increasing volatility of economy caused funding problems. With the oil crisis and collapse of stock markets in 1973 there was a shift by pension funds out of equities towards fixed rate securities. The consequence of lower investment returns has been a trend back towards the “deferred contributions” or money purchase schemes which were the norm before the 1950s.

This trend accelerated in the late 1990s, with the fall in stock markets around the world hitting insurance companies especially hard. Recent scandals – of pensions misselling and the fraudulent use of pension funds by employers, and questions over corporate governance and poor auditing -have also undermined confidence in the private pensions sector. Moreover, endowment insurance linked to mortgage loans for the growing ranks of homebuyers, which had been big business in the 1980s and early 1990s, had been commonly sold on the

basis of predictions of consistently high returns on equities. These came to grief at the end of the century as equity markets nose-dived. Some life insurance companies shelled out large amounts in compensation to policyholders for previous misselling. Bear markets also raised solvency questions about UK life insurers. The UK industry norm was to have 70 to 90 per cent of with-profits funds placed in equities. Only those companies with lower equity ratios, such as the Prudential with 50 per cent of it with-profits funds in equities, found themselves in a tenable position. Two outcomes have been, first market withdrawal by inefficient life insurers with a poor investment performance, and second, a further round of mergers and acquisitions, sometimes led by foreign companies, which has concentrated market share in fewer but more globalised companies. In the new low return/low inflation environment, as small savers move out of high-risk high cost forms of investments, there remains scope for non-insurance companies, notably banks to pick up business, notwithstanding the false start of so-called “bancassurance” in the 1990s (*The Independent* 24 July 2002).

10. CONCLUSION

What does the above survey tell us about the key factors behind the growth and international diffusion of British insurance over three centuries?

First, it depended upon a strong and expanding domestic economy. Demand for marine insurance grew because of the expansion of trade, which in turn relied on a strong manufacturing sector to provide it with goods for export, and well-functioning mercantile credit systems to finance those exports. For much of the eighteenth and nineteenth centuries the manufacturing sector in Britain was larger than in other European economies and the economy more urbanised (Crafts 1994, p.45). British fire and life insurance, grew on the back of the expanding urban population and rising middle class incomes. The correlation between residential house building and fire insurance in eighteenth-century Britain was very high (Pearson 2004, ch.1). Life insurance began to grow rapidly from the second quarter of the nineteenth century with the greater capacity of the middle, and later the working, classes to make financial provision for old age or death.

Second, empire and trade were also important for the growth of the staple branches of insurance. Between the 1660s and the 1750s, despite the frequent wars, English gross trade nearly trebled in value, from £7.9m to £20.1m, and this was *before* the great leap forward in trade associated with the Industrial Revolution of the second half of the eighteenth century (Coleman 1977, p.133). Much of this expansion was extra-European in origin. More and more English, and increasingly Scottish, ships, all requiring marine insurance, were travelling across the Atlantic or round the Cape to India and the Far East, as well as heading to the Baltic and the Mediterranean. The overseas property of English and Scottish merchants and planters provided the first foreign markets for British fire insurers from the 1780s, while military officers going overseas were

the first to insure their lives for travel and residence abroad. By the second quarter of the nineteenth century the global spread of risks had progressed much further in British insurance than in other nation's insurance industries, and this gap was maintained for the rest of the nineteenth century. The changing pattern of insurance exports was broadly consistent with the pattern of British imperial expansion and overseas investments, with an increasing focus on North and South America, Africa and Asia rather than Europe. This also exposed companies to new types of hazards and risk environments and thereby probably increased the quality, range and expertise of British underwriting.

Third, the organisational development of the UK insurance industry generated both flexibility and stability over the long run. All branches of insurance in the UK operated under a fairly benign regulatory and fiscal regime, particularly by comparison with many other states (Pearson and Lönnborg 2008). At a few points, but only very few, did the British state influence the structure of the industry, most notably in 1720 with the passing of the Bubble Act and the creation of the marine insurance monopolies. The effect, however, was to underpin, not undermine, organisational flexibility in the industry. The 1720 Act, though this was not its intention, protected individual underwriting at Lloyd's from being swamped by corporate competitors. And although it may have initially discouraged company formation in fire and life insurance, by making incorporation a legal requirement for companies with transferable shares, the Bubble Act did not prevent a growing number of joint-stock insurance companies operating without incorporation before it was repealed in 1825. From the eighteenth century, insurance was conducted through a wide range of organisational forms – individual brokers, underwriters and small partnerships in marine insurance, tontine societies in life insurance, mutual associations, unincorporated stock companies and corporations in fire, life and accident insurance. On the one hand, the flexibility of form probably helped keep entry barriers and the costs to consumers low. On the other hand, the light, often invisible hand of the state, and the predominance of self-regulation, may have allowed the cost of insurance in the UK to be higher than it otherwise would have been had the state more actively pursued regulatory control.

Two remarkable features stand out from our long-run survey of UK insurance: the persistently low level of import penetration over the period, and the great longevity of the largest firms. In part these can be explained by the global diffusion of risk undertaken by many companies. They can probably also be explained by the success of self regulation. The tariff organisations helped regulate entry without pushing the barriers too high. There were always a number of non-tariff offices coming into the general and life markets that were able to discount tariff rates at the margin enough to survive and make a profit. Price competition did recur at intervals, but mostly the effect of tariff agreements was to push competition into non-price areas such as marketing, underwriting and loss adjustment processes and product design. Industry control and self-regulation was thus never complete, but it was sufficient to enhance market stability and the profitability of firms. The key to this lay in the economics of information. The City of London itself was, and still is, a great arena of

concentrated market intelligence and financial service expertise. What the British tariff organisations, with the help of local agents' boards around the world, succeeded in doing was to impose their own controls over market information and access to reinsurance facilities. This long-established structure finally broke down between the late 1960s and the 1980s under the pressure of global economic shocks, increasingly ruthless competition, and a greater willingness of the state to intervene. Many of the traditional elements of British insurance -the individual Lloyd's subscriber, the tariff association, self-regulation, industrial assurance sold on the doorstep- began to disappear. In the last two decades we have entered a new world of competition between globalised firms offering a range of financial services as well as insurance. External regulatory and monitoring functions are now carried out by transnational organisations such as the EU, as well as by national bodies such as the UK Financial Services Authority. The interlocking of national with international insurance markets is greater than it has ever been since the late nineteenth century.

REFERENCES

- Bergander, B. (1967). *Försäkringsväsendet i Sverige 1814-1914*. Lund.
- Bowden, Sue (2002). Ownership Responsibilities and Corporate Governance: The Crisis at Rolls Royce 1968-71. *Business History* 44, pp. 31-62.
- Brown, Anthony (1980). *Cuthbert Heath, Maker of the Modern Lloyd's of London*. Newton Abbot: David and Charles.
- Campbell-Kelly, Martin (1992). Large-scale Data Processing in the Prudential, 1850-1930. *Accounting, Business and Financial History* 2, pp. 117-40.
- Clark, Geoffrey (1999). *Betting on Lives: The Culture of Life Insurance in England, 1695-1775*. Manchester: Manchester University Press.
- Cockerell, H. A. L. and Green, Edwin (1994). *The British Insurance Business: a Guide to its History and Records*. Second edition, Sheffield: Sheffield Academic Press.
- Coleman, D. C. (1977). *The Economy of England, 1450-1750*. Oxford: Oxford University Press.
- Crafts, Nick (1994). The Industrial Revolution. In Roderick Floud and D. N. McCloskey eds. *The Economic History of Britain since 1700, Volume 1: 1700-1860*. Second edition. Cambridge: Cambridge University Press, pp. 44-59.
- Deane, Phyllis and Cole W.A. (1969). *British Economic Growth, 1688-1959*. Second edition. Cambridge: Cambridge University Press.

- Dickson, P. G. M. (1960). *The Sun Insurance Office, 1760-1960*. Oxford: Oxford University Press.
- Dinsdale, W.A. (1954). *History of Accident Insurance in Great Britain*.
- Francis E. V. (1962). *London and Lancashire History*. London.
- Gibb, D. E. W. (1957). *Lloyd's of London: A Study in Individualism*. London: Macmillan.
- Hannah, Leslie (1986). *Inventing Retirement: The Development of Occupational Pensions in Britain*. Cambridge: Cambridge University Press.
- Johnston, J. and Murphy, G. W. (1956-7). The Growth of Life Assurance in the UK since 1880. *Transactions of the Manchester Statistical Society*, pp. 1-76
- Jones, Charles A. (1984). Competition and Structural Change in the Buenos Aires Fire Insurance Market: the Local Board of Agents, 1875-1921. In Oliver M. Westall ed., *The Historian and the Business of Insurance*. Manchester: Manchester University Press, pp. 114-29.
- Keneley, Monica and McDonald, Tom (2007). The Nature and Development of the General Insurance Industry in Australia to 1973. *Australian Economic History Review* 47, pp. 278-299.
- Kingston, Christopher (2007). Marine Insurance in Britain and America, 1720-1844: A Comparative Institutional Analysis. *Journal of Economic History* 67, pp. 379-409.
- Klein, J. (2001). Managing Security: The Business of American Social Policy, 1910-1960. *Enterprise and Society* 2, pp. 660-665.
- Moss, Michael (2000). *The Building of Europe's Largest Mutual Life Company: Standard Life 1825-2000* Edinburgh.
- Ogborn, Maurice Edward (1962). *Equitable Insurances: The Story of Life Insurance in the Experience of the Equitable Life Insurance Society 1762-1962*. London: Allen and Unwin.
- Pearson, Robin (1990). Thrift or Dissipation? The Business of Life Insurance in the Early Nineteenth Century. *Economic History Review*, 2nd Ser., 43, pp. 236-54.
- Pearson, Robin (1995). The Development of Reinsurance Markets in Europe during the Nineteenth Century. *Journal of European Economic History* 24, pp. 557-71.

Pearson, Robin (1999). Les Caisses d'Épargne et le Mouvement de l'Épargne dans l'Économie Britannique entre 1914 et 1945. In Fédération des Caisses d'Épargne de Bavière, *L'Histoire des Caisses d'Épargne Européennes, vol. 4: Conjoncture et Crises, 1914-1945*. Paris, pp. 83-104.

Pearson, Robin (2002). Growth, Crisis and Change in the Insurance Industry: A Retrospect. *Accounting, Business and Financial History* 12, pp. 1-18.

Pearson, Robin (2004a). *Insuring the Industrial Revolution: Fire Insurance in Great Britain 1700-1850*. Aldershot: Ashgate.

Pearson, Robin (2004b). Cuthbert Eden Heath (1859-1939). In Colin Matthew ed., *The Oxford Dictionary of National Biography*. Oxford: Oxford University Press.

Pearson, Robin and Lönnborg, Mikael (2008). Regulatory Regimes and Multinational Insurers before 1914. *Business History Review*, forthcoming.

Raynes, Harold E. (1948). *A History of British Insurance*. London: Sir Isaac Pitman & Sons.

Rosales E. F. and Quiza, J. M. (1996). Los Seguros en España: 1830-1934. *Revista de Historia Económica* 14, pp. 183-203.

Select Committee on Marine Insurance (1810), Report, reprinted in David Jenkins and Takau Yoneyama eds., *History of Insurance*, vol. 8. London: Pickering & Chatto, 2000.

Scott, Peter (2002). Towards the Cult of the Equity? "Insurance Companies and the Interwar Capital Market", *Economic History Review* 55, pp.

Supple, Barry (1970). *The Royal Exchange Insurance: A History of British Insurance, 1720-1970*. Cambridge: Cambridge University Press.

Supple, Barry (1984). Insurance in British History. In Oliver M. Westall ed., *The Historian and the Business of Insurance*. Manchester: Manchester University Press, pp. 1-8.

Trebilcock, Clive (1985, 1998). *Phoenix Insurance and the Development of British Insurance*. 2 vols. Cambridge: Cambridge University Press.

Trebilcock, Clive (1997). Phoenix: Financial Services, Insurance, and Economic Revival between the Wars. In Peter Clarke and Clive Trebilcock eds., *Understanding Decline: Perceptions and Realities of British Economic Performance*. Cambridge: Cambridge University Press, pp. 123-44.

Treble, J. H. (1984). The Record of the Standard Life Insurance Company in the Life Insurance Market of the United Kingdom, 1850-64. In Oliver M. Westall ed.,

The Historian and the Business of Insurance. Manchester: Manchester University Press, pp. 155-72.

US Department of Commerce and Labor, Bureau of Manufactures (1905). *Insurance in Foreign Countries*. Special Consular Reports vol. XXXVIII. Washington, Government Printing Office.

Westall, Oliver M. (1984). David and Goliath. The Fire Offices Committee and Non-tariff Competition, 1898-1907. In Oliver M. Westall ed., *The Historian and the Business of Insurance*. Manchester: Manchester University Press, pp. 130-54.

Westall, Oliver M. (1991a). Entrepreneurship and Product Innovation in British General Insurance, 1840-1914. In Jonathan Brown and Mary B. Rose eds., *Entrepreneurship, Networks and Modern Business*. Manchester: Manchester University Press, pp. 191-208.

Westall, Oliver M. (1991b). The Assumptions of Regulation in British general Insurance. In Geoffrey Jones and Maurice Kirby eds., *Competitiveness and the State: Government and Business in Twentieth-century Britain*. Manchester: Manchester University Press, pp. 141-60.

Westall, Oliver M. (1992). *The Provincial Insurance Company, 1903-38: Family, Markets and Competitive Growth*. Manchester: Manchester University Press.

Westall, Oliver M. (1998). Collusion and Competition: the Framework of Enterprise in British General Insurance. In C. E. Nunez ed., *Proceedings of the Twelfth International Economic History Congress, B8*. Madrid: International Economic History Congress.

2

HISTORY OF THE INSURANCE INDUSTRY IN GERMANY

Peter Borscheid
Philipps-Universität Marburg (Germany)

While the modern property insurance in Germany is a sprout of absolutism, the insurance of persons is a sprout of the civil society. We can only speak of an independent insurance industry since the second half of the 19th century. It would take another century before the insurance companies developed their full power and penetrated all social and economic areas.

1. THE BEGINNINGS

The first German insurance branches were the marine and the fire insurance. North German merchants, going to the sea, formed cooperative danger communities towards the end of the 16th century while independent insurers were still unknown. In the following period the trade orientated more and more in a westward and Mediterranean direction. The Hanseatic merchants got to know the marine insurance in Antwerp that had the Italian knowledge already about insurance expertise. Within the 1580s the first strange marine underwriters, which probably emigrated from Antwerp, set up in Hamburg. From the year 1588 is the first news of the conclusion of an insurance policy that is bequeathed in Hamburg where corn freights to Italy were primarily insured. Since the turn to the 17th century also single Hamburg merchants took on the insurance of transportation risks in addition to their other business. On the basis of these habits the codification of the marine insurance law, which was also used in other ports to the North and Baltic Sea, was carried out in Hamburg in 1731. Until then, only Dutch forms were used in German seaports and the policies were written in Dutch. However it lasted till the second half of the 18th century, before the quick increase of the far trade that caused the foundation of the first German insurance companies. In 1765 the insurance business started with the *Assekuranz-Compagnie für See-Risiko und Feuersgefahr*, four years later followed a second company in Bremen. Until the end of the century, seven marine insurance companies were founded only in Hamburg. From these, some also assured risks of navigation on the inland waterways.³

³ Eugen von Liebig, *Die Seeversicherung*, Berlin 1914; F. Plaß, *Geschichte der Assekuranz und der Hanseatischen Seeversicherungs-Börsen Hamburg-Bremen-Lübeck*, Hamburg 1902.

Several fire insurances were also founded shortly after the middle of the 18th century. Until this time, only some of the north main German countries possessed at first fire insurance companies, which partly still exist today. In 1676 the first German fire insurance arose from the merger of several so-called fire contracts in Hamburg – small neighbourly help organisations in case of a fire. The city of Magdeburg followed the example of Hamburg in 1685. Single insurances emerging in the 17th century were limited to cities which changed till the beginning of the 18th century when numerous economic theorists recommended the foundation of state wide insurances to the sovereigns. Some rulers immediately tried to use such insurances as a hidden tax to rehabilitate the national budget and finance their splendour addiction but failed because of the resistance of the population. Only after these tests turned out as a failure they were convinced of the advantages for the entire economy. The insurances helped to protect the economic growth; they strengthened the secured credit and increased the run speed of money. Still only the foundation of municipal fire insurances, whose business area remained restricted to a single town at first, was successful in parts of Prussia since 1718. Yet these fire insurance companies did not include villages and rural settlements. The slowness of the traffic and communication system did not allow the foundation of an insurance laid out extensively. The local self-help had still more advantages for the residents of the villages than the insurance only specialized in financial deliveries.

Only after the middle of the 18th century almost all absolutistic sovereigns in the south and in the north finally took over the task of founding supra-regional fire insurances for real estate. At the beginning great participations were the norm so that the insurance did not overtax the financial possibilities of the population. Moreover, they were a means to prevent the insurance fraud. When the material situation of the population improved considerably towards the end of the 18th century, the new insurances could introduce the obligatory insurance and reduce the participations except for a small number. The sovereigns moreover improved insurance technology and the fire protection and forbade the claimants to beg. The bishop of Würzburg, similar to other lords interdicted financial assistances and alms for everyone who was not insured against fire. The traditional supporting benefits, which paid the sovereigns after a fire disaster, were taken off by insurance benefits in height fixed by contract. From this time on, charity did not define itself in charitable gifts anymore but in the accession to the community of the insurant. Moreover, the construction of house land registers contributed fundamentally to the construction of country statistics which developed hand in hand with the modern taxation. The fire insurance became part of the state regulatory policy and the rationalization of the state economy administration. The introduction of the fire insurance contributed to fix the public finances as well as to strengthen the population's individual responsibility and the rational intellect. Foundation and management of a fire insurance developed into a favourite function of the enlightened absolutism. The fire insurance had definitely stopped being a state source of income. It was rather a part of the social government programme of time of the enlightenment. It was an expression of a helpful state government, which

fended off dangers as well as guaranteed luck and safety of the people. This did not impede the governments to force everyone who did not want to join the insurances with draconian punishments. Till the beginning of the 19th century the fire insurance had spread almost all over Germany.⁴

2. IN THE NINETEENTH CENTURY

The definite establishment of the state, supra-regionally active fire insurances was successful at the beginning of the new century after Napoleon had pressed the reorganization of Germany's political map by force and obliged the German states to reforms. The smaller insurances founded at first had to join together to larger insurances of the countries or provinces. They also had to take modern insurance technology. The successes of these institutions helped the insurance thought to achieve a first breakthrough in the population. Against this, only the small group of the wholesalers of the marine insurance, existing for centuries, was concerned.

The agricultural insurances also registered only a small portion of the population. Within the 1770s the scientific discussion about the pros and cons of the agricultural insurance was completed largely. Economist and jurists had already published special documents with tables about the frequency of damages caused by hail and livestock diseases and had also designed policies. When the feudal agricultural structure started to dissolve itself at the turn of the century, the subservient smallholders were freed and the intensification of the farming started the first hail and livestock insurances were based for private businessman. At first they only took landowners and leaseholders of manors as members. Only since the 1830s, when the agricultural revolution made recognizable progress and the agricultural prices increased, the member structure changed. An insurance of a few rich people turned into a people's insurance. The new tax system also forced the smallholders to the conclusion of hail and livestock insurances. These insurances became a must for the farmers not to lose their investments at hail or epidemics, which no more sovereign or lord of the manor replaced for them since the liberation of the serfs. The agricultural insurance made progress quickly even if many of the new foundations stopped their activity again. In 1791 the first hail insurance had been founded in Brunswick. However, the real foundation wave started only after the Napoleonic wars. Until the beginning of the 20th century 88 hail insurances were founded in Germany of which 54 had to close their doors again up to the year 1900. In contrast to the fire insurance the livestock insurance

⁴ Hans Schmitt-Lermann, *Der Versicherungsgedanke im deutschen Geistesleben des Barock und der Aufklärung*, München 1954; Peter Borscheid, "Feuerversicherung und Kameralismus", in *Zeitschrift für Unternehmensgeschichte* 30, 1985, pp. 96-117; Gesellschaft für feuerversicherungsgeschichtliche Forschung e.V. zu Halle (ed.), *Das deutsche Feuerversicherungswesen*, 2 vol., Hannover 1913; Eugen von Liebig, *Das deutsche Feuerversicherungswesen*, Berlin 1911; Peter Borscheid, *275 Jahre Feuerversicherungen in Westfalen*, Münster 1997; Paul Riebesell, *Geschichte der Hamburger Feuerkasse 1676-1926*, Hamburg 1926.

developed due to technical problems only in the form of small local insurance clubs by the middle of the 19th century.⁵

The modern life assurance however developed from common work of scholars and practitioners from several Central and Western European countries in the Age of Enlightenment. Jakob Bernoulli, Gottfried W. Leibniz, Edmond Halley or Richard Price have to be mentioned here. This cross border cooperation was also of great importance when the first German life insurance -the *Hamburgische Allgemeine Versorgungsanstalt von 1778*- was founded. This Hamburg insurance distributed whole life and funeral costs insurances, life annuities and was a savings bank at the same time. It played a minor role in the field of the life assurance in Germany; her business area remained limited on Hamburg. In 1806 the second foundation of a life assurance was also formed in Hamburg, the gateway for English goods and ideas. This public limited company had to stop its activities due to the war against Napoleon in 1814. The real history of the German life assurance industry therefore started only in 1827 when the merchant Ernst Wilhelm Arnoldi founded the *Gothaer Lebensversicherungsbank für Deutschland a. G.* in the city of Gotha. It was the biggest life assurance in Germany until the second half of the 19th century. Primarily civil servants, doctors, lawyers, clergymen and merchants were insured, but no smallholders and workers. The latter were referred to the savings banks and mutual benefit associations which expanded considerably faster than the life assurance. At first the numerous mutual benefit associations were compared with the life insurances in advantage since their technique was plain and they operated proximity to customers. The insurance technology had not ripened yet for a long time. The products on offer of the first life insurers confined itself to whole life insurance with which prosperous citizens protected their wives and children against death of the breadwinner. In 1850 the meanwhile ten German companies managed merely 38,000 contracts; this means one life assurance was first allotted to 1,000 inhabitants. Insurers and insureds were still like circles of dignitaries, which shrank back before an opening to the outside and before admitting new members.⁶

This changed with the foundation of the German empire in 1871 at the latest. Even as a result of the economic upturn of the 1860s numerous new life insurance companies had already been founded which appeared considerably more aggressively than the companies set up before 1850. The number of insurance agents increased and also the intensity of advertising. Most companies had used respected personalities as general agents before, which

⁵ Peter Borscheid, "Die Anfänge der landwirtschaftlichen Versicherung in Deutschland", in *Zeitschrift für Agrargeschichte und Agrarsoziologie* 37, 1989, pp. 37-55; Hans Schmitt-Lermann, *Der Hagel und die Hagelversicherung in der Kulturgeschichte*, München 1984.

⁶ Peter Borscheid, *Mit Sicherheit leben. Die Geschichte der deutschen Lebensversicherungswirtschaft*, vol. 1: *Von den Anfängen bis zur Währungsreform von 1948*, Greven 1989; Heinrich Braun, *Geschichte der Lebensversicherung und der Lebensversicherungstechnik*, Nürnberg 1925; Karl Samwer, *Hundert Jahre Gothaer Lebensversicherungsbank auf Gegenseitigkeit*, Gotha 1927; Peter Borscheid, Annette Drees, *Versicherungsstatistik Deutschlands 1750-1985*, St. Katharinen 1988, pp. 61-65.

waited till the customers came to them. But from now on the insurers improved their agency network based on American example and employed hungry premium fighters who were dependent on commissions. These agents were no more mediators of insurance policies but brokers of policies. For them the representation of insurance was not an honorary office any more but a source of income. The hunt for customers increased when the companies changed their commission system since 1860 and introduced the acquisition commission, which went by the amount of the insured sum. Mainly in the boom years, immediately after the foundation of the Reich, the rat-race on the insurance market made headlines.⁷

The life assurance moved into public attention when state, church, science and trade unions started with the discussion about the labour problems. All of them were looking for means to improve the situation of the workers in the fast growing industrial towns. Although at first the state and the industry favoured and promoted the mutual benefit associations, these organisations soon proved to be unqualified to improve the situation of the workers. After the influence of the liberals had faded since the depression of 1873, the advancement of the intervention state started at Bismarck's instigation. The protective duty bills of 1879 were a first milestone of the post liberal era. The course was set to link the empire up to a welfare state. At the beginning of 1881 the emperor announced the early construction of the national insurance. In the year 1883 the national health insurance was established, in the following year the statutory accident insurance and in the year 1889 the state disability and old-age insurance for workers. The private life insurers reacted calmly to this state intervention in the private provisions for existence, particularly since their customers were not concerned by it. They knew exactly that the long lasting debate about the pros and cons of the national statutory insurance brought the provisions for existence and the advantages of the life assurance into focus of public attention. So it was only logical that single insurance experts collaborated at the construction of the national insurance. With the introduction of the state social insurance the concept of insurance was carried into large parts of the population. The life assurance had a striking revival. The industrial society shifted its provision for the old age increasingly on social and life assurance. Within the 1880s the life insurance companies could double their premium incomes and in the following decade again. At the turn to the 20th century one life assurance was allotted to 95 inhabitants of the empire (see graph 1).

At the turn to the 20th century the life insurance had succeeded in doing the definite breakthrough. Besides the whole life insurance the endowment insurance gained more and more acceptance with which the people provided for their own age. The new Income Tax Act permitted for the first time to remove the life insurance premiums of the tax owing. The state finally respected the life insurance technique as the most mature and most solid form of a modern measure of provisions for existence with the insurance supervisory law of 1901. The old mutual benefit associations were forced to take the technique of the life

⁷ Ludwig Arps, *Auf sicheren Pfeilern. Deutsche Versicherungswirtschaft vor 1914*, Göttingen 1965, pp. 365-398.

insurance to form reserves and to build business plans. The state no longer accepted the many insufficiencies of these associations like their antiquated allocation method. The supervision law was completed by the insurance contract law which became effective in 1910. The different tax rates of the individual states of the Reich could be standardized three years later. Altogether, the increased inclusion of the life insurance in the legislative activity signalled the growing social meaning of the class of insurance. This had become part of the industrialized society.

To increase the diffusion rate of the life insurance further, they had to stop being an exclusive club of the bourgeoisie. Although some insurance companies already had tempted to introduce the industrial life insurance in Germany in the last quarter of the 19th century they had failed because of the relatively high administrative costs which swallowed around the half of the premium incomes. At first a rise of the workers' real wages, a reduction of unemployment as well as a protection of the workers against illness and disability were prerequisite for a successful start. Immediately after the introduction of the national insurance *Victoria* started with the first promising attempts to import the so-called "people insurance" according to the British example. The "Industrial Insurance" was on the market in England since 1854 and had built up a stock of about 5 million policies within three decades. *Victoria* managed rather quickly to lower the administrative costs from 50 per cent of the premium incomes in 1892 to 22 per cent in 1905, by restricting the acquisition to the towns. However, the definite breakthrough of the industrial insurance was successful only after the coops and free trade unions took hold of the decision in 1911 to found an industrial insurance of their own with the name *Volksfürsorge*. 30 private life insurance companies combined immediately and founded an industrial insurance company of their own for the defence of the "red danger". The life insurance made headlines. The industrial insurance turned the class insurance into a mass insurance.⁸

Since the upturn in the economy at the end of the 19th century the German life assurance market had also won attractiveness for foreign companies. In addition to British and French companies the three great U.S. life insurers *Mutual*, *New York* and *Equitable* appeared on the German market in the last third of the century, where they took soon away considerable market shares from the local companies with new business and organisation methods, new insurance products as well as an aggressive advertisement. On the other hand they contributed much to the modernization of the German insurance business and the field staff and operated themselves as financially powerful investors. Towards the end of the century these "great three" got increasingly in criticism because of their offer for speculative insurance forms and a misleading advertisement, not only in Germany but also in other European states. Just like Prussia some neighbouring states of Germany also forbade the sale of several American insurance products and asked them for a more detailed accounting. When a lot of critics' fears proved to be right, the new business of the "great

⁸ Peter Borscheid, *Mit Sicherheit leben*, vol. 1, pp. 63-76; Ludwig Arps, *Auf sicheren Pfeilern*, pp. 583-598.

three" broke everywhere in the world. These discussions were a system quarrel with which standards of the actuarial practise and the insurance products were fixed. They contributed that the life assurance had taken its definite form at the beginning of the 20th century.⁹

While the life insurance grew up steadily till the First World War and got more important as investor because of its capital assets, the fire insurance being the greatest insurance branch gained meaning. Through this insurance the majority of the population came primarily into touch with the insurance system. The majority of the German states had already forced the population to insure its residential buildings against fire with the state monopoly institutions partly towards the end of the 18th century but primarily since the early 19th century. After the Napoleonic wars many small companies had been united to larger supra-regional insurances even if Prussia failed with its more detailed plan that only one single company should be valid in every province. This reform of 1836 was only successful in the Rhineland as well as in Westphalia and Poznan. Already in 1811 another plan of the important Prussian reformer Karl August von Hardenberg had failed to disestablish the state companies completely and to leave the fire insurance to the private industry. The plan came too early because no single private fire insurance existed in the German states yet. Only in 1836, when the economic liberalism was in advance and the first private fire insurances had been founded, the Prussian government could carry out some of the former ideas of Hardenberg. As from 1840 the state fire insurances had to enter into competition with the private fire insurers in the mentioned three Prussian provinces. From this time on every house-owner could choose his fire insurer freely.

However, the decisive pacesetters for the foundation of private fire insurers were not the governments but English companies which were working in most of the German states in the field of furniture and industry fire insurance since the end of the 18th century. In 1786 *Phoenix Fire Insurance*, founded four years before, had opened a branch office in Hamburg and extended its business from there to South Germany. The first German fire insurers took the type of the business activity, the actuarial practise and the classification of the risks of *Phoenix*. Representatives of *Phoenix* also acted as founders of the German leading fire insurers of the 19th century: The *Berlinische Feuer-Versicherungs AG* founded in 1812, the *Leipziger Feuer-Versicherungs AG* founded in 1819 and the *Vaterländische Feuer-Versicherungs-Gesellschaft* from Elberfeld founded in 1823. The first general agent of *Vaterländische*, David Hansemann, founded *Aachener Feuer* in 1825, since 1834 this one signed under the name *Aachener und Münchener Feuerversicherungsgesellschaft*. Hansemann also played an important role in the construction of the German industry and railways as merchant, banker and politician. From the first German fire insurances *Gothaer Feuerversicherungsgesellschaft a. G.*, founded by Ernst Wilhelm Arnoldi in 1821, is to name. The state had left the furniture fire insurance to the

⁹ Peter Borscheid, "Systemwettbewerb, Institutionenexport und Homogenisierung. Der Internationalisierungsprozess der Versicherungswirtschaft im 19. Jahrhundert", in *Zeitschrift für Unternehmensgeschichte* 51, 2006, pp. 26-53.

private companies since it shrank back from the technical difficulties which resulted from the fast value fluctuations of the moveable property. It also knew that this insurance branch was without importance for most people, since the flat inventory of most families confined itself on what is absolutely necessary. Because of the refusal of the state insurance companies to take on industrial risks, a second field of activity gave up for the private fire insurers, which the British companies dominated in all of the 19th century. For decades they had gained experience, unlike the German companies, to calculate the risks of sugar refineries, gasworks, textile factories or ironworks. A third business field opened up for the private companies by taking the excess not covered by the state insurers as well as in the Prussian provinces Rhineland, Westphalia and Poznan by competing against the state companies.¹⁰

The German property insurance market had fundamentally changed to the middle of the 19th century. French as well as British fire insurers were also active to Rhine, Elbe and Danube. With the aid of the reinsurance protection which the German and foreign fire insurers mutually granted to themselves, Western Europe already grew together to a large risk community. Moreover, the dynamics of the private companies forced the state-owned enterprises to numerous innovations. The introduction of classes of risk and the abolition of the obligation to pay an additional premium were important. As a result of the rate race the private and state insurers each combined to associations, which at first fought intensely against each other, however, towards the end of the 19th century their relations were regularised and they worked together on the further development of the fire insurance and the risk management. Primarily the state insurers profited from this. They modernized themselves considerably and enlarged their insurance offer at the beginning of the 20th century.¹¹

The insurance market had changed profoundly in the course of the heydays of the industrialization. As a result of the industrialization the number of the risks augmented and as a result of the greater wealth the sensibility of the people towards the risks, too. The reduction of the cost of the heating material as a result of modern coal support and railway construction led to a prolongation of the heating period. The gaslight and gas pipes, later the electricity, which was not harmless because of unsatisfactorily isolated lines, increased the risks. Altogether, more fire came into the houses and with the new supply systems and sanitary installations also more water. The steam-driven engine, which was used for the drive of the threshing machine increased the fire hazard, as well the paraffin in the stable lamp on the farm. There was value concentration due to increased cattle keeping, new machines, greater raw material stores and greater stables but the industry primarily increased the risks. Chemistry took dangerous substances to the enterprises. With the new machines huge amounts of lubricants and oils kept move into the work halls and provided a dangerous mixture in connection with other substances. Due to the higher pressures of the steam-driven engines explosions were unavoidable. There was

¹⁰ Peter Borscheid, *275 Jahre Feuerzöietäten in Westfalen*, pp. 66-76.

¹¹ Ludwig Arps, *Auf sicheren Pfeilern*, pp. 99-109.

the higher running speed of the machines which required the workers to concentrate more. The insurers said goodbye to the simple assurance world of the pre-industrial world and responded to the new risks with new insurance branches: Legal liability, accident, burglary, water damage, glass, credit, loss of profits insurance and others more.

With the special reinsurance one of the later specialities of the German insurance industry developed relatively early. Already since the 1820s reinsurance treaties existed between German as well as home and foreign fire insurers. Soon after the great fire in Hamburg the *Kölnische Rückversicherungs-Gesellschaft* had submitted a licence application as the first special German reinsurance enterprise in 1843 but however, had taken the business activity not until 1852. Although the *Kölnische Rück* was then working in numerous European states, the business was not going on as hoped-for, especially because the overseas market was still barred. Despite many problems and a bad profit situation numerous new reinsurance companies were founded in Germany, Austria and Switzerland particularly within the years 1871 to 1873. All of them were confronted with the problem that although there was an increasing demand for its products, they did not have any sales organization and no client base. Only those risks were left to them, which the original insurers did not give to their subsidiary firms or to friendly enterprises as bartering, therefore mostly the worst risks. Soon a part of the reinsurers, founded newly, disappeared of the market again or had to be content with a very small profit. This structural weakness of the reinsurance was removed by Carl Thieme with the foundation of *Münchener Rück*. The advancement of the German reinsurance started in 1880. Thieme substituted the facultative individual reinsurance by a general reinsurance obligatory for the two sides. He expanded the profit-sharing of the direct insurers at the success of the reinsurers just like the quota contracts. Finally he managed the reduction of the risks by a regional spread of the business and by raising the number of the classes of insurance. Immediately the *Münchener Rück* took business connections with the foreign countries particularly with Russia and the USA. *Münchener Rück* primarily managed to develop firm connections to numerous direct insurers by participating in start-ups or helping to rehabilitate companies to set up again. This business model was imitated fast. Up to 1913 the number of the German reinsurers had increased to 43.¹²

Just like for the reinsurers the foreign business was a matter of course for many life and non-life insurers of the 19th century. Also German fire insurers went shortly after their foundation abroad on the model of the marine underwriters and the British *Phoenix*. The *Vaterländische Feuer*, founded in 1822, was already represented in Russia and Denmark with branch offices in 1824 and the following years in Switzerland, the Netherlands and Sweden. The *Hamburg-Bremer Feuer-Versicherungs-Gesellschaft* established an agency on the West Indies Saint Thomas in its founding year 1854, and three years later an additional agency on Hawaii. The company was soon represented in the whole

¹² Ludwig Arps, *Auf sicheren Pfeilern*, pp. 204-230.

world; since 1871 also in Japan. Many of these companies accompanied German merchants abroad, particularly since the local insurance company was hardly developed in most Asian, African and South American countries. There was the necessity of risk spreading for many companies. However, language, culture and links primarily determined the direction of the internationalization. Switzerland and Austria soon became the preferential foreign markets of the German insurers.

Still during the whole 19th century the successes of the German insurers abroad had been relatively low in comparison with many British and American insurers. The German enterprises had greatest difficulties breaking into the London and the US market. On the other hand, foreign companies could realise much bigger successes in Germany. The passive balance of the German insurers turned itself over, when the German economy started to a spectacular growth push since the middle of the 1890s, improved up to the First World War in the ranking list of the industrial countries considerably and became a dangerous business rival of the Brits on many markets (see graph 2). More German insurers ventured about the national boundaries in the retinue of the export boom. An example: The *Alte Stuttgarter* had been active before only in the neighbouring foreign countries. In 1910 it went to German Southwest Africa and to the South African Union. Four Years later it reported proudly that it had business partners at almost all big trading centres of the earth. The balance of the premium income of the German direct insurers abroad and the foreign direct insurers in Germany already recorded a positive balance of 26 million marks in 1902. Up to 1914 it increased to 74 million marks. Before the First World War the German direct insurers obtained between 13 and 14 per cent of their premium income abroad (see graph 3).¹³

3. BETWEEN THE TWO WORLD WARS

The outbreak of World War I in Europe in 1914 again proved the double-edged nature of international coverage. The war interrupted and destroyed a large part of the international contacts built up within the previous decades. The contacts with Great Britain and France were interrupted very fast and radical. The inflation released by the war, accelerated after the end of the war to give way to a hyperinflation and complete currency depreciation in 1922/23, proved to be still more problematically for the German insurance industry. After the end of the war the empire government had abstained from an open national bankruptcy quite consciously, boosted the economy with the help of the pay press and prevented with that, that the still quite young republic already failed in the beginning. Hard times commenced for the insurance companies with the inflation. A race started against the time. Insurance values had to be calculated newly in quicker succession, the premiums were raised in shorter intervals and the compensations paid out as fast as possible to be able to hold step partly

¹³ Peter Borscheid, "Vertrauensgewinn und Vertrauensverlust. Das Auslandsgeschäft der deutschen Versicherungswirtschaft 1870-1945", in *Vierteljahrschrift für Sozial und Wirtschaftsgeschichte* 88, 2001, pp. 311-345.

with the rapid currency depreciation. At the latest the German insurance industry was in a deep crisis since 1921. It could not ensure the owners' financial protection of tangible assets anymore and the life insurers could pay out only valueless paper money to its customers. A number of employees growing fast tried in vain to raise the fight against the acceleration of the inflation and the billions amounts. Technical aids were not available in the offices yet. The insured had to suffer from the quick fall of their real wages on the other side. The underinsurance became the rule. Despite violent efforts the insurance companies could not hold step with the galloping inflation. When the state released the currency for the shooting to escape from the gigantic debts, the insurers had to watch one's activities helplessly. They had to recognize that the insurance industry was connected inseparably with the destiny of the national currency.¹⁴

War and inflation hit the German life insurance companies particularly hard, life insurers operative abroad in first place. Those companies which had been active in the enemy states of the First World War before 1914 relative lightly got off although their fortune was confiscated by the Versailles Treaty and every activity was forbidden in the respective country. The companies which lost their business merely in the areas which the empire had to hand over at the peace agreement also escaped relatively well. On the other hand it most impaired to the life insurers which were active in neutral Switzerland, the Netherlands and Scandinavia before and after the war. When the mark threw into the bottomless one since 1918, many of the life insurers from Germany working in these countries had to admit that they could not fulfil their contracts. This particularly applied to the companies working in Switzerland. In accordance with the regulations of the German Insurance Supervision Act of 1901 the German life insurers had the premiums taken in Switzerland and the Netherlands lay out in gilt-edged papers of German currency. Nevertheless when the courses of marks and Swiss francs took a different direction, since the war the catastrophe took its run. Although in February 1919 Switzerland obliged all foreign life insurers to invest the covering funds of the insurances effected in Switzerland to three quarters into Swiss values at least, but this ordinance came far too late. Before the war covering funds of 82 marks had sufficed for a contract more than 100 Swiss francs. At the beginning of 1922 the companies already needed more than 3,000 marks. Some German companies were on the verge of complete ruin. In the interest of the around 60,000 insured individuals concerned, both sides looked for a solution. The taxpayers and life insurers from Switzerland took the main load in the end. The Swiss government transferred the available cover values of the German companies to the local insurers and paid considerable subsidies for the contracts taken on from fiscal resources while the German companies obliged themselves to pay compensations during many years as far as their free fortune permitted it. The

¹⁴ Ludwig Arps, *Durch unruhige Zeiten. Deutsche Versicherungswirtschaft seit 1914*, vol.1, Karlsruhe 1970, pp. 293-320.

German life insurers lost its concession in Switzerland, even more their reputation and with that a large part of its foreign customers.¹⁵

The inflation claimed numerous victims from the companies of the German insurance industry. In addition to the life insurers failed in Switzerland, the Netherlands and Scandinavia many property insurers did not get their costs under control and had to apply to other companies for protection. During the inflation period the German insurance industry experienced radical change never seen before. Forced and voluntary fusions were at the agenda. The costs explosion and the payment problems worked as driving forces. The rationalization wave slopping over from the USA to Europe did a left. The responsible persons expected a widening of the structure of the branch, an expansion of the branch network, a better balancing of risks, synergy effects, cost reductions, and a better exploitation of the distribution network and higher income of the field staff from the fusions. The future belonged to the companies with several classes of insurance business. Groups sprang up everywhere. Some few big groups were formed and impressed with their quick and stable growth. This applies primarily to the *Allianz*, a foundation of *Münchener Rück* from the year 1890. This property insurer merely medium-sized before the First World War could buy up numerous needy companies with the help of its foreign currency which it had won as an international transport insurer. *Allianz's* merger policy differed markedly from that of other companies. It succeeded because it was directed towards maximum rationalization. Whereas in other groups mergers tended to result in little more than a hodgepodge of individual companies, the Berlin group immediately welded all its member companies into an organic whole, created a new overall structure, and finally undertook radical rationalization at home and abroad. Moreover, *Allianz* was lucky to have not taken up the life insurance business until the end of the inflation. *Allianz Life* was founded only at the beginning of 1922 to start with its rapid advancement after the currency reform of 1923/24. With the help of the merged companies *Allianz Life* ranked already second under the German life insurers in 1926 and it even was at first place under the continental life insurers in the following year after the fusion with *Stuttgarter Lebensversicherungsbank AG*.¹⁶

The advancement of the *Gerling Group* started at the same time. The later leading German industrial insurer had arisen from a broker's office. During the First World War Robert Gerling used his good contacts to Rhenish great industrialists and their dissatisfaction with the pricing policy of the existing fire insurance syndicate to win first important customers over for his industrial insurance. While the inflation period he managed to tie further important costumers to him by founding regional service companies. By specializing on large-scale enterprises Robert Gerling could keep his personnel expenditures

¹⁵ Walter Weigelt, *Die Tätigkeit der deutschen Lebensversicherungsgesellschaften im Auslande vor und nach dem Weltkriege*, Diss. Leipzig 1928.

¹⁶ Peter Borscheid, *100 Jahre Allianz*, München 1990, pp. 40-67, 180-190; Peter Borscheid, "Allianz", in Adele Hast (ed), *International Directory of Company Histories*, vol. 3, Chicago and London 1991, p. 183.

low- the decisive advantage over the rivals. By the immediate investment in real estate and foreign currency he managed to reduce the currency depreciation decisively. In addition, he founded two insurances in Switzerland and the Netherlands, which offered the life assurances on dollar and gold basis and suggested a high safety. Gerling bought the big German life insurance *Friedrich Wilhelm*, fighting with foreign exchange problems, as well as the *Magdeburger Lebensversicherungs-Gesellschaft* which he immediately fully integrated into his insurance group in 1922 and 1923. As the only German company he took up reinsurances only of his own. After the end of the inflation *Gerling Konzern* had established itself definitely and had become a fixed parameter in the German insurance landscape.¹⁷

The comet like rise of *Allianz* and *Gerling* challenged other German insurance companies and besides the cost problems, take-over fights became a characteristic appearance while the whole 1920s -and not only in the insurance industry. A gigantic merger wave which included all economic sectors was the consequence. In the chemistry sector, the largest German enterprise of all resulted with the *I.G. Farben*, in the heavy industry it came off the foundation of *Vereinigte Stahlwerke A. G.*, the greatest fusion in European economic history until then. In the executive suites one did not only think of influences of rationalization but also of an international prestige. Some German insurers wanted to catch up with the leading British and American insurance groups worldwide as fast as possible. "Made in Germany" should also stand for quality and size in the insurance branch. Some few have overextended at this prowl for size and prestige and failed. This applies primarily to *Frankfurter Allgemeine Versicherungs-AG (Favag)*, in the end of the 1920s the second largest insurance group in Germany behind *Allianz*. To be able to keep up with *Allianz*, the executive board had gone in illicit non-insurance business which led to permanent losses. Over years, although the *Favag* managed to hide these losses, primarily from credit transactions, in a network of subsidiaries until the collapse could not be avoided anymore in summer 1929. Within few hours *Allianz* gave a guarantee statement to almost all obligations of the *Favag*, set up together with *Münchener Rück* the *Neue Frankfurter Allgemeine Versicherungs-AG* which continued and took on the stock of the crashed company guaranteed by *Allianz*. As a result of the liquidation of the *Favag* some life insurance companies also fell to *Allianz* which has been unchallenged at the top of the German insurance industry since 1929.¹⁸

Besides the problems aroused by the inflation the German insurance industry had to fight against the supporters of nationalization immediately after the First World War as well as again after the seizure of power of the National Socialists in 1933. Primarily the fire insurance seemed to be suitable for nationalization since furthermore the property fire insurance was organized as state monopoly insurance in different countries and Prussian provinces. Already before the First

¹⁷ Boris Barth, "Die Anfänge des Gerling-Konzerns 1904 bis 1926", in *Zeitschrift für Unternehmensgeschichte* 50, 2005, pp. 36-62.

¹⁸ Peter Borscheid, *100 Jahre Allianz*, pp. 67-73.

World War different scientists and politicians had gone with nationalization plans to the public. During the war such proposals had boomed. The authors always thought more and more of a rise of the state revenue. The revolution of 1918 had given such ideas a further impetus in which a socialization of the whole insurance industry was always for debate once in a while, too. However, in view of the problems during the hyperinflation this discussion subsided very fast. By the introduction of an insurance tax in 1922 the state has found another way to ask the policyholders to pay in addition to the income and wealth tax. After the seizure of Hitler's power the nationalization debate revived once more expelled. National Socialists had taken the management of the fire and life insurance companies under public law in 1933 even if they had never belonged to the executive board of an enterprise before. From the head of the association of the insurers under public law and with the help of party supporters in the empire supervisory agency they started with permanent trench warfare against the private insurance industry which they continued also in the Second World War. Still in the end all these supporters of a nationalization, for whom it was all about their personal power, mostly failed because of the united resistance of the private insurance.¹⁹

Despite these problems the German insurance industry experienced a steady growth since the currency reform of 1923/24 which was interrupted only during the world economic crisis. Primarily the transport insurance had to suffer under this while the insurance stock of the life assurance was further increasing. At the same time the importance of quite young insurance branches grew, in first place the motor vehicle insurance. The number of the motor vehicles licensed in the German empire grew up from 0.1 million in 1921 on over 3.2 millions in 1938. The motor insurance was already the sectional market with the greatest dynamics during the interwar period (see graph 4). By the middle of the 1920s the comprehensive insurance dominated because of the high prices of the motorcars as well as because of the damage vulnerability. The advancement of the motor liability insurance then started. Already in 1928 the first motor vehicle legal costs insurance was founded. When the world economic crisis produced a hard competition between the liability insurers and the premiums did not cover the costs anymore all insurers reached an agreement on a tariff community in 1933. The new rulers aimed at promoting the motorization with all means. They cleared the streets and motorways for the drivers. Motor vehicles got right of way in front of the other road users. In 1938 the motor vehicle insurers were forced to lower their premiums primarily for small cars. A reduction of commission rates as well as damage contraception measures made this price reduction possible. The motor vehicle rate was a political price because of his significance for the motorization in the end. While other states had already established the coercive motor liability insurance many years ago, Germany passed an adequate law only in 1939. Although the Ministry of Transport had already worked on the outline of an obligatory insurance act since 1929, this

¹⁹ Peter Borscheid, *Sicherheit in der Risikogesellschaft*, Stuttgart 1999, pp. 79-85.

outline disappeared again in 1933 because the new rulers feared to hinder the motorization by decree of this law.²⁰

The great change of the German insurance market in the interwar period was also part of the dramatic change of the foreign business. Before the First World War the balance of the premium income of the German direct insurers abroad as well as of the foreign direct insurers in Germany had been positive. On the other hand, in the complete interwar period the balance became negatively, especially considerable within the 1930s (see graph 2). The outbreak of war in 1914 had already destroyed a large part of the international integration. The business relationships to England and France were interrupted very fast and radical. With the seizure of power of the Soviets in Russia the access to this great insurance market was moreover completely refused to foreign insurers. In 1917 the loss of the U.S. market, the most important foreign market to German property and reinsurance, hit the German companies most painfully. After the end of the war, German life insurers lost, as a result of the hyperinflation -as described-, other important markets, primarily the Swiss market. According to the Versailles Treaty the fortune of the German insurers was finally confiscated in most enemy states and until the conclusion of a trade agreement every activity remained forbidden to them in these countries.²¹

Nationalism kindled by the World War had weakened the international integrations of the insurance markets in addition. The states, newly developed from the multinational state Austria-Hungary, immediately disassociated themselves from each other and emphasized their independence by protection customs and import restrictions. But also the before the World War rather economy liberal states increased their tariff walls and signalled, that the globalisation process of the pre-war period was ended. The insurance industry did not remain untouched of this neo-mercantilism either. Turkey and Latin American states protected themselves to the outside by monopolies particularly in the reinsurance. With legal measures governments tried to strengthen the local insurance industry and to expel the foreign companies from the country. The international insurance traffic decreased considerably. In Germany the foreign insurers lost market shares, particularly the German insurers abroad.

Before Germany could conclude trade agreements with its former enemies again since the end of 1924, the German insurers concentrated their foreign business in the Netherlands. Till 1925 the neighbouring country became the most important foreign insurance market of the German insurers. In 1925, when the government could conclude the Locarno Treaties and when the empire joined the League of Nations a year later, the insurers judged these treaties to be a normalization of the international relations. Some insurance companies tried immediately to resume their expansionary policy of the pre-years of war, setting up branch offices around the globe once more or participated in foreign enterprises. Above all *Victoria* extended its activities to foreign countries. In

²⁰ Ludwig Arps, *Durch unruhige Zeiten*, vol. 2, Karlsruhe 1976, pp. 117-155.

²¹ Peter Borscheid, "Vertrauensgewinn und Vertrauensverlust", pp. 337-345.

1932 it accounted for 80 per cent of all premiums collected from abroad by German insurance companies which maintained 331 overseas branches in 1936 again, of this 287 in Europe, but no one in the USA.²² Nevertheless these foreign investments may not be equated with a return to the relationships of the pre-war period. The great successes failed and the business results remained back behind those of the pre-war period. Before the war the German direct insurers took 12 to 14 per cent of their premiums abroad, during the 1920s they did not get beyond more than 4 per cent. The German reinsurers had a little bit more success, but they also had to pay for their return on the world market with profits reduced considerably. In the meantime the Swiss reinsurers had established themselves on the formerly most important international markets, in first place in the USA. In the direct business the potential customers had lost the confidence in the safety promises of the German companies after the disaster in Switzerland. Nationalism did a left.²³

The world economic crisis already stopped the expansion tendencies of the German insurers after a few years. Due to strongly dropping mass incomes and the heavy decline in the trade the premium income of the insurers sank also on a standard in many countries which did not cover the costs of the maintenance of an overseas branch anymore. The foreign business was no more profitable for the German insurers when in autumn 1931 the most important countries devalued their currencies, except of Germany. The German foreign currency ordinances of 1931 and 1935 were added which foreign states took for the pretence to warn of the German insurance companies once more. After the seizure of Hitler's power who unscrupulously disregarded international contracts and agreements, foreign insurers couldn't be sure anymore that the German state will help them with the enforcing of their insurance policies. The foreign countries backed off the German insurers once more. The share of the premium income obtained abroad declined from 4 per cent in 1930 to less than 1 per cent in 1939, in absolute numbers from 63 million to 19 million Reichsmark (see graph 5).

The drastic fall of the foreign business also was a result of the autarchy policy of the Third Reich which provoked countermeasures of other states. In addition, it could be partly explained by the collapse of the Austrian *Lebensversicherungs-Gesellschaft Phönix* in March 1936. Since the *Phoenix* had been active in numerous European states and the national supervisory authorities had failed apparently, most European countries responded with an increase of the supervision regulations and hindrances to the direct activity of foreign companies. The foreign share, diminished drastically, occults the expansion of the German insurance industry in the direction of Austria at last since the neighbouring country counted as an inland after the Anschluss into the German

²² Harm G. Schroter, "Victoria", in Adele Hast (ed.), *International Directory of Company Histories*, vol. 3, Chicago and London 1991, pp. 399-401.

²³ Harold Kluge, "Der Einfluss des Geschäfts der Allianz auf die Entwicklung der Münchener Rückversicherungs-Gesellschaft in deren ersten fünfzig Jahren (1880-1930)", in *Jahrbuch für Wirtschaftsgeschichte* 2006/2, pp. 217-246.

Reich since March 1938. German companies had had participations in four Austrian insurance companies already before this annexation. As in March 1938 the number of participations rose quickly until finally seven Austrian companies were by the majority or complete in a German possession. Moreover, there were minority stakes to another four companies. When the Second World War broke out in September 1939, the German insurance companies had extended their share in the international business on the continent considerably. They could consolidate their already before existing strong position in South Eastern Europe further, in which the Viennese companies took a leading role. The British companies were primarily turned off in the occupied areas in the west, particularly in Belgium and the Netherlands. Furthermore the German companies expanded to France and Scandinavia took on the temporary administration of companies from the enemy states or purchased portfolios of policies and participations. During the Second World War the foreign premium income of the German first and reinsurers increased by leaps and bounds.²⁴

4. THE POST-WAR PERIOD

After the Second World War the German insurance industry was in a precarious situation. While the insurers from Great Britain, France, the USA or even Italy could be active on the international markets, a comeback of other German companies remained forbidden at first. The Allied Control Council law no. 47 of March 1947 limited the activity of the German insurance and reinsurance companies on the German territory. They were disallowed to maintain any business branch offices abroad, existing branch offices had to be dissolved and the foreign fortune had to be handed over. On the other hand, the German market was open to foreign insurers. This ban was irrelevant in the end, however, since all insurers operated at full capacity to restart their home business after 1945. Moreover, they had to work under conditions which did not allow an effective insurance cover: An economy which was constrained and directed by the occupying powers, currency depreciation, black market, insufficient reserves, destroyed commercial properties and destroyed documents in the bomb war as well as the dividing Germany in four occupation zones with different laws. Numerous enterprises relocated their headquarters from the Soviet occupation zone to the west. Up to 1945 more than 40 private insurance companies had its corporate headquarter on the territory of later GDR and further 84 in Berlin. The currency reform then used the complete strength of the employees.

Particularly the German reinsurers suffered from the ban on cross-border activities. As of 1947 they demanded continually an abolition of this ban and also referred to the liberalization decisions of the OECD. In September 1950 the Allies High Commission cancelled the control council law no. 47 and the German reinsurers could restart their business activity abroad. In 1953 they

²⁴ Peter Ulrich Lehner, "Österreichs Versicherungswirtschaft im Deutschen Reich", in Wolfgang Rohrbach (ed.), *Versicherungsgeschichte Österreichs*, vol. 3, Wien 1988, pp. 675-741; Gerald D. Feldman, *Die Allianz und die deutsche Versicherungswirtschaft 1933-1945*, München 2001.

already obtained the level of the pre-war period in the international business again. The German direct insurers could not participate at this quick upswing of the cross-border business. On the one hand, the foreign exchange regulations of the Federal Republic of Germany limited their liberty of action. On the other hand, they had to regulate the liabilities from insurance policies of the pre-war period at first. The negotiations with Great Britain started in 1951. After conclusion of the London Agreement on German External Debts in February 1953 the problems should be solved in bilateral negotiations between the national insurance associations. They made it possible for the German side to set off its fortune confiscated in the Western European foreign countries against its debts from insurance policies. At first the Austrian market was excluded from these regulations. An arrangement was successful here only in summer 1958. On the other hand, all efforts of the Federal Government to persuade the USA and some South American states to give back the confiscated private fortunes failed. Due to the American foreign exchange problems the Kennedy government ended this discussion in 1962 and used the German private fortunes for the support of American war-damaged persons. All efforts to retrieve the German foreign assets in the countries which had come under the domination of the Communists were also hopeless. Altogether, the initial position of the German direct insurers was little hopeful within the 1950s. They had lost large portions of their foreign assets for the second time within three decades. The lesson of the history was: Foreign business is losing business. Within the following decades they therefore largely stayed away from the international markets.²⁵

This restraint echoed in very low foreign direct investments of the German insurance companies. Up to 1973 the grand total added itself up merely on 490 million Deutschmark or converted 1.5 per cent of all German direct investments abroad. Once more a large part of these investments resulted to invest the return of the German foreign assets which was often connected to the condition to reinvest the amount refunded in the respective country. Furthermore it was about depositories in such countries in which German companies had applied for the admittance to the insurance business (see graph 6). Nevertheless this international business of the German direct insurers remained without great importance in the end. It concentrated on the three neighbouring countries Austria, France and the Netherlands and the premium income on the foreign markets did not even hit 3 per cent of the complete German premium income. From the beginning the foreign business got lost passively and the passive balance increased from year to year. While the Federal Republic of Germany was climbing to the export world champion at the export goods, it was an insurance country of importation for half a century at the same time. The self-isolation of the German direct insurers still continued by the middle of the 1970s.

²⁵ Peter Borscheid and Saskia Feiber, "Die langwierige Rückkehr auf den Weltmarkt. Zur Internationalisierung der deutschen Versicherungswirtschaft 1950-2000", in *Jahrbuch für Wirtschaftsgeschichte* 2003/2, pp. 121-138; D. H. O'Leary, "Münchener Rück Munich Re", in Adele Hast (ed.), *International Directory of Company Histories*, vol. 3, Chicago and London 1991, p. 300.

Within the 1970s the German direct insurers completely concentrated on the home market. Immediately after 1948 the reconstruction of the field service and the corporate headquarters bound all strengths, as well as the reconstruction of the insurance stock and the recalculation of the contracts. As of the middle of the 1950s, the business successes, never obtained before, caused so much work that nobody else thought of the international business. From 1950 to 1960 the premium income of the German insurers on the home market grew around over 14 per cent on average every year, in the following decade by 12.3 per cent on average per annum. Primarily the motor vehicle insurance boomed as a result of the mass motorization. Every insurance company built a new corporate headquarter which was already too small again at the moving in. The economic boom, the increase of the mass purchasing power and new technologies let the demand for insurance cover rise steeply. The motor vehicle legal liability brought completely new customer groups to the insurance industry and became the access entry for other insurance branches (see graph 7). The technological change made the development of new safety concepts necessary. The nuclear energy is an example here. Traditional risks had to be calculated newly, so the tap water risk, since bathrooms and washing machine were part of the standard fixtures of the private households. The pension reform of 1957 converted the old-age pension of financial assistance to a compensation for the wage and strengthened the sensibility to the necessity of a retirement provision. The life assurance profited from it. From 1955 to 1974 the premium income of the German life insurers increased ten-fold. It doubles every six years to this day. The real breakthrough of the life insurance succeeded when the state, at the turn of the 1970s, proclaimed the *Three-column-theory* for the old age provisions. Besides the state pension insurance and the operating old age benefits, the state also accepts the life insurance as a third column.

5. MARKED BY THE GLOBALISATION

While the internationalization of the German insurance industry was only advanced by some few direct insurers since the middle of the 1980s, the German reinsurers had already started with the reconstruction of the old business connections at home and abroad since the beginning of the 1950s. In 1955 the chairman of the executive board of *Münchener Rück* could already notice that his enterprise worked in the whole world again and the number of the insurance policies larger than before the Second World War. In the same year *Münchener Rück* had restarted its activity in the USA. The reinsurance company of the *Gerling Group* intensified its foreign activities. The *Cologne Re* followed and other special reinsurers only little later. Today the home market is for these reinsurers not in Germany anymore but as for the great direct insurers in Europe.

The German insurance industry whose rise had started at the middle of the 18th century and who employed only a few jobholders in the state fire insurers has developed into an important employer and into a gigantic investing institution to this day. This is valid primarily for the last three to four decades. The German

insurance industry employs approximately 290,000 persons today. 82,000 independent agents of firms join as well as 7,000 insurance brokers which employ partial up to 600 jobholders. The premium income in the amount of 162 billion euros proves by which material risks economy and society feel threatened and how strongly the precaution thinking is minted in the population. Six insurance policies are allotted to every inhabitant of the Federal Republic of Germany on average today. All of the capital investments in the amount of altogether 1.1 billions euros, which manage the German insurers today, prove the general confidence which brings the population of this line of business. The hedging with the help of insurances has become an indispensable part of the culture of the 21st century.

A concentration movement seized the German insurance industry simultaneously with the rise of some less insurance groups to global players. The magic word was called "Allfinanz", with which big banks wanted to push forward in new dimensions. Some bought themselves into existing life insurance companies, other founded life insurers of their own. Again others planned to end the strict separation between banks and insurances and to build gigantic supermarkets of the capital. With that the banks reacted to the market successes of the life insurers which could book bigger and bigger portions of the private fortunes on their accounts. To that cost problems occurred, which also lead to the foundation of numerous direct insurers without sales representatives. Now many insurers were afraid the banks could dispute their field of work. Those reactions turned out different. Leading insurance companies consolidated their in and foreign claim units together to a holding. Other insurers formed cooperations with banks, savings banks and building societies. After the German reunification these cooperations and affiliates were immediately extended to the new Länder. The opening of the European single market for insurances in 1994 has given these projects an additional firm stimulus. When the last monopolies of the state building insurances in some countries fell in this year, the life and property insurers, situated in the possession of the savings institution, bought these former monopoly institutions and incorporated them into their parent enterprises. There were affiliates with the State banks and State building societies already before. The previous insurance companies under public law were changed into public limited companies, which had the company name *SV Versicherungen* in the south of Germany, in which "SV" stands for Sparkassen (savings banks), in the north they had the company name *Provinzial Versicherungen*.²⁶

While the home business of the German direct insurers was booming, its direct investments abroad sank in the five years before the first oil crisis to an absolute low. The few timid attempts to gain a foothold abroad again were not very encouraging. An example is the *Allianz* which had opened a branch office in Paris in 1959 but did not break even for a long time. The executive boards of

²⁶ Peter Borscheid, *Mit Sicherheit leben. Die Geschichte der deutschen Lebensversicherungswirtschaft*, vol. 2: *Von der Währungsreform 1948 bis zur Vollendung des europäischen Binnenmarktes*, Münster 1993; Peter Borscheid, *Sicherheit in der Risikogesellschaft*, pp. 236-248.

the other insurance companies felt confirmed in their scepticism, referred to the high expenses and risks of the foreign business and furthermore served only the home market with great success. During the first oil crisis of 1973 several companies started to change their views. When during this first great economic crisis of the post-war period more and more businessmen from the commercial economy shifted parts of their production in countries with low wage costs, the great industrial insurers were especially demanded to follow their customers abroad. The big insurance companies were confronted with the problem to offer these multinational enterprises a global insurance shot on the international markets. Cost problems and slumps in profits of the insurance enterprises on the home market gave an additional stimulus at the same time. They suggested, the end of the profit growth was reached. The dependence of one single market also seemed too dangerous for economic reasons.

The industrial insurers chanced the start abroad at first. *Gerling* set up 49 service companies in 21 countries in the course of two decades. There were cooperation agreements with foreign industrial insurers. *Colonia* founded the *Colonia Insurance Company* with seat in London in 1975 and opened branch offices in New York and Paris. Up to 1982 the company could increase the foreign share of the premium income to 15 per cent. *Allianz* went another way. At first the largest German insurance group tried to gain a foothold with the help of subsidiaries set up newly in Great Britain and the USA. Moreover, it purchased a minority stake in Brazil and built up bases in Europe and Saudi Arabia. Since the results were unsatisfactory, the *Allianz* started with the acquisition of majority interests in established companies in Austria and the USA since 1977. Still this foreign engagement remained without a great effect in the end. In 1984 the German composite insurers achieved only 2 per cent of their premium income abroad, in the life and health insurance even only 0.1 per cent.²⁷

Until the beginning of the 1980s the foreign engagement of the German direct insurers went largely unnoticed by the public. This changed in summer 1981 when the *Allianz* tried in vain in a true economy crime thriller to take over British *Eagle Star*. From this time on the insurance industry made headlines because of numerous great acquisitions. The growth problems in the inland, the formation of transnational markets as well as the European process of agreement gave stimulus. It could already be foreseen that the era of the insulated national markets was over as well as the era of the pure insurance companies. The trend went obviously in the direction of integrated financial service providers. From now on many German insurance companies got involved with countries of the European Union and several worldwide. In 1984 *Allianz* purchased *RAS*, the second largest Italian insurer. With it *Jefferson Insurance Company of New York*, U.S. property insurer, came to *Allianz*. The purchase of *Cornhill Insurance* in London, which was established for a long time in Japan and Hong Kong, followed in 1986. The group from Munich secured a

²⁷ Peter Borscheid and Saskia Feiber, "Die langwierige Rückkehr auf den Weltmarkt", pp. 138-149; Thorsten C. Kölmel, *Das Auslandsgeschäft deutscher Versicherungsunternehmen in den USA*, Frankfurt a. M. a. o. 2000.

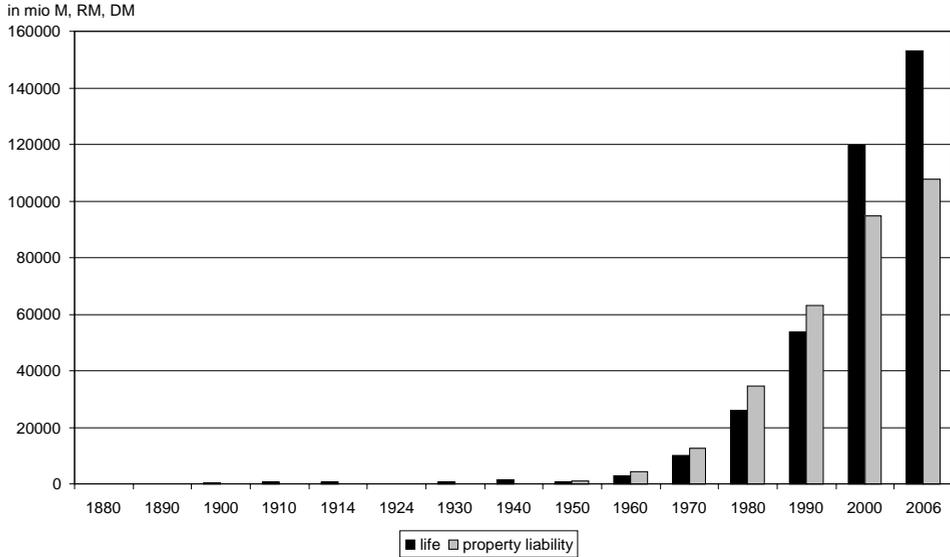
solid leg to stand for itself with the acquisition of *Fireman's Fund* on the U.S. market in 1991. Even in the period from 1992 to 1999 eleven larger foreign enterprises joined, so French *AGF*, Swiss *Elvia* and the South Korean *First Life*. The entry to the strictly controlled Chinese market was affected in 1997. *Gerling* and *Münchener Rück* followed later on (see graph 6).

The fall of the Iron Curtain and the opening of the markets in Middle and Eastern Europe, the economic upswing of the countries of Southeast Asia and the high growth rates in some countries of Latin America as well as the worldwide trade liberalization provided another growth of the worldwide active insurers. In connection with this, the multilateral service negotiations were of importance in the context of the GATS, which became effective in 1999. In the undertow of the industrial customers and the global job sharing single classes of insurance business grew extremely. This concerns the reinsurance and the credit risk insurance in first place. Another result of the globalisation was and is the globalisation of the investments to distribute the risks more broadly and improving the profits. *Allianz* reacted to this with the acquisition of *PIMCO*, one of the leading U.S. property administrators in 1999, as well as of *Dresdner Bank* in 2001. The premium income increased for *Allianz Group* from 16.3 billion euros in 1989 to 68.7 billion in 2000 and 93.7 billion in 2007. The group managed fortunes in the amount of 765 billion Euros at the same time.

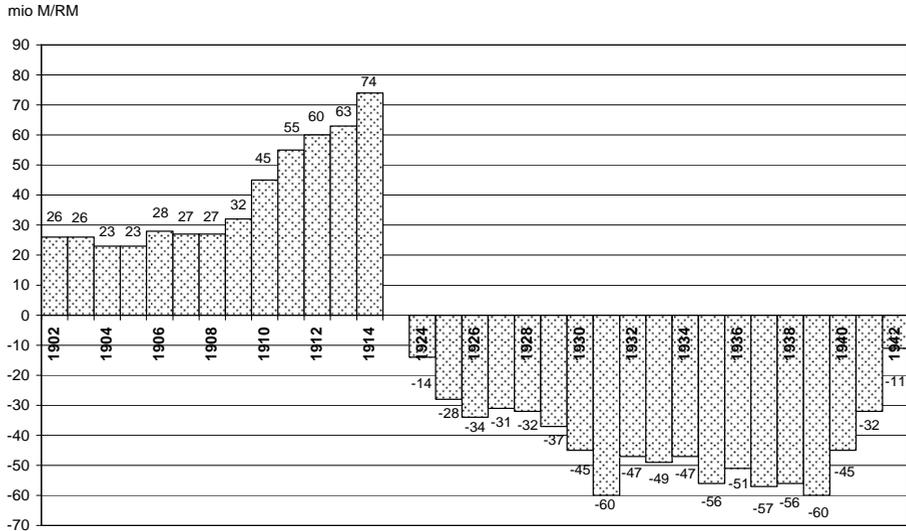
Foreign insurance companies increased their activities on the German market simultaneously. Within the 1960s and the early 1970s the market share of the foreign direct insurers had been about 4 per cent. Primarily insurers from Switzerland and France were active in the Federal Republic of Germany. This changed for the first time after 1976 when the first EC harmonization directive to the freedom of establishment had become effective. Within the following years the number of foreign insurance companies set up in Germany doubled and its premium income increased to 12 per cent. When the single European market for insurances finally became effective on July 1st in 1994, the cross-border activities pushed. German insurers went more and more to the European foreign countries and European insurers to Germany. Primarily seven large, globally active insurers gave the European markets a new look: *Allianz*, *AXA*, *Commercial General Union*, *Generali*, *Royal & Sun Alliance*, *Winterthur* and *Zurich*. The market shares of these companies on the six largest national markets increased in the non-life insurance from 18 to 39 per cent from 1990 to 1998.²⁸ On the other hand, the companies only operating nationally or restrictedly internationally lost great market shares. The companies being not from Europe similarly fared. For most of the large companies today the home market is not located in Germany, Switzerland or Italy anymore, but in the EU.

²⁸ Swiss Re (ed.), *Sigma* 3/2000, p. 19.

Graph 1: Premium income of German insurance companies, 1880-2006



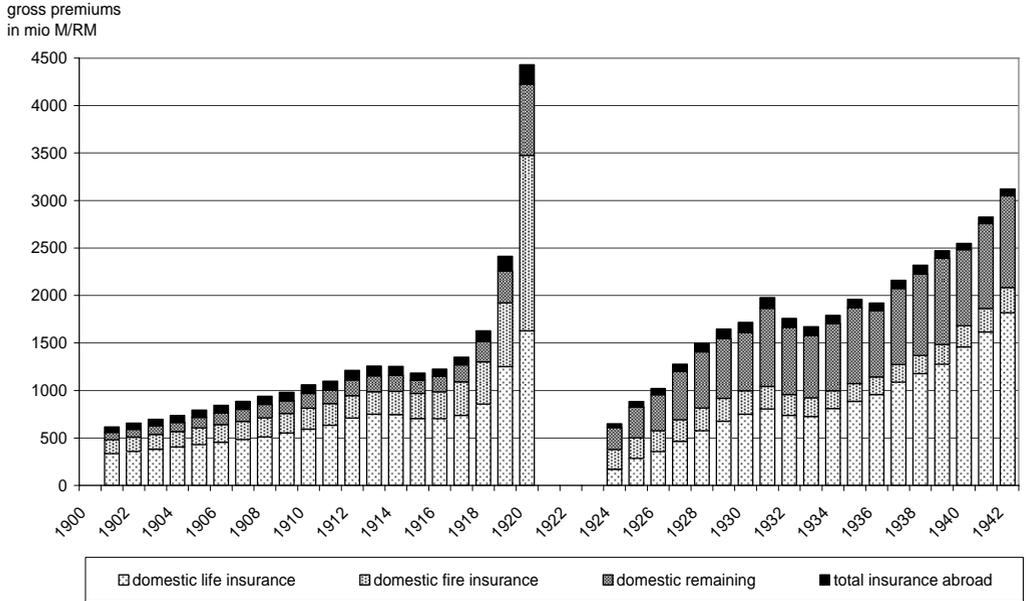
Graph 2: Premium balance of German direct insurer's* abroad and foreign direct insurers in Germany 1902-1942 in million M/RM



* only companies subordinated to the insurance control

Source: Veröffentlichungen des Kaiserlichen Aufsichtsamtes (Reichsaufsichtsamt) für Privatversicherung 1902-1943

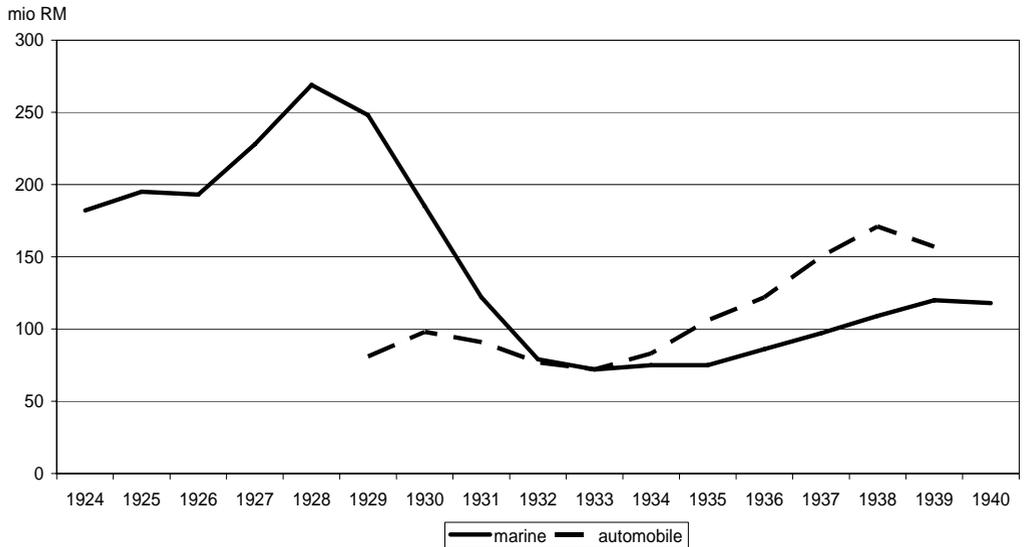
Graph 3: Premium income of domestic and foreign direct insurers* in Germany 1901-1942



* only companies subordinated to the insurance control

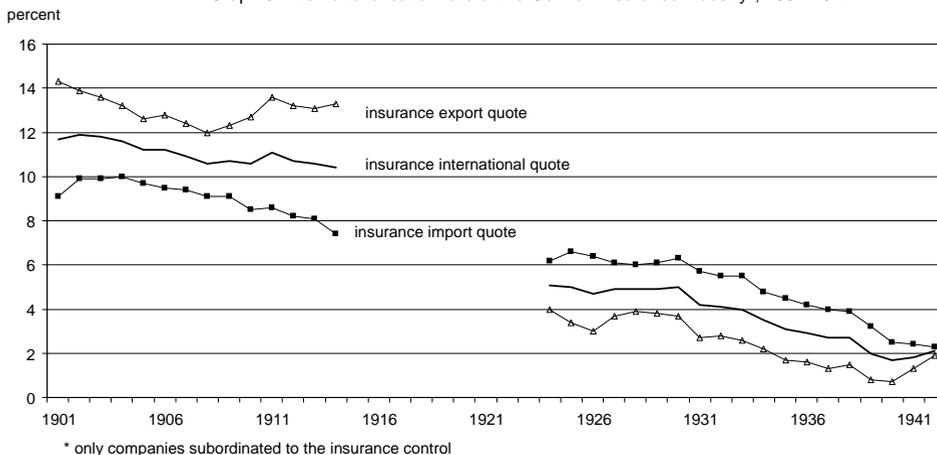
Source: Veröffentlichungen des Kaiserlichen Aufsichtsamtes (Reichsaufsichtsamt) für Privatversicherung 1902-1943

Graph 4: Marine and motorliability premium income in Germany 1924-1940 (in mio RM)



Source: Peter Borscheid/Annette Drees: Versicherungsstatistik Deutschlands 1750-1985, St. Katharinen 1988, S. 124 u. 358

Graph 5: Internationalisation rate of the German insurance industry*, 1901-1942



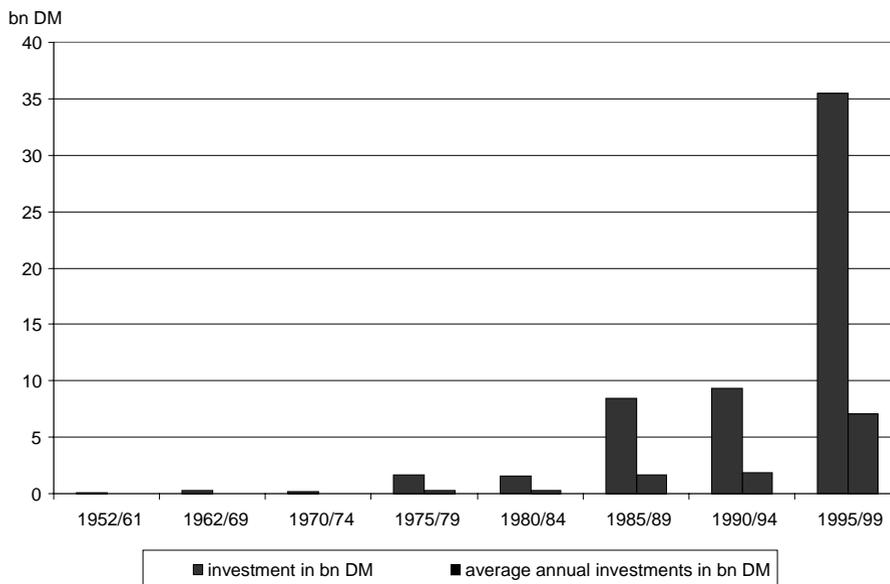
export quote = $\frac{\text{premium income of the German insurances abroad} \times 100}{\text{total premium income in Germany}}$

import quote = $\frac{\text{premium income of foreign insurers in Germany} \times 100}{\text{total premium income in Germany}}$

internationalisation quote = $\frac{\text{premium income of German insurers abroad} + \text{foreign insurers in Germany}}{2} \times 100$
total premium income in Germany

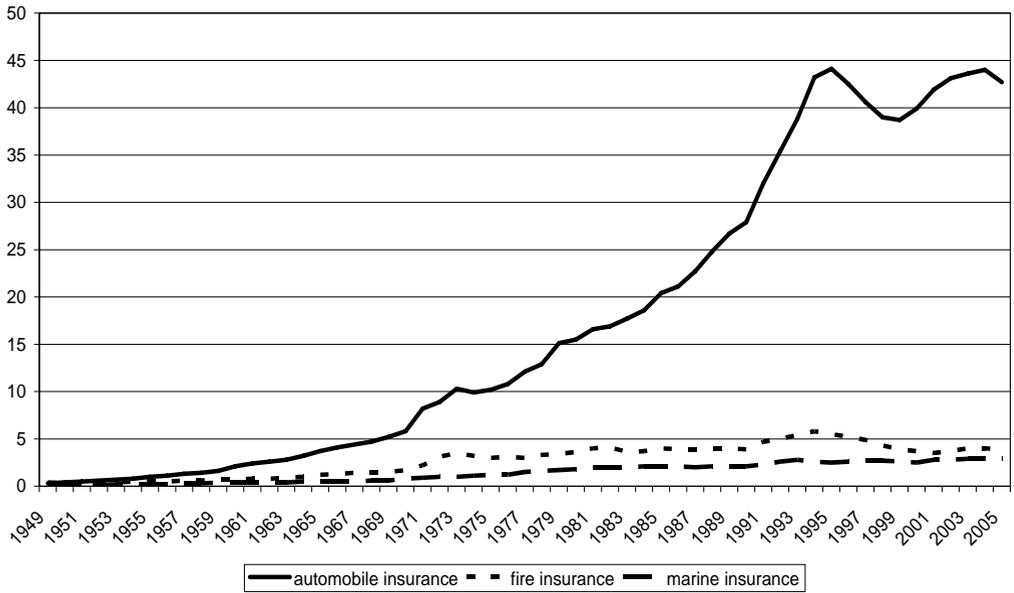
Source: Calculated after: Veröffentlichungen des Kaiserlichen Aufsichtsamtes (Reichsaufsichtsamt) für Privatversicherung 1902-1943; Dt. Bundesbank (Hg.): Dt. Geld und Bankwesen in Zahlen 1876-1975 (1976), S. 6.

Graph 6: Direct investments of the German insurance industry abroad 1950-1999 (in bn DM)



Source: Bundesministerium für Wirtschaft (Hg.): Wirtschaft in Zahlen bzw. Leistung in Zahlen

Graph 7: Premium income of fire, automobile and marine insurance in Germany 1949-2005
(in bn DM)



3

HISTOIRE DE L'ASSURANCE EN FRANCE JUSQU'À LA DEUXIÈME GUERRE MONDIALE

André Straus
IDHE, CNRS Université Panthéon-Sorbonne (France)

1. INTRODUCTION

Ce papier n'est qu'une brève évocation des principaux problèmes rencontrés par le développement des assurances en France jusqu'en 1939. Pour des raisons de place, il s'est avéré impossible d'incorporer les 65 dernières années. Mais au milieu du XX^e siècle qui marque vraiment les débuts d'un important essor de l'assurance française, les mécanismes et les institutions sont largement en place, forgés au cours de la période qui conduit de la fin du XVIII^e à 1939.

Durant l'Antiquité et le haut Moyen Age, les hommes ont cherché divers moyens de se prémunir contre les dangers qui les menaçaient, mais ils ne sont pas parvenus à mettre au point des pratiques relevant véritablement de l'assurance. Ce sont les marchands des villes de l'Italie du Nord, et d'abord ceux de Gênes, qui ont inventé l'assurance maritime. Celle-ci s'est ensuite répandue dans l'ensemble de l'Europe. D'abord dans la péninsule ibérique et l'actuelle Belgique aux XV^e et XVI^e siècles, puis durant les deux siècles suivants en France, dans les pays germaniques, bien plus encore en Hollande et surtout en Angleterre. A la fin du XVIII^e siècle, les Européens ont donc une pratique déjà longue des assurances et de leurs techniques. Du XIV^e au XVIII^e siècle en effet, les Européens, ont innové et tenté des expériences diverses dans le domaine de l'assurance: ils ont constitué, pour répondre à ce besoin de sécurité qui croît avec la modernisation de l'économie, des firmes de divers types; ils ont couvert des risques de plus en plus nombreux (les risques liés au commerce maritime, dont l'importance est longtemps restée prépondérante, la maladie et la mort, l'incendie et les autres causes de destruction des biens ou des récoltes); ils ont mis au point des techniques particulières. Ces tentatives se sont certes souvent soldées par des échecs, parce que les entreprises n'ont pas su diversifier suffisamment leurs risques, parce que leurs dirigeants se sont comportés comme des spéculateurs imprudents, ou parce que les techniques à leur disposition restaient incertaines. Mais l'Europe, à l'aube du XIX^e siècle a une expérience déjà longue de l'assurance, et l'industrialisation et la révolution des transports vont confronter ce secteur à de nouveaux besoins et de nouveaux défis. Ceci va nécessiter une extension considérable du champ de

l'assurance, un affinement de ses techniques, et l'essor de compagnies bien plus puissantes que par le passé. Les XIX^e et XX^e siècles voient le phénomène "assuranciel" changer d'échelle. La sphère des activités liées à l'assurance se gonfle. Ce développement des marchés procède de deux causes concomitantes. Tout d'abord sur le plan quantitatif, l'assurance entre dans les mœurs; elle n'est plus réservée aux membres de l'élite des marchands ou des négociants; elle devient courante dans diverses couches de la population. En second lieu, il est clair que cet élargissement de l'assise sociale du marché des assurances s'accompagne de modifications qualitatives au sein de la branche qui se traduisent par la mise au point de nouveaux produits. L'innovation se manifeste par l'apparition de nouveaux risques assurables, par le développement de nouvelles formules destinées à y répondre. La multiplication des innovations et de leur lot de dangers nouveaux entraînent donc une extension de l'idée d'assurance et de ses applications. Ce qui explique l'épanouissement de branches d'assurances jusque là embryonnaires ainsi que l'apparition de branches toutes nouvelles.

2. DU MOYEN ÂGE AUX TEMPS MODERNES

S'il est clair que les débuts de l'assurance sont le fait de l'assurance maritime, dans les villes et les pays chez qui le commerce par mer était développé, pour la France et même pour la plupart des contrées continentales la période du haut Moyen Âge, et de même l'ensemble du Moyen Âge n'ont pas marqué de progrès annonçant l'apparition de l'assurance, bien au contraire. Confrontés aux trois dangers majeurs qui menaçaient leur existence sur cette terre, la famine, l'épidémie et la guerre, les hommes ont cherché à mettre au point des "formes de réponses collectives" (un taux de natalité élevé, le développement de la culture du seigle, de meilleures capacités de protection militaire)²⁹. Mais ils ne pouvaient songer à s'assurer contre des fléaux par nature totalement imprévisibles, puisque ils n'échappaient pas à la toute puissante volonté de Dieu. Aussi les notions modernes de hasard et de risque apparaissaient-elles incompatibles avec la civilisation médiévale. Jouer avec l'incertitude de l'avenir, "c'était conclure un pacte implicite avec le diable". Plus que toute autre, la société médiévale reste éloignée de l'idée assurancielle. Pourtant dans ce monde médiéval qui paraît longtemps immobile et hostile à toute idée d'assurance, des changements s'amorcent à partir du XIII^e siècle. L'agriculture fait des progrès sensibles, ce qui dégage davantage de surplus à redistribuer, la monnaie d'or réapparaît dans la circulation et la richesse mobilière devient plus importante.

Surtout il se produit une poussée urbaine, qui profite principalement aux villes marchandes du nord de l'Italie. Ces villes dominantes, à vocation internationale, tirent leur richesse de la mer, et leur succès dans le commerce maritime traduit un esprit d'entreprise très développé. Mais le commerce au loin reste très dangereux, en raison des tempêtes, des pirates et des guerres, et l'expansion

²⁹ Alain Guerreau, *op.cit.*

de ce commerce qui expose à d'énormes risques incite la sagesse des marchands à trouver de nouveaux moyens de se garantir contre d'éventuels échecs. Ce changement de mentalité se traduit par l'apparition dans la langue italienne vers le milieu du XIII^e siècle de termes nouveaux, superficiellement latinisés, comme *rischium*, *risigus*, *riscus* ou *riscum*, pour désigner la notion nouvelle du risque qui émerge alors³⁰. Et c'est en Italie que va naître l'assurance maritime. C'est à Gênes, alors bien plus moderne que Venise, en 1347 semble-t-il, qu'est signé le premier véritable contrat d'assurance, sur lequel les assureurs sont bien distincts du propriétaire du bateau. Et cette ville va garder une place primordiale dans les assurances maritimes jusqu'au XVI^e siècle.

L'économie de l'Europe occidentale, connaît des changements plus rapides à partir du XIV^e siècle. La première révolution assurancielles qui s'était produite dans les villes marchandes de l'Italie du Nord s'étend alors progressivement dans d'autres sociétés urbaines d'Europe. Désormais les assurances tiennent une place distincte et essentielle dans l'activité des cités marchandes, et les plus grands des capitalistes du temps, les Médicis ou les Fugger, s'y intéressent, les hommes politiques les plus puissants, comme Philippe II ou Colbert, s'en préoccupent, les premiers économistes, et au premier chef Adam Smith, l'étudient. A la même époque, on voit émerger de nouvelles formes d'assurance, mais qui ne se développeront largement que par la suite.

D'Italie au Portugal et en Espagne, l'assurance maritime, qui continue à prospérer dans ses lieux de naissance, en Italie du Nord, suit les courants commerciaux. Elle apparaît à Bruges, puis après le déclin de Bruges, à Anvers. La ville devient alors, grâce en particulier à sa bourse, la métropole européenne des assurances. Les assurances maritimes se développent surtout dans le Nord-Ouest de l'Europe qui est maintenant la zone dominante du grand commerce. Et c'est en Angleterre que le succès des assurances maritimes est le plus spectaculaire et le plus durable et acquerra au XVIII^e siècle avec les Lloyd's une envergure internationale³¹.

En France, qui est alors le pays le plus peuplé d'Europe, le prêt maritime avait repris aux alentours de 1200 avec la renaissance du commerce maritime, mais les véritables contrats d'assurance n'ont fait leur apparition qu'au XV^e siècle, à La Rochelle et à Marseille, au XVI^e siècle à Bordeaux, Rouen (où est publié aux environs de 1500 le "Guidon de la mer" qui régit le droit maritime en mer de Manche), Nantes ou Saint Malo. En réalité, les assurances maritimes se sont établies difficilement, principalement d'abord à Lyon, puis à Paris. Les usages en la matière, d'abord inscrits dans le Guidon de la Mer au XV^e siècle, sont ensuite repris dans le livre de Clairac ("Les us et coutumes de la Mer") dont la deuxième partie traite de l'assurance Maritime. Ils sont ensuite codifiés en 1681 par la Grande Ordonnance de la Marine de Colbert, secrétaire à la Marine

³⁰ Alain Guerreau, *op.cit.*

³¹ D'après Didier Arnaud, *op.cit.*

depuis 1669. Le contenu de la Grande ordonnance sera progressivement adopté par tous les pays européens. Malgré les efforts de ce ministre, ces assurances se développent inégalement, et il faut attendre 1650 pour que se constitue une Compagnie d'Assurances maritimes. Jusqu'en 1848, cette branche de l'assurance ne fut pratiquée que par quelques groupes d'assureurs et quelques compagnies établies dans les ports de mer français. Ce fut la Compagnie d'Assurances Générales qui débuta en 1818, suivie par la Sécurité (1836), l'Océan et le Lloyd's français en 1837, la Mélusine en 1838. Après 1848, Paris prit une grande prépondérance en matière d'assurances maritimes. Entre 1849 et 1878, furent créées à Paris une vingtaine de compagnies, travaillant essentiellement pour le commerce parisien de l'exportation, auquel s'adjoignaient les grosses affaires de certains banquiers et de certains négociants importateurs. Les assurés étaient presque toujours actionnaires de ces compagnies. Ces compagnies prospérèrent jusqu'en 1870. Mais leur situation changea après la guerre. On peut trouver deux causes principales à cette décadence de l'assurance maritime. D'abord la concurrence effrénée que se firent les compagnies, en réalité trop nombreuses, entraînant l'abaissement exagéré des primes, l'aggravation déraisonnable des conditions de la police au détriment des assureurs, l'imprudance dans la prise en risque d'assurances étrangères insuffisamment étudiées ; enfin la pratique de la réassurance à bas prix. En second lieu, la substitution des navires à vapeur aux navires à voiles bouleversèrent les idées reçues et les habitudes en matière d'assurance. Par ailleurs, les assurés, armateurs, négociants ou exportateurs étaient mieux à même de défendre leurs propres intérêts face aux assureurs qu'un particulier cherchant à se prémunir contre le risque d'incendie de son habitation.

Les primes perçues se présentaient de la manière suivante à la fin du XIX^e siècle :

Années	Primes nettes des risques éteints	Charges : Sinistres et frais
1885	16.611.712	13.589.131
1886	15.880.933	13.914.423
1887	15.416.035	13.959.451
1888	16.100.089	14.242.982
1889	17.633.240	16.201.594
1890	21.934.403	20.728.856
1891	23.383.879	23.759.128
1892	24.064.194	22.510.353
1893	24.449.813	23.921.777
1894	23.230.911	23.644.999

Pour les autres branches, la situation était différente et les choses commencèrent à changer à l'extrême fin de l'Ancien Régime. Avec les progrès du grand commerce, qui multiplie l'occasion de contrats couvrant les risques de mer et surtout avec la diffusion de la philosophie des Lumières, qui fait de l'épargne et de la prévoyance les plus hautes vertus sociales et morales, les assurances percent enfin réellement en France : elles apparaissent comme un

moyen de combattre la misère, une garantie contre les périls funestes du hasard. Si les assurances maritimes constituent toujours la branche pionnière et aussi la branche motrice de l'ensemble du secteur assurantiel, d'autres branches apparaissent progressivement. Parmi les assurances terrestres, certaines ne sont que des prolongements des assurances maritimes, comme l'assurance des transports par terre, les assureurs continuant à prendre en compte les cargaisons après leur débarquement, jusqu'à ce qu'elles parviennent à leur destination finale. Les deux branches promises à un large développement ultérieur, émergent au XVIII^e siècle, l'assurance-incendie et l'assurance-vie. La naissance réelle de ces deux branches est concomitante, mais leur premier développement à la fin du XVIII^e siècle fut interrompu par la Révolution.

3. L'APPARITION DES ENTREPRISES D'ASSURANCE MODERNES (FIN DU XVIII^e-XIX^e SIÈCLE)

Le feu constituait un des grands fléaux urbains depuis le Moyen Age. Les autorités faisaient des efforts impuissants pour le combattre, et les moyens mis en œuvre restaient peu efficaces. L'extension même des villes, où beaucoup de maisons étaient en bois et entassées les unes contre les autres, rendait les incendies plus redoutables. Quand le feu avait démarré, les citadins comptaient sur l'aide de leurs voisins pour limiter les dégâts; les victimes faisaient appel aux secours des autres habitants, sollicités dans les églises ou chez eux par des sociétés de charité, ou à la solidarité des guildes pour les aider à reconstruire leurs maisons. Les rares projets d'assurances contre les dégâts par le feu n'avaient guère abouti à des entreprises durables.

Pour cette branche, l'évènement fondateur fut le grand incendie de Londres de 1666. Ce sinistre sans précédent suscita en Angleterre l'apparition d'une série de grandes compagnies d'assurances contre l'incendie. Dans la seconde moitié du XVIII^e siècle, l'Angleterre n'a pas d'égale dans le domaine de l'assurance, aussi n'est-il pas étonnant de voir de toute l'Europe arriver des jeunes gens ambitieux désireux d'acquérir le savoir faire anglais. Ainsi Clavière, jeune financier genevois, lié à Mirabeau et Brissot, qui s'installant à Paris après son séjour à Londres va fonder avec Jean de Batz, et l'appui de Brissot et Mirabeau, la première compagnie d'assurances française contre l'incendie au moment même où un projet concurrent est lancé par la Compagnie des Eaux des frères Périer. La lutte entre les deux clans est rude, mobilisant les publicistes et les polémistes, Brissot et Mirabeau avec Clavière, Beaumarchais pour les frères Périer. Ce sont les premiers qui l'emportent. Avec les fonds que lui confie Clavière, de Batz, rachète les titres de la Compagnie des eaux qui s'effondrent, les mettant au nom du banquier suisse Delessert. La Compagnie des eaux doit abandonner l'activité d'assurance incendie et le Conseil du Roi autorise le 6 novembre la création d'une nouvelle compagnie d'assurance incendie avec un privilège d'exclusivité de 15 ans. Le succès rapide de la compagnie incite Clavière à réfléchir à l'établissement d'une société d'assurance vie.

Pour qu'apparaisse une assurance-vie à long terme, au sens moderne du terme, basée sur le calcul des primes en fonction de l'espérance probable de vie et des intérêts composés, il avait fallu que se développent des connaissances scientifiques adéquates, portant sur le calcul des probabilités. La découverte du calcul des probabilités par Pascal (1662), l'établissement de la première table de mortalité par Halley (1693), les travaux de mathématiciens comme les Suisses Euler et Bernoulli et le Français Deparcieux, les premiers travaux de statistiques contribuèrent à fonder en Europe des techniques permettant de prévoir la durée de vie des hommes, sur la base de calculs effectués par des actuaires. A partir du milieu du XVIII^e siècle, on dispose dans divers pays de tables de mortalités, les plus appréciés de ces "états de mortalité" tirant leurs données des villes de Londres, Dublin et Breslau.

Clavière, après la fondation de sa compagnie d'assurance incendie, se mit donc à étudier la possibilité de constituer une compagnie d'assurance vie. Au même moment, dans un contexte où les milieux scientifiques prêtent de plus en plus attention aux applications possibles des probabilités, le banquier Panchaud faisait déposer à l'Académie des sciences une note sur les calculs liés à l'assurance vie, approuvée par Condorcet et Laplace. Clavière préféra s'adresser directement à l'administration royale. Il demanda l'autorisation de créer une compagnie d'assurances sur la vie qui serait gérée par sa compagnie incendie. Il était soutenu par la grande banque et l'arrêt royal du 3 novembre 1787 trancha en sa faveur. La Royale vie serait sévèrement encadrée par la ville de Paris et devrait publier les tables et calculs servant à l'établissement des primes. Le 4 novembre un privilège d'exclusivité fut donné à la nouvelle compagnie pour quinze ans. En 1788, le conseil du roi ordonna la séparation de la gestion des Royales par branches, l'une pour l'incendie, l'autre pour la vie. C'est le début d'une longue tradition dans l'assurance française: à chaque branche, une société particulière. Clavière, dans le *Prospectus* qu'il écrit en 1788, y définit l'assurance vie, présente la table de mortalité de Duillard, et montre combien le principe de l'assurance vie diffère des rentes viagères. Par ailleurs, il y réaffirme son credo libéral: l'assurance permettra de combattre le paupérisme en offrant des secours "sans attrister ni avilir ceux qui s'en servent"³². De 1788 à 1792, les deux compagnies Royales fonctionnent bien, mais Clavière, élu girondin, ministre de Danton, se heurte aux assauts de la Montagne. Il est arrêté avec les girondins et le montagnard Cambon fait voter par la convention la suppression des "caisses d'escompte, des compagnies d'assurance à vie, et généralement (de) toutes celles dont le fonds capital repose sur des actions au porteur(...)". Accusé d'avoir fait transférer des fonds à l'étranger, Clavière se suicide dans la nuit du 8 au 9 décembre. La législation révolutionnaire ne fut pas abolie par Napoléon. Seules purent se développer quelques formes très modestes du mutualisme. Le retard de la France sur l'Angleterre en matière d'assurance, déjà important avant 1789, s'aggrave ainsi considérablement jusqu'à la chute de l'Empire. Il faudra attendre la Restauration pour voir réapparaître des assurances vie et incendie.

³² Cité par Michèle Ruffat et al., *op. cit.* p. 51.

En France, après la Révolution qui les avait supprimées, les compagnies d'assurance se reformèrent sous l'Empire et la Restauration. Mais elles étaient regardées comme des activités qu'il convenait de contrôler étroitement. Elles devaient être autorisées par le gouvernement et elles étaient soumises à des règles de fonctionnement strictes. On l'a vu, le succès initial de toute nouvelle société d'assurance tenait surtout à la fortune et au renom de ses promoteurs et de ses premiers administrateurs. Aussi relève-t-on nombre de banquiers au sein des conseils. En Angleterre, les principales firmes de négociants et de *merchant bankers*, une forte proportion de banquiers privés siégeait au conseil de plusieurs compagnies d'assurances. Le rôle des banquiers fut aussi fort important dans les créations de compagnies d'assurances françaises. Clavière et les frères Périer sont banquiers. Jacques Laffitte est en 1819 le premier actionnaire de la Phénix. Lors de la constitution de l'Union-Incendie en 1828, on remarque parmi les principaux souscripteurs une vingtaine de banquiers dont Benedict Fould. En 1829, la banque J. Laffitte et Cie se retrouve en compagnie de la maison Pillet-Will et Cie parmi les fondateurs de l'Union-Vie³³. Les Périer, les frères Péreire, les Rothschild, les Mallet se retrouvent dans les conseils d'administration des compagnies. Les plus grands banquiers parisiens obtiennent alors du gouvernement l'autorisation de fonder des compagnies d'assurance maritime sous forme de sociétés anonymes. C'est le cas de la Royale et de la Compagnie d'Assurances Générales. Les Mallet ont compris l'importance de la branche dans le développement industriel. Grâce à l'assurance, le risque devenu plus tolérable permet l'initiative. Aimé Torras est ainsi en 1819 un des fondateurs de ce qui deviendra les Assurances Générales de France. James Mallet, son cousin, administrateur des AGF, lui succèdera comme président entre 1844 et 1862. Il sera suivi d'Adolphe Marcuard, associé gérant de la maison Marcuard, André, auquel succèdera à son tour le baron Alphonse Mallet, fils de James. A l'origine, au début du siècle la présence dans telle ou telle société d'assurance relève de l'affinité politique. A la Compagnie des assurances générales fondées en 1819, les actionnaires sont surtout légitimistes, au Phénix, ils sont plutôt bonapartistes, sinon républicains. Les fondateurs de la Royale, Laffitte, Benjamin Delessert, le saint-simonien Vital-Roux sont d'un "royalisme assez mitigé, très constitutionnels, siégeant dans l'opposition". Plus tard, passé le milieu du siècle, les considérations économiques prendront le dessus sur les amitiés politiques. Ce rôle des banquiers se retrouvera constamment jusqu'à la fin du XX^e siècle. A l'aube du second Empire, les banquiers négociants laissent la place aux banquiers modernes, gestionnaires de patrimoines et acteurs de la modernisation du pays. A travers les difficultés liées à la crise de 1847-1848, le mouvement semble inéluctable. Peu à peu les banquiers cessent leurs opérations de négoce. Tous ne le font pas au même rythme. Mais, accompagnant les progrès de la mobiliérisation, les Delessert, les Cazenove, les Mallet abandonnent progressivement leurs traditions négociantes et optent décidément pour la finance.

³³ Michèle Ruffat, Edouard-Vincent Caloni, Bernard Laguerre, *l'Uap et l'histoire de l'assurance*, Paris, Maison des sciences de l'homme et J.-Cl. Lattès, 1990.

Le trait marquant de la fin du siècle est qu'avec l'augmentation de la puissance financière des assurances, les rapports avec le monde bancaire se multiplient. Le développement des banques de dépôts depuis la deuxième moitié du XIX^e est certes venu modifier le paysage bancaire et le périmètre des activités. Avec le développement de l'activité assurantielle, les liens entre les deux activités se sont modifiés, mais, contrairement à ce que l'on pourrait croire, à la fin du XX^e siècle, les rapports entre banques et assurances ne sont pas uniquement devenus des liens opérationnels ou concurrentiels, en particulier dans la distribution des produits offerts. Sur le plan purement financier la banque d'affaires, héritière de la haute banque conserve un intérêt spécifique dans les entreprises d'assurances. En France ainsi, sinon en Italie le poids de la banque Lazard en reste une forte illustration. Cette situation perdurera entre les deux guerres. Par exemple, sur les 151 sièges d'administrateurs détenus par les administrateurs ou les directeurs de la Banque de Paris et des Pays-Bas en 1935³⁴, 17 se rapportaient à 14 Compagnies d'Assurances, et en ce qui concerne la Banque de l'Union Parisienne, 13 sièges sur 88 se rapportaient à des Compagnies d'Assurances. Ces rapports étroits étaient à l'avantage des deux parties, puisque les compagnies d'assurance en quête de placements y trouvaient une collaboration fructueuse et que d'autre part, les banques d'affaires pouvaient leur céder de gré à gré d'assez importants paquets de titres. Ces liens ne furent que partiellement rompus lors des nationalisations, puisque la banque Rothschild fut à l'initiative de la création en 1961 de la Fédération Continentale, y associant La Concorde et que la banque Lazard conserve encore des intérêts réels dans l'assurance. Certes au XIX^e siècle, comme en Angleterre, les banquiers ne sont pas les seuls à s'intéresser à l'assurance. On rencontre ainsi parmi les administrateurs de l'Urbaine-Incendie des industriels comme le raffineur Lebaudy ou le directeur général des Chemins de Fer de Paris à Orléans, ou des notables, un maire de Paris ou encore le Receveur général de la Seine. Propriétaires ou négociants se retrouvent aussi parfois à l'origine des compagnies françaises qui s'associent des techniciens comme le mathématicien Myrtil Maas qui sera directeur de l'Union-Vie et publiera le premier ouvrage français d'actuariat.

Bien entendu, on doit souligner l'importance des fondateurs de compagnies eux mêmes issus du sérail. L'accent ici porté sur les entrepreneurs à l'origine des compagnies ne doit faire oublier ni l'importance et les caractéristiques du mouvement mutualiste ni le rôle des pouvoirs publics qui a pu par moment être déterminant.

Lorsque les corporations avaient été interdites par le décret d'Allarde et la loi Le Chapelier, ce n'est pas seulement le privilège des maîtres auquel il avait été mis fin, mais l'ensemble d'un ordre professionnel qui n'avait pas eu que des inconvénients pour les travailleurs³⁵. La disparition des communautés professionnelles laissait un vide et une série de problèmes irrésolus. Pendant

³⁴ M. Rebotier, *Les participations bancaires à l'industrie*, thèse, Paris, 1935.

³⁵ Henri Hatzfeld, *Du paupérisme à la Sécurité Sociale, 1850-1940*, Paris, Armand Colin, 1971.

plusieurs décennies, l'idée d'un cadre corporatif rénové va se retrouver à certaines époques dans la pensée ouvrière. Trois modèles d'association sont possibles, les corporations, les compagnonnages et les confréries. Au début du siècle, intérêts professionnels et problèmes sociaux ne semblent pas clairement dissociés, autant dire que ce qui deviendra d'une part le mutualisme, d'autre part le syndicalisme ne sont pas nettement individualisés. L'association ouvrière qui s'efforce de naître en 1791 cherche à la fois à être secourable et à défendre les intérêts professionnels d'une catégorie d'ouvriers. C'est cet attachement à des intérêts spécifiques qui heurte les idéaux révolutionnaires qui ne veulent connaître que l'individu et l'intérêt général et pour qui il importe "qu'il n'y ait pas de société particulière dans l'État"³⁶. De cet individualisme radical découle une double conséquence. D'une part la condamnation des corps intermédiaires, mutuelle ou syndicat fait reposer sur l'État les secours nécessaires et les œuvres de bienfaisance, mais par là même, elle se révèle une contradiction pour la pensée libérale du temps qui tout autant qu'elle refuse l'intervention des associations capables d'infléchir les liens contractuels entre personnes, repousse l'intervention de l'État dans le domaine social.

Dans un premier temps le besoin d'association ouvrière prend la forme des sociétés de secours mutuels presque aussitôt suspectées d'être des organisations de résistance et de lutte plus que des sociétés de prévoyance, ce qui est loin d'être toujours le cas. Frappées par la loi de 1791 et la législation du code pénal (interdiction du recrutement des sociétés sur une base professionnelle en 1806, nécessité d'obtenir l'autorisation officielle pour toute association de plus de vingt personnes) les sociétés de secours mutuels semblent à leur début porteuses d'un contenu dont le profil n'est pas clairement défini. Les sociétés de secours mutuels vont alors connaître une évolution essentiellement empirique assumant des fonctions multiples et se trouvant en butte à l'hostilité et à la méfiance de l'État, au mieux à son indifférence. Mais leur rôle dans l'assurance est important. Fondée en 1816 pour combattre les sinistres dus à l'incendie, la Société d'Assurance Mutuelle Immobilière de la Ville de Paris devint rapidement l'une des plus importantes sociétés mutuelles du monde entier. Plus tard, avec le second Empire, qui encouragea leur développement, puis la Troisième République, entouré de la sollicitude intéressée des pouvoirs publics, le mouvement mutualiste va se structurer, se construire, s'institutionnaliser pour donner naissance au début du XX^e siècle à la Mutualité³⁷.

³⁶ J.-J. Rousseau, *Du contrat social*.

³⁷ André Gueslin, *L'invention de l'économie sociale. Le XIX^e siècle français*, Paris, Economica, 1987.

OPÉRATIONS DES COMPAGNIES INCENDIE FAITES EN 1869			
Noms des compagnies (incendie)	Date de la fondation	Primes encaissées (milliers de francs)	Indemnités payées aux sinistrés (milliers de francs)
Les Assurances générales	1819	9.357	5.482
Le Phénix	1819	7.268	4.102
La Nationale	1820	6.674	3.227
L'Union	1828	5.162	2.636
Le Soleil	1829	5.175	3.161
La France	1837	4.279	1.966
L'Urbaine	1838	4.186	2.107
La Providence	1838	2.740	1.170
Le Nord	1840	1.350	672
L'Aigle	1843	2.595	1.455
La Paternelle	1843	3.243	1.534
La Confiance	1844	2.570	1.233
Le Midi	1854	971	488
L'Abeille	1857	2.552	1.511
La Caisse générale agricole	1858	2.584	1.295
La Centrale	1863	1.057	594
Le Monde	1864	1.115	546
L'Union générale du Nord	1867	113	40
La Paix	1868	277	114
La Patrie	1869	132	61
Totaux		63.400	33.394

Le total des indemnités payées aux assurés sinistrés en 1869 était donc en réalité de 52,67 % du montant des primes encaissées. Certaines des sociétés ci-dessus purent verser à leurs actionnaires d'énormes dividendes : les Assurances générales distribuèrent 4.000 F, par action de 1.000 F, la Nationale 700 F par action de 1.000 F et l'Union 300 F ce qui avait une conséquence évidente sur les cours: les assurances générales valaient 64.500 F, l'Union 6.250 F. En 1884 et 1885, les sommes payées aux sinistrés s'élevaient à 90.023.536 et 90.404.224 respectivement.

Années	Rapport sinistres à primes
1869	52,67
1870	61,42
1871	43,13
1872	42,42
1873	46,02
1874	48,63
1875	43,25
1876	47,62
1877	46,70
1878	47,59
1879	51,39
1880	61,53
1881	71,22
1882	63,16
1883	57,77
1884	56,96
1885	54,08

Au 31 décembre 1885, les risques garantis par ces compagnies incendie s'élevaient à une somme totale de 110 milliards de francs. Si on ajoute à ce chiffre les capitaux garantis par les mutuelles, soit une centaine de milliards, on arrivait à cette date à un total de 210 milliards de francs de risques garantis par les compagnies d'assurances françaises contre l'incendie. En une quarantaine d'années, les deux institutions avaient évolué de la manière suivante :

Dates	Capital assuré par les compagnies par actions	Les sociétés mutuelles	Total	En % du revenu national
	En milliards de francs			
1845	25	10	35	0,003
1855	47	38	85	0,005
1865	62	57	119	0,006
1675	79	65	144	0,007
1885	110	100	210	0,01

Les dividendes perçus par les actionnaires des compagnies incendies entre 1879 et 1885 s'élevaient aux sommes suivantes:

Années	En francs
1879	14.452.000
1880	11.192.000
1881	8.544.050
1882	9.882.750
1883	9.877.000
1884	10.492.500
1885	11.876.000
Total	76.316.300

Années	Assurances Générales		Phénix		Nationale		Union		Soleil	
	D*	C.M.**	D	C.M.	D	C.M.	D	C.M.	D	C.M.
1820	88		51	825		350				
1830	345		31	1.187	200	1.500		212	21	
1840	1.089	13.187	90	1.437	400	4.950	130	1.600		990
1850	2.078	15.375	165	2.112	450	4.625	175	1.275	100	1.070
1860	7.847	42.000	325	3.150	900	8.375	400	3.850	900	2.800
1870	4.255	64.500	100	4.200	500	11.625	210	5.350	240	
1880	6.500	158.000	200	7.625	873	23.000	350	15.400	1.200	43.200

* D: Dividendes

** C.M. : Cours Moyen

Cependant, les compagnies se sont longtemps réservé le droit d'exclure de leur clientèle certaines activités particulièrement dangereuses comme les fabriques d'explosifs ou de produits résineux et les mines. Elles hésitaient en effet à garantir seules des risques industriels jugés trop lourds et elles prirent progressivement l'habitude de partager entre elles la couverture de ces risques par la coassurance ou de se réassurer elles-mêmes auprès de sociétés de réassurance. Le manque de place nous interdit de développer comme elle le mériterait l'histoire de la réassurance française. D'abord branche particulière de l'assurance elle a fini par devenir une activité bien spécifique avec ses propres caractères, possédant ses propres marchés, formée des compagnies d'assurances elles-mêmes, ses propres méthodes d'exploitation et ses propres entreprises³⁸.

En comparaison avec l'assurance incendie, l'assurance vie se développa de manière beaucoup plus modeste. Pourtant, c'est l'assurance vie et les problèmes de son développement qui occupèrent le devant de la scène durant la deuxième moitié du XIX^e siècle. Proscrite, comme les autres activités d'assurance par la Révolution pour immoralisme, elle ne prit une certaine importance qu'au début du XIX^e siècle et en 1860 encore, les compagnies anonymes françaises, qui faisaient la presque totalité des opérations d'assurance vie, ne garantissaient que 455 millions de capitaux. Napoléon III

³⁸ Voir par exemple, André Straus, *Brève histoire de la réassurance*, Risques.

est favorable à l'assurance vie mais cette adhésion est loin d'être partagée par tous. Cependant, les sociétés innovent avec "l'assurance mixte" et surtout elles vont bénéficier de la libéralisation à la constitution des sociétés anonymes apportée par la loi de 1867 et de la création, en 1868, sous la garantie de l'Etat, des Caisses d'assurances en cas de décès et en cas d'accident. Après l'interruption liée à la guerre de 1870, le développement de la branche s'accéléra (création du Soleil en 1872, de l'Atlas en 1873, du Patrimoine en 1877, etc.) et, sans être encore entrée dans les mœurs, elle commence à rattraper son retard vis-à-vis des autres pays comme les États-Unis ou l'Angleterre. Le développement de la branche était aussi bridé par le succès qu'eurent longtemps les tontines. Ce n'est pas le lieu, faute de place, de développer la place que cette institution a occupée sur le marché français³⁹. Mentionnons seulement que devant la faveur dont elles étaient l'objet, des compagnies d'assurance sur la vie furent fondées (La France en 1843, Le Phénix et La Providence en 1844, L'Urbaine et La Mélusine en 1845) certes pour développer l'assurance vie à proprement parler, mais aussi dans la perspective de se faire autoriser par la suite à constituer des associations tontinières. Ainsi, en 1846, suivirent-elles l'exemple de la Royale, qui, en 1837 avait sollicité l'autorisation gouvernementale. Seules la Compagnie d'Assurances Générales et l'Union, se tinrent à l'écart du mouvement. Mais l'engouement pour les tontines fut de courte durée. La plupart des compagnies autorisées de 1841 à 1845 disparurent par des liquidations volontaires ou forcées. Ainsi la Royale, devenue en 1848 la Nationale qui avait créé successivement 10 sociétés tontinières n'en créa plus après l'extinction de la dixième en 1877. Depuis 1842 les tontines étaient surveillées par une Commission spéciale qui devait examiner leur situation tous les cinq ans. La loi de 1905 renforça le contrôle de l'administration. On obligeait en particulier les sociétés à fournir lors de leur constitution un projet technique précisant les facteurs spécifiques de l'association: âges des associés, probabilités de survie, cotisations, etc. Un décret du 22 juin 1906 vint en compléter les modalités d'application. Cependant entre la date de cette loi et la Première guerre mondiale, apparurent sous le nom de "mutuelles" des sociétés à forme tontinière qui cherchaient à utiliser les failles de la réglementation pour gonfler exagérément les profits au détriment des intérêts des associés. Il s'en suivit une vive polémique dans la presse. Comme beaucoup d'institutions d'épargne, les tontines disparurent pour la plupart sous le coup de la guerre et de l'inflation. Seules deux sociétés tontinières perdurèrent jusque dans la deuxième moitié du XX^e siècle: la Mutuelle phocéenne et Les Associations Mutuelles, Le Conservateur.

Quant à l'assurance vie à proprement parler, sa situation fut moins propice à partir des années 1880 et du krach de l'Union générale de 1882. En 1883 et 1884, le volume des opérations des compagnies d'assurance sur la vie s'affaiblit puis s'effondra, pour se stabiliser à un bas niveau. L'année 1887 marqua le point de départ d'une certaine reprise de l'activité. Mais à la suite de

³⁹ Voir par exemple, André Straus, *Brève histoire de la tontine*, Risques.

l'introduction des compagnies américaines et de la concurrence qu'elles leur firent, leur situation resta morose jusqu'au début du XX^e siècle.

Années	Capitaux assurés		Rentés viagères	
	Contrats	Capitaux (milliers de francs)	Contrats	Rentés (milliers de francs)
1819 à 1859	4.0258	354.000	26.900	17.490
1860	5.268	44.300	2.638	1.720
1861	5.520	46.700	2.597	1.700
1862	6.991	60.000	3.150	2.050
1863	8.338	72.200	2.484	1.615
1864	12.441	106.900	2.326	1.520
1865	15.549	134.300	2.709	1.775
1866	19.826	172.200	2.803	1.840
1867	15.327	145.400	3.238	1.995
1868	14.670	198.600	3.818	2.490
1869	14.124	201.800	3.629	2.570
1870	10.162	141.400	2.430	1.600
1871	6.782	89.000	1.394	948
1872	13.140	170.600	2.091	1.469
1873	13.250	187.000	2.270	1.594
1874	17.100	237.100	7.400	2.164
1875	24.240	254.600	3.654	2.470
1876	28.164	284.840	3.795	3.042
1877	29.678	278.370	3.925	2.904
1878	33.414	315.060	4.553	3.469
1879	36.792	337.075	4677	3.532
1880	47.323	455.377	5.845	3.982
1881	49.556	556.424	5.325	3.595
1882	52.360	589.855	4.128	2.503
1883	48.775	619.600	4.230	2.631
1884	48.610	514.756	4.515	2.707
1885	40.811	441.130	5.146	3.518

Les capitaux souscrits, dont le montant s'élevait en 1893 à 495.996.000 francs ne s'élevaient plus qu'à 296.451.000 francs en 1894 et à 282.378.000 francs en 1895 et plusieurs faillites vinrent alarmer le public : en particulier celles de la Rente viagère et celle de la Caisse générale des familles, et il fallut attendre les années précédant la Première Guerre mondiale pour voir l'assurance vie connaître un nouvel essor durable.

Enfin, toujours à cette époque, les compagnies ont beau effectuer des efforts de communication externe, en diffusant des prospectus pour faire connaître leurs produits (à ce point de vue aussi elles devancent les efforts réalisés en ce

sens par les banques de dépôts à partir de 1863-1864) et en dépêchant dans toute par la France des courtiers ou des démarcheurs comme "l'illustre Gaudissart" de Balzac, afin de conquérir une clientèle plus importante, de larges secteurs de l'opinion demeurent réticents, et beaucoup pensent que ce type d'activité, devant constituer un service public plus qu'un marché, devrait devenir un monopole de l'Etat. Tel est l'objectif de plusieurs propositions de lois au lendemain de la révolution de 1848. L'idée réapparaîtra souvent par la suite et sera reprise en particulier par Léon Bourgeois, au nom du solidarisme, en 1890.

Durant la "grande dépression" des années 1870 à 1890, où l'économie française a souffert d'une nette décélération, les activités relevant de l'assurance ont continué à se diversifier. Ainsi, elles prennent davantage en compte la couverture des risques dus à des accidents. En 1861 la préservatrice avait inauguré l'assurance contre les accidents du travail), et surtout celle du risque industriel, qu'on qualifiait alors de risque extraordinaire. Le caractère spécifique du risque industriel n'a été perçu en effet que bien après le début d'une industrialisation qui s'est effectuée d'une manière très progressive en France. Mais la loi de 1898 sur les accidents du travail, qui rendait obligatoire l'indemnisation des ouvriers victimes de tels accidents, ouvrit à l'assurance un immense marché. D'autre part, le début du XX^e siècle marqua une reprise économique vigoureuse, dont ont largement bénéficié les entreprises d'assurances. Les sociétés d'assurances bénéficièrent ensuite de la loi de 1910 sur les retraites ouvrières et paysannes. Celles qui profitaient de ces lois pour se lancer dans de nouvelles branches devaient se soumettre au contrôle de l'Etat.

Dans le même temps en effet de nouvelles sociétés d'assurances s'étaient créées; les plus viables ont été soit des bourgeonements de groupes déjà existants, soit des filiales de banques de dépôt (le Crédit Lyonnais contrôle ainsi désormais le Monde), mais la concurrence était rude, d'autant plus que des sociétés étrangères, anglaises surtout, et américaines, étaient fort actives sur notre sol. De véritables guerres de tarifs se déchaînèrent. Il faut attendre 1895 pour que la profession tente enfin de s'organiser, en une Union syndicale des compagnies à prime fixe.

Les publications de l'époque soulignent les difficultés que rencontrent alors des sociétés même solides et l'érosion de leurs profits. Celles qui se consacrent aux assurances maritimes paraissent en décadence. Les sinistres dû aux incendies volontaires, qui tendent à se multiplier lors des périodes de crise, pèsent sur les résultats des compagnies couvrant ce type de risques. Les capitaux assurés chaque année par les sociétés françaises d'assurances sur la vie, qui se font difficilement une place, régressent après 1882, et il faut attendre 1911 pour qu'ils retrouvent, puis dépassent le niveau atteint une trentaine d'années auparavant. Bref, la consommation d'assurances plafonne pendant deux décennies au moins.

L'intérêt de l'assurance vie en ce qui concerne les rapports entre les sociétés et l'Etat réside dans le fait que, dès l'origine, avec la compagnie Royale Vie en

1787, l'Etat a été partie prenante de l'institution. La société proposait certes, à ses clients divers produits tous liés à la prévoyance, mais elle était aussi vouée à soutenir le marché de la dette publique. Dès la Restauration surgissent aussi plusieurs problèmes qui vont peser au fil du temps sur l'histoire de ces compagnies. D'abord, le régime politique, qui continue à se méfier des dangers de spéculation que représentent de trop puissants organismes financiers, exige des compagnies le dépôt d'un fonds de garantie auprès des pouvoirs publics.

Deux autres problèmes se posaient : celui de l'autorisation et celui de la surveillance. La loi de 1867 autorisant les sociétés anonymes avait maintenu pour l'assurance vie le système de l'autorisation préalable.

Les représentants des sociétés demandaient que seule la surveillance des comptes et des activités des sociétés soit exercée par l'Etat. Mais avec la faillite du Crédit viager se posa de manière aiguë la question de l'efficacité et de la réalité de la surveillance du gouvernement, telle qu'elle avait été prévue par la loi de 1867, et un projet de loi spécifique aux assurances sur la vie fut élaboré et discuté. Le problème était complexe. En effet, sur presque tous les points dont dépendait la bonne marche de l'affaire l'autonomie de la société était préservée de l'intrusion de commissaires gouvernementaux par les statuts autorisés, mais d'autre part le public avait tendance à tenir le gouvernement pour responsable des éventuels manquements de la société.

Le Conseil d'État, saisi, décida. Toutefois, il convenait de trouver la forme sous laquelle protéger les assurés. Le principe de la publicité, selon l'exemple anglais, constituait une solution adaptée. Le gouvernement exigeait des sociétés, qu'elles publient les documents nécessaires pour que les intéressés puissent exercer eux-mêmes une surveillance; il s'agissait d'étendre à l'ensemble des compagnies la pratique des quatre principales d'entre elles, qui publiaient déjà des comptes rendus très détaillés. La fin des années 1890 vit une véritable transformation dans le fonctionnement des assurances sur la vie en France. Elle concerna tout d'abord les tarifs. L'établissement en 1874 de la première table française portant sur la période 1837-1872, puis la présentation en 1889 des tables Assurés Français et Rentiers Français construites à partir de l'expérience des compagnies françaises permirent de fixer plus exactement le prix de la prime. On put ainsi adapter à la baisse les taux de capitalisation pour les rendre plus conformes à la conjoncture : ils passèrent de 4 à 3,5%.

La réflexion sur le régime légal de contrôle des assurances sur la vie à adopter, menée à la suite de la faillite de la Rente viagère dans le cadre d'une commission extra-parlementaire, se poursuivit au sein de la Chambre des députés. Le député Mimran déclarait "Le krach d'une société d'assurance vie produirait dans notre pays de telles ruines, créerait de telles misères que l'intérêt national, on peut le dire, se trouverait atteint et que nous devons faire le maximum d'efforts pour rendre impossible une telle éventualité (...) L'État serait forcé moralement de leur venir en aide, de telle sorte qu'en instituant aujourd'hui les mesures préventives nécessaires, ce n'est point seulement des

intérêts particuliers que l'État protège, c'est aussi pour une large part, son propre crédit et son propre budget".

La loi du 17 mars 1905 était destinée à imposer aux compagnies des garanties quant à leur fonctionnement "propres à mettre l'actif à l'abri d'une gestion téméraire et à procurer à l'assuré la certitude que les engagements sur lesquels il est en mesure de compter seront tenus par l'assureur" et s'appliquait à toutes les entreprises, françaises ou étrangères ; seules en étaient exceptées les sociétés définies par la loi du 1^{er} avril 1898 sur les sociétés de secours mutuels, et les institutions de prévoyance régies par des lois spéciales comme la Caisse nationale des retraites pour la vieillesse, la Caisse nationale d'assurances en cas de décès, les Caisses de retraites des employés de chemins de fer, celles des ouvriers mineurs, etc. L'une des particularités du régime nouveau était la substitution à l'autorisation préalable établie par la loi de 1867, de l'enregistrement opéré sur la demande même des sociétés au ministère du Commerce. Les sociétés ne jouissaient pas pour autant d'une liberté totale, toute modification des statuts ou des tarifs devant faire l'objet d'un nouvel enregistrement. Cependant, par rapport à la loi de 1867, les sociétés étaient protégées de l'arbitraire, le ministre ne pouvant statuer qu'après l'avis du comité consultatif des assurances et les intéressés ayant la possibilité de former un recours devant le Conseil d'État. La loi introduisait plusieurs garanties pour les assurés: limitation des dépenses de premier établissement capital social minimal de 2 millions de francs pour les sociétés françaises. Toutes les sociétés, quelle que soit leur forme, étaient tenues de constituer des réserves mathématiques, égales à la différence entre les valeurs respectives des engagements pris par elles et par les assurés, et devaient de plus produire chaque année la comparaison entre la mortalité réelle de leurs assurés et la mortalité prévue par les tables admises pour le calcul de leurs réserves mathématiques et de leurs tarifs, ainsi qu'entre le taux de leurs placements réels et celui utilisé pour les calculs.

Par rapport à la loi du 24 juillet 1867, la surveillance prévue par la nouvelle loi semblait devoir être plus effective, un corps de "commissaires contrôleurs" étant chargé d'assister dans cette tâche le nouveau comité consultatif des assurances sur la vie, composé de vingt-et-un membres, qui devait être consulté au sujet des demandes d'enregistrement et dans tous les autres cas prévus par la loi (annulation de l'enregistrement, rectification des bases du calcul des réserves mathématiques, remaniement des tarifs, etc.).

Parmi les décrets qui suivirent, celui du 9 juin 1906 était relatif au placement de l'actif des compagnies sur la vie. Les sociétés françaises pouvaient posséder, sans limitation, des fonds de l'État français ou garantis par lui; des titres des départements, des communes et des chambres de commerce, des obligations du Crédit foncier de France ; des prêts en cours sur toutes ces valeurs, jusqu'à concurrence de 75 % de leurs cours ; des avances sur les polices émises par l'entreprise; enfin des prêts hypothécaires sur la propriété urbaine, sans que ces prêts puissent dépasser 50 % de la valeur de l'immeuble. Les sociétés françaises pouvaient jusqu'à concurrence d'un quart au plus avoir des valeurs

de toute nature, françaises ou étrangères, figurant à la cote officielle de la Bourse de Paris et inscrites sur une liste préalablement approuvée par les actionnaires; en prêts sur ces valeurs jusqu'à concurrence de 75 % de leurs cours; en immeubles situés dans les colonies et protectorats; en prêts hypothécaires jusqu'à concurrence de 50 % de leur valeur. On reprocha en particulier à ces règles, qui limitaient les placements à l'étranger de contribuer à l'affaiblissement croissant des sociétés françaises face à la concurrence sur les marchés étrangers.

Le nouveau règlement n'apportait en fait aucun changement dans la nature des placements, et il n'entraîna guère entraîner de modifications dans le portefeuille des compagnies françaises d'assurance sur la vie.

La loi de mars 1905 et les décrets de 1906 constituaient le premier volet d'un dispositif censé doter la France d'une législation cohérente en matière d'assurance sur la vie. Après avoir indiqué dans quelles conditions devaient fonctionner les entreprises avec sécurité, il convenait de régler les rapports entre les assureurs, les assurés et les tiers. En d'autres termes, il restait à préciser les formes auxquelles devaient répondre le contrat d'assurance sur la vie, seul jusqu'alors à échapper à des prescriptions spéciales. Mais il fallut attendre la loi du 13 juillet 1930, votée sur un projet établi par une commission présidée par Henri Capitant, pour que voit le jour une réglementation générale du contrat d'assurance en France. Étaient cependant exclus de son champ d'application les contrats d'assurance maritime (régis par le Code de commerce) ainsi que les contrats d'assurance fluviale, d'assurance aérienne et d'assurance crédit (soumis au seul droit commun) et les traités de réassurance.

Le vote de la loi du 17 mars 1905 organisant le contrôle et la surveillance des compagnies d'assurances sur la vie n'avait pas fait disparaître ce serpent de mer de la question du monopole d'Etat sur les assurances.

L'idée du monopole de l'Etat sur les assurances ne constituait certes pas une nouveauté pour les parlementaires qui, au cours de la même législature avaient déjà eu à se prononcer sur deux projets relatifs à cette question. Le premier, présenté le 28 février 1908 par Vincent Carlier, et signé par les principaux leaders socialistes, Jules Guesde, Jean Allemane, Marcel Sembat, Jean Jaurès et Edouard Vaillant se proposait d'organiser le monopole d'État pour les assurances couvrant les risques "de l'incendie, de la grêle, des inondations, sur la vie humaine, les accidents de personnes, les sinistres maritimes". Il espérait trouver dans les bénéfices réalisés les fonds nécessaires à l'institution des retraites ouvrières et des œuvres de solidarité sociale. Pour réaliser les réformes sociales, écrivait Carlier, il faut "nationaliser les sources de revenus accaparées par la spéculation capitaliste". Un second projet, déposé le 12 juillet 1909, par M. Couderc, allait dans le même sens et voyait dans la création des monopoles, et en particulier dans celui des assurances, le moyen pour l'État de trouver "des ressources indispensables à la réalisation des réformes politiques, économiques et sociales".

Ces projets furent soumis à de fortes critiques, comme celle de Paul Leroy-Beaulieu dans *L'Economiste français* qui dénonçait dans le monopole un "véritable mirage", fruit "d'une pression démagogique et socialiste". "Il est certain, écrivait-il, qu'un très grand nombre de personnes réduiraient, devant l'État assureur, leurs assurances dans de très fortes proportions". En établissant le monopole des assurances, l'Etat en réalité tuerait la poule aux œufs d'or.

En dépit de ces mises en garde, la Commission d'assurance et de prévoyance sociales, se déclara en faveur du principe d'un monopole d'État pour les assurances, sous réserve de l'étude des moyens de réalisation. Cette décision, mobilisa contre elle l'ensemble du milieu professionnel. Au sein de la commission elle-même, des divergences apparurent. L'argumentaire développé par les directeurs de trois compagnies d'assurances sur la vie (Assurances générales, Nationale et Union) était d'ordre technique. L'organisation même de la branche constituait un obstacle au monopole. L'assurance en cas de décès n'était pratiquement jamais demandée spontanément et il fallait le démarchage pressant des agents d'assurances pour finir par convaincre le public. De plus, comme la prime d'assurance constituait une lourde charge pour beaucoup de personnes. L'agent devait donc s'efforcer de maintenir le contrat, en choisissant le moment opportun pour représenter la quittance, plusieurs fois s'il le fallait, en décidant d'accorder des délais ou d'en faire accorder par la Compagnie, de faire avancer au besoin le montant de la prime. Les contrats durables procuraient aux compagnies la majeure partie de leurs bénéfices ce qui les faisait apprécier l'agent dont le portefeuille était exempt de résiliations. Les résultats obtenus par la Caisse nationale d'assurance contre les accidents du travail qui accusait fin 1907 une perte de près de 365 millions avec des encaissements annuels qui n'avaient que faiblement progressé laissait mal augurer des capacités gestionnaires de l'Etat dans le domaine de l'assurance vie. Le projet du monopole resta sans suite mais retrouvera néanmoins toute son importance au lendemain de la Première Guerre mondiale.

4. L'ASSURANCE FRANÇAISE ENTRE LES DEUX GUERRES

Au début du XX^e siècle, la plupart des activités d'assurances progressent tardivement certes, mais relativement vigoureusement : ainsi le montant des capitaux assurés chaque année par les sociétés françaises d'assurance vie s'accroît de 35 % entre 1907 et 1913 et celui des capitaux assurés contre l'incendie augmente plus vite encore. Le retard français en matière d'assurances sur les pays anglo-saxons persistait mais les compagnies bénéficiaient des progrès de la bourse qui valorisaient leurs placements en valeurs mobilières françaises et étrangères. Bref, on avait le sentiment que l'assurance entrait enfin plus largement dans les mœurs des Français et que la France commençait, lentement, à combler son retard. Dès avant 1914, on l'a vu, l'offre d'assurance se diversifie. Seule l'assurance maritime, la plus ancienne des branches, éprouvait alors des difficultés, devant la concurrence de Lloyd's et des sociétés britanniques. Les sociétés d'assurances sur la vie

soumises au contrôle accru de l'Etat depuis la loi de 1905, et surtout le décret du 9 juin 1906 qui précisait les placements qu'elles étaient autorisées à faire étaient au nombre d'une cinquantaine. Le développement de l'assurance contre les accidents du travail, qui s'effectuait sous le contrôle de l'Etat après la loi de 1898 et celui de l'assurance automobile donnèrent aux compagnies d'assurance contre les accidents une importance de plus en plus grande sur le marché qui se manifestait entre autres par une concurrence acharnée qui pesait sur leurs tarifs. À la fin de l'exercice 1913 on comptait en France 116 sociétés d'assurance contre les accidents: 33 entreprises anonymes françaises, 12 étrangères, 70 mutuelles françaises, et une étrangère. L'extension des assurances ne se faisait pas seulement par la prise en charge de risques nouveaux, mais aussi par la modification de la présentation des contrats et des garanties et par une meilleure appréciation des risques grâce notamment aux progrès de l'actuariat.

Cet essor fut largement cassé par la Grande Guerre. Les compagnies d'assurance contre les accidents virent leurs encaissements diminuer considérablement durant la première année du conflit mais ensuite l'assurance collective contre les accidents du travail se redressa fortement. Les compagnies d'assurances maritimes ne disposèrent pas des capitaux leur permettant d'assurer des risques accrus. Entre les deux guerres, on compte quatorze sociétés (dont les principales en 1929 sont la Foncière-Transports, la Minerve, le Comptoir maritime, l'Union maritime, la Sécurité, la Centrale, la Parisienne et l'Océan) se concentrant sur cette activité, mais la branche n'arrive pas à décoller et ne représentera toujours qu'une branche mineure de l'industrie assurantielle, au grand dam de ceux qui voudraient qu'en raison de son Empire et de sa place dans le commerce international, la France eut une assurance maritime digne de ce nom.

Années	Primes nettes des risques éteints	Sinistres et frais
1920	66.077	64.161
1921	69.596	69.401
1922	71.671	71.652
1923	83.271	81.761
1924	88.117	87.028
1925	99.304	95.213
1926	105.082	103.584
1927	105.765	105.720
1928	115.259	113.716
1929	122.249	122.336

On pouvait noter, à cette époque que "l'assurance maritime n'a pu surmonter, depuis de longues années, la crise qui pèse lourdement sur elle (...) les bénéfices sont insignifiants (...) Les assurances transports continuent à être l'objet des préoccupations de toutes les places, en France et à l'étranger. Partout, on a tenté de grands efforts pour améliorer les résultats nettement

défavorables enregistrés dans les années précédentes (...). En assurances marchandises, le marché de Londres s'efforce d'accaparer les affaires continentales".⁴⁰

La branche vie fut la plus atteinte par les événements, le moratoire des loyers, les difficultés du recouvrement des primes qui ont rendu difficile leur exploitation, ceci dans un contexte général où le public manifeste une préférence accrue pour la liquidité en raison de l'insécurité et de l'inflation. Surtout elles ont été fortement touchées par la baisse des valeurs mobilières composant la plus grande part de leur actif. Les bilans des seize plus anciennes compagnies d'assurance vie montrent l'évolution suivante de leurs placements:

Nature des valeurs	Valeur au 31/12/1913	Valeur au 31/12/1921
Fonds d'État français	243.007	407.263
Valeurs garanties par l'Etat	914.819	880.513
Autres valeurs françaises	106.029	190.900
Valeurs étrangères	670.091	405.116
Total des valeurs mobilières	1.933.945	1.883.792
Immeubles	619.642	623.876
Placements hypothécaires	189.746	190.426
Emprunts des collectivités locales	25.893	18.047

Source: REP (1926: 59). En milliers de francs.

On voit l'ampleur de la perte de substance des compagnies à travers la constance du total des actifs en valeur nominale alors qu'entre 1913 et 1921 les prix ont plus que triplé. La part des fonds d'Etat français s'est accrue malgré la dépréciation de leurs cours en raison des souscriptions aux bons de la Défense Nationale et aux emprunts de guerre. La part des valeurs étrangères a diminué car les compagnies ont dû céder à l'Etat les valeurs en monnaies fortes (anglaises et américaines) et les titres étrangers qu'elles conservent représentent la plupart du temps des créances irrécouvrables, sur la Russie et l'Empire Ottoman notamment. Ces titres sont en effet comptabilisés à leur valeur d'achat ce qui masque l'ampleur des moins-values non provisionnées.

Au début des années 1920, de nouvelles sociétés se créent mais ces créations sont pour une part le fait de groupes déjà existants, qui, pour garantir des risques qu'ils n'ont pas encore abordés constituent une société indépendante à capital distinct, à l'image des assurances maritimes créant au début du XIX^e siècle des branches incendies distinctes. A l'inverse, quelques sociétés de moindre importance incapables de se réorganiser après la guerre fusionnent avec d'autres ou cèdent leur portefeuille à d'anciennes compagnies plus puissantes.

⁴⁰ Rapport annuel de la Foncière Transports pour 1929.

Durant les années 1920-1926, les capitaux assurés progressent fortement, mais cette hausse nominale ne fait souvent que traduire la hausse des prix consécutive à l'affaiblissement de la monnaie. L'inflation pèse lourdement sur l'exploitation des compagnies parce qu'il existe un décalage important entre le moment où l'on calcule primes et tarifs et celui où les sinistres et les échéances surviennent, et parce qu'il existe une certaine viscosité des primes à la hausse par rapport à l'évolution du coût des sinistres.

Ceci est particulièrement net pour la branche incendie. En effet, avec la hausse des prix, il est difficile de mettre les contrats en rapport avec la nouvelle valeur des biens meubles et immeubles. En raison de cette sous-assurance pour le risque incendie, les sinistres qui surviennent ne peuvent être réglés que de manière incomplète. Ce déséquilibre est préjudiciable tant aux assurés qu'aux compagnies qui sont souvent dans l'obligation de supporter une partie de cette sous évaluation. De plus, la concurrence intense que se font entre elles les 65 compagnies françaises auxquelles il faut ajouter les compagnies étrangères opérant en France réduit leurs bénéfices industriels et un impôt jugé écrasant sur l'ensemble des bénéfices créé par la loi de finances de 1925, vient majorer sensiblement leurs charges. Les compagnies d'assurance vie ont des difficultés à remettre en vigueur des contrats pour lesquels il n'a pas été payé de primes pendant la guerre. Par ailleurs, l'assurance vie souffre de l'inflation parce que le goût de l'épargne se réduit et que les épargnants préfèrent investir en or, en actions françaises ou en valeurs étrangères. L'épargne assurance ne peut offrir ni autant de garantie ni autant de profit, aussi son pourcentage est-il en voie de réduction dans l'épargne totale.

Les trois branches anciennes, assurances maritimes, assurances incendie, assurances vie, n'ont pas en 1927 retrouvé leur activité d'avant-guerre puisque les capitaux qu'elles assurent ont été multipliés par trois seulement alors que le franc s'est déprécié des quatre cinquièmes. Pour les accidents et notamment les accidents du travail, le gonflement du nombre des bénéficiaires et l'extension de la première tranche du salaire pour le calcul des indemnités a entraîné la multiplication par plus de huit du montant total des salaires assurés. La majoration du coût des sinistres imputée par les assureurs à la complaisance de certains médecins pèse sur les résultats d'exploitation. Quant à l'assurance automobile, sa production suit l'accroissement très rapide du nombre des véhicules en raison d'une concurrence excessive entre les assureurs et d'un avilissement excessif des primes qui en est la conséquence. L'assurance crédit fait ses débuts en 1921-1923, mais le recours à ce type d'assurance devient surtout une nécessité à partir du moment où la stabilisation du franc exige de nouvelles méthodes pour soutenir le commerce extérieur de la France.

La stabilisation du franc en 1927-1928, le retour de capitaux exportés rendent l'épargne plus abondante et favorisent l'ensemble des compagnies d'assurance, tout particulièrement l'assurance vie. Surtout les affaires Grande Branche, en constante progression, mais aussi les assurances populaires, variante de l'assurance vie caractérisée par le faible montant de cotisations mensuelles. Le

nombre des compagnies continue à s'accroître: 63 sociétés exercent l'assurance vie en France en 1929 contre 45 en 1920, 123 couvrent les accidents du travail contre 70. Seul le nombre des compagnies d'assurances maritimes décroît tout en restant supérieur à ce qu'il était à la veille de la guerre.

De nouvelles sociétés proposent à leurs clients des tarifs plus avantageux notamment un taux de capitalisation de leurs polices de 4,25 % pour les rentes viagères. Les grandes sociétés qui voulaient amortir les moins-values de leur portefeuille d'avant guerre proposent seulement un taux de 3,50 %, mais en raison de la vive concurrence qui leur est faite, elles doivent à leur tour, en février 1927, relever leur taux à 4,25 %. Ces tarifs deviennent très avantageux pour les assurés au moment où les taux d'intérêt baissent rapidement (1927-1928). D'où un brusque et large revirement en faveur de ce mode de placement. À l'inverse, cette baisse des taux d'intérêt pèse sur les bénéficiaires des sociétés. Mais la hausse de la bourse valorise leurs portefeuilles. Elles font alors aussi de remarquables efforts d'innovation. Ainsi, après la loi de 1930, qui établit un système d'assurances sociales obligatoires pour les salariés modestes, elles proposent une assurance groupe, qui est une forme d'assurance collective souscrite par l'employeur au profit de ses employés non couverts par l'assurance sociale, les cadres notamment. En même temps que se diversifient les risques couverts, des efforts sont faits pour rationaliser le travail dans le métier de l'assurance. Le secteur de l'assurance a donc été fortement bénéficiaire de la stabilisation Poincaré avec la reprise des branches anciennes et le démarrage de branches nouvelles. L'embellie a cependant été de courte durée à cause de la crise.

Il est clair que la crise n'a affecté profondément la situation des entreprises industrielles qu'après 1931 et que certains de ses secteurs sont restés durablement protégés. Dès 1935, l'économiste et conjoncturiste, Jean Dessirier a proposé de distinguer dans l'économie française des secteurs dits abrités des secteurs exposés. A l'intérieur de la sphère financière, le secteur bancaire présente les caractéristiques d'un secteur particulièrement exposé et vulnérable.

Il est touché précocement par la crise :

- près de 500 faillites de fin 1930 à fin 1931, certaines frappant des banques importantes comme la BNC ou la banque Adam;
- fort recul des ressources bancaires dû à la contraction des dépôts;
- congélation des crédits et dépréciation des actifs en raison notamment de la multiplication des créances douteuses;
- chute des profits et de la rentabilité.

Ces symptômes de crise apparaissent-ils dans le cas de l'assurance? Il est délicat d'apporter à une telle question des éléments de réponse clairs et sûrs à partir des statistiques disponibles. A première vue cependant, divers indices tendent à démontrer que le secteur des assurances a bien résisté à la crise:

- l'effectif des travailleurs qu'il emploie continue à progresser régulièrement : de 51.609 personnes en 1926, il passe d'après les recensements à 61.726 en 1931 et à 70.221 en 1936.
- Les défaillances des sociétés d'assurance, quoique en progression, demeurent peu nombreuses. On relève 6 faillites dans ce secteur en 1931, 3 en 1932 et autant en 1933, et 6 en 1934. Elles ne concernent que de petites compagnies, alors que les grosses font preuve d'une solidité indiscutable, et dans le même temps un certain nombre de mutuelles professionnelles se constituent. A la fin des années 1930, une vingtaine de sociétés peu viables disparaissent et leurs portefeuilles sont repris par des concurrentes plus solides. Au total, pendant cette décennie, le nombre des compagnies en activité s'est restreint, mais il reste supérieur à ce qu'il était en 1913. La concentration s'est donc accentuée, mais elle demeure limitée, sauf dans l'assurance crédit, une branche apparue à la fin des années 1920, dans laquelle il ne subsiste qu'une entreprise, du reste en bonne santé, la SFAC.
- La production de l'industrie assurancielle ne fléchit que tardivement, et d'abord faiblement. (cf. les graphiques) à partir de 1931 pour l'assurance-crédit et l'assurance accidents du travail, la plus sensible à l'évolution des salaires et de l'emploi. L'assurance contre l'incendie ne subit qu'une très lente régression, car les polices sont généralement conclues pour une longue durée et donc l'objet de révisions peu fréquentes. L'assurance vie recule faiblement en 1932, et surtout en 1934-1936, car les classes moyennes qui représentent la majorité de souscripteurs, sont gênées par les difficultés économiques: elles refusent donc souvent de souscrire de nouvelles polices ou elles réduisent le montant des contrats. Dans l'ensemble du secteur, il n'y a pas d'effondrement de l'activité, qui reprend même vigoureusement en 1937-1938, au moins en chiffres nominaux.
- Le rapport des sinistres aux primes, ne tend pas à s'accroître fortement, même dans le domaine de l'assurance-incendie, où pourtant l'on dit que les industriels, les commerçants, et les exploitants agricoles "en période de crise prennent moins de précautions pour se garantir contre les sinistres qu'en période normale". Ces sinistres de spéculation paraissent peu importants.
- Les compagnies ont réussi d'autant mieux à maintenir leurs résultats que certaines années, en 1934 notamment, les produits financiers de leurs portefeuilles sont venus compenser le fléchissement ou la stagnation de leur rendement industriel. La composition de ces portefeuilles, telle qu'on peut la connaître pour l'assurance vie, montre la lourde prépondérance des fonds publics et des valeurs garanties par l'Etat, plus généralement des valeurs à revenu fixe qui se sont bien comportées en Bourse au moins jusqu'aux mesures de déflation de Laval en 1935 et jusqu'à la reprise de la hausse des prix à partir de l'année suivante. Les titres anglo-saxons y tiennent une place peu importante, ce qui a évité aux compagnies d'être pénalisées par les dévaluations de la livre et du dollar de 1931-1933 et les titres spéculatifs sont pratiquement absents. L'assurance a donc mieux résisté à la crise que

d'autres secteurs, et on peut expliquer cette performance relativement bonne par la spécificité technique du métier, par la baisse de la Bourse qui rend les contrats d'assurances plus avantageux que les placements boursiers, par les initiatives des dirigeants des principales sociétés, qui se sont efforcé de promouvoir de nouveaux types de contrats, de développer la prévention, de lutter contre certains abus, par leur sagesse et la prudence de leurs placements, enfin qui ont évité aux entreprises françaises d'assurance de subir des difficultés comparables à celles qui sont survenues dans les pays anglo-saxons ou en Autriche.

Pourtant les assurances en France ne constituent nullement un secteur abrité, en ce sens que son marché n'est pas protégé de l'étranger comme l'est celui d'autres services. Les compagnies étrangères, anglo-saxonnes surtout, avaient même accru leurs positions durant les années 1920, jusqu'à détenir un huitième du marché. Avec la crise, cette concurrence étrangère a quasiment disparu. Les sociétés françaises, désormais peu concurrencées par l'étranger (sauf pour la branche des assurances maritimes) ont par la suite perdu leurs positions à l'étranger, soit pour des raisons politiques (le marché espagnol a dû être abandonné en raison de la guerre civile), soit à cause de la dégradation de la valeur du franc. Mais la balance des opérations d'assurances avec l'étranger reste favorable à la France.

Cette image optimiste de l'assurance française pendant la crise doit pourtant être retouchée, car le secteur a subi nécessairement les effets négatifs de la dépression, et il reste à mieux expliquer la façon dont il a surmonté ces difficultés.

Il convient tout d'abord de réviser sur trois points les statistiques officielles des sociétés d'assurances. Tout d'abord leur situation financière est souvent surestimée. La valeur réelle de leur portefeuille de valeurs mobilières est inférieure à celle qui est inscrite à l'actif des bilans, surtout à partir de 1934-1935, certaines moins values ne sont pas prises en compte, et donc pas amorties, et les placements en valeurs hypothécaires des compagnies s'avèrent souvent d'un recouvrement aléatoire.

Ensuite, la relative stabilité de la production est due en partie au gonflement artificiel des chiffres publiés : pour des raisons de publicité, les sociétés tiennent à figurer à un rang élevé sur le palmarès de fin d'année. Parmi les subterfuges utilisés, la non déduction immédiate des contrats annulés au moment où ils sont remplacés par de nouvelles polices. De surcroît, il faudrait tenir compte des difficultés d'exécution des contrats antérieurs, souvent les primes prévues tardent à rentrer ou elles ne sont même plus recouvrées. Il faudrait surtout déduire de la production brute les avances sur polices demandées par de nombreux assurés, pour pouvoir payer leurs primes, pour obtenir des capitaux dont ils ont besoin (en ce cas ils utilisent leurs polices comme des instruments de crédit, ou même pour convertir l'argent obtenu en or thésaurisé), en 1934-1935). Le développement de ces avances sur contrats peut être comparé à la contraction des dépôts bancaires, due aux retraits de fonds des déposants,

même si le phénomène qui touche les assurances est sans doute d'une moindre ampleur. Il entraîne une gêne de trésorerie des compagnies, qui, parfois, pour se procurer des liquidités, doivent essayer de vendre des avoirs difficiles à liquider, des immeubles notamment. Au total, le marché intérieur de l'assurance s'est contracté durant la crise, ce qui se comprend, en raison de l'appauvrissement des classes moyennes, de la dévalorisation des immeubles, de la baisse des salaires, etc. Ajoutons que la progression sensible de la production en 1937 et 1938 est largement due à la dépréciation du franc. Enfin les résultats affichés par les compagnies sont trompeurs certaines d'entre elles n'hésitant pas à combler les insuffisances de leur compte de Profits et Pertes par divers artifices, en vendant par exemple en fin d'année les titres d'une valeur supérieure à leur prix d'achat pour les racheter au début du nouvel exercice comptable. En fait, le ratio traduisant le rapport des charges (comprenant, en sus des sinistres, les commissions et courtages, les frais généraux, notamment les salaires et les impôts) aux primes se dégrade sensiblement. Pour l'assurance accidents du travail, ce ratio dépasse constamment 100 %, atteignant 109 % en 1933-1934, et même plus de 111 % en 1935, et ne baissant guère par la suite. Cette baisse du rendement économique de l'assurance ne peut pas avoir pour cause principale l'accroissement du coût salarial, lié lui-même à la diminution du temps de travail hebdomadaire et au relèvement des salaires, qui date de 1936, même si les mesures sociales du Front Populaire et une certaine stagnation de la productivité du travail ont dû peser sur les résultats de l'activité assurancielles par la suite.

La cause principale des difficultés du secteur vient d'une concurrence qui n'est pas nouvelle, mais qui s'est exacerbée avec la crise. Sur un marché qui s'est contracté, les compagnies tentent de maintenir le chiffre de leur production. De là une lutte de plus en plus âpre, qui se traduit par un avilissement du taux des primes. Dans l'assurance automobile, des assureurs aventureux pratiquent des taux manifestement insuffisants. Dans les autres branches aussi, les agents qui font des efforts considérables pour faire souscrire un plus grand nombre de contrats oublient parfois de sélectionner les risques et consentent de gros rabais sur les tarifs; certains acceptent d'assurer les risques de guerre sans même exiger de surprime spéciale. Cette politique imprudente a obligé certains spécialistes de l'assurance au rabais à cesser leurs opérations, ce qui a assaini le marché, mais les effets de cette concurrence exacerbée suscitent des difficultés à l'ensemble de la profession.

Celle-ci a réagi en renforçant son organisation. L'action du Comité Général des Assurances créé en 1927 et les réunions régulières des directeurs des principales sociétés a permis de renforcer la solidarité des assureurs, pour s'accorder sur des tarifs communs: en 1933 est élaboré un tarif pour l'assurance automobile, en 1935 on établit scientifiquement un tarif pour les assurances accidents du travail, et la même année les principales compagnies d'assurances contre l'incendie concluent un pacte de non-agression pour mettre fin à la pratique des rabais sur les primes et adopter là aussi un tarif commun.

Finalmente, en 1936, le Comité Général des Assurances, l'Union syndicale des compagnies à primes fixes, la réunion des directeurs des sociétés mutuelles, et l'Union des syndicats des compagnies d'assurances transports créent la Fédération Française des Sociétés d'Assurances, qui a la mission de coordonner l'action de tous les groupements et organismes syndicaux afin de représenter l'ensemble de la corporation auprès des pouvoirs publics⁴¹.

Mais surtout l'État est intervenu de plus en plus dans ce secteur avec l'accord des principaux responsables de la profession, qui ont accepté et même souhaité son intervention, la jugeant tout à la fois nécessaire et désirable. Les responsables de l'État s'intéressent à la solidité de ce secteur d'activité, parce que les compagnies détiennent une bonne part de la dette publique et surtout parce que de graves défaillances dans ce secteur risqueraient d'apporter des troubles sérieux à l'ordre social. L'État se doit de préserver la sécurité des assurés et donc de garantir que les compagnies soient toujours à même de faire honneur à leurs engagements. Une concurrence excessive pouvant s'avérer nuisible pour les assurés, il convient d'y mettre fin.

De là toute une série de mesures tendant à limiter cette concurrence et à empêcher qu'elle ne devienne sauvage. En 1930 une loi sur les assurances terrestres codifie le droit des assurances et rend les contrats moins disparates, et un décret interdit certaines pratiques abusives, comme l'abandon aux souscripteurs que l'on veut séduire de tout ou partie de la commission d'acquisition ou des primes. Un décret de 1931 impose, à compter du 31 décembre 1932, une réduction de 5 à 4,5 % du taux d'intérêt à retenir pour le calcul des rentes viagères, et la même année une loi et deux décrets renforcent la réglementation s'appliquant aux sociétés de capitalisation. En 1935, un décret diminue autoritairement le montant des courtages et, après les défaillances de quelques petites affaires, un ensemble de mesures tend à renforcer le contrôle de l'État sur diverses catégories d'assurances, notamment l'assurance automobile.

Quoique le projet d'une nationalisation ou d'un monopole public des assurances figure dans le programme du parti socialiste (SFIO), le Front Populaire n'accroît pas l'intervention de l'Etat dans ce domaine. C'est un décret-loi du 14 juin 1938, pris par le gouvernement Daladier, et complété par un règlement d'administration publique du 31 décembre 1938 qui achève de réglementer la profession et réalise une véritable réforme de structure. Comme l'écrit le chroniqueur de la Revue d'Économie Politique en 1939⁴², ce décret "coordonne et simplifie le régime de contrôle antérieur tout en organisant entre les représentants de la corporation, se disciplinant et se surveillant elle-même, et les Agents de l'Administration, chargés du contrôle. De larges perspectives s'ouvrent ainsi devant une industrie mieux coordonnée [...]". C'est cette organisation nouvelle qui va permettre dans l'immédiat de relever de 35 à 25 % les primes pour les assurances accidents.

⁴¹ Richard (1956).

⁴² Mirimonde (1939).

En définitive, c'est cette organisation de la profession et son contrôle par l'État qui ont permis à un secteur, menacé par une concurrence sauvage, d'éviter l'éclatement d'une véritable crise de confiance et de résister en définitive à une conjoncture défavorable.

En France donc, à cause des spécificités de leur métier, de leur degré d'organisation et du rôle de l'État, les assurances, si elles n'ont pas été épargnées par la crise des années 1930, ont été beaucoup moins touchées que les banques. Et c'est la solidité relative des compagnies d'assurances par rapport aux banques qui frappe, nonobstant ce que l'on sait des fluctuations de l'assurance qui, compte tenu des spécificités du métier, apparaissent relativement décalées par rapport aux cycles des affaires.

Quel que soit le jugement porté sur la situation de la branche à la veille de la guerre, plutôt optimiste ou plus nuancé, ce qui devrait encourager à développer les recherches, un certain nombre de constats peuvent être faits. L'assurance s'est diversifiée, portée par de nouveaux besoins et par l'extension du champ des risques désormais assurables. Elle s'est organisée, en accord avec l'État, et elle s'est internationalisée : alors que vers 1880, les implantations françaises à l'étranger étaient rares, à l'exception d'une compagnie comme l'Union, à la fin des années 1930, suivant les échanges internationaux et la construction de l'empire colonial, elles sont désormais très nombreuses. Même si elle reste loin derrière les pays anglo-saxons notamment, elle semble en mesure de pouvoir se développer à un bon rythme. Mais cet élan va être brisé par la guerre.

4

PRIVATE INSURANCE IN ITALY: A SECTOR FOR THE GROWTH OF THE NATION

Tommaso Fanfani
University of Pisa (Italy)

1. FOREWARD

This essay examines the dynamic of the insurance sector in Italy. It begins with the first contracts and policies in the golden centuries of the Italian Peninsula and ends with the current situation in Italy today. As indicated by the title, attention is expressly paid to the formation and functioning of the private sector of insurance. The dynamic of obligatory and social insurance, which from the second half of the nineteenth century onwards characterized the development of the economies of the single States, are not taken into account. This exclusion is motivated by the conviction that the vast sector of obligatory insurance merits a separate treatment from that of private insurance.

I would like to thank Alberto Bianchi who contributed to the visualization of the data in this study.

2. THE BACKGROUND

The practise of insuring merchandise that had to be transported documents the various phases of expansion and of stasis of the economic development of the world's maritime activity.⁴³ Ever since antiquity we have had documentary proof of insurance contracts – however rudimentary – that cover risks associated with the transportation of goods at sea from one party to another. For the most part they deal with “accessory clauses of another contract and not an autonomous report that assumes risks with one's premium”⁴⁴; *centum dabis sin avis ex Asia venerit*, (“you will pay one hundred if the ship reaches from Asia”) is a clause in one of the largest contracts.

⁴³ F. Virgili, *Le assicurazioni marittime in Italia*, in *Assicurazioni*, 1937, vol. I° pp. 647 and ff.

⁴⁴ E. De Simone, *Appunti di storia delle assicurazioni*, Naples, Arte tipografica, 1991, p. 3.

In Italy, the treatment of the origins of insurance contracts with a premium is vast and has numerous scholars that have looked at diverse testimonies. There are those who find in the *foenus nauticum* a Greco-Roman⁴⁵ naval loan, elements of insurance and in the second Punic war (215 B.C.) the magistrate Flavio insures the army. The period of the Roman Empire registers numerous testimonies that helped to define forms that may later have become part of our insurance contracts. Concentrating on this period would distract our attention from what we are interested in. There is no doubt about the origin of insurance, which was characterized by the practice of loans and the transfer of one's own risk to another person.

In the Italian Medieval period, the commercial practice of a person who assumed the risk of another was widespread.⁴⁶ But they are centuries in which insurance was confused with other types of contracts and often hid forms of speculation. Two forms of speculative contract involved: the acquisition of merchandise by the insurer who gave the insured the ability to reacquire the said merchandise after his trip, or a loan on the basis of which the insurer pretended that he had received the insured sum with the obligation to give it back to the insured after an agreed upon period under the condition of "safe arrival" of the ship.⁴⁷ For many centuries the boundary between the kinds of risk taken on in a transaction on the value of the goods was weak and often invisible.

In addition to the origins of the economic and social knowledge of the taking on of risk and monetary compensation, scholars discuss the city where the first insurance contract was born. Federigo Melis, a Medieval historian, brings to light a document written in 1317 by the Pisan government, the *Breve Portus kallaritani*. This is the first insurance contract that we have any evidence of. Pisa at the beginning of the 14th century was still living a long expansive period as a glorious maritime republic, together with Amalfi, Genoa and Venice. They were economic poles with intense commercial activity. Genoa preserves its insurance policy archives dating back to 1343⁴⁸ and 1347.⁴⁹ Other Italian cities

⁴⁵ Ibid, p. 4. In 1237, the *foenus nauticum* was condemned by Gregorio IX as a usurious decretal contract, *Naviganti*, ivi, p. 9.

⁴⁶ Cfr. G. Cassandro, *Saggi di storia del diritto commerciale*, ESI, Naples, 1979, p. 239.

⁴⁷ G. Bonolis, *Svolgimento storico delle assicurazioni in Italia*, Turin, 1899, p. 3.

⁴⁸ Cfr. F. Melis, *Origini e sviluppi delle Assicurazioni in Italia (secoli XIV-XVI)*, vol. I *Le fonti*, with an introduction by Bruno Dini, Rome, Istituto Nazionale delle Assicurazioni, 1975; this is a treatment of a contract drafted by the notary Tomaso Casanova. It is dated the 18th of March, 1343. Genoa was then the most dynamic pole in the Mediterranean. It continued to occupy this position for many centuries. In Genoa the first public bank was founded (Banco San Giorgio) due to the elevated volume of traffic resulting from the necessity of normalizing monetary transactions in an area of intense international exchange.

⁴⁹ Cfr. E. Bensa, *Il contratto di assicurazione nel Medio Evo*, Genova, tip. Marittima Editrice, 1884. The document is from the notary Tomaso Casanova and it is dated the 28th of October, 1347. The debate on the primacy is still open. According to Reatz, the first document that can

like Lucca, Florence, Venice (where a document is dated 1225), and Rome, rival for first place.⁵⁰ Comparing the dates, the *Breve* of Pisa seems to be the oldest, or amongst the oldest, contracts second only to that of Venice. This one represents the decree that insures traffic for the Calgiari port and allows the obligation to “secure” the ships. On closer observation, it is not absolutely certain that it is possible to talk about a real insurance contract. It says nothing of risk, nothing of premiums, it does not discuss contractual clauses between different parties. The reference is only to the operation of the counsels, their offices and those who must ‘secure’ the goods when they are put on and taken off the ships that travel to the Calgiari port. The procedure here deals more with logistics than a contract that covers a calculation of risk and a premium. It seems to be a document that provides a way of interpreting the function of how to offer security to the operations and the ship journeys.

A first policy, that is more definable with respect to the *Breve Portus kallaritani*, is the one found in the archives of the San Giorgio Palazzo in Genoa, dated the 18th of February, 1348. In this document, Amiguetto Pinello insured Avveduto Guglielmi, for 680 florins, 10 bales of clothing to be transported from Porto Pisano to Sicily.

But again Italian scholars in the field of the history of insurance, such as Besta, Melis, Daveggia, do not believe that the document has the characteristics of a policy. They are all instead in agreement about the policy created in Pisa dated the 13th of April, 1380.⁵¹ The document explains: *Logovico and Barolomeo of Vogl(i)a of the above day and year, insure to Baldo Ridolfi from Florence who*

be characterized as an insurance contract is found in Portugal and goes back to the period of King Ferdinand (who reigned from 1367 to 1383). Bensa, Vivante, Salvioli, and Federigo Melis contest this assumption, demonstrating that in Italy, in the mercantile cities, there were contracts that had been stipulated earlier. Besides knowing who had been the first to set an insurance contract, the primacy of the Italians in the sector is valid throughout the entire 15th century. After this time, in the 16th century, the testimony of economic and financial leadership passed to Spain and in particular to cities like Seville, Bilbao, Burgos. Spain was followed in the next century by the merchants of Flanders, and therefore the operators of Antwerp, and then those of London. The London operators created an exchange for insurance. (cfr. S.B. Clough, *A proposito della fortuna di mare e delle origini delle assicurazioni marittime*, in *Economia e storia*, 1969, p. 377). On the first formulations of contracts for maritime insurance, see G. Giacchero, *I genovesi assicuratori marittimi nell'arco di cinque secoli*, in *Atti del Convegno di studi sui Ceti dirigenti nelle istituzioni dell'antica Repubblica di Genova* (Genoa, 25-17 April 1985, vol. 6, pp. 51-89); Id. *Storia delle Assicurazioni marittime. L'esperienza genovese dal Medioevo all'età contemporanea*, Genoa SAGEP, 1984.

⁵⁰ In Florence, in the 1319 and 1320 balances of Francesco Del Bene's company, expenses paid for “risk” are annotated; in 1329, the “atto grossetano di quietanza” contains a reference to the payment of a sum “*pro securitate ed risico*”. In some cases there are notary stipulations that are less precise for the reference to the form of the Genoese insurance contract. Recently documents were published that can be categorized as belonging to the typology of insurance contracts that would have come from Marseille (1333), Lucca (1334) and Palermo (1350); cfr. E. De Simone, *Appunti*, cit., p. 11.

⁵¹ The date is “al corso di Pisa”, which means beginning the Pisan year *ab incarnatione*, that is the 25th of March and being one year ahead, the correct date of the policy is the 13th of April, 1379.

*lives in Pisa, from Porto Pisano or from Livorno, to Marseille and the above mentioned insurers for CCXXII days on six bales of goods that numbered II to VI [...] and Baldo estimated the worth of the six bales CCXXII florins, so that the insurers run the risk [...] and they run the risk for the day that the above mentioned ship will leave from Porto Pisano or for Livorno, or since it left or will leave, until the goods are deposited in Marseille to the rightful person.*⁵²

Mr. Rinuccio's agent, Boninsegna, agrees with the Florentine merchant Baldo Ridolfi, resident in Pisa, to be insured by the Pisan Lodovico and Barolomeo del Voglia for the sum of 220 florins for six bales of goods, deposited in the ship by Guglielmo di Vitale for the trip to Pisa (Livorno) – Marseille.

The contract declares the rights and responsibilities of the contracting partners. The goods were sent to Francesco Datini (merchant of Prato working in Avignon). The comment is completed at the end of the trip, with the notification limited to three bales robbed by pirates in an attack on open water.

Besides insurance for sea journeys, life insurance is amongst the oldest insurance policies in Italy. Federigo Melis reports the frequency with which in Antiquity and in the Middle Ages slaves were insured for trips or pregnancy.⁵³ Slaves were considered goods. They were therefore insured for the risk of death during the journeys, or as female-goods, in case of pregnancy. The same merchants then insure their own lives. One example deals with the contract underwritten by the Tuscan merchant Filippo Soldati, “manager” of a company based in Barcelona, Spain. In 1399, having to relocate to Pisa, he insured his life, with the branch of the Catalogna della Compagnia Datini, for the sum of 350 florins.⁵⁴

Insurance for sea journeys and for one's life are therefore the oldest forms of contracts in Italy that elaborate the definition of the norms of the governments and those ruling in the ancient states. The increase in economic activity and traffic carries over to a progressive definition of the clauses of the insurance contract and juridical regulation, which are tied to the diffusion of industrial processes in different European countries.

The introduction of new means of transport and the progress in mathematical sciences, with the definition of probability, are the true causes for the development of the insurance sector. The passage from a rudimentary to a “scientific” phase in insurance means that it is possible to not only cover the risks associated with the sea journey. New large companies were created in

⁵² Archivio di Stato Datini, *Documenti assicurativi*, f. 1158, doc. 104, in C. Daveggia, *Il primo contratto dell'assicurazione in Toscana*, Giuffrè, Milan, 1967, pp. 566-577.

⁵³ F. Melis, *Tracce di storia economica di Firenze e della Toscana dal 1221 al 1550*, Università degli studi di Firenze, 1966-1967, ed. by B. Dini, p. 218.

⁵⁴ *Ibidem*, p. 219. “it is probable – Melis continues – that this person for the same reason, turned to other agencies to arrive at a higher value”.

many countries that would become like the historic English Lloyd's. They stimulated research into the exact calculation of the risk to be taken on by insurers in various sectors, that is to say against fires, hail, misfortune and also transport and life. It is possible to say that the 18th century and the beginning of the 19th signal the end of the first period of the history of insurance which had been characterized by the presence of a single operator, concentrated on the sector of maritime transportation.

Italy after the 12th-15th centuries, registers a general slowdown as regards the processes of industrialization and the economic social and political change of the sector. In other countries the companies have experts not only for the accounting sector. They also have experts that deal with the scientific analysis of the evaluation of risk, the definition of reserves, the strategic choices of "reinsurance" and employment. The Italian peninsula was slow to come out of its long phase of economic marginalization. The marginalization began in the 16th century with the moving of the economic centre from the Mediterranean to the Atlantic, which resulted in the growth of other merchant powers like Spain, Portugal and therefore Holland and England.

Important contributions to jurisprudence by the Ancient Italian states are not lacking in the formation of norms and laws for insurance contracts. In particular in Naples, home to thinkers like Antonio Genovesi and Lorenzo Tonti, between the 17th and 18th centuries, there were long periods of activity.

3. LIFE POLICIES: FROM WAGERS TO INSURANCE PRODUCTS

With the diffusion of cultural and economic changes between the 17th and 18th centuries even the parameters of reference in the insurance sector were modified and a new way of approaching the sector's problems, and in particular the life insurance sector, took hold.

The category of events pertaining to human life is very different from the law with respect to the category of events that provoke losses in patrimony, to things and animals. As regards the law, this distinction recalls the different function of insurance compensation for events that bring about loss and do not have anything to do with the person and those that do not involve compensation for those that deal with human life. In the life insurance contract there is generally a premium that for moral reasons cannot be considered an allowance for the value of human life; in contracts for the loss of object or animals that premium can be totally compensated. It seems difficult to technically calculate the value of the risk and above all the necessity of taking from the sphere of improvisation, from the "wager", the material for the calculation of survival.

Life insurance accompanies human existence where this kind of policy is inspired by motives of solidarity for the survival of orphans, widows and where the necessity of looking after the existence of those who due to age or disease become unable to work. Before the 17th century, factors of economic

convenience and religious, moral factors regulated the experiences of the sector. Only with the application to the insurance sector of the science of actuaries, did it become possible to calculate survival. The practise of insuring oneself against risks to ones life comes from the praiseworthy although vague formulation of solidarity, of mutuality. It comes from the sphere of the 'wager' from the same contract of Filippo Soldati.⁵⁵ It is for the actuaries to provide the scientific instruments capable of taking the practice of life insurance from illegality to which the laws against wagers had relegated it.

The appearance of actuaries is related to the type of insurance called "dotal", mentioned above and the better known "tontine", conceived of by the Neapolitan Lorenzo Tonti during the middle of the 17th century for the joint liability of life annuities. The "dotal" insurance consisted in putting aside capital at the moment of the birth of a female baby, or when she was still at a tender age, through some financial intermediary and the liquidation of a premium – in case of survival – at the moment of marriage or the end of the contract. "Dotal" insurance is ancient practice, which was widespread in Italy in the Medieval and Modern period. It provoked the growth of "dotal" banks in cities like Florence, Venice and other Italian cities.

The tontine instead are contracts that for see the collection of the monetary premium with a fixed deadline. On the completion of the years of payment stipulated to the insured, who has reached the date set out in the contract, he would receive the annuity. The tontine were widespread in Europe in the 1600s and 1700s. They were used for the creation of an annuity and often, to hide wagers. They were therefore instruments of administrative irregularity. For this reason, the authorities adopted the prohibition of the setting of new insurance contracts in the form of "tontine". Despite this, the tontine existed until the end of the 1800s in many regions of Europe and America, and it was due to the tontine that a systematic collection of statistical material for the valuation of the probability of calculating lifespan was established.

The calculation of probability began midway through the 17th century, during the period of the largest diffusion of tontine. This was thanks to Blaise Pascal and the mathematician Pierre de Fermat in France who studied the rules and the behaviours of risk games. The two scientists, studying the probability of card games, open the way for research into probability in life span favoured by the availability of data made available due to the parish registers of births and deaths.⁵⁶ The first application of probability to demography appeared in the correspondence between Christian Huygens (1629-1695), a physicist and mathematician, and his brother Ludvig, during their studies of the Dutch Jan De

⁵⁵ Gibbone's contract, drafted in 1583, which stipulated life insurance for one year for the sum of 382.3 pounds at an 8% tax is reported in specialist literature as the first "modern" policy. On further examination, even this policy can be ascribed to the sphere of wagers.

⁵⁶ On the affirmation of statistical studies that paved the way for survival tables useful for life policies, see T. Fanfani, *Alleanza Assicurazioni Cento anni di storia*, Il Saggiatore, Milan, 1998, pp. 24 e ff.

Witt. In 1671 De Witt had proposed to the General States of Holland the annuity revenue to increase financial earnings through the collection of policy premiums. John Graunt (who collected demographic data on London from 1592 to 1662), but especially the astronomer Edmund Halley (friend of Newton) worked on the collection of statistics. It was Halley who in 1693 elaborated the first table of mortality based on the data of the city of Breslavia during the period 1687-1691. Abraham De Moivre (1667-1754) dedicated himself to actuary mathematics and in the work *Annuities upon Lives* he elaborates the rule called “the hypothesis of De Moivre on equal diminutions”. According to this rule, “the annuity income can be calculated on the basis of the hypothesis that the number of a group of people that dies is the same every year”.⁵⁷

With the birth of the actuary the process of innovation was completed. The assumption of risk and the calculation of life outside pure approximation were applied to the technical-scientific probabilities of events. The change is significant: life insurance became an adequate form of structural change that was verified with the industrial revolution. At the same time, theoretical principles were affirmed that singled out the connection between data, fundamental statistics, economic growth. The principles therefore defined the approximated economic value of life in the process of industrialization. In the Medieval period and in much of the Modern age, the substitution of the individuals in the workplace or the availability of a work force because children work for their children, meant that there were not conditions for a widespread presence of life insurance contracts. This was even less the case for those social categories with a level of income at the limits of subsistence. The need to stipulate contracts increased to provide for the risk of death only when the productive organisation consolidated the monetary and financial economy of the merchants and when the automatic substitution of people diminished. The science of the actuaries allowed for the extension of life contracts at the moment in which all would be able to enjoy relatively modest premiums, to guarantee against grave risks, and to guard against fluxes of income. For the companies, the operation in one of the most important financial branches had begun.

Insurance companies created a foundation (as do the banks) in order to become protagonists of financial ventures in the economic history of the 18th century.⁵⁸ They entered into transformative enterprises, underwrote for public debt, operated on the stock market, and they increased not only their economic and financial value, but also their social and civil value.

In Italy, the studies on the construction of mortality and survival tables can be found in successive periods for England, Holland, and other countries. Between the end of the 1700s and the beginning of the 1800s, research kept apace with the countries beyond the Alps. In 1775, the doctor from Verona, Giovanni Veraldo Zeviani, had elaborated the first survival table from the

⁵⁷ Cfr. C.B. Boyer, *Storia della matematica*, cit., p. 489.

⁵⁸ C. Trebilcock, *Phoenix Assurance and the Development of British Insurance*, Manchester University Press, Manchester, 1984, vols. I and 2.

population of the peninsula to include the calculation of the probability of life from zero to 95 years of age. Based on this study, from 1761-1766, the probability of death was very high from the first year of life to 9 years; it settled in successive years reaching about 35-40 years of age and beyond. Giuseppe Toaldo, astronomer and mathematician, Luca Cagnazzi, Roberto Gaeta and Gregorio Fontana were the people who in the second half of the 1700s and the first half of the 1800s researched the probability of life expectancy and created a table for various areas of the Peninsula.

In the 18th century, while elsewhere there were industrial revolutions, in Italy there was a constant economic backwardness. Changes connected to movement from a rural economy were slow to take place. There was a certain fervour in some cities of the peninsula, but the country remained divided in small states and merchants were slow to take part in economic changes.

4. THE 1700s: ATTEMPTS AT GROWTH

If studies of the actuaries were progressing, this does not signify that the life sector was dominant in the market of the peninsula. Maritime policies predominated: in Venice the “security go-betweens” concentrated their offices in the Calle della Sicurezza. In the periods of maximum splendour they set seventy policies each month, in 1766 the average had gone down by only four contracts per month for the portfolio of the total value of about 6.6 million ducats a year.⁵⁹ The fall in traffic followed a long economic crisis in the Peninsula which had drastically reduced the operation of the sector, before the damaging presence of the pirates of the Mediterranean, especially the “barbareschi”. A type of policy that was very widespread was for the “ransom” of prisoners of pirates. In 1788, the *Compagnia Veneta di Sicurà* was created with a social capital of 400,000 ducats distributed in shares worth 500 ducats per share. The Statue provided for the coverage of risks inferior to the value of 30,000 ducats for the trips from and towards the island of the Levante and 20,000 ducats for the trips to other destinations. The company could also set life policies limited to the length of a trip that did not exceed one year.⁶⁰ In the same year a restricted group of financiers started the *Veneta Società di Assicuratori*, with the social capital of 200,000 ducats and with strong limitations in the coverage of maritime risks: 20,000 ducats for the trips in the Mediterranean and 5,000 for the Americas. In 1794, a little before the Napoleonic invasion, the *Banco di Assicurazioni* was founded and anticipated increments and variations of social capital on the basis of underwriting that occurred due to the addition of one or more new members, or instead on the basis of members who left. It is not an unusual formula: there are different types of examples of societies at the end of the 1700s that registered variations to their social capital on the basis of their investment or the departure of a member. Other companies were founded during the 1700s in other port cities of the peninsula: in Genoa between 1742

⁵⁹ E. De Simone, *Appunti di storia delle assicurazioni*, Naples, 1991, p. 56.

⁶⁰ *Ibid.*, p. 57.

and 1778 the monopoly given by the government in 1742 to the *Compagnia Generale delle Assicurazioni Marittime* was in force and the end of the regime this meant that new companies were founded that were promoted by powerful ship owners and financiers. In Naples in 1751 the *Reale Compagnia di Assicurazioni Marittime* was founded. One of the most dynamic is Austrian Trieste where many Italian investors involved their capital to create new insurance companies: of these the *Banco di Sicità marittima*, founded by Triestine businessmen, which was also called the *Banco della Madonna*. In 1764 the *Compagnia di assicurazione* with the social capital of 600,000 florins, despite operational prudence, underwent various financial misadventures and collapsed in 1788. The *Camera mercantile dell'Assicurazione Marittima* created in 1799 suffered the same fate.⁶¹ Trieste in the 18th century was in a prodigious expansive phase brought about by Carlo the 5th in 1719 and by Maria Teresa. When the Giulian city became a cosmopolitan financial centre the situation changed and some of the largest Italian companies were founded. From the point of view of the norms that regulated the activity of the insurance companies, before the second half of the 1800s, few institutions operated according to ancient rules. They operated without the certainty of norms that guaranteed the solvency of the businesses, the definition of technical reserves, the coherent organization of the norms of the Code of commerce promoted during the Napoleonic period (1803), or the norms of the ancient States. I mean to say that the insurance sector was regulated more by interpersonal relationships and by the seriousness of those who were “insurers” rather than by the civil and commercial code.

5. THE 1800s: FOUNDATIONS FOR THE AFFIRMATION OF MODERN INSURANCE

The 19th century began with Napoleonic domination and the relative dynamism of development. The French unified the merchants and the money and brought innovations to different operational sectors. They gave a push to the processes of scholastic formation, the regulation of work, and to the mobilization of local resources for the birth of new businesses. French domination was interrupted in 1815, but the return of the ancient States found conditions that were at least partially different, and better according to an economic and productive point of view, with respect to the companies of the 1700s.

In Milan in 1820 the *Mutua assicurazione incendi* existed and in 1827 the *Società dei compensi icendevoli contro I Danni della grandine* was founded. Fires and hail are two typologies of “elementary” loss that document the disappearance of companies in agricultural spheres and maritime spheres. The company that covered the losses due to hail had to for see the annuities to the members which were calculated on the basis of the availability of the portfolio of the company at the moment of the liquidation of the loss: in 1828 the liquidations did not go above 21% of the losses and the following year, 73%. In 1836 it was

⁶¹ Ibid, pp. 58-59.

disbanded as a company by a unanimous vote of the members. The history of the *Compagnia di Assicurazioni iMilano* is of a different sort. It was founded in 1825 by a financier and by numerous silk industrialists, with a solid social capital, that is to say with six million Austrian florins, equal to the capital of the future Assicurazioni Generali in Trieste. It had different sectors and in 1827, following the fire that destroyed the city of Saranno, its portfolio grew along with the increase in the number of policies for fire and life insurance.⁶² In Turin in 1829 Giuseppe Henry, a businessman of French origin, contributed to the birth of the *Reale Società di Assicurazione generale e mutua contro gli incendi* (which then became the Reale Mutua) which obtained from the government the monopoly of insurance against the risk of fire for thirty years in the Sabaudian state. The monopoly excluded the presence of other companies for the same national and foreign risks. Founded as a loan company, beyond the premium, the insured had to pay a second quota, a “guarantee and reciprocal loan”, a quota that helped to grow the company’s reserve to be used if the society was not capable of liquidating loss. In 1829 the members were 1,500 for an insured value of 25 million Sabaudian lira, which became 320 in 1841 and almost 700 on the eve of Unification. In Turin in 1833 the *Compagnia anonima di assicurazioni di Torino* (later called Toro Assicurazioni) was founded and went on the market with a product at a fixed premium, and as such made it possible to get around the monopoly invoked by the Reale Mutua. Even in Genoa and in other important cities of the peninsula new companies were founded before the unification of Italy. This signalled that the relative dynamic economy required a growing presence of companies capable of insuring against the risk of fire, hail, animals, and losses (including the loss of life).

Besides the branch of elementary insurance, the life branch continued to grow, although more modestly than the branches of loss and travel. In 1832 in Italy the principal companies that practiced in the life sector were the *Compagnia di Milano* (founded in 1825) and the *Società di assicurazioni diverse* (based in Naples); in the same year in England there were 30,⁶³ 5 in Germany, 3 in France and 8 in Holland. In Trieste the *Imperial Regia Compagnia nominata Assicurazioni Generali* (which in 1848 became the Assicurazioni Generali) and the *Riunione Adriatica di Sicurtà contro l’incendio delle emrci viaggianti* (RAS) entered the life insurance market. *Generali* was founded in 1831 to practise in the life and loss branches on the initiative of Giuseppe Lazzaro Morpurgo. It had a social capital of two million Austrian florins largely underwritten by Italian operators. In 1832 few policies were underwritten and ten years later the company had a portfolio of about 10 thousand life policies for a capital of more than 10 million florins. In 1843 Generali had opened branches in almost all the principal Italian cities. The first contracts proposed were stipulated on the basis of Duvillard’s tables for insurance in the case of death and Deparcieux for those for life and private income. Deparcieux’s table⁶⁴, like that of Duvillard,

⁶² E. De Simone, *Appunti.*, p. 63.

⁶³ G. Stefani, *Il centenario delle Assicurazioni Generali 1831-1931*, Novara, De Agostini, 1931.

⁶⁴ Published in *Essai sur les probabilités de la durée de la vie humain* 1749.

established a tax on the incidence of mortality that was very high for infants. It defined a technical proof of 4%. In 1877 Generali adopted the new table of Vitale Laud and Guglielmo Lazarus built using the data of 17 English companies. They added to it a mathematical factor that allowed for the correction of distortions on the tax of survival for young people below 20 years of age. The new table registered a lower mortality for youth with a resulting increase in the volume of business.

RAS instead registered the formation of social capital for 1.5 million florins, which was operational in all sectors and was founded as a society of limited partnership promoted by a group of entrepreneurs that had already started the *Banco Adriatico di Assicurazioni*. Still in Trieste in those years *Lloyd's Adriatico* is founded. It is an association formed by numerous enterprises to which the company provided maritime and commercial information on travelling ships, their characteristics and therefore on eventual risks, including personal information on the captain and so on.

The insurance sector in Italy benefited from progress in technical-scientific research. At the end of the 1800s, in 1897, the Italian Association for the increase of the science of actuaries, with its base in Milan,⁶⁵ was founded with the aim of favouring mathematical studies applied to insurance, financial operations and social-economic sciences. Therefore in 1861 the insurance sector registered the affirmation of some of the most important companies that underwrote the history of insurance.

Following Unification, enterprises were regulated by the Code of 1865 as regards their founding and the responsibility of administrators. Following the Code of Commerce of 1882, article 145 dictated the norms of the portfolio: a quarter of the premiums coming from the life sector of national enterprises and a half of the foreign enterprises had to be invested in items for the public debt.

The norm represented a clear protectionist choice, but at the end it did not obtain the objective of facilitating the collection for the national enterprises. Instead, as demonstrated by all of the data, these enterprises were not competitive when compared to non-national societies.

During this period, many small companies were founded which were for the most part loan companies or cooperatives, built through the union of capital put in the hands of a few members. These members for the most part practised the same job or were members of a family of small shipbuilders or owners of ships. In maritime centres numerous small maritime companies were founded, almost always for a brief span of time, with contracts connected to personal relationships and reciprocal trust between members. Often the insured loss could not be completely indemnified due to the lack of the financial means of

⁶⁵ In England from 1848 *London Institute of actuaries of Great Britain* was founded; in France a similar society was created in 1872.

the company. The members therefore taxed themselves in order to build a fund to repay the member hit by the loss. In agricultural centres the same mechanism interested dozens of small mutual associations or cooperatives for the loss against hail, fire, death, illness. The spirit of solidarity and reciprocal and cooperative support prevailed amongst the hundreds of loan companies.

The presence of loan companies, if they did not always reach the objective of the security of the value transported by sea or the losses stipulated in the other kinds of contracts, did however create competition on the market. The premiums went down from five or six percent of the insured value (tariffs of the big companies), to two percent. Many of the oldest companies, those that were less able both financially and organizationally, wound up failing.

Of the first loan societies in Italy is the *Compagnia Comogliese*, a society founded in Camogli (Genoa) in 1856. It was formed by small maritime operators, with a modest capital which was insufficient for the indemnity of loss for shipwreck or damage. *Fiducia ligure* is another loan company, founded in 1872, of small dimensions and portfolio. These are examples of micro enterprises, without much of a reserve fund, so that when they had to reimburse the loss of a member, the society revealed itself to be pro quota for all of the members due to the payment of the indemnity for the loss.

In the second half of the 19th century, the consequence of the increase of maritime traffic and the expansion of the use of wooden ships, when in other places steam propulsion was developing along with the construction of metal hulls, was that there were micro enterprises in the maritime sector that were not part of what is revealed by the statistics. They represented the expression of small interest groups, rivals and were incapable of uniting to build a larger company. To give an example, in Genoa between 1861 and 1871 the number of maritime insurance enterprises went from 9 to 44; the number of contracts set by no fewer than 6,000 goes to almost 25,000 and the total insured value from 55 million Italian lira rose to 166.⁶⁶ In Naples in the same years there were only 12 societies, while in terms of insured value in 1867 there were 1.5 million lira that decreased to 570,000 in 1871.

The information about the Neapolitan market is the countertendency to Genoa and the expansive dynamics of exchange by sea trade brings about other reflections that demonstrate the consequence of Italian unification: in the years immediately following the political and administrative unification of the country the market of the south succumbs to the greater efficiency and the competitive strength of the enterprises of Northern Italy. Even in the insurance sector negative effects of the frontiers and customs barriers to production of industrial goods could be felt in the market of agricultural products and more in general in services. Goods and services in the south of Italy and until then produced in the Kingdom of the two Sicilys by the internal market were progressively marginalized by the invasion of goods coming from the North: the volume of

⁶⁶ Cfr. G. Prato, V. Porri, F. Carrara, *Lo sviluppo ed il regime delle assicurazioni in Italia*, Lattes, Turin, 1928.

local traffic diminished drastically and even the insurance sector fell into decline. The same can be said for the market in Venice where the volume of values insured by Generali and RAS, went in the postunification decade from 26 million lira to 7.2. In this case the quick fall represented the abandonment of the Rialto port as a commercial stop of the Habsburg Empire: in 1866 Venice became a stop-over for the abandoned banks, the loss of arsenal production, and naval yards.

In Milan, at the moment of Italy's unification there were two principal companies that collected about 10 million lira of insured value. In Ancona this number was little more than a million in value. Palermo was an important point along the Mediterranean because of its proximity to Africa. In 1871 there were four companies with the ability to collect 31 million lira of insured value.

The life sector did not slow down and compared with other more economically advanced nations, Italy at the end of the 1800s, if it reached a dignified place as regards its scientific research "finds itself in miserable conditions in applied mathematics in general and in financial applications and actuaries in particular".⁶⁷

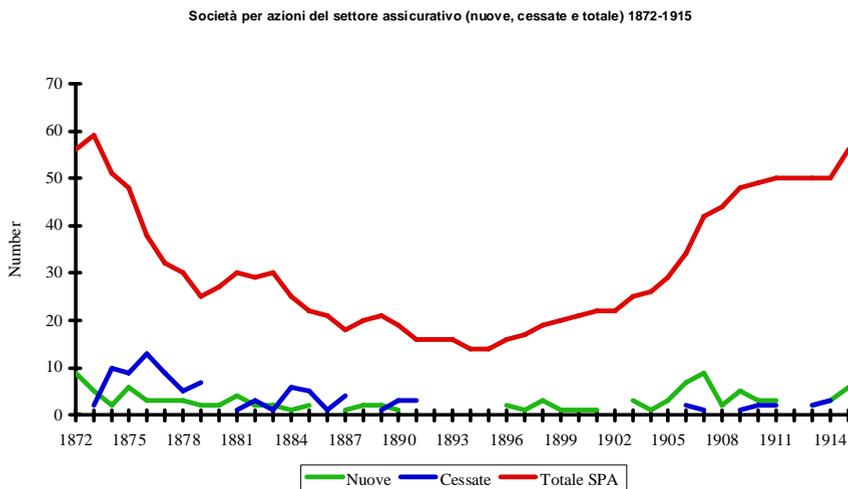
Precisely due to the particular nature of industrial development and due to the opportunities that the unified market presents, there was a progressive expansion of foreign insurance companies that began to operate on the Italian market beginning in the 1870s onwards.

1874 represents an important year for Italian economic history: public accounts were balanced following the tiring phase of realigning the debt and financial disorder inherited when Italy underwent unification. In 1876 Agostino Depretis became the first minister and opened a new phase of development based on the affirmation of the sector of transformation, more than on the primary sector as it had been for previous governments. The economy is transformed to realize an industrial State with modern infrastructure, efficient and with a maritime fleet which was less characterized by sail propulsion than by the building of iron hulls with steam and then motor propulsion. The number of owners of ships and therefore of small maritime loan companies diminished and disappeared. The Italian economy did not reach the phase of take off, rather many facts document the continuing difficulty in finding a space on the international markets. We are in the period of light and shadow, "preparatory" for the Italian take off: Europe was interested by the long depression begun in 1873 which had been provoked by the fall in income of agricultural producers and beaten by the collapse of the North American importation of cereal and the knocking down of transport costs resulting from the increase in the carrying capacity of modern steamships. Prices diminished and many producers of European agricultural products failed. Italy, which had recently begun the process of industrialisation felt the consequences of the crisis and many insurance companies disappeared, as is

⁶⁷ F. Insolera, *Del rischio*, in "Giornale degli Economisti", 1914, p. 353.

documented by graph 1 referring to the number of new and closed Italian companies from 1872 to 1914.

Graph 1
Incorporated Companies in the Insurance sectors (new, closed and total)



Source: Visualization of data in “Bollettino ufficiale delle Società Anonime”, (BUSA), Various years

The companies that remain are those that succeeded in going beyond the difficulties of dimensional growth: they lost the character of small family businesses and transform themselves into managerial driven societies with the participation of banks, various commercial and industrial companies.

The *Compagnia Italia*, for example, was founded in Genoa in 1872 by small shipbuilders; after a little while, it was transformed by the entry of banks and financiers: small companies made it a medium to big society with ten million lira of social capital derived from the underwriting of 5,000 actions worth 2,000 lira each. In this period the market underwent a phase of transformation towards the creation of ever larger action societies.

The data of the sector demonstrates how between 1886 and 1912 the number of loan companies diminished with respect to the total national companies; the presence of anonymous companies instead grows (public companies with impersonal and anonymous ties between company and member) and cooperative societies, which due to the promoters of the cooperation, such as Leone Wollemborg or Luigi Luzzatti and many other catholic exponents, see in the solidarity a strong instrument to face and resolve problems of poverty and the shortage of financial means.

Table 1
Insurance Enterprises Distinguished by Typology (Number and %)

Year	Incorporated Companies	Loan Companies	Cooperative Companies	Total National Companies
1886	19 (40,4%)	24 (51,1%)	4 (8,5%)	43
1895	27 (25,7%)	33 (31,4%)	45 (42,9%)	64
1903	21 (33,3%)	25 (39,7%)	17 (27%)	91
1912	43 (40,2%)	30 (28%)	34 (31,8%)	90

Source: Elaboration of data in Ministero dell'Interno, Direzione Generale di Statistica, *Annuario statistico italiano*, Rome, 1887-88, 1897, 1904, 1913.

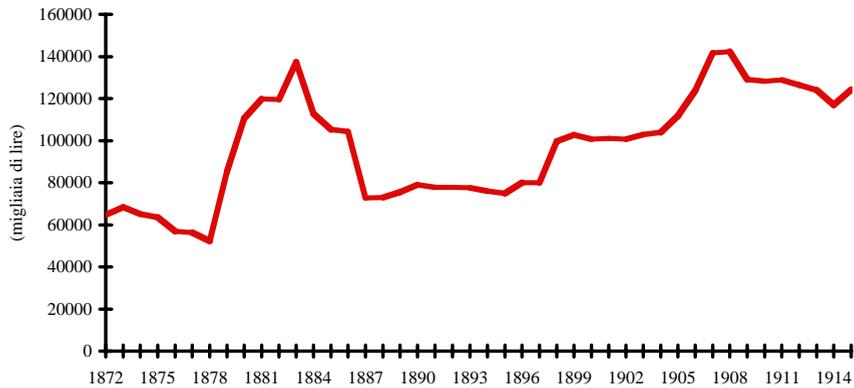
A representative fact to understand the dynamic of the sector derives from the consistency of the underwritten social capital. It is necessary to note article 131 of the Commerce Code of 1882 which made those buying a share deposit, not so much the total of the underwritten capital, but only a fifth of it once the company was formed. The norm facilitated the underwriting and represented a strong incentive for the creation of an incorporated company.

In reference to the evolution of social capital understood as a significant indicator to measure the weight of the sector and the propensity of the employees, 1883 represents the highest point with almost 140 million lira of capital underwritten. A rapid descent followed which is perhaps attributable to the fall in freight and the resulting disappearance of many companies in the years immediately following. In Italy, between the end of the 1880s and 1893, a financial crisis hit the banks because of the effects of building speculation.

The Roman banking sector's exposure towards the sector and imprudent speculation in Turin and Genoa lead to the failure between 1888 and 1893 of important banks such as the Tiberina, the Sconto and Sete, the Credito mobiliare, the Banca Generale. From that profound financial, economic and political crisis the Italian banking crisis changed: the Banca d'Italia was founded (1883) and big banks were founded such as the Banca Commerciale (1894) and the Credito Italia (1895), banks that had a considerable impact on the growth and stabilization of the national insurance system. The curve of social capital, as documented by the graph, shows the Italian financial crisis during which some insurance companies left the market. It documents the strong upswing of the first years of the new century.

Graph 2 Make-up of Social capital for the Insurance Companies

Consistenza del capitale sociale delle Società di assicurazione

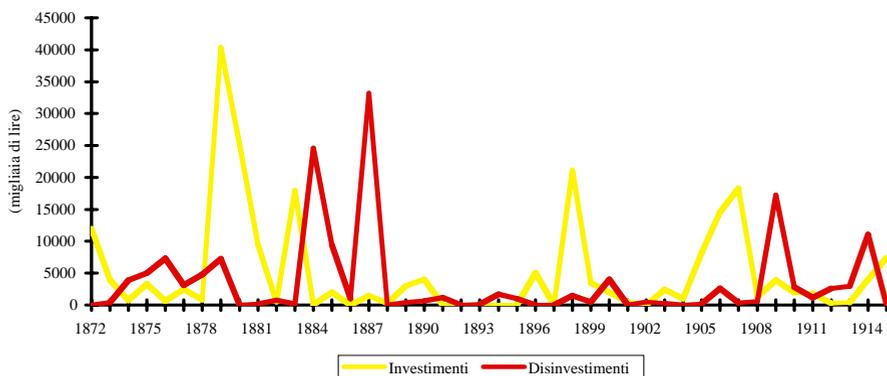


Source: Visualization of data in “Bollettino ufficiale delle Società Anonime”,
Various years.

New visualizations treat investments and withdrawals, which can be tied to the creation of public companies. The greatest expansion of investments happened in moments in which new companies appeared to which a small crowd of withdrawals corresponded due to the expulsion from the market of smaller companies that were less competitive and unable to survive cyclical phases of the Italian economy.

Graph 3 Investments and Withdrawals of Incorporated (Insurance) Companies

Investimenti e disinvestimenti delle SPA (Assicurazioni)



Source: Visualization of data from “Bollettino Ufficiale delle Società Anonime”,
Various years

Between the end of the 1800s and the start of the 1900s new companies were created such as *Universo* (1889) in Milan and *Alleanza Assicurazioni* (1898), this last one founded by Evan Mackenzie in Genoa had 15,000 shares making up the social capital with the value of 1,000 lira per share, and the massive Austrian and German presence of the banks, to the point that only 750 shares of 15,000 were signed by Italians. Profits and reserves grew. In Genoa the *Unione continentale* was founded in the same year that in Verona the *Società Cattolica di Assicurazioni* (1899) and in Turin the *Savoia* (1900) were formed. *Fondiarìa*, one of the largest national companies, was created in Florence in 1879 with a capital of 8 million lira. The picture that is created in the time between the two centuries shows a market in which almost all of the companies that were protagonists in the development of the sector are present. In the period of growth (1897-1913) the companies grew their portfolios and specialised in the procedures of re-insurance and co-insurance. The dynamic of this moment stimulated the presence of numerous foreign operators, some of which were employed in the life sector, which in 1912 registered a decisive change of scene. In some years the number of foreign companies went above national ones in terms of the absolute value of premiums. The prospectus that follows reports names and typologies of the principal Italian companies created during the 1800s.

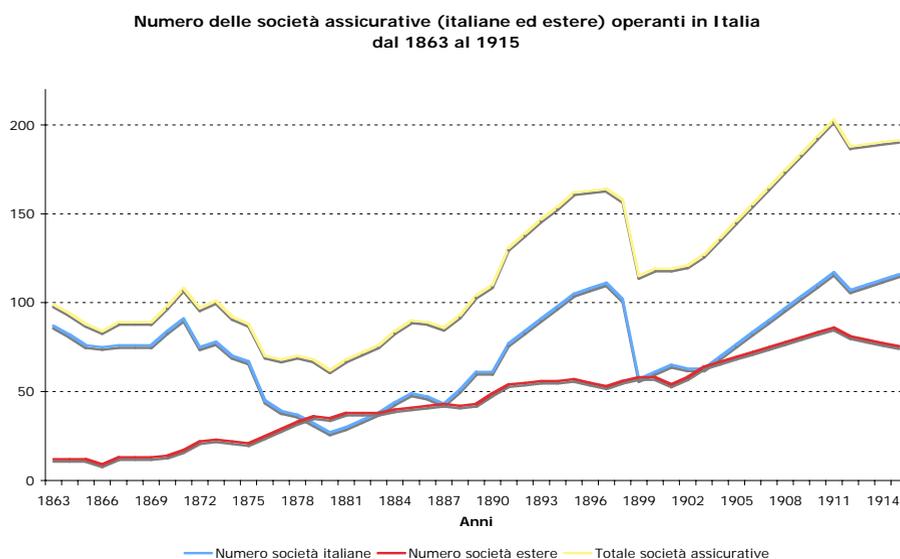
Table 2

1820:	Mutua Assicurazione Incendi-Milan
1821:	ITAS Istituto Trentino Alto Adige per Assicurazioni Società di Mutua Assicurazione
1825:	<i>Compagnia di Assicurazioni</i> -Milan (later Compagnia di Assicurazioni Milano)
1827:	<i>Società de compensi vicendevoli contro i danni della grandine</i> - Milano
1828:	<i>Società Reale di Assicurazione Generale e Mutua Contro Gli Incendi</i> - Turin (Società Reale Mutua di Assicurazione)
1831:	<i>Assicurazioni Generali Austro-Italiche</i> -Trieste (Assicurazioni Generali)
1833:	<i>Compagnia Anonima di Assicurazioni contro i Danni degli Incendi a premio Fisso</i> (Compagnia anonima di Assicurazione di Turin- Toro)
1838:	<i>Riunione Adriatica di Sicurtà</i> -Trieste
1857:	<i>Società di Mutuo Soccorso contro i Danni della Grandine per le Province Lombarde</i> - Milan (Vecchia Mutua Grandine ed Eguaglianza)
1875:	Società "Eguaglianza e Grandine"
1879:	Fondiarìa Incendio-Florence
1880:	<i>Fondiarìa Vita</i> -Florence (it is created as part of the previous company and in 1909 is it enlarged with the sector entitled the "Misfortune Fund")
1885:	Lloyd's siciliano
1889:	<i>Cooperativa Incendi</i> -Milan (Italiana Incendio)
1889:	Compagnia L'universo-Milan
1891:	L'Iniziativa-Genoa
1896:	<i>Anonima Infortuni</i> -Milan
1896:	<i>Società Cattolica di Assicurazione</i> -Verona
1898:	<i>Alleanza- Società di Assicurazione</i> -Genoa
1898:	Banca commerciale marittima-Viareggio
1899:	L'Unione ContinentaleTurin
1900:	Società Savoia-Turin

Source: A. Baglioni, *Guida agli archivi e alle fonti storiche delle Assicurazioni in Italia*, Venezia, Marsilio, 2003

In the entire country, in the moment of Italian unity the national and foreign companies, small, medium and large that operated in the sector of insurance, without distinction in the juridical nature of association, were about 70. As documented by the data, at the end of the century they were 116 and 198 in 1918. The reconstructed curve of the number of companies in the extension mentioned here demonstrates the reaffirmed relation with the first phase of industrial take off before the First World War. If all of the typologies of insurance companies are inserted, that is to say including the loan companies, the public companies and other types of companies operating in the sector, the general data produces the following graph, referring to the period between 1863 and 1914.

Graph 4
Number of Italian and Foreign Companies Operating in Italy from 1863-1915



Source: Visualization of data in Ministero dell'Interno, Direzione Generale di Statistica, *Annuario statistico italiano*, Rome, various years.

The number of foreign companies that substantially grew from the period of Italian unification through to the First World War, registers the overtaking as a number and as a portfolio for the life sector, in the 70s and the 80s and the first years of the 20th century. The tendency inverts itself all of a sudden before the creation of a monopoly of the life sector, which I will discuss below, and therefore as a result of the war.

6. THE LIFE SECTOR IN ITALY. A CASE OF MONOPOLY: THE BIRTH OF THE INA

In the dynamic reconstruction of the insurance sector in Italy, it is worth considering the most important moment in the history of Italian insurance, or

the birth in 1912 of the National Institute of Insurance, a company founded under a regime of monopoly in the life sector.

The two companies that in 1832 were practising in the life sector in Italy (*Compagnia di Milano* and *Società di assicurazioni diverse*), as we saw in the post-unity years, were joined by *Reale di Milano*, the *Fondiarria*, the *Italia*, and *Lloyd's generale italiano*.⁶⁸ The new companies abandoned the criterion of a fixed premium – as had already been done in England in the previous century – and they applied the criterion of a premium that differentiated on the basis of age and other elements that moved towards the definition of other parameters, such as activity and locality of insured residence. All of the new technical aspects were assimilated and the companies in the sector assumed precise financial goals that were separate from the nebulous motivations that until then in Italy had characterized the sector.

The company *Italia*, that had operated in the insurance sector and had begun a life sector in 1872, registered after two years nearly 10 million in the portfolio deriving from the life sector.

The success of the sector was immediate and the statistical data documents the national tendency.

Table 3
The Make-Up of Insurance Enterprises (Life Sector)

Years	No. of businesses	Reserves and Premiums (millions of lira)
1861	7	8,713
1896	28	157,613
1904	41	265,577
1911	36	440,3
1938	19	6.519,0

Source: *Notiziario ISTAT. Foglio d'informazioni dell'Istituto Centrale di Statistica. Serie storiche delle assicurazioni sulla vita*, Roma, Suppl. 1, April 1963, foglio 15. Cooperative societies are excluded.

Until 1912 progression was constant. The growth in the insurance sector in general and in particular that of the life sector registers – as the data has demonstrated – the participation of many foreign operators. Many Italian societies were founded with the presence of foreign members. These were the years at the end of the century during which the life sector grew despite its non-elevated actuary specialization in Italy and despite the rigidity expected by the law on the destination of the employed. Next to the individuation of quantifying progress and the technical nature of the visualization of calculations that are at the basis of life policies, can we speak of new or

⁶⁸ Without forgetting *Generali* and *RAS* that had been operating on the Italian market since the 1830s.

innovative policies? The traditional stipulation of contracts for annuities in the case of the death of the insured or life insurance contracts, there were other contractual forms that were made suitable for the new period. The changes, concisely, treated;

- contracts that could for see the liquidation of capital insured after a certain number of years after the death of the person who signed the contract;
- insurance against the risk of death with credit worth half the premium;
- temporary insurance, for the duration of an activity, a trip, an enterprise;
- insurance against other types of risk, often the most extravagant, for the birth of females, etc.

We are dealing with a series of products that crown the central point of life insurance in its two most important forms, utilizing variable premiums, differentiated, and made possible thanks to the patient elaboration of statistics and thanks to the increase in the number of policies covering different risks. There was therefore an increase of the survey field for the individuation of parameters stipulating the policy. A particular type of policy proposed by *Alleanza Assicurazioni* is given by the “popolari”. These are policies that for see the creation of annuities even for the lesser categories, through the fragmentation of the annual premium and therefore the periodic collection of small quotas. In Italy in 1898 the “popolari” were an innovative and functional product with principles of social solidarity that drove the operation of the small *Società di Mutuo Soccorso* or cooperatives and which had the objective of widening the base of premiums in a country that was still developing.

The results were evident: for the *Alleanza Assicurazioni* the number of new contracts between 1899 and 1911 went from 1,498 to 12,786, for an insured value from 11.318,173 to 28.439,698. The premiums passed from around 1.5 million lira to 8.4. The reserves grew ten times as did the profits.⁶⁹ The life sector moved the portfolio along in all of its sectors.

It was precisely the strong growth in capital surrounding the general and life insurance that opened a public debate on whether there was an opportunity for the State to intervene in the sector. Research was initiated, ideas for laws were proposed that would regulate the insurance sector, a referendum was organized by the press on the opportunity of public intervention in the universe of insurance. Many did not miss out on the opportunity for public finance derived from the premiums of the life sector, a sector, which was expanding and for the most part, in the hands of foreign companies.

It was then that the great innovation in the sector was discussed: the participation of the State, as an entrepreneur, in the organization and management of a service based on ancient but also completely new elements.

In 1912 in Italy, according to the governing statistics, the national companies

⁶⁹ Cfr. T. Fanfani, *Alleanza Assicurazioni*, pp. 96 and 97.

had in their portfolio premiums for 73.5 million lira,⁷⁰ the foreign companies had 10.6, for a total of 288, 259 policies, of which 58.58% were for the national companies and 41.20% for the foreign ones (of these *Generali* and *RAS* were the largest and with a most consistent portfolio, capable of explaining the confusion between the premiums and the number of policies).

The role of life insurance in social and economic terms had seen two splits: there were those who were favourable to the maintenance of a free market in the sector, and there were those who on the contrary, predicted the categories for the less well off and other motivations needed to reduce the life sector to a public monopoly.

The debate, which for years had been developing, had seen a number of people join Luigi Einaudi's camp including: Alberto Beneduce, Francesco Saverio Nitti, Ulisse Gobbi, Maffeo Pantaleoni, Luigi Bodio, Bonaldo Stringher and many other famous economists, politicians, and entrepreneurs. Alberto Beneduce, the actuary first recorded, worked tenaciously for the creation of a monopoly. The motivations adopted by Beneduce, by Luigi Bodio and by those who joined them, including the President of the Consiglio dei Ministri Giovanni Giolitti, articulated themselves on two levels of which one was economic and financial and the other social. As regards the first aspect, the prior consideration that an elevated percentage of life insurance in Italy was in the hands of foreign companies, with the result- as Beneduce upheld- that much of the capital went abroad with evident losses for the finances of the country, as this form represented a legitimate organization of the exportation of national savings. Running counter to this consideration the factors of the monopoly underlie how the nationalization would have constituted a secure source of financial accumulation for the State. Other considerations deal with the elevated number of failures that had been verified by societies that, after depositing their premiums, had not fulfilled their obligations, creating imbalances in the market and provoking a direct loss to thousands of investors. Of those who were favourable towards monopoly the other tariffs were denounced as were difficult conditions of the life policies. After the national legislation had passed from the system of preventative authorization by the government, given a green light by the Code of commerce of 1865 to a norm of non interference and of free competition in the Code of 1882, the sector did not respond to the particulars of the public order of that activity and the companies had absolute liberty to fix tariffs, premiums, earnings.

The second order concerned the protection of the well-to-do. Life insurance, with the stipulation of life annuity policies or more simply policies that

⁷⁰ Cfr. MAIC, Direzione generale del credito e della previdenza, *Le operazioni degli Istituti di assicurazione in Italia nel 1912*, in "Annali del Credito e della Previdenza", series II, vol. 8, 1914, V. Bario, *Annuario delle assicurazioni in Italia*, ed. of the newspaper "L'assicurazione", Rome 1916, cited in V. Zamagni, *Il valore aggiunto del settore terziario nel 1911*, in *I conti economici dell'Italia. 2. Una stima del valore aggiunto per il 1911*, ed. by G.M.Rey, Collana storica della Banca d'Italia-Statistiche, Laterza, Bari, 1992, pp.191-240, p. 218. Vera Zamagni reports 69.939.000 lira in awards for the life sector in 1912.

concerned the protection of the insured and of the family members represented a measure or an instrument to improve the provision of assistance for the population. Beneduce applied his analysis to the financial powers of the State and noted that, before enlarging the public expenses which would include the expense of pensions for invalids and the elderly, the needs would never have been reached if not for a strong and unpopular fiscal bitterness: the monopoly would have had to have agreed to growth destined at the realization of welfare, in political choices for the categories of the most weak.

The project of nationalization for the elite sector had been studied in other countries, such as Austria, France, Hungary, and Great Britain, but none had yet adopted it.

The legal proposal on nationalization provoked a great opposition to foreign representation that had to protect the presence of companies on the market; what is more the proposal excluded the right of compensating foreign companies. The Minister of Agriculture F.S. Nitti responded to all of the ambassadors invoking a right of national sovereignty and underlined the fact that not only the foreign companies, but also the Italian ones would have been inhibited in the life sector, an argument that made every possible accusation against the reciprocity of the commercial treaties.

The more decided opposition to Nitti's proposal came in parliament from the conservative against every expansion of the public presence and any project to make it a state entity. In the daily and specialized press Luigi Einaudi, Giuseppe Prato and others argued against the monopoly. The Honorable Fradeletto, in Parliament, supported the loss of jobs resulting from the nationalisation and the concentration of the life sector into a single enterprise. In the newspaper "Riforma Sociale", in a brief article,⁷¹ Luigi Einaudi, criticized the project of nationalization and the birth of a "bureaucratic piece of junk" which would be negative as regards the capacity to maintain the life sector to destroy what free initiative had built. There is in Italy, Einaudi says, an "expropriating band, always ready to counsel the government in new sacking and stealing from private wealth"; the "monster" or the monopoly was to be "strangled". Einaudi sustained the inadequacy of the monopoly,⁷² excluding the possibility of a state institute to be able to build the necessary investments for the payment of pensions. The trust of the investors was higher in the private rather than the state enterprises. For this reason the life sector would have lost, rather than grown the volume of business: insurance is an industry that "to be made static it could earn nothing and lose a lot", "since monopoly was for it the form of exercise least suiting it, most unfaithful, and most financially

⁷¹ L. Einaudi, *Le possibili perdite della cabala assicurativa*, in *Cronache economiche e politiche di un trentennio (1893-1925)*, Turin, Einaudi, 1960, p. 260, L. Einaudi, *Il monopolio delle assicurazioni sulla vita. I pericoli e i danni*, in "Corriere della Sera", n. 104, 14 April, 1911.

⁷² L. Einaudi, *Le possibili perdite*.

dangerous". Beneduce upheld how the state insuring all risks on life that could be measured in Italy would have realized economies of scale in the sector in as much as a single operator would have operated on the vast market and would have needed mathematical reserves that were more contained and would therefore have asked for more minor tariffs. Einaudi objected that the private companies, when they insured a risk, did not have sufficient capital for a guarantee, re-insured themselves in Italy and abroad, which diversified the weight of the risk and protected the final result. The state instead only operated in the national market and therefore reduced its possibilities of eventual risk, compromising revenue of its insured activity. The position of other important economists was more complicated. Vilfredo Pareto and Maffeo Panaleoni were mostly against the project of monopoly because they did not trust in the capacity of the state to manage the monopoly with entrepreneurial criterion. The monopoly – given its low public credibility – would have reduced the market of life policies, provoking a crisis of the internal industrial activity derived from the diminution of the collection of the premiums. This does not take away from the fact that Pantaleoni saw in the nationalization the opportunity for the state to garner a financial instrument that could procure it notable means. Thanks to the annual fees paid by the insured and to the fact that the restitution would have matured after many years, the state was procuring a notable financial source. For this Pantaleoni considered nationalization only as a means "for the formation of a reserve of capital available to the government to face those emergencies that required liquid cash".⁷³ Pantaleoni considered insurance subsidiary centres of credit supply and a fundamental instrument for the financing of industries.

The debate was very intense, but Giolitti made the monopoly of life insurance one of the qualifying points of his government on the 30th of March 1911. Law 305 of the 4th of April 1912 signalled the birth of the *Istituto nazionale dell'Assicurazioni*. The first president of the INA was Bonaldo Stringher, the governor of the Banca d'Italia. The objective of the protection of the insurance savings or life insurance, the guarantee of some assistance, was the fruit of a project that regulated an entire sector and represented an Italian way of collecting savings and maintaining the resulting financial availability.

With regard to the employed, looked after by insurance even before the creation of the monopoly, law 305 bound INA to use in the acquisition of titles of securities guaranteed by the state payments in advance. This made up a fifth of the reserve. The Institute had the task of distributing loans on life policies, subventions to employees and workers in the public sector, or creating or acquiring popular houses or economic buildings making not more than a fourth of the reserve went for that purpose. A quota that was not higher than half of the reserve could be used for the acquisition of real estate in Italy and for loans and deposits in a current account in financial institutions of known solvency.

⁷³ M. Pantaleoni, *Cronaca*, in *Giornale degli Economisti*, 1912, pp. 260-264.

The application of the law⁷⁴ went through a transitional phase during which the majority of the companies immediately handed over the activity of the life sector (some from the 1st of January 1912, others from the 1st of January 1913); only a few of the companies took advantage of the opportunity of maintaining for ten years a quota of activity in the life sector, handing over to the INA 40% of every insured risk and continuing in the meantime to operate on the remaining 60%, but under rigid tariff control required by the INA with the obligation of using half of what is recovered in stocks for the public debt.

The law had therefore an immediate effect and the INA created a risky portfolio. The law created many problems for the Italian and foreign companies and therefore also the necessity of deciding how to cast off the life portfolio that was managed from within and also came from the foreign market. *Alleanza Asicurazioni*, for example, the 23rd July of 1913 decided to begin to transfer to the *Union and Phénix Espagnol* life insurance that had been taken up in France to be re-insured by the *Urban e Phénix* company. The same Spanish company decided to hand over its life portfolio for Turkey, Greece, Spain, Tunisia, Egypt, Malta and Belgium. The event that hit *Alleanza Assicurazioni* is emblematic of the majority of Italian companies that practised in the life sector and were made to hand over contracts, portfolios and, as a consequence the collection of premiums for the INA. Few are the companies that take advantage of the law to continue to practise in the life sector maintaining 60% of their portfolio for the 10 anticipated years.

7. FROM THE FIRST TO THE SECOND WORLD WAR: A SLOWING EXPANSION

Many foreign companies, especially if they have German, Austro-Hungarian capital, disappear during the years of the First World War, due to the laws that establish the requisition and the resulting cessation provoked by the status of enemies at war. The effects could be felt in the Italian and the foreign market, given the reciprocity of the behaviour of countries involved. The very same *Alleanza Assicurazioni*, Evan Mackenzie's company participates as a German and Austrian insurance and re-insurance society. Not just Dresdner Bank sees itself deprived of a notable part of its real estate value by employees in the countries of the Hapsburg Empire.

The evolution which began in the second half of the 1800s and continued through the First World War can be summed up in the following table.

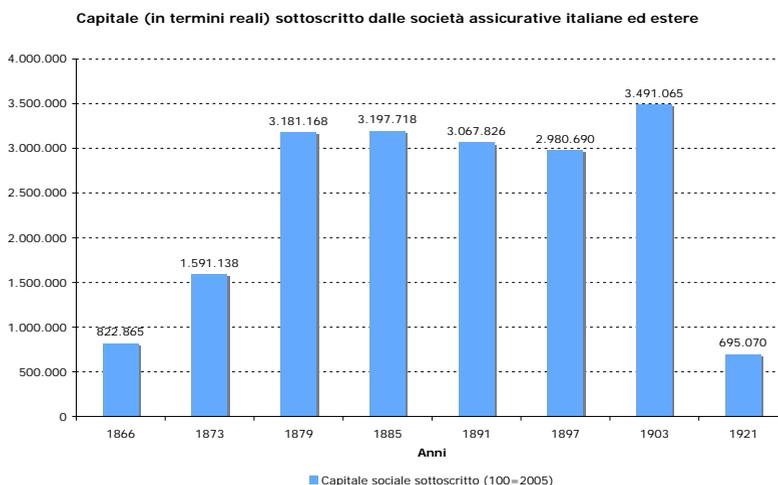
⁷⁴ Some exclusions were predicted on the basis of article 3 of law 305.

Table 4
Number of Insurance Companies by Sector⁷⁵

Years	Life	Civil Responsibility	Fire	Hail	Transport
1866	18	-	30	10	17
1898	38	-	58	19	37
1903	38	-	23	16	39
1912	59	27	36	24	41
1918	23	43	35	20	70
1924	7	36	49	26	49

The end of the war left behind a sector that progressively changed. Besides the “earthquake” provoked in the life sector by the monopoly law, in the other sectors what emerges is the fall in the number of companies that practised in the transport sector between 1918 and 1924. This is a consequence of the fall in the demand of policies due to the end of the war and the strong contraction of the Italian naval flotilla that registered an immediate reduction in the need for transport. The number of societies corresponds to an analogous tendency in the consistency of capital. If the same fact is considered as a whole in the sector, including all of the companies and not only those that sell shares, the capital registers the rapid fall of 1921, an effect of the disappearance of numerous companies, a tendency that is not lessened by the disappearance of new companies that had been created in that same year.

Graph 5
Capital (in real terms) signed by Italian and Foreign Insurance companies



Source: Visualization of data available at the Ministry of the Interior, Direzione Generale di Statistica, *Annuario statistico italiano*, Rome, various years.

⁷⁵ Warning: the dates refer to the companies that work in the various sectors. As a result the total contains more branches in the same company.

In fact however the war changed many situations and amongst these even the sector of monopoly in health insurance. The law of 1923 was meant to predict the definitive application of monopoly and instead, given the political changes that occurred when Mussolini came into the government and the necessity of reconciling Fascism with finance, the free market was recreated in the sector. The life sector returned to being a product that all companies could practise. In fact, ten years of monopoly and the choice of securities promoted by the INA had expelled from the market a large part of the companies that practised in the life sector before 1912. Only the biggest, such as Generali which had become completely Italian, Fondiaria, Ras and a few others, were involved in the life sector in the Italian market: but for many decades the dominant part of the market continued to be that of INA.

Certainly the INA registers a growing number of policies in its portfolio⁷⁶ and was used as an instrument of insurance and security with a social character. The law of 1923 restored privatization, authorised the INA to practise even in the other sectors, and transferred the Assicurazioni Italia to its control.

The INA in the economic and civil history of Italy was an important instrument especially for the reconstruction of the country following the Second World War, when together with the ministry of work it was financed by the insuring institute for the building of homes.

The Italian parliament in 1923, to incentivize the underwriting of life policies in view of creating securities for life insurance, was in favour of the contributor, as the deduction of the tax was complementary to the income of the import paid for the premium of the life policy.⁷⁷

In the period, the main companies that were created are indicated in the following description:

- 1920: Compagnia europea d'assicurazione (1920 which then became Elvia Italia SpA)
- 1920: Il Duomo Assicurazioni e riassicurazioni
- 1920: MEIE Aurora, già MEIE Assicurazioni
- 1921: SAI, Società assicuratrice industriale (1921 and which recently registered its merge with Fondiaria, It then became Fondiaria SAI)
- 1921: Swiss RE Italy
- 1921: Vittoria Assicurazioni

Source: A. Baglioni, *Guida agli archivi e alle fonti storiche delle Assicurazioni in Italia*, Venezia, Marsilia, 2003.

At the end of the war the insurance sector had registered the entry onto the

⁷⁶ In 1926 there were 740.852 policies for more than 8 billion lira and 338 million in awards.

⁷⁷ Cfr. Regio decreto 30 December 1923, n. 3062, art. 8.

national market of companies from Trieste. Their contribution in terms of a portfolio and an operation was important and it can be said that the Italian market was, by virtue of this, in a position of international prestige. Italy until then had been an exporter of premiums largely due to the capabilities of the companies from Trieste on the Italian market. From 1919 it became the importer of premiums and it acquired the international dimension driven by what was largely the operation of Generali, and also of RAS. The new situation and the weight of the Presidency of Assicurazioni Generali with the Morpurgo family contributes, together with other more political elements, not to fall into the law on monopoly of the life sector as forecasted in 1912 which would have been completed in 1922.

The period represents a critical phase for the sector: the number of businesses was reduced from 149 to 88 between 1922 and 1938. Foreign companies were much less incentivized to work in the Italian market, so that their number went from 65 to 34 and there were only a few cases of new societies with foreign capital that take hold in the peninsula. Not only political and social, but also economic uncertainty did not stimulate the creation of new societies in the sector. Neither does political persecution that the regime exercises with regards to the mutual and cooperative companies that were either Catholic or secular which were penalized by the members who had signed up to the Fascist party.

In the list of the stock companies, the new Italian and foreign ones put in place between the 20s and 30s in Italy are those indicated in the overview that follows:

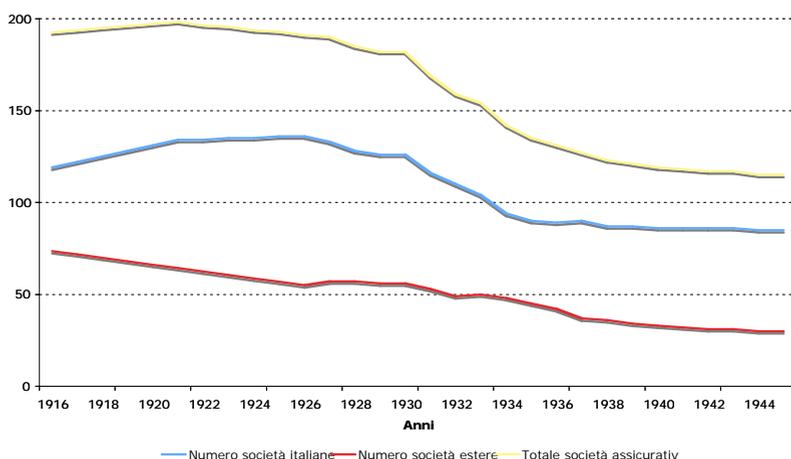
- Compagnia europea d'assicurazione (1920) that will then become Elvia Italia SpA
- Il Duomo Assicurazioni e riassicurazioni (1920)
- MEIE Aurora, previously named MEIE Assicurazioni (1920)
- SAI, Società assicuratrice industriale (1921 and that recently registered a merger with Fondiaria, Divenendo Fondiaria SAI)
- Swiss RE Italy (1921)
- Vittoria Assicurazioni (1921)
- Assitalia – Le Assicurazioni d'Italia (1923 – by the initiative of INA)
- SARA Assicurazioni (1924)
- Allianz Subalpina (1928)
- AXA Assicurazioni (1935)
- Lloyd's Adriatico (1936)

Source: A. Baglioni, *Guida agli archivi e alle fonti sgtoriche delle Assicurazioni in Italia*, cit. pp.

The graph which refers to the total number of insurance companies from 1916-1945 documents the progressive reduction of businesses in the sector.

Graph 6

Number of Italian and Foreign Insurance Companies Operating in Italy from 1916 to 1945



Source: From 1916 to 1927, visualization of available data from the Ministry of the Interior, Direzione Generale di Statistica, *Annuario statistico italiano*, Rome, various years; from 1928 to 1945, Associazione Italiana delle imprese assicuratrici (ANIA), *Annuario italiano delle imprese assicuratrici*, Rome, various years.

If the number of companies reduced the collection of premiums, it instead increased due to different factors, such as relative monetary stability confirmed with the provisions of 1926,⁷⁸ the growth of the GDP and the per capita revenue. Probably even the most competition between the companies and the diversification of insurance products lead to the increase in the volume of premiums that from 157 million lira (at current value) in 1922 increased to 469 in 1938. In reference to the variable collection of premiums for the damage and life sectors, with current values, the tendency tended to accelerate only towards the end of Mussolini's time in government.

The data that regards the consistency of social capital underwritten by the companies confirms the numeric parabola that is recorded in these years, until reaching the absolute lowest point in 1945, the year that marks the end of the Second World War. The country was destroyed: a fifth of the industrial patrimony was lost, the productive capacity of the agricultural sector went slightly above the 60% mark with respect to 1938; the naval flotilla had almost completely disappeared, railways, roads and bridges were devastated by the war, almost four million houses are destroyed or damaged. It is therefore understandable why – as is documented by the following table – 1945 is the year that registers as the lowest level of consistency of social capital in the insurance sector.

⁷⁸ The reference is to the introduction of the “quota novanta” decided by the government in June, 1926. The provision for sees the re-evaluation of the lira of 123 lira to pounds as around 90 lira.

Table 5
Capital of Insurance Companies

Years	Make-up of Social Capital (thousands of lire)	Years	Make-up of Social Capital (thousands of lire)
1925	961	1935	1.544
1926	934	1936	1.432
1927	1.114	1937	1.301
1928	1.234	1938	1.210
1929	1.219	1939	1.152
1930	1.203	1940	987
1931	1.325	1941	1.068
1932	1.309	1942	929
1933	1.331	1943	555
1933	1.331	1944	126
1934	1.494	1945	64

Source: ANIA, *Annuario italiano delle imprese assicuratrici*, Rome, various years.

In total, if the data offered by the collection of premiums is compared in terms of percentages with the internal product (for the years in which that is possible for the availability of data), the financial data is reported as national wealth, the carrying out of the collection of insurance premiums in the damages and life sectors emerges as does the contraction of the sector's activity during the war years.

Table 6
Premiums in Real Terms and as a Percentage of the GDP

Years	Premiums Damage Sector (in billions of lira)	Damage Premiums as a Percentage of the GDP	Premiums Life Sector (in billions of lira)	Life Premiums as a Percentage of the GDP
1928	0.941	0.71%	0.401	0.30%
1929	0.960	0.72%	0.461	0.35%
1930	0.976	0.83%	0.485	0.41%
1931	0.891	0.84%	0.497	0.47%
1932	0.806	0.78%	0.443	0.43%
1933	0.767	0.80%	0.412	0.43%
1934	0.761	0.79%	0.429	0.44%
1935	0.807	0.73%	0.471	0.43%
1936	0.940	0.79%	0.558	0.47%
1937	1.135	0.80%	0.617	0.44%
1938	1.213	0.80%	0.655	0.43%
1939	1.475	0.88%	0.635	0.38%
1940	1.502	0.76%	1.267	0.64%
1941	1.411	0.62%	1.615	0.71%
1942	1.542	0.54%	2.283	0.80%
1943	1.583	0.40%	2.482	0.63%
1944	1.676	0.23%	3.361	0.47%
1945	3.686	0.29%	4.603	0.36%

Source: ANIA, *Annuario italiano delle imprese assicuratrici*, Rome, various years.

As regards the order of the distribution of the portfolio and therefore of the collection of premiums, the Italian market during this period tended to become more specialized. Many sectors could be measured thanks to the expansion of the statistical revelations and to the attention given by the regime towards the activity of the primary sector, involved in the selection of reclaiming of land projects promoted by Mussolini.

In the period 1928-1939, the dynamic of the various sectors where a relative contraction of life premiums predominates, caused by the reduced propensity of the companies to operate in this productive sector. The premiums in the transport sector grew, and those in the fire sector diminished. The other branches including hail, windows, misfortune and civil responsibility remained more or less constant. The government's decisions were felt by the various military campaigns in Africa which made the policies in the transport sector grow.

In the last period of the war, an important fact for the industry, the National Association was instituted for insurance businesses, (ANIA). The statutory aims provided for watching over the businesses of the category and they coordinated their interests with those of the country.

Table 7
Breakdown of Premiums for National and Foreign Businesses According to Damage Sector (1940-1947)

Year	Aeronáutica	Cars (%)	Livestock	Breakins	Hail (%)	Fire (%)	Misfortune
1940	0,6%	0,9	0,4%	1,2%	6,6	12,9	5,2%
1941	0,4%	0,6	0,3%	1,3%	7,0	13,1	4,9%
1942	0,4%	0,5	0,4%	1,3%	4,4	12,4	4,4%
1943	0,3%	0,5	0,5%	1,4%	4,9	13,2	4,3%
1944	0,1%	0,5	0,1%	1,5%	3,6	14,5	4,5%
1945	0,0%	0,9	0,1%	2,3%	2,6	16,1	4,4%
1946	0,0%	1,4	0,1%	2,9%	5,5	17,6	4,0%
1947	0,3%	1,5	0,1%	2,2%	6,0	17,5	4,0%

Year	Civil Responsibility	Transport	Life	Other Sectors
1940	6,7%	19,3%	45,8%	0,5%
1941	5,2%	13,4%	53,4%	0,5%
1942	4,4%	11,8%	59,7%	0,4%
1943	4,2%	9,4%	61,1%	0,3%
1944	3,5%	4,8%	66,7%	0,2%
1945	7,0%	10,7%	55,5%	0,2%
1946	9,1%	16,3%	42,9%	0,2%
1947	11,3%	23,8%	32,3%	0,9%

Source: Visualization of data in ANIA,
Annuario delle imprese assicuratrici, Rome, various years

8. AFTERMATH OF THE WAR: FROM THE EMERGENCE OF THE DEFINITION OF A NEW NORMATIVE ASSET

During the Second World War many companies underwent severe losses, both in material terms (buildings were destroyed in bombings) and in operational terms. The passage from the front had forced certain companies based in big cities to relocate their offices to places that were more secure. Alleanza Assicurazioni, for example, relocated its central office to Laino, a small town outside of Como and the operation of the company fell off between the end of 1943 and the first half of 1945. The companies had organized a vast web or the collection of premiums, but the war years provoked both an interruption of the collection and the possibility of developing new contact. The data documents the drop in productivity and the reduction of the number of societies by the market in the continuation of the tendency begun between the 20s and 30s.

The moment was difficult but the insurance companies, those that remained and were the most important, contributed in a significant way to the return of social, civil and economic normalcy. In some cases the companies were asked to contribute to social welfare, as was the case with INA which participated with its own means towards the financing of the plan for the reconstruction of the houses of unemployed workers. The destruction of the houses was an indicator of the living conditions of the population. Calculate that almost 4 million homes were destroyed, creating work for many tens of thousands of masons in more than 20,000 neighborhoods. The involvement of the INA not only brought indispensable financial resources for the financing of the construction of the houses, but is also lead to the collection of premiums both in the damage and life sectors. Generali, which in 1934 had absorbed what remained of Alleanza Assicurazioni, Foniaria, RAS, SAI and other big companies of the time contributed to the normalization of the civil and social situation proposing insurance products that could be underwritten by vast sectors of the population like life policies that had contracts that provided modest premiums with monthly rates. In the end they functioned as instruments to provide for the construction of the creation of an indemnity fund in case of damage, death or the age of the insured.

In addition to the economic and productive aspects, Italy after the war was changing not only in its form of government, from being a monarchy to a republic; it also tried to rebuild the normative apparatus on which to lay the foundations of the new State. The new republican Constitution of June 1st, 1948 and the legislative change affected many sectors of civil and economic life.

The normative plan for insurance operated according to the Commercial Code of 1882. The law of 1923, cited as regards the “reprivatization” of life insurance and the decisions of the ministry of De Stefani in Mussolini’s government, represented the most modern ruling until 1942, when the new Civil Code was approved by the parliament, and put into action during the last

year of the Fascist government. Law n.966 of the 29th of April 1923 was the real code for the insurance and re-insurance businesses, while the Civil Code of 1942 contained two articles for the regulations of the insurance businesses and the insurance agencies.⁷⁹ There was no mention made, for example, between the intermediaries, of the brokers which were perhaps not even known by that name.⁸⁰

The act of revision and reform of the regulated system happened on the 13th of February 1959, when the text on private insurance was enacted. It was a strategic move by the legislator. Numerous ministerial decrees and rules were enacted in the months and years that followed and they provided for a continual revision that became more frequent during the 70s and 90s.

The insurance market became more consolidated because of families and businesses in order to better cover the ever increasing kinds of risks in the damage and life sectors. The social protection and the system for pensioners based on those who provide for the public did not incentivize the diffusion of life policies entrusted to private companies. While a rapid diffusion of motoring and the exponential increase in the circulation of automobiles made the car portfolio of all insurance companies that covered this sector, grow. In 1969 car insurance became obligatory with the Law of the 24th of December 1969, n. 99. The law was entitled *Obligatory Insurance: Civil Responsibility Deriving from the Circulation of Motor Vehicles and craft*, a law composed of 43 articles that regulated the insurance sector. It is the date that marks the most radical change: the obligation represented the notable incentive of contracts and the growth of the entire sector, in particular of the national companies.

The scare propensity of the foreign companies to work in the Italian market was perhaps provoked by the relative dynamic quality of the Italian financial market: the credit and financial systems found a dynamic asset with a low profile following the war until the 1970s. The period of great economic growth from 1953-1963 had registered strong increases in terms of the national product, which can be compared to countries like Germany and Japan, but it does not register a similar maturity and expansion of the financial market. The Italian stock exchange was tied in to a relatively restricted market, other forms of investment in innovative Financial products did not yet exist; the market of investment funds was almost unknown and the regulation did not ease the diffusion.

It is true that the country had registered an extraordinary transformation from a rural to an industrial country and in two decades it had recuperated many points in terms of competitiveness in the sector of industrial transformation. But the 70s were the years of profound economic crisis which began in 1973

⁷⁹ Articles from 1742 to 1753 of the Civil Code.

⁸⁰ Cfr. M. Orio, *La Legislazione italiana sugli intermediari assicurativi*, in ASA is edited by the Associazione per lo sviluppo degli studi assicurativi, 1992, pp. 7- 22.

with the first fuel crisis and followed through the entire decade with worrying signs such as two digit inflation, terrorism, and the research of a way to grow the service industry.

9. THE YEARS OF CHANGE

The change between the 70s and the 80s signalled the uncertainties of the insurance market and the unfavourable general economic juncture did not leave room for an upswing. But the phase of strong inflation and the progression slackening of the law as regards the businesses of the insurance companies, such as the banks, provoked the search for new forms of contracts and, in the life sector, of policies that could be re-evaluated: it was the first sign of change towards a different market. Generali proposed new life policies that were mixed and tied together the coverage of the risk of death with the re-evaluation of capital and predicted earnings: the premium was constant, even if the person drawing up the contract could increase it to 20% per year. The premium increased its predicted performance for the policy accordingly.

1982 is the year in which the life insurance sector left the long tunnel of the 70s recession and even the year in which the ISVAP was instituted, the Institute that controls private insurance and insurance with a collective interest. The Institute was an entity for the public that watched over insurance and re-insurance businesses in addition to those that fell under the norms of the insurance sector including agents and mediators.⁸¹

The upswing of the country's economy and the favourable juncture that begins in 1984 increased the income of the families and as a consequence increased the propensity to save. The general economic growth however corresponded to a deterioration of public accounts.⁸² There was a new situation that characterized many years to follow, new and growing spaces for re-launching private foresight capable of offering modern products enriched with complementary performances. In 1986 a new directive regulated the life insurance sector leading up to the moment of the general economic upturn. All of the principal insurance companies increased the collection of premiums that, in some cases, as for example with Alleanza, grew by five times between

1980 and 1990. The number of policies continued to grow as did the total volume of the portfolio. Technical reserves grew, jobs with a fixed rate income increases, as did investments in housing and the acquisition of buildings and land. Generali increased its participation with the Spanish Covadonga from 25 to 90 percent of social capital. It was an acquisition that intended to

⁸¹ The Institute was founded with law n. 576 of the 12th of August, 1982.

⁸² The public debt represented 39 percent of the GDP, at the end of the decade was 60 percent and by the first years of the 1800s it began an accelerated growth. The increased expense was not under control and in the 80s debt went above 100 percent of GDP.

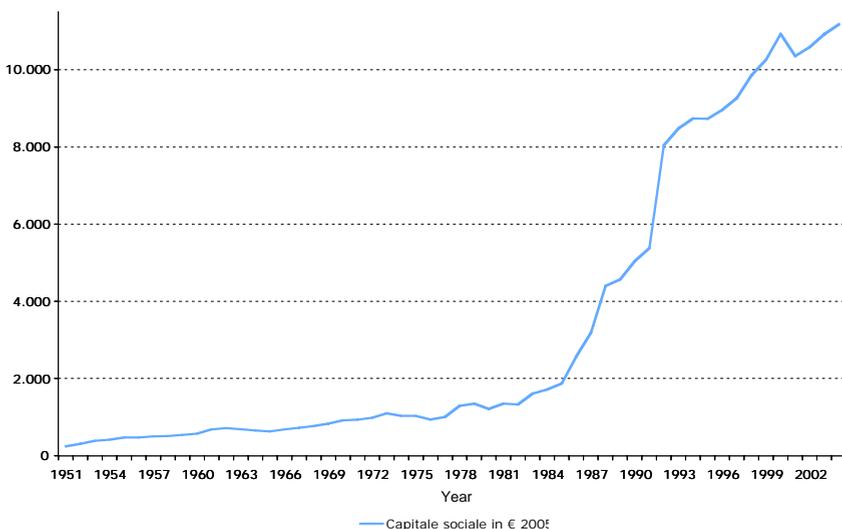
revolutionize the control and the organization of a company in a critical phase and to find the productive and remunerative asset by the shareholders.

The increase in business led the companies of the sector to increase social capital for the entire sector, as is documented by the graph below.

For example, the social capital of Alleanza Assicurazioni went from 18 billion lira (equal to 9.3 million Euros) in 1980 to 207 in 1990; the nominal value of the shares went from 1,000 to 2,000 lira and in many other companies the same extraordinary performances were registered. The increases in capital occur almost always due to the free assignment of new shares to old shareholders paying the members quite well.

Graph 7

Social Capital underwritten by Italian and Foreign Insurance Companies Operating in Italy (1951-2005)



By the mid 80s policies that were proper financial products were sold. For example the “Reevaluated Money” which was distributed in 1985 and that the insured carried entered into the vast market of investment funds, which was until then hardly known.

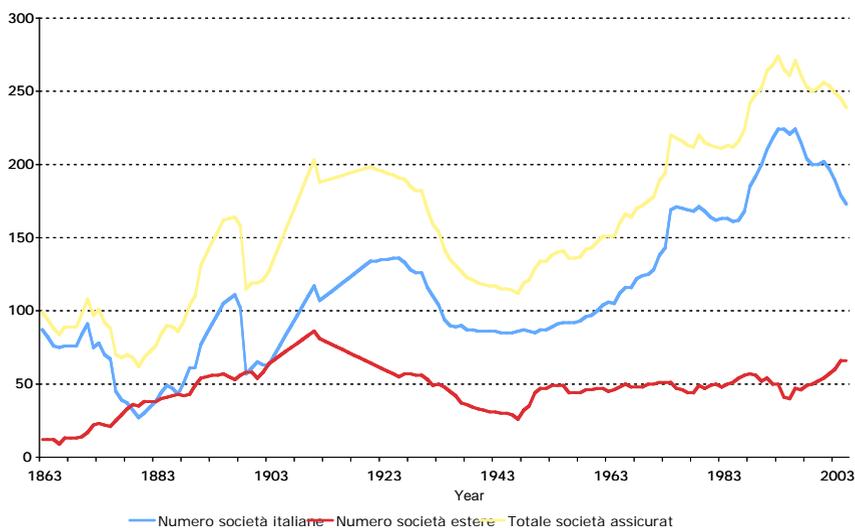
The search for new products became the dominant motive that drove financial innovation, which was consistent with the great social, economic and political changes at the end of the 80s and the 90s. The markets grew and the deadlines for the full application of the single European market in the insurance sector, including life insurance, were some of the foreign elements that preannounced changes that would recall the greatest knowledge of the

operators of the financial and insurance sector in the belief that from then onwards it would be necessary to accelerate strategic innovation both in terms of new products to be invented and in terms of the order of the organization of the web of sellers and the formation of personnel. New financial products were launched, amongst with for example, the Fondo San Giorgio of Generali, who in 1992 administered 2,587 billion lire and 7,809 in 1995 and registered earnings above 13% per year, with an evident benefit to the company and the investors. And yet the beginning of the 90s was not exciting from an economic or a political point of view. The Gulf war and the break-up of the Soviet Union were dramatic events that created great tensions while political uncertainty, the constant negative tendency of public accounts, penalised the financial market and the Milan Stock Exchange registered a flux of about 10% in 1991.

The insurance sector grew, as did the Italian economy. Between 1982 and the mid 90s there were moments of slowing down, but the general tendency was positive and led to the creation of new companies, especially in the life sector, crowding the sector which is perhaps not as sizeable as those of the most advanced European countries. In Italy in 1978 there were 52 insurance companies that worked in the life sector and 25 in the damage and life sectors. In 1990 there were 250 companies: of these 68% worked in the damage sector, 21% in the life sector and the remaining ones in both sectors. Almost half of the social capital of Italian companies in 1990 was in the hand of companies or foreign investors.

Graph 8

Number of Italian and Foreign Insurance Companies Operating in Italy from 1863-2003

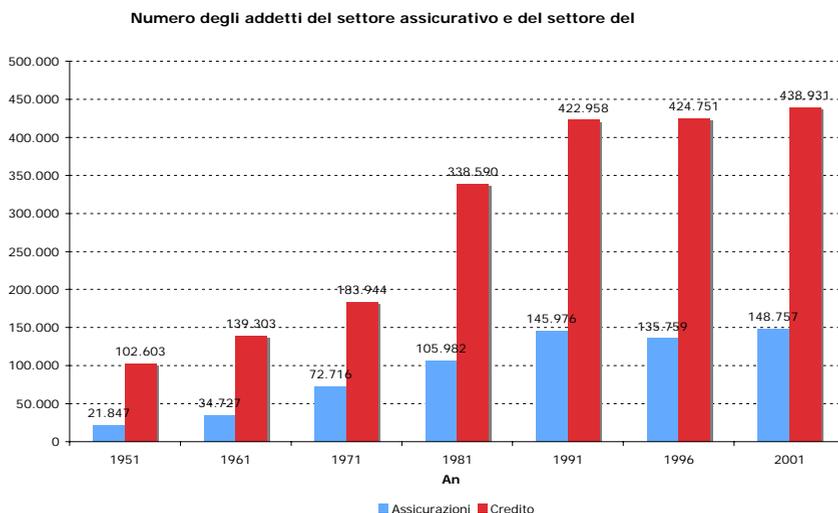


Source: From 1863 to 1927, the visualization of the available data in the Ministry of the Interior, Direzione Generale di Statistica, *Annuario statistico italiano*, Rome, various years; from 1928 to 2005, ANIA, *Annuario italiano delle imprese assicuratrici*, Rome, various years.

At the beginning of the nineties, there were about one hundred Italian insurance companies that sold life insurance and the capitalization of income. There were only seven foreign companies that sold life insurance in 1993.⁸³ In the nineties a process of rationalizing of the market began. Soon the number of companies diminished due to the liquidation of some companies that were not very competitive either due to mergers or incorporations. The revolution of the market coincided with the diffusion of policies underwritten online. The insurance companies became like banks. In 1990, four groups, Fondiaria, Generali, INA and RAS controlled almost the entire insurance market (around 45%). In the life sector Generali, INA and Alleanza shared more than 47% of the national market.

The number of people employed in the sector grew, even if with a tendency that is not directly proportional to the increase in the volume of premiums collected. This is probably because of the growing automatization of productive processes and the strong presence of economies of scale in the big industrial groups of the sector.

Graph 9
Number of Employees in the Insurance and Credit Sectors



Source: Visualization of data in ISTAT, *Sommario di statistiche storiche*, Rome, 1986 and ISTAT, *Censimento dell'Industria e dei servizi*.

The productive dynamic is well defined: the profits for the companies were decidedly elevated. The big financial concentrations and the passages of

⁸³ To be exact, in 1993 there were 99 companies in the life sector. Of these 7 were foreign and 25 companies (one of which was foreign) were added that produced in the damages and life sectors; cfr. Ania, *Annuario*, p. 5.4. In 1978 there were 52 and 25 companies respectively; of the life policies, 8 were foreign; cfr. Ania, *Annuario*, a. 1983, p. 756.

control from one company to another involved banks and insurance companies.⁸⁴

Helped by the application of the European directives, the new scenario in Italy was first of all, the consequence of deregulation and the lack of a banking intermediary. The entire banking, credit and financial system was the subject of profound normative change and it gave more autonomy to the company making it possible to fight globalization. New companies were created or already existing agencies were transformed.

In their directives, the European Community underlined the function of insurance as a sector that is sensitive to the consumer. The common market became one for the insurance sector, due to the *Atto Unico* signed in Luxembourg the 17th of February 1986 and confirmed on different occasions between 1990 and 1992. The first of July 1994 the common law became functional: with the single insurance market “the possibilities of choice for agencies and investors is expanded. The second regime of stabilization is overcome and the freedom of the performance of services, with single administrative authority is given by the State in which the business is based. This is valid in the entire European Union”. From that moment the investors have “the option of underwriting various types of insurance, with all Companies located in the European Community”.⁸⁵ It was a new challenge for all companies, including the Italian ones, a challenge which underwent expansion and significant performances.

The deregulation in Italy coincided, or more accurately “provoked” a revolution: the privatization of businesses, entities and public companies. These were years in which Italy’s IRA, the biggest and most important industry of the State in the history of the 20th century, started and concluded a massive operation of privatization of mechanical enterprises for services, banks and insurance companies. Of these the INA, which in 1992 had become an incorporated company, in order to be counted in the market: between 1994 and 1996 the Ministry of the Treasury gave the 1st part (31%) of the detained shares held by the public. The completely privatized INA entered into the group of a big historical Italian insurance company, the Generali di Trieste. The revolution of the 90s and of the first years of the next century had had many significant moments, including the affirmation and the growth of a cooperative company that became the big group in the banking and financial sector, that is, UNIPOL. The last product in legislative terms was given by the code of private insurance approved with the legislative decree n.209 of the 7th of September 2005 and updated with modifications introduced by the legislative decree n.198 of the 6th of November 2007.

⁸⁴ For example the 23rd of April, 1993 the Società di Generali, Alleanza, using Alfonso Desiata’s strategy, acquired consistent participation (12%) in the capital of the Banca Ambrosiana of the Veneto.

⁸⁵ ASA, *Bilancio al 31/12/1993*, Milan, 1994, p. 17.

10. THE “LAST MILE”: DEREGULATION AND EXPANSION

Today the Italian insurance market is very different with respect to the previous twenty or twenty-five years: the freedom of the banking system and the late modernization, which occurred in the financial market, lead to a profound transformation. The Italian insurance companies operate not only in the traditional sector of the insurance products. They also offer coherent financial products with the complex demand of the national and world market including the sector covering: health, the allocation of loans, patrimonial heritage, banking operations etc. Many companies have banks, such as Generali or Unipol and other financial companies; vice-versa credit institutions which sell insurance products. The market becomes more selective and Italy has few big companies that are able to move around the capital market, and have the strength to participate in other financial, industrial and or insurance groups. The insurance sector in recent years has assumed the reality of a sector that is decidedly more dynamic, much more than ever before in the past.

The Italian market is amongst those where insurance has many possibilities for growth both relative to the diffusion of insurance for many of the small businesses that characterize an Italian productive system, as well as regards the diffusion and the placement of the investors of recent financial products or of the last generation. The investment funds have come late, but the companies, in particular the most dynamic, underwent forms of policies capable of competing with the income of items of public debt, that is to say with the form traditionally consolidated and the most diffuse to garner the investment of consumers and of families. In real terms the financial availabilities devised from the activities of the sector have registered a strong growth in recent years, as documented by data:

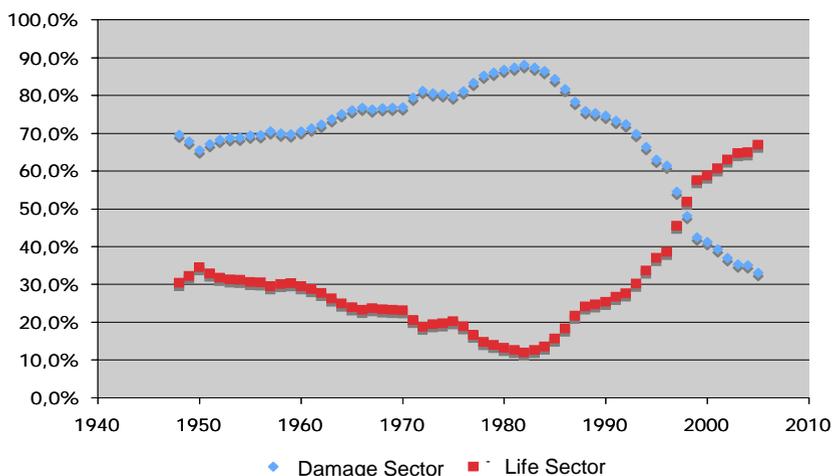
Graph 10
Index of Variation of Investments and of Availability in Real Terms (1953-2004)



Source: Visualization of the data in ANIA, *Annuario italiano delle imprese assicuratrici*, Rome, Various years.

The change regards the relationship between the different sectors of the activity held in the portfolio by the companies. A significant fact of synthesis derives from the tendency that is registered in Italy between 1948 and 2005 as regards the percentage between the life and damage portfolios. In the second half of the 80s and 90s, the life sector was jolted so that by the end of the decade and in the most recent years it has demonstrated a tendency to notable growth.

Graph 11
Damage and Life Sectors as a % of the Total Portfolio



Source: Visualization of data in ANIA,
Annuario italiano delle imprese assicuratrici, Rome, Various years

The changes therefore have a significant weight in the composition of the portfolio of the companies. If there are international comparisons of the wealth produced by the sector and the relationship between the collection of premiums (in all sectors) and the national GDP, referring to 1995 and 2004, the facts register the passage for Italy from 3.5% to 7.5%, a significant increase which signals the supply of the sector in the formation of Italian national wealth. If the data is compared with that of other European countries and of Japan and the United States, the reduction of distance between Italy and the European average is marked as is its overcoming the index as regards Japan.

If the same index is compared to premiums from the damage sector, Italy is far from the average of EU countries: when compared with the percentage of 2.2% to 2.6 and in the indicated interval. It is also on average in the EU from 3.3 to 3.4. To the net of auto insurance the relationship between premiums

and GDP is respectively from 1.0 in 1995 and 1.1 in 2004, while in the EU for 25 countries it is 2.1 and 2.2.⁸⁶ In Europe, despite the changes, Italy remains therefore amongst the countries with the most modest development in the Insurance sector.

Table 8

Index of Insurance Penetration (%). Collected Premiums /GDP

	1995	2004
EU 25	6.7	8.5
Germany	6.4	7.0
U.K.	10.7	12.7
France	86	9.8
Italy	3.5	7.5
Spain	4.8	5.7
Poland	1.6	3.4
Japan	8.4	7.1
USA	9.4	10.6

Source: Visualization from ANIA-The European House-Ambrosetti *Il contributo dell'assicurazione allo sviluppo dell'Italia e dell'Europa*, sui dati CEA e OCSE, in ANIA, 2007, p. 9.

If the same index is compared to premiums from the damage sector, Italy is far from the average of EU countries: when compared with the percentage of 2.2% to 2.6 and in the indicated interval. It is also on average in the EU from 3.3 to 3.4. To the net of auto insurance the relationship between premiums and GDP is respectively from 1.0 in 1995 and 1.1 in 2004, while in the EU for 25 countries it is 2.1 and 2.2.⁸⁷ In Europe, despite the changes, Italy remains therefore amongst the countries with the most modest development in the Insurance sector.

The life sector that was investigated in this essay and that had a rather particular history derives from the mechanism of the integrative pension, presents the potentiality of development and continues to bear out the general statistical information (premiums on GDP) to better levels, as we have just seen. In the consolidated data of 2005 the relationship of the premiums in the life sector and the GDP is 5.2%; it comes after England (9.4), Belgium (8.5) and France (7.1), in the middle of seven of the most advanced European countries.

⁸⁶ Cfr ANIA-The European House- Ambrosetti *Il contributo dell'assicurazione allo sviluppo dell'Italia e dell'Europa*, sui dati CEA e OCSE, in ANIA, 2007, p. 9.

⁸⁷ Cfr ANIA-The European House- Ambrosetti *Il contributo dell'assicurazione allo sviluppo dell'Italia e dell'Europa*, sui dati CEA e OCSE, in ANIA, 2007, p. 9.

It does not instead seem that the pension funds are dropping off. In the end a modest capability of the insurance sector emerges and captures the interest of the investors especially before next June, which obliges dependent workers to choose to whom they entrust accumulated capital during their working life. This goes to build the sum of money at the end of the report. The changes are very slow and an acceleration will have to happen due to the application of the law of TFR. It is true that the propensity of the maintenance of the status quo can prevail along with the maintenance of the public welfare in Italy, which is always a heavier burden for the State.

Italy is the country that in its public balance had the highest percentage of pension spending (the most important European countries). The welfare system (and with this the obligatory insurance pertaining to work, public welfare and the pension system) have helped to bring about the greatest transformations in the history of the country from the end of the 1800s to today, contributing to reaching competitive positions with more mature economies. Today it must review some of its big decisions as regards pension politics and the relationship between this and wealth. In the years of reconstruction and the period of growth between 1953 and the end of the 70s and 90s, the pension system was organized by contributing to an equitable growth of wealth.⁸⁸ The welfare institutes succeeded in auto-financing themselves. The public debt at the end of the 70s represented little more than 30% of the GDP. Uncertainty in the 70s, the petrol crisis, the changes in the international scenario and the stop and go of the subsequent decades have provoked a progressive inefficiency and a strong deterioration of economic indicators, first of which is the relationship of the public debt to the GDP, that today is still more than 106% and is the highest of the most advanced European countries.

An important fact as regards the critical state of the Insurance sector between investments of pension funds and the GDP in individual countries: Italy is late in its formation of pension funds, and international comparison documents this in an evident manner. It is obvious how insurance companies are institutional investors in the financial markets. They are, at least in part, thanks to the accumulation of resources of pension funds, as well as resources available for use. In Europe the investments in the sector in ten years, from 1995 to 2005, have more than doubled, reaching 6,000 billion Euros in 2006, representing today more than half of the GDP produced in the EU. The weight of the pension funds for investments in favour of the growth of single countries, provides the government with important financial resources. In Italy the index of investments of pension funds is the lowest when compared to England, Spain, France and Germany, as the facts demonstrate:

If these are the considerations that document the late development of the system in Italy compared to more advanced European countries, the

⁸⁸ Cfr. T. Fanfani, *Scelte politiche e fatti economici dal secondo dopoguerra ai nostri giorni. Cinquantenni di storia italiana*, Turin, 1998, pp. 97.

insurance sector preserves many certainties that can contribute to recuperating investments and consolidating the function of a decisive sector for the normalization of finance and economic growth of the country.

Table 9
Investments of Pension Funds by % of the GDP in some European Countries

Countries	2001	2002	2003	2004
England	72.5	66.5	65.1	65.1
Spain	5.8	5.7	9.0	9.0
France	3.9	6.6	7.0	7.0
Germany	3.3	3.4	3.8	3.8
Italy	2.3	2.4	2.6	2.6

Source: Visualization The European House-Ambrosetti sui dati CEA e Commissione europea Financial Integration, Monitor 2006, in ANIA, *Il contributo dell'assicurazione allo sviluppo dell'Italia e dell'Europa*, p. 38

When thinking about the use of the portfolio, the Italian companies maintain the long tradition of investing prevalently in bonds and other titles with a fixed earning. It is possible to calculate that in 2006 the insurance sector with an active total of 583 billion Euros of which 487 billion are active amongst 50% is destined to underwrite bonds and other titles with a fixed income. Much more modest with respect to the countries is the use of shares and other titles with a variable income and investment funds. England employs about 45% of its portfolio in this way, France, 24%, Germany 23%; Italy and Spain respectively 5.4% and 6%. Those countries that are less likely to believe in the investment in shares and other items have variable earnings.

In terms of economic results (in current values) the value in millions of Euros have gone from 2,043 in 2000 to 5,857 in 2005, equal to .17% to .41% of the GDP. The results from 2006 are much less positive in relation to the tendency of preceding years. The result of the economic account drops to 5,262 Euros not counting the flux of the profit on investments and registers the contraction from 4% on the collection of life policies.⁸⁹ The strong progression of the first five years of the new century, which experienced moderate inflation, makes it possible to think of an increasingly important role that the sector can assume in Italy's and Europe's economic development in terms of investment for growth, which is probably greater than in the past.

In conclusion, the history of Italy's insurance sector follows the dynamics of the economic growth of the country and the phases of structural change from an agricultural economy to an economy of transformation, based on the service industry.

⁸⁹ Cfr. ANIA, *L'assicurazione italiana 2006/2007*, Rome, 2007, p. 28.

The sector is late to other countries in its formulation and proposal of innovative products as regards the accumulation of financial resources and investments with a heightened income for the insured. Today the businesses in the sector that are signed up to the ANIA are 193 and constitute 91% of the insurance markets as regards premiums. The total value of premiums in 1993 was 32 million Euros, in 2000 it rose to 73 million Euros and about 115 million Euros in 2005. Of these almost 76 million come from the life sector and 40 from the damage sector. The years 1995 to 2005 have been the years of constant expansion and of almost constant flux of administration of expenses which from 14.6% of incidences on the premiums in 2000, became little more than 11% in 2005.⁹⁰

In conclusion Italian private insurance has come a long way. As strong machines for the collection of capital, the companies have since the beginning of the 1800s, represented important reserves for productive investments focused on the development of the national economy. Throughout their history they have destined their portfolios towards considerable acquisitions that increased their involvement with real estate and the underwriting of policies with fixed rates, mortgages and loans, until the most recent evolution towards the participation of businesses and investments in derived instruments.

As a consequence, when compared to the function of general economic development, the companies that operate in the Italian market used to support development through the underwriting of policies for the public debt and the financing of some big public works projects. They did not, however, yet assume a direct role in supporting the financial and banking system. Under Fascism the government asked for more involvement. In order to financially support the politics of public intervention, the companies carried out the requested tasks. It is after the war that their direct participation in the financial system increased, beginning with the support of the stock market from 1962-1964, requested by the Treasury and the Banca d'Italia. With the removal of some of the legislative restrictions due to the use of mathematical techniques beginning in the 1980s and 1990s, there was a desire to operate outside the traditional schemes of technical-insurance management. The biggest companies -especially Generali- entered into national finance and saw to the strategies of the bank for the reorganization of shareholder assets for the big groups, such as Comit (now the Banca Intesa), Credit (now Unicredito), Olivetti, Fiat, Pirelli, Mediobanca.

The epochal changes that occurred in the last fifteen years have recorded and continued to record the insurance companies' investments. They have accentuated the participation of the direct shareholders and have signalled a change in style. Traditional reserve and diffidence has been abandoned to function outside of the usual economic and financial operation of insurance and re-insurance.

⁹⁰ Cfr. ANIA, *L'assicurazione italiana 2006/2007*, Rome, 2007, p. 31.

On the global scene, in the last ten years of the 20th century, the sector turned a corner with more advanced markets. There are numerous Italian insurance companies that are ready to occupy places in the foreground of the world financial scene in order to contribute to the betterment and the growth of the nation's economy.

A HISTORY OF INSURANCE COMPANIES IN SPAIN UNTIL 1936

Jerònia Pons Pons
 Universidad de Sevilla (Spain)

Changes began to occur in the organization of maritime insurance in some regional markets in Spain from the mid-17th century. The most significant of these was the progressive substitution of individual insurers by companies. The innovation did not, however, consist in the emergence of such companies, which are known to have existed in numerous European ports from the medieval period, but rather in the manner in which they took over from individual insurers in the second half of the 17th century. Of course, these were not yet joint stock companies, but partnerships. Nevertheless, they brought about significant changes. In the first place, they eliminated the need for intermediaries between the insurer and the insured (brokers and/or notaries), and at the same time they raised the sums that could be insured and took the first steps towards the professionalization of insurance (Pons Pons 2007a). These companies shared certain common features. They had no capital stock; their liability was unlimited; and they normally had two executive officers (the *tomador* or underwriter and the *cajero* or treasurer). Also, it was the custom for them to discount a percentage of the premium to arrange for masses to be sung to ensure divine protection for the enterprise, and their names always included that of a patron saint. Companies of this kind continued and developed in the main Spanish ports during the 18th century, gradually changing under the influence of the joint stock companies that began at this time to appear in other parts of Europe. Thus, the insurance companies found in Cadiz and Barcelona began to call partners' equity interests *acciones* or shares from the 1700s onwards, although holders did not enjoy limited liability until the second half of the 18th century (Matilla 1984, pp. 742-742 y García-Baquero, 1976, 420-425). By the 1790s, over one hundred maritime insurers, the majority Spanish, were operating in Cadiz alone (Carrasco González, 1999, 269-304). The majority of these maritime insurance companies disappeared during the wars that afflicted Spain in the late 18th and early 19th centuries (Frax and Matilla, 1994).

As the 19th century dawned, a new more modern type of limited liability company was created and lines of insurance business diversified. This was a slow process however, above all because the Spanish economy lacked capital in the early decades of 19th century and suffered the vicissitudes of the country's institutional development, which continued right up to the 1870s. Three main stages can be discerned in the evolution of insurance companies in Spain until the Civil War. The first covers most of the 19th century (until 1869), when the survival rate of the few Spanish initiatives was very low. The second

begins with the economic modernization of the country that began in the last third of the 19th century and is characterized by the creation of insurance companies and the arrival of multinationals in a fast-expanding industry. This period ends with the early regulation of insurance in the 1890s and the advent of economic nationalism in the first decade of the 20th century. Finally, the third stage begins with the Insurance Act of 1908, which would mark the first intervention of the State in the insurance industry. This period continues until the end of the Spanish Civil War in 1939.

1. INSURANCE COMPANIES UNTIL THE MODERNIZATION OF 1870

The first sixty years of the 19th century saw the gradual (and unstable) creation of a liberal state in Spain, which was accompanied by efforts to achieve economic modernization. The legislation governing joint stock companies was highly restrictive, and changeable until 1869, a circumstance that did not help companies operating in the insurance sector. This factor encouraged the creation of different kinds of institutions, such as mutual societies in the area of fire insurance and groups of underwriters in the case of maritime insurance, which helped make insurance operations more dynamic. The creation of joint stock companies without State authorization was first permitted by the Commercial Code of 1829. However, the stagnation of the Spanish economy meant that few would actually be incorporated until some years had passed. According to Matilla (2007), just seventeen companies were formed between 1836 and 1848. The majority of these were concentrated in Madrid (11 companies), with three in Barcelona, two in Malaga and one in Bilbao. These were Compañía Malagueña de Seguros Marítimos (1836), Compañía Barcelonesa de Seguros Marítimos (1838); La Unión (1840) and Compañía General Española de Seguros “La Española” (1841); Compañía General del Iris and Unión Malagueña (1842); La Alianza Compañía de Seguros Generales, Catalana General de Seguros, La Probidad and La Esperanza (1844); La Amiga de la Juventud, El Áncora, Ibérica, and La Aurora de España (1845); and La Seguridad, El Fénix and Gran Antilla (1846⁹¹). The study of these companies shows that they retained the patterns of 18th century models, while modernizing certain aspects. In the case of Compañía Malagueña de Seguros Marítimos and La Unión Malagueña. Sociedad de Seguros Marítimos, the Malaga-based companies examined by García Montero (1989), shares were already defined as *acciones*, and the *tomadores* (or underwriters) had been replaced by directors, who nevertheless performed the same functions with regard to the arrangement of policies, collection of premiums, payment of claims and legal representation of the company. In contrast to 19th century companies, these executives were remunerated at an estimated 2 to 3% of net profits calculated on an annual basis, a sign of the incipient professionalization of management.

⁹¹ Other information obtained from the Companies Register between 1830 and 1848 refers to the entry of 9 joint stock companies, the main corporate purpose of which was the performance of insurance operations (Martín Aceña, 1993).

The majority of these concerns operated in the traditional maritime insurance business, although a wider corporate purpose is a common feature of the companies incorporated at this time. According to Guillem Mesado (2005), maritime insurers, such as *La Catalana General de Seguros* and *La Ibérica*, also commonly wrote farm insurance, while others such as *La Aurora de España* included the payment of cash advances and the supply of goods among their statutory activities. Meanwhile, firms such as *La Esperanza*, *La Probidad* and *El Fénix* also carried out lending and banking operations. Certain companies, also provided insurance for the payment of the capital sum required to redeem the policy holder from the obligation to enter military service (the *seguro de quintas*). This was the case of *La Amiga de la Juventud*, a firm that was also prepared to insure dowries. One of the characteristics of these early 19th century joint stock companies was, then, their willingness to carry out financial and lending operations aside from their maritime insurance business, despite their low levels of paid-in compared to subscribed capital. Thus, the shares issued would often not be distributed in their entirety to the partners, and only a small part, rarely over 10%, of the shares that were distributed was paid in. Indeed, the reality was closer to 3%. By way of example, we may consider *La Amiga de la Juventud*, the company referred to in Guillem (2005), which had subscribed capital of 40 million *reales*, of which less than 2.5% was actually paid in. This was a significant difference from 18th century insurers, however, since an initial downpayment of capital on the shares was indeed required in order to conduct non-insurance business. This payment was nevertheless very small, a fact that in itself explains the low survivorship of such companies, since it was usually preferred to wind the company up when accumulated losses required additional calls on subscribed capital. All of the companies existing at this time were based largely on the guarantee represented by shareholders who enjoyed a degree of social status, such as aristocrats, politicians, bankers and landlords, rather than on their paid-in capital, since no deposits were required by way of surety for their operations or for the interests of policy holders.

This freedom to create limited companies eventually came to an end, however, when new legislation was enacted to raise bureaucratic hurdles and toughen the requirements for the incorporation of new firms. The Act of January 28, 1848 and the secondary legislation enacted on February 17 of the same year not only made it more difficult to create new companies but complicated the survival of those already in existence. The requirements established for the incorporation of new companies and the continuation of existing firms included: a) registration of the company with the *Tribunal del Comercio* (Trade Courts); b) recognition of the corporate purpose as being in the public interest; c) appropriate share capital; and d) the absence of a monopoly over any business or trade in goods deemed a prime necessity. The new requirements were scrupulously applied. Thus, it became necessary to furnish the deed of incorporation, the articles of association and by-laws, the approval of the *Tribunal de Comercio*, and favorable reports from the *Jefe Político* (civil governor of the province in question) and the *Consejo Real* (Royal Council). As Matilla (2007) argues, the new legislation brought about the rationalization of the insurance industry. Only one in three of the companies in existence before

1848 survived. Thus, in 1857 only *La Catalana General de Seguros*, *La Ibérica*, *Compañía General Española de Seguros* and *Barcelonesa de Seguros Marítimos*, all but one of which were registered in Barcelona, continued in business. In fact, only those companies that succeeded in raising a minimum level of capital were able to endure the new legislation.⁹²

Between 1848 and 1869, limited liability insurers required government permission to conduct their business. According to information from Spanish statistical yearbooks, there were thirteen limited liability companies operating in the insurance sector between 1860 and 1866 between concerns surviving from before the 1848 Act and newly created firms. These were *Compañía General Española de Seguros* (later renamed *La Española*) and *La Unión* in Madrid; *La Catalana General de Seguros*, *Ibérica de Seguros*, *Barcelonesa de Seguros Marítimos*, *Lloyd's Barcelonés de Seguros Marítimos*, *El Cabotaje*, *Naviera Catalana*, *Lloyd's Catalán de Seguros Marítimos*, *El Áncora de Seguros Marítimos* and *Salvadora de Seguros* in Barcelona; and *Valenciana de Seguros Marítimos* in Valencia (see chart 1). Meanwhile, the decrees authorizing the incorporation of new firms between 1854 and 1858 required most of them to call 10% of subscribed capital, and most of these continued in business for only a few decades. The only exception to this trend was *El Fénix Español*, which was founded in 1864 with paid-in capital of 25%.⁹³ *El Ancora* and *Valenciana de Seguros* were wound up in 1867 and 1868 respectively, while *La Española* was liquidated circa 1874 and *La Aseguradora* circa 1876. The remaining companies were inactive by 1884 with the exception of *La Catalana de Incendios*, *El Fénix* and *La Unión*, the last two of which survived only by merging their operations in 1879. Perhaps the most significant firm incorporated at this time was *Sociedad Catalana de Seguros contra Incendios a Prima Fija* (popularly known as *La Catalana*), registered in Barcelona. This company would eventually become one of Spain's leading insurers and is one of the few concerns to remain in business as an independent operator today. *La Catalana* specialized in fire insurance, its only line of business until after the Spanish Civil War. In the early stage of its existence, from the formation of the firm until 1876, its activities were confined to Catalonia, where it was responsible for insuring some of the region's most important public buildings. After 1876, the company expanded into Valencia, Navarre and Castile. In 1868 its share capital totalled 40 million *reales*, although it was only 3.5% paid.⁹⁴

⁹² According to Matilla (2007), "The 1848 legislation destroyed the notion that the joint stock company could be a normal formula for activities of any kind and prevented the market from regulating their success".

⁹³ After 1851, authorization processes required around 10% of capital to be paid in. This was required of *Compañía Catalana General de Seguros* in the decree of October 15, 1851 permitting the continuation of its activities. At the same time, *Lloyd's Catalán de Seguros Marítimos* was required to increase its paid-in capital to 10%.

⁹⁴ For a decade management of this company was linked to the Delás family, who were prominent in the insurance industry Fernando de Delás y de Gelpí was a founding partner of the firm and its first manager. The company was chaired by Antonio Barrau and Casimiro Girona (*Catalana Occidente* 1989, 18-21).

Chart 1
Spanish insurers incorporated as joint stock companies between 1860 and 1866

Name	Incorporation and registered office		Share capital (millions of reales)*	Authorization	Lines of business	Wound up
Compañía General Española de Seguros/La Española, Compañía General de Seguros	1841	Madrid	80	12/09/1859 15/04/1854 20/10/1858	Life, maritime, fire, annuities	Around 1874
Catalana General de Seguros	1844	Barcelona	60	15/10/1851	General, preferential and maritime	Inactive by 1884
Ibérica de Seguros	1845	Barcelona	40	10/12/1851	General, preferential and maritime	Inactive by 1884
Barcelonesa de Seguros Marítimos		Barcelona	12	02/12/1853	Maritime	Inactive by 1884
Lloyd's Barcelonés de Seguros Marítimos		Barcelona	20	05/12/1855	Maritime	Around 1880
La Aseguradora		Barcelona	40	30/07/1856	Maritime	Around 1876
El Cabotaje		Barcelona	20	05/11/1856	Maritime	Inactive by 1884
La Unión, Compañía General de Seguros	1856	Madrid	32	31/12/1856	General	Merged with El Fénix around 1872
Naviera Catalana		Barcelona	30	20/05/1857	Maritime	Wound up in 1892
Lloyd's Catalán de Seguros Marítimos		Barcelona	20	03/06/1857	Maritime and fire	Around 1882
El Áncora de Seguros Marítimos		Barcelona	20	03/06/1857	Maritime	Around 1867
Salvadora de Seguros		Barcelona	30	09/09/1857	Maritime	Inactive by 1884
Valenciana de Seguros Marítimos		Valencia	20	07/10/1857	Maritime insurance	Around 1869
Catalana de Seguros contra Incendios	1864*	Barcelona	40	Incendios		

Source: Anuario Estadístico de España, 18

Bureaucratic hurdles and the strict application of the requirements for the creation of financial firms in general and insurance companies in particular may have driven the emergence of different kinds of insurance organizations, including mutual societies, partnerships and underwriters' groups, in other lines of business. Underwriter groups were prevalent in maritime insurance in Spain. Thus, Hors y Baus (1945, p. 96-97) explains that maritime insurance remained in the hands of groups of underwriters generally known as *Centros* or *Alianzas* throughout the 19th century. These groups were “*formed by ship owners, merchants and private parties of unquestionable solvency, who 'each on his own behalf and without any joint or several liability whatsoever'*” would underwrite a small percentage of a collective policy (based on the financial capacity of each name) formed by up to one hundred units. These insurer groups were local organizations that imitated the procedure of Lloyd's of London and frequently adopted its name. The groups would appoint an *abridor*, a kind of lead underwriter, to take charge of the management of its operations. The insurers forming part of the groups themselves operated as individuals, each being liable for the amount risked on each operation and for any resulting losses, as well as entitled to receive any profits. Numerous such groups were formed in Spain's main ports at this time, including *Lloyd's Vascongado* (1848), *Lloyd's Gaditano* (1850), *Lloyd's Malagueño* (1851), *Lloyd's Español* (1860), *Lloyd's Bilbaíno* (1861) and *Lloyd's Andaluz* (1864). One of the key features of these organizations was that they lacked any capital, since the policies written included the list of names and the sums guaranteed by each. Thus, in a policy written in La Palma, capital of the Balearic Islands, a group of 89 insurers (rather than the usual 100) joined together to insure a specified amount. The amounts insured varied between a ceiling of 500 pesos and a floor of 50 pesos (Pons Pons, 1998). The *Lloyd's Malagueña* insurer group, which has been studied by García Montero (1989, 264), also had no capital, and its individual underwriters acting “*acting on their own behalf and in no wise jointly [undertook] to write maritime risks under the aforementioned name in the proportion established in [this] agreement'*”. Thus, no shares or capital were established, but only the percentage pertaining to each of the parties to the contract. This Malaga-based concern did, however, establish a reserve, which was appropriated out of the premiums collected.

In a paper on the *Lloyd's Gaditano* and the *Lloyd's Andaluz* formed in Cadiz, Lepore (2005) describes a structure of share capital and shareholders that is very similar to a limited liability company. These arrangements and the existence of a limited company authorized under the name *Lloyd's Barcelonés de Seguros Marítimos* in 1855 reveal that such firms were in fact concealed under the *Lloyd's* name during the period in which the incorporation of new joint stock companies was restricted between 1848 and 1869.

The legal structure used in other lines of insurance business was the mutual society. The first organizations of this kind appeared in the fire insurance business in the 19th century. This formula had the advantage of making up for the shortage of capital and avoiding the legal obstacles in the way of the

incorporation of limited companies. The first mutual society was set up in Madrid in 1822 (Frax and Matilla, 1994) and the phenomenon eventually spread to most of Spain's provincial capitals, including Barcelona in 1836 (Maestro 1991, pp. 238 and 182), Seville in 1832 (Madoz 1986 [1845-1850], p. 338), Malaga in 1840 (De Mateo Avilés 2000, p. 23) and Palma de Mallorca in 1869 (Pons Pons 1998, p. 56). The ease with which mutual societies could be created was interrupted only briefly in 1853 at the instigation of the *Sociedad Económica Matritense*. The Society's arguments led to the approval of a Royal Decree on August 25, 1853, which repealed the Royal Order of February 28, 1839 and required mutual societies seeking authorization for their operations to comply with the Act of January 28, 1848 and the implementing regulations issued on February 17 of the same year. The Order also provided for a study of existing mutual societies (corporate purpose, governance, etc.) to be undertaken as soon as possible with a view to drafting a bill that would govern their organization and operations. However, this Order was repealed on November 25, 1859 (Fornies Baigorri, 1868, 151).

Tontine organizations were also set up under the mutual society formula. Thus, Bahamonte (1981, 138-171) describes the period between 1857 and 1962 as the "golden age of the Tontines". These institutions, including among others *La Tutelar*, *Montepío Universal*, *La Nacional*, *Caja Universal de Capitales* and *El Porvenir de las Familias*, operated the system invented by Lorenzo di Tonti in the 17th century, which consisted of the accumulation of capital for a specified time and the subsequent division of the resulting sum among the survivors. This was not, therefore, a scientific life insurance policy, because it did not take into account the age of the members of the scheme each year and, therefore, it was not possible to predict the final capital that would be generated. The accumulated capital, meanwhile, was invested in public debt and property. However, the crisis that hit Spain in 1863 and the stock market crash of 1866 (Fontana, 1961) led to a sharp depreciation in the value of public debt, the instrument in which the majority of their capital was vested, resulting in the liquidation of the Tontine societies. Among other consequences, the Tontine crisis tarnished the image of life insurance in Spain, creating considerable difficulties for the domestic and foreign life insurers who subsequently sought to launch scientific policies in the local market.

The Tontine societies also complemented their business with another line of insurance business, the *seguro de quintas*, which was intended to provide a sum to buy the insured party out of military service. Numerous organizations engaged in this kind of business around the mid-19th century, including not only mutual societies but also individual and collective underwriters. Nuria Sales (1970) contains a wealth of information about the leading *quintas* insurers before the financial crisis of 1866-1867. The main such firms included *Caja de Seguros Mutuo de Quintas de Mellado* (1856) (founded and run by Pascual Madoz), which was authorized in 1860, *La Tutelar* (1856), *Caja Universal de Capitales* (1859), *El Consuelo de las Familias* (1861), *Montepío Universal* (1856) and *La Nacional*. Two firms, *Ortega y Cía* (registered in 1844) and *Pedro Julián y Cía* (1848) (Martín Aceña, 1933, 51, 55), had earlier been formed in

Madrid for the purpose of obtaining the discharge of conscripts. The majority of these firms were backed by leading military, financial and political figures.⁹⁵ In 1866, however, the sector was hard hit by the crisis, and thousands of policy holders were affected by their failure to pay out on the subscriptions made over years by parents in order to release their sons from the duty to provide military service when they were eventually called up. The only company to escape bankruptcy was *Bienhechora Catalana*, which had been founded in 1862 (Maestro 1991, p. 138)

Aside from the general companies legislation enacted in this period, some very limited regulations governing insurance firms were also promulgated. Perhaps the most significant such provisions were established in the early 1860s in connection with the investment of surplus reserves. An order issued on August 3, 1860 established, in accordance with article 31 of the Regulations of February 17, 1847, that “*The funds of joint stock companies shall not be appropriated for transactions that do not form part of the purpose for which the company was created*”. Hence, insurance companies could no longer treat funds obtained in the form of dividends on shares as a surplus, as they were earmarked to cover corporate liabilities. Nor could the funds held by insurers be applied to lending, discounting or other operations conducted outside the scope of the corporate purpose. However, this order was left without effect by a Royal Order of April 14, 1864, which allowed those insurance companies whose by-laws established limits on the amounts retained as corporate funds to invest any surplus at the local branch of the *Caja de Depósitos* or at a bank. Where the by-laws set no such limits, companies could notify the Provincial Governor of the relevant amounts and proceed to invest any surplus. This reform was made at the behest of the directors of certain insurance companies, who were themselves interested in profiting from investment in public debt. The State did not, however, intervene to require any other guarantees or deposits of insurance companies.

2. THE LIBERALIZATION OF JOINT STOCK COMPANIES AND THE ARRIVAL OF MULTINATIONALS IN SPAIN IN THE FIRST GLOBALIZATION (1870-1907)

The Decree of October 28, 1868 liberalized the formation of limited liability companies by Spanish and foreign capitalists (Matilla, 2007). This legislation allowed the creation of any company for the purposes of trade, finance or industry with the sole requirement that it be incorporated in a public instrument, and that a copy of its articles of association and by-laws be filed with the provincial government and the Ministry of Works. Thus, the survivors of the 1866 crisis, *La Unión*, *El Fénix* and *Catalana de Seguros contra Incendios*, were soon joined by new companies set up by local commercial and financial

⁹⁵ According to Nuria Sales (1970, 109-125). In 1857, for example, the Board of Directors of *La Tutela* included the Duke of Alba, the Archbishop of Toledo, the Marquis of Heredia, the Marquis of Peralta, the bankers G. Roland and S. Vestaco Ibarrolla, and a number of army officers.

elites in various provincial capitals to operate on a provincial or regional basis. A company called *El Mediodía* was incorporated in the province of Seville in 1871. Originally, it was intended to operate in Andalusia and Extremadura, and its corporate was fixed-premium fire insurance. Its share capital was established at 2.5 million pesetas, divided into 5,000 shares, of which only 2,500 were actually issued. Of this starting capital, only 5% was paid-in by way of an initial dividend. This nugatory level of paid-in capital remained a common feature of most insurance companies created in this period. For example, it is also found in the two insurance firms set up in Palma de Mallorca in the 1870s. *El Seguro Mallorquín*, a company specializing in maritime insurance was incorporated in 1871 with the same issued share capital as *El Mediodía* (2.5 million pesetas), of which only 6% was paid in. Five years later, in 1876, *La Balear* was founded with the same issued and paid-in capital as a specialist fire insurer. None of the three would survive for more than a few decades. *El Mediodía* managed to continue its operations on a going concern basis until 1889, when its problems were finally addressed by the General Meeting of the Shareholders, who resolved to sack the company's director, Miguel de Neira. The following years were increasingly precarious, until it was resolved to wind the company up at an extraordinary meeting held in 1898. The Majorcan companies fared even worse. *El Seguro Marllorquín* was already immersed in winding up proceedings by 1886, and *La Balear* by 1892. The scant survival rate among Spanish insurance companies at this time was due to a combination of factors, including the low level of capital paid in on incorporation, speculative investment of corporate funds (especially between 1881 and 1882) and the significant dividends distributed by firms as soon as they were formed (Pons Pons 1998, p. 76).⁹⁶

One exception to the high failure rate of these provincial companies was *Previsión Española*. This company was founded in Seville in 1883 and, despite the ambiguous statement of its corporate purpose as "personal accidents and property damage", it in fact operated exclusively in the fire insurance business until the end of the Civil War. In the 1890s, at a time when various provincial insurers were undergoing a period of difficulties, a number of initiatives emerged in the life insurance segment. Two new firms were incorporated in Barcelona to operate in this line of business which was still scarcely developed, mainly because of Spain's economic backwardness and, specifically, the backwardness of actuarial science.⁹⁷ *La Previsión* was founded in 1880 with share capital of 5 million pesetas and, one year later, *Banco Vitalicio de Cataluña* with 10 million pesetas.

⁹⁶ In 1881 *La Balear* obtained income of 93,214 pesetas from its corporate funds, while income from insurance premiums was just 15,673 pesetas. A dividend of 5 pesetas per share was distributed for the year, representing 16.66% of paid-in capital.

⁹⁷ Actuaries were rare in Spain throughout the 19th century, and it was not until 1915 that the first courses of actuarial studies were set up at the *Escuelas de Comercio* (Schools of Trade). The *Asociación Actuarial Matemática de España* was not created until 1927. >In the United Kingdom, in contrast, the Institute of Actuaries of Great Britain was founded in London in 1848, and similar societies were set up in France and Italy in 1872 and 1889 (Fanfani 1998, p. 107).

Chart 2
Spanish insurers incorporated as joint stock companies between 1884 and 1899

Name	Year incorporated	Registered address	Share capital in (pesetas)	Lines of business	Wound up
Banco Vitalicio de Cataluña	1881	Barcelona	10	Life and life annuities	Merged with La Previsión in
Catalana de Seguros contra Incendios	1864*	Barcelona	5	Fire	
La Unión y El Fénix Español	1864	Madrid	12	Fire and life	Merged with La Unión in 1879
El Mediodía	1871	Seville	2.5	Fire	1889
La Magallona	1882	Barcelona	1	Terrestrial and maritime insurance	?
La Previsión	1880	Barcelona	5	Life and accidents	Merged with El Banco Vitalicio de Cataluña in
La Previsión Española	1883	Seville	2	Personal accidents and property damage	
El Seguro Mallorquín	1871	Palma de Mallorca	2.5	Maritime insurance	1886
La Unión Alcoyana	1877	Alcoy	0.25	Fire	
La Balear	1876	Palma de Mallorca	2.5	Fire	1892
Centro Catalán de Aseguradores	1887			Maritime insurance	Transformed into Plus Ultra in 1925
Previsión Nacional	1897		5		

Source: Anuario Estadístico de España 1888. 4 *reales* equal 1 peseta in 1868. Maestro (1991) gives the foundation of this company as 1864 although the incorporation date is given as August 25, 1865 in the Anuario Estadístico.

These two companies, along with *La Unión y El Fénix Español*, were among the few Spanish firms to provide scientific life insurance. At the end of 1884 only eleven Spanish limited liability insurers were operating, if firms such as *El Fénix Español*, which was in fact largely French-owned, are treated as domestic companies. The causes of the scant survivorship of Spanish firms were, once again, their negligible paid-in capital, the use of assets in speculative financial operations and the high level of dividends distributed. Josep Fontana (1961: 20-25) describes this behavior, and its costly results, in his discussion of maritime insurance companies on the Barcelona stock exchange during the 1857 crisis. This author compares the differing performance of industrial with financial firms, especially insurance companies. The capital of the industrial firms was fully paid in, and their dividend policy was more restrained. This was the case, for example, of *España Industrial*, a company that distributed annual dividends of 6.55% compared to the financial firms *Caja Barcelonesa*, which paid out 40% and *La Barcelonesa de Seguros Marítimos*, which paid 66%. This explains how industrial firms were able to weather the stock market crisis to which their financial peers fell victim. The fall in share prices between May 2 and 19, 1857 caused twenty bankruptcies, basically affecting financial firms and in particular insurers. The same happened in the 1866 crisis and after the *Febre d'Or* (gold fever) of 1881.⁹⁸ This pattern of behavior explains the high failure rate among Spanish insurance companies throughout the 19th century.

Meanwhile, multinational firms began to take an interest in the Spanish market at the end of the 1870s in the first flush of globalization,⁹⁹ despite the country's economic backwardness (Prados 2000) and slow demographic transition (Dopico and Reher 1998). With the exception of *Le Monde*, which was authorized to operate in Barcelona almost a decade earlier (1864), it was not until 1870 that a group of French, US and British multinationals would begin to establish operations in Madrid, Barcelona and Malaga. By the end of 1884 a total of twenty multinationals were operating in the country. Of these, 13 were French, 4 British and 2 American. Multinationals specializing in fire insurance were the first to arrive in the 1870s, while life insurers would wait another decade. At the same time, French companies based their establishments preferentially in Madrid rather than Barcelona. Thus, the following fire insurance companies set up in Madrid: *Le Phénix* (1870), *L'Urbaine* (1870), *Le Soleil* (1879), *L'Aigle* (1879) and *Le Progrès National* (1881). Meanwhile, the first French life insurer to arrive was *Le Phénix* (1877), followed by *L'Urbaine* (life)

⁹⁸ In 1880 and 1881 there was a surge in the formation of limited company encouraged by the bull market on the Barcelona stock exchange that became known as the "*La Febre d'or*" or "gold fever". The bubble eventually burst, ushering in a severe financial crisis. The gold fever reached a climax between December 1, 1880 and November 1881, when 23 new limited liability companies were created in Barcelona alone (including 12 banks and two credit companies) (Fontana 1961, p. 47).

⁹⁹ Numerous papers on the internationalization of insurance concerns at the end of the 19th century and in the early years of the 20th can be found in Peter Borscheid and Robin Pearson (2007). The issue is summarized in Mira Wilkins (2007, pp. 4-17).

(1881), *La Fonciere* (1883) and *Le Temps* (1883). Only *Le Monde* (fire and life) (1864), *La Paternell* (1872) and *La Centrale* (1880) chose Barcelona.

English companies, on the other hand, preferred to establish themselves in Malaga in the 1870s.¹⁰⁰ This was the course taken by *The Royal* (1873), a fire insurance company, and the life and fire insurers *The Guardian* (1876) and *The Northern* (1877). In the following decade, the British would opt for Barcelona after the decay of industrialization in Malaga. Thus, *The Lion* (an Anglo-French concern specializing in fire insurance set up in the Catalan capital in 1880, followed by *The Commercial Union* (life and fire) in 1881.¹⁰¹ Finally, two major US life insurers set up in Madrid and soon came to dominate the business. These were the *New York Life Insurance Company*, which began to operate in Spain in 1881 and the *Equitable Life Assurance Society of The United States*, which was authorized in 1882 (Pons Pons 2005 and 2008).

Foreign companies far outnumbered their Spanish rivals, and because of this they exercised considerable influence in the following decades, dominating the life, accidents and maritime businesses until the First World War. The multinationals found a weakly regulated market and little domestic initiative. Despite Spain's backwardness, then, the country was attractive due to the absence of competition and the limited requirements with regard to capital, deposits and reserves. The insurance multinationals were, moreover, able to provide guarantees for their policyholders in all of the nations where they established operations using the reserves vested in public and private securities in their home countries. By increasing the scale of their operations, they could thus raise premium income more than they needed to invest to underwrite their policies.

In this context, the few Spanish companies sought to compete by means of concentration. The 1870s and 90s saw two major mergers between Spain's strongest insurers. *La Unión* (1853/1856) merged with *El Fénix Español* in 1879. The latter company had been incorporated in 1864 by French capital on the initiative of the Pereire family, which had financed numerous Spanish railway and financial enterprises. At the time the company was founded only 41.78% of its capital was in Spanish hands. However, it was treated by the authorities as a domestic company. This company may be considered one of the first general insurers in Spain and was active in the majority of businesses, in contrast to most other insurance companies, which tended to specialize in a single line. Growth in the number of multinationals operating in the life insurance business in the 1880s and increasing competition in this line drove the other main merger in this period. In 1897 two of Barcelona's largest life insurers, *La Previsión* and *Banco Vitalicio de Cataluña*, merged. This

¹⁰⁰ Pearson (2005, p. 13-14) cites three British insurance companies with establishments in Spain before 1870. These were *Imperial*, which located in Cadiz in 1832, *Alliance* (life) in Madrid in 1833, and *Sun* in Cadiz in 1836. Numerous agencies set up in the main Spanish ports after 1864, including Malaga, Bilbao, San Sebastián and Santander, although they were rare in Madrid and Barcelona.

¹⁰¹ For a discussion of the different points of penetration of English insurance companies in Spain, especially fire insurers, see Pearson (2005).

concentration gave rise to *Banco Vitalicio de España*, which would lead the life market in the following decades, especially when the multinationals began to leave Spain during the First World War. Foreign companies enjoyed a number of other advantages over their Spanish competitors. These included mature home markets,¹⁰² greater scale, agency systems to commercialize their policies and new products (such as deferred dividend policies in the case of life insurance).

While the right conditions obtained in Spain, including in particular the scant regulation of the insurance industry and the low requirements with regard to deposits and reserves, the multinationals operated in much the same way as they did in other less developed European and Latin American markets. At the end of the 19th century, however, certain European states (Switzerland, Austria-Hungary, Germany and Russia) began to make legislative changes in order to oblige foreign firms to keep a part of their reserves in the country (Pearson and Lönneberg 2003). Spain embarked on this process in the government's 1893 budget, which provided for specific levies on insurance companies and, for the first time, guarantee deposits. This new requirement was not, in principle, a protectionist measure or in any way intended to favor Spanish companies. Rather, the objective was clearly to raise revenues to mitigate the government's constant budget deficit. However, it indirectly affected the factors that made the Spanish market attractive to the multinationals.

The fiscal provisions approved on April 11, 1893 established a levy of 2% on annual premiums. Furthermore, insurance agents were required to pay 2% of the commissions earned. In addition to these taxes, new guarantees requirements were established, which were hotly contested by both domestic and Spanish insurers. Both were to deposit one million pesetas in securities issued by the Spanish state or in mortgage warrants or bonds issued by Spanish banks, railway companies or industrial concerns with the *Caja Central de Depósitos* (Central Deposits Fund). This amount would be treated as a part of companies' technical reserves. Meanwhile, any company that failed to reach the threshold of one million pesetas was required to deposit 75% of its reserves. However, the requirement was simplified when the first voices were raised in protest. The Order of November 19, 1893 allowed companies to make a deposit equal to 20% of their annual earned premiums if their by-laws did not provide for a technical reserve or any provision for current risks. This change in fiscal legislation not only represented a significant charge on insurance activities for both companies and their agents, but it also entailed increased paperwork, as insurers were required to provide regular reports on the policies written, the amount of premium revenues and their technical reserves in Spain. Naturally, this was especially onerous for the multinationals that had entered the market since the 1870s, which held only very limited reserves in Spain, and in particular

¹⁰² The majority of multinationals established themselves in Spain some decades after their foundation, when they had reached maturity in their domestic markets and, in some cases, in other countries. For example, the US firm *The New York* was formed in New York in 1849 and set up in Spain in the early 1880s, thirty years after its incorporation. Likewise, the French firm *Le Soleil* was incorporated in 1829 and did not commence its operations until 1879.

for life companies, which need to hold substantially higher reserves. The foreign firms protested as soon as the new requirements entered the statute book (Pearson 2005, Buley 1967).

In spite of the legislation, the multinationals remained very unwilling to hold a part of their reserves in Spain, and even after the passage of the 1908 Insurance Act they continued to keep the lion's share in public debt securities or the bonds of railway companies issued in their countries of origin. Thus, the French firms *L'Abeille* and *Le Phenix* continued to invest their reserves in French stock, and the English concerns *Gresham* and *Standard Life* in British, Indian or other colonial debt. Meanwhile, *Equitable Life*, an American company, held its reserves in public debt issued by the State of New York and in the mortgage bonds of US railway companies. Only 18% of its reserves were deposited in Spain, in a building owned by the firm and used as its head office.

Despite the incipient regulation of the industry, the presence of multinationals and their control over the main lines of insurance business in Spain was the key feature of the period between 1870 and the outbreak of the World War I. Meanwhile, very few of the Spanish-owned joint stock insurance companies created in the 19th century succeeded in reaching maturity and continuing in business into the 20th century. Nevertheless, some of those that did so, like *La Unión y El Fénix*, *El Banco Vitalicio* and *La Catalana*, were able to consolidate their position and in time became the leading Spanish insurers.

3. THE REGULATION OF INSURANCE COMPANIES AND THE GROWTH OF ECONOMIC NATIONALISM IN THE INDUSTRY (1908-1935)

The first major regulation of the insurance industry occurred in the early 20th century with the passage of the 1908 Insurance Act and the related Regulations of 1912. Before this, however, a Workplace Accidents Act had been passed, which not only marked the beginnings of social insurance in Spain but was decisive for private insurance because it created a new line of business. This Act also indirectly stimulated the emergence of individual policies, which companies generally wrote jointly, and it drove the creation of specialist workplace accident insurers. At the same time, it encouraged the creation of employers' mutual societies providing workplace accident cover, thereby strengthening the already important position of mutuals in the Spanish insurance market. After the Civil War this line of business, which remained in private hands, would become the market leader in terms of the percentage of total premium revenues for the industry.

Meanwhile, the 1908 Insurance Act was a response both to the interests of local groups and the influence of the increasing regulation of insurance at the international level. According to contemporary professionals, the original bill was in principle intended to foster Spanish companies, but in its final form the

Act was based on fair criteria.¹⁰³ This change in outlook as the law was framed may in large part be put down to the lobbies of the time, and especially to the efforts and influence of the *Círculo de Aseguradores de Barcelona* (Barcelona Circle of Insurers), an association formed in 1905 whose members were mainly executives or representatives of the multinationals operating in Spain (Pons Pons 2007b). The 1908 Act remained in force with but few amendments until 1954. All insurance institutions operating in any line of business were governed by the new legislation, with the sole exception of the providers of transport policies, who continued to be regulated exclusively by the Commercial Code of 1884. The transport insurers were not finally brought under the aegis of general insurance legislation until August 13, 1920. The 1908 Act established a minimum percentage for paid-in capital, the initial deposits required by way of guarantee for policyholders and the alternatives available for the investment of insurance companies' reserves. In accordance with article 2 of the Act, joint stock companies were required to provide documentary evidence that subscribed capital was 25% paid in. Meanwhile, existing companies that did not meet this threshold were exempt provided the sum of statutory reserves and paid-in capital was over 25%.

The lack of any minimum capital requirement allowed numerous small, local and regional firms to survive for decades, encouraging the fragmentation of some lines of business, especially sickness, death and farm insurance.¹⁰⁴ In the long term, this permissiveness contributed to the survival of a plethora of grossly undercapitalized insurance firms doing scarce business and with questionable solvency. The sum of all the minnows operating in every line of business resulted in an overwhelming majority of Spanish firms. However, this census gave a false impression of the industry, as the multinationals retained a key, if declining, share of the five main lines of business (i.e. life, fire, workplace accidents, individual accidents and transport), which accounted for over 75% of premiums, right up until the Civil War (Frax and Matilla 1996, pp. 193-195). The Act also excluded certain charitable associations (*montepíos* or mutual benefit societies, and certain other mutuals) from the obligations established, as well as transport insurers.¹⁰⁵ In 1915 the exemption covered some 1,740 insurance institutions, not counting transport insurers (Pons Pons 2003b).

The new law also provided for mandatory deposits, which differed in size depending on the line of business concerned. The deposit in life insurance was 200,000 pesetas, while in other businesses it was set at 5% of paid-in capital with a minimum of 5,000 pesetas and a maximum of 100,000 pesetas. A

¹⁰³ R. Roig Armengol, "La Intervención del Estado en los Seguros", *Anuario Español de Seguros* (1914, pp. 75-77). Roig was the Spanish Delegate of the Italian firm *Reunione Adriatica di Sicurtà*.

¹⁰⁴ Although Spain remained an agrarian economy for most of the 19th century, insurance products aimed at the primary sector were scarcely developed, and this activity remained largely in the hands of small mutual societies. See Burgaz (1996).

¹⁰⁵ Castillo, S. (ed.) (1994) includes numerous studies of the evolution of mutual benefit societies in Spain.

deposit of 5,000 pesetas was established for mutual societies operating without fixed premiums or installments in the life and *quintas* line. Meanwhile, companies operating in more than one line were required to make a single deposit equal to the highest deposit payable on their businesses on a stand-alone basis. This regulatory solution favored generalist firms and mutual societies, which for decades were able to pay the minimum deposit even where they in practice operated like limited companies. The discrimination of joint stock companies in favor of mutual societies would continue well into the 20th century, while the advantages it conferred would enable some mutuals to win leading positions in workplace accident insurance and other lines of business. Furthermore, the mutual societies also enjoyed tax exemptions in addition to lower deposit requirements. For example, *Mutua General de Seguros* succeeded in having itself declared exempt from the payment of a special tax on the assets of juridical persons in a decree of May 11, 1925. The initial deposits established were raised by a Decree Law issued on February 18, 1927, although this did not remove the inequality of requirements between different lines of business or discrimination in favor of mutual societies.

In the matter of the investment of reserves, the 1908 Act provided for the regular approval of a list of acceptable securities. These might be Spanish government stock, the stock of foreign states earning interest at rates of over 4%, industrial and commercial stocks listed on the Spanish exchanges or on foreign stock exchanges provided the same were acceptable to guarantee the operations of life insurers in the home market. The Act also allowed insurance institutions to place 50% of their mathematical and up to 60% of current reserves outside Spain.

The activity of insurance companies in Spain would be governed by this new legislative framework for decades. The development of the insurance industry between 1912 and 1935 was affected by a series of factors. In the early years, the multinationals that had arrived in 1870 dominated the market. Meanwhile, the few Spanish survivors had achieved maturity in the context of a high failure rate for domestic initiatives. After 1897 the strongest of these companies were joined by numerous domestic firms as the trend changed, driven by increasing international regulation of insurance markets and the first stirrings of economic nationalism. The main lines of business remained in the hands of specialist firms, but in this period we also begin to see a process of diversification, which would eventually make these companies into general insurers. Meanwhile, cartels were rife in the fire and transport businesses, and in particular in maritime insurance, where operators were very numerous. Eventually, a series of international and domestic factors would lead a significant number of multinational insurers to withdraw from the Spanish market. Their place was soon taken by domestic firms. This change is clearly apparent in the life business, which was abandoned first by US and then by British firms (Pons Pons 2005, 2008). The rising tide of economic nationalism had taken shape partly as an increase in bureaucratic hurdles, which particularly affected the multinationals. Above all, however, it was the intensifying requirement to hold reserves in Spanish public debt securities and to deposit them domestically that

finally persuaded these companies to leave the market. At the same time, the creation of associations of Spanish firms to lobby for nationalistic economic policies and the decisive intervention of the government to help domestic companies acquire the portfolios of those multinationals that were no longer interested in the Spanish market would mean local operators accounted for over 50% of total premiums by 1935, on the eve of the Civil War. In 1912 Spanish firms had been dominant only in the fire and workplace accidents businesses.

The official figures for premiums collected by insurance companies in Spain in 1912, the year in which the Regulations implementing the 1908 act were finally approved, still reflect the significant share of multinationals in the Spanish market in technically more complex lines of business and those with less of a tradition in the country. Analysis is best approached by lines of business, given the considerable specialization of insurers at the time. Fire and transport were the most competitive businesses, due to the large number of companies involved. Life, meanwhile, was an oligopoly with very few providers. Finally, the accidents line, comprising workplace accidents and civil liability, engaged only a small number of companies, in the case of the former because the product was relatively new to Spain and of the latter due to weak demand. Twenty-two companies were operating in life insurance in 1912, only eight of which were Spanish. These represented 36.36% of the firms in the sector but accounted for only 34% of premiums. Meanwhile, mature life insurers like *Banco Vitalicio de España* and *La Unión y el Fénix* were joined by other more recently incorporated firms such as *La Actividad* (1899), *La Agrícola (Euskaria)* (1896), *Banco Aragonés de Seguros y Crédito* (1906) and *La Estrella* (1900). Foreign companies, however, accounted for over 60% of premiums. Of the 15 life insurance multinationals, three were US concerns, three were French and four were British. The limited Spanish initiative in life insurance may largely be put down to the technical difficulty of the business (and the backwardness of actuarial science in Spain) and the need for high mathematical reserves. Other impediments included low *per capita* income and cultural factors. The withdrawal of the US multinationals, *New York Life* and *Equitable Life*, and the British firms *Standard Life Assurance Company* and *The Consolidated Assurance Company Limited* between 1916 and 1927 was seized upon by Spanish companies like *La Equitativa (Fundación Rosillo)* and others to win life insurance business or commence operations, with the direct connivance of the governments of the time. At the end of this period in 1935, Spanish-owned firms accounted for 64% of life insurance premium revenues.

Chart 3
Spanish companies in different insurance lines in 1912

LIFE INSURANCE			
Company	Date founded	Subscribed capital	Paid-in capital
Banco Aragonés de Seguros y Crédito	1906	1,000	400
Alborada, La	1901	1,000	250
Alianza de Santander, La	1886	1,000	1,000
Aurora	1900	10,000	3,00
Banco Aragonés de Seguros y Crédito	1906	1,000	400
Catalana, La	1865	5,000	1,500
Celtiberia	1910	3,000	500
Día, El	1901	3,000	1,950
Estrella, La	1901	10,000	5,000
Hispania	1902	3,000	2,300
Norte, El	1902	4,000	1,000
Patria	1903	5,000	220
Protección de la Agricultura española	1899	-	-
Actividad, La	1899	2,570	690
Previsión Nacional, La	1897	2,000	620
La Unión Alcoyana	1897	250	250
Agrícola (Euskaria), La	1896	1,000	110
Previsión Española, La	1882	5,000	500
Banco Vitalicio de España	1880	15,000	3,750
La Unión y El Fénix Español	1864	12,000	12,000
Unión del Llobregat, La			

Source: Anuario Español de Seguros (1914)

Fire was the only line of business in which Spanish insurers accounted for over half (63%) of the premiums collected, despite being less in number (the 17 domestic companies operating in this business represented just 36% of the total). This was a traditional business, in which numerous mutual societies had survived alongside limited companies because it required lower reserves and less actuarial know-how. Indeed, when companies specializing in other lines of business sought to diversify, they would frequently embark on the process in fire insurance. The four oldest Spanish companies in the fire business in 1912

were *La Alianza de Santander* (1886), *La Catalana* (1865), *La Previsión Española* (1882) and *La Unión y el Fénix Español* (1864). The remaining companies operating in this line were formed between 1897 and 1906. These were *La Previsión Nacional*, *La Unión Alcoyana*, *La Protección de la Agricultura Española*, *La Alborada*, *El Día*, *La Estrella*, *Hispania*, *El Norte*, *Patria*, *La Aurora* and *Banco Aragónés de Seguros y Crédito*. Some 29 foreign firms were active in the business, the majority of which were French (12) and English (15). The cartels formed in the fire insurance business helped dampen competition, maintain premiums and hinder the entry of new competitors, especially mutual societies. Thus, 10 Spanish firms, 11 French and 11 English companies were party to the fire insurance Rates Agreement for Catalonia and the Balearic Islands made in 1912. Some years later in 1918, the *Sindicato General de Compañías de Seguros contra incendios que operan en España* (General Syndicate of Fire Insurance Companies operating in Spain) was created in Madrid on the auspices of the Spanish firm *La Unión y El Fénix* and the representatives of certain foreign firms that were, in turn, members of cartels in their home countries, like the British *Fire Office Committee* and the French *Syndicat Étranger de Paris*. These agreements reduced competition and helped maintain the level of premiums. At the end of the period in 1935, Spanish insurers had a market share of 62%.

The workplace accidents line, also known as legal or collective accidents was created after the Spanish Workplace Accidents Act of 1900. This Act made employers solely liable for workplace accidents and required them to indemnify the victims and provide for their medical needs. However, the legislation allowed the employers to arrange insurance cover. The rather later appearance of insurance of this kind explains why the business was attractive to Spanish companies from the outset. They were joined by a number of foreign firms with experience in their home markets, like the French insurers (Frax and Matilla, 1998), and by accident specialists, as in the case of some Swiss and Italian firms. In 1912 this was the only line of business in which Spanish firms were a majority (representing 60% of the total companies operating) and collected 63% of premiums. The majority of these companies were accident insurance specialists like *La Caja de Previsión y Ahorro* founded in 1898, *Hispania* founded in 1902 and *La Vasco-Navarra*, which was formed in 1900. Mutual societies were also present in the business from the outset, including *Mutua General de Seguros* (1907), *Mutua Regional de Accidentes del Trabajo*, *Sociedad de Seguros Mutuos de Vizcaya* and *Mutua Vigatana de Patronos*, *La Iberia* (1900), *Mutua Barcelonesa de Descargadores* (1907), *Mutua de Accidentes de Zaragoza* (1905), *Mutua Agrícola del Bajo Llobregat* (1908) and *Mutua Asturiana de Accidentes* (1906).¹⁰⁶ French companies also entered the market at the beginning, having accumulated experience in their home market. The first to set up shop were *La Preservatrice*, *La Foncière* y *L'Abeille*. Likewise, the Swiss firms *Winterthur* and *Zurich* were already operating by 1912, as was the Italian company *L'Assicuratrice*. Meanwhile, the initial share of the market held by Spanish firms gradually declined in favor of their foreign

¹⁰⁶ For a discussion of the Workplace Accidents Mutual Societies in Spain and the development of this line of business, see Biliboni and Pons (1999) and Pons Pons (2006).

rivals, which succeeded in increasing their slice of the pie. Workplace accident insurance became mandatory in 1932-1933, unleashing a wave of competition that was joined by all of the employers' mutual societies created in the preceding years (Iparraguirre 1934). Thus, by 1935 some 155 employers' workplace accident mutual societies and 78 farm mutuals were operating alongside 30 authorized limited liability insurers. Of the 155 industrial employers' mutual societies, 21 had been formed between 1900 and 1921, 23 between 1922 and 1930, and 11 in the four years between 1931 and 1935. These included MAPFRE, the employers' mutual society created by the *Agrupación de Propietarios de Fincas Rústicas de España* (Spanish Association of Rural Landowners), which would with time become one of Spain's leading insurance firms. Spanish firms collected 57% of total premiums in 1935 (Pons Pons, 2006).

The same foreign and some of the Spanish firms mentioned above were also active in the individual accident and civil liability line. Foreign firms clearly dominated this market, however. Thus, Spanish insurers represented only 36% of the total companies in the business and accounted for just 16.71% of premiums. Nevertheless, the presence of Spanish firms grew rapidly, and they eventually came to collect 51% of premiums.

Chart 4
Spanish companies in different insurance lines in 1912
(thousands of pesetas)

WORKPLACE ACCIDENT INSURANCE			
Company	Date founded	Subscribed capital	Paid-in capital
Caja de Previsión y Socorro	1898	1,500	750
La Unión Alcoyana	1897	250	250
Hispania	1902	3,000	2,300
La Estrella	1900	10,000	5,000
Vasco-Navarra, La	1900	4,000	656

MARITIME INSURANCE		
Date founded	Subscribed capital	Paid-in capital
1886	1,000	1,000
1901	1,000	250
1900	10,000	3,000
1887	1,000	500
1906	250	121
1901	3,000	1,950
1900	10,000	5,000
1891	2,000	1,000
1901	10,000	5,100
1864	12,000	12,000

Source: Anuario Español de Seguros (1914)

Transport, and especially maritime insurance, had remained largely in the hands of foreign firms in the 19th century. In 1912 this was reflected in the fact that only eleven of the 43 companies operating in Spain were actually Spanish. Chief among these were specialist firms such as *Centro Catalán de Aseguradores* (1887), *Centro de Navieros Aseguradores* (1879) and *Alianza de Santander* (1886) Meanwhile, German companies made up the majority of the 32 foreign firms operating in this line of business. Only 2 French and 4 English companies were present in the market, and the remaining 9 were spread between different nationalities. The large share in the hands of foreign insurers, in addition to the actions of operators like Lloyd's, left little over for Spanish firms. Cartels were also strong in this sector. Thus, the *Comité de Aseguradores Marítimos y Transportes de Barcelona* and the *Comité Español de Aseguradores Marítimos* were both founded in Barcelona in 1912. In 1920, however, a decree was issued requiring transport insurers to comply with the 1908 Insurance Act. Thereafter, capital requirements, deposits and reserves all increased for the foreign firms that were interested in continuing their operations in Spain. These new obligations, which were imposed in the midst of the economic stagnation that marked the years after the First World War, led many firms to withdraw from the transport business and liquidate their positions in Spain. Nevertheless, multinationals remained more numerous than Spanish companies. Just 16 of the 42 companies authorized in 1921 were Spanish, although they accounted for over half of premiums (52%). Furthermore, the transport premiums obtained by Spanish firms increased to 65% of the total business in the 1920s. The leading firms in this line of business were generalists like *Banco Vitalicio de España* and *La Unión y El Fénix Español* rather than specialists.

The multinationals that had established a presence in Spain in the preceding period continued to dominate the main lines of insurance business (life, fire, transport, and collective and individual accident). However, economic change after the First World War, the increasing regulation of the industry and state support for Spanish companies allowed these to strengthen their position and grow their share of insurance business. After 1912, and especially in the 1920s, numerous new Spanish companies were formed, mainly thanks to low capital and deposit requirements. Thus, 110 limited companies were formed between 1912 and 1935, although only 32 of these had share capital of over 1 million (see chart 5). The remainder were small firms operating in low profile segments such as medical and death insurance. The number of insurance firms continued to grow despite the amendment of the minimum share capital requirement enacted by a decree of February 18, 1927. This increased the minimum share capital of companies operating in the life and reinsurance businesses to 2 million pesetas, or to paid-in capital equal to 25% of subscribed capital where this was equal to or greater than 4 million pesetas. In the case of specialist insurers running overland and maritime transport, accident, hail, theft and similar businesses, and reinsurers in these lines, the requirement was two million pesetas with minimum paid-in capital of 750,000 pesetas, or payment of 25% where subscribed capital was equal to or less than 3 million pesetas. Finally, the minimum capital required in the sickness, windows and similar lines,

as well as related reinsurance business, was only 50,000 pesetas with a minimum 15,000 pesetas paid-in capital, or 25% of subscribed capital where this was equal to or greater than 60,000 pesetas.

This period also saw insurers diversify their businesses. The majority of the companies created in the 19th century had been specialist insurers, and few of them operated in more than a couple of lines. In the early 20th century, however, the force of circumstances persuaded many of them to become generalists. In life insurance, the withdrawal of the leading US and English companies favored the entry of Spanish companies into what was a much more demanding business. Meanwhile, the replacement of the 1900 Workplace Accidents Act by the Matos Act of 1922 was seized on by some companies to commence their activity in this business. The Decree of August 13, 1920, which included transport insurers in the 1908 Act, provided companies with a fresh opportunity to opt for this business. Some firms nevertheless preferred to remain specialists. This was the case of *La Catalana*, whose managers opted to create specialist affiliates up to the outbreak of the Civil War. This company therefore maintained relations with *Banco Vitalicio de Cataluña*, which mainly wrote life insurance, and with *Hispania*, an accident insurer. In the late 1920s the expansion of the insurance cover offered by Spanish firms was accompanied by changes in management and marketing policy. The majority of Spanish companies and mutual societies had based their growth on delegates, representatives and agents, who earned commissions on their production and were liable for the lease of their premises and payment of administrative staff. Some firms, however, now began to organize in-house agencies using their own personnel and premises directly linked to the insurer. This strategy was accompanied by strong growth in assets due to the purchase of buildings in the main provincial capitals, which swelled insurers' reserves. Though it has been little studied to date, the phenomenon is exemplified by *Mutua General de Seguros*, which embarked on the process by creating its first branch in Madrid in 1928. By 1934 it had its own agencies in Tarragona, Gerona, Lérida, Valencia, Sevilla, Palma de Mallorca and Madrid.

Chart 5
Spanish insurance companies founded between 1912 and 1935
(capital of over 1 million pesetas)

Company	Registered address	Year founded	Share capital in 1939	Paid-in capital in 1939
Unión Ganadera, S.A.	Sevilla	1915	2.00	0.75
La Equitativa (Fundación Rosillo) (vida)	Madrid	1916	1.00	5.00
La Patria Hispana, S.A. de seguros	Madrid	1916	2.00	1.00
Lucero	Madrid	1918	2.00	1.00
Unión Levantina, S.A.	Valencia	1918	2.00	2.00
Bilbao	Vizcaya	1918	2.00	1.50
Garantía, S.A.	Vizcaya	1918	2.00	1.00
Cantabria, Sociedad Anónima de Seguros	Madrid	1920	3.00	1.04
La Franco-Española, S.A.	Madrid	1920	4.00	1.50
La Previsora Hispalense, S.A.	Madrid	1921	4.00	2.37
Omnia, S.A.E.	Madrid	1921	2.00	0.94
Compañía Española de Seguros de Mercancías y Equipajes, S.A.	Madrid	1922	2.00	0.75
El Fénix Español	Madrid	1923	2.00	2.00
El Porvenir de los Hijos, S.A.	Barcelona	1924	2.00	1.37
Covadonga, Sociedad Anónima de Seguros	Madrid	1924	5.00	1.25
Aragón, Compañía Anónima de Seguros	Zaragoza	1927	4.00	1.00
España, S.A., Compañía Española de Seguros	Madrid	1928	5.00	2.60
General Española de Seguros, S.A.	Madrid	1928	3.00	3.00
La Equitativa (Fundación Rosillo)	Madrid	1928	1.00	5.00
La Equitativa (Fundación Rosillo) (Riesgos diversos)	Madrid	1928	5.00	2.00
Compañía Vascongada de Seguros y Reaseguros	Guipúzcoa	1929	2.00	2.00
Compañía Española de Seguros de Crédito y Caución (S.A.)	Madrid	1929	6.00	2.10

Chart 5 (cont.) Spanish insurance companies founded between 1912 and 1935 (capital of over 1 million pesetas)				
Company	Registered address	Year founded	Share capital in 1939	Paid-in capital in 1939
Peninsular, S.A. de Seguros	Madrid	1929	2.00	1.25
Unión Española, Compañía de Seguros Generales	Madrid	1929	2.50	1.25
El Ocaso, S.A.	La Coruña	1930	2.00	1.28
Cervantes, S.A.	Madrid	1930	10.00	2.00
FIDES Compañía Española de Seguros	Madrid	1932	2.00	1.00
Minerva, S.A.	Madrid	1932	10.00	3.19
Atlántida, Compañía Hispano Americana de Seguros S.A.	Madrid	1933	5.00	2.00
Compañía Aragonesa de Seguros, S.A.	Zaragoza	1933	4.00	2.00
Ibérica, S.A.	Barcelona	1935	2.50	2.50
Popular, Compañía de Seguros de vida y hogar, S.A.	Madrid	1935	2.00	1.01

Source: Anuario Financiero y de Sociedades Anónimas de España (1940)

The progress made by Spanish firms in the insurance industry was accompanied by increasing economic nationalism, which was apparent in the decisions of both government and professional organizations. One of the first steps was the approval of a decree governing the assignment of portfolios on March 17, 1922. This decree was tailored to the interests of Spanish companies and, in particular, to those of *La Equitativa (Fundación Rosillo)*, which hoped to acquire the portfolio of the American multinational *The New York Life*, itself interested in leaving the Spanish market. The Rosillo family were the former representatives in Spain of *The Equitable Life*, another American firm, which had set up *La Equitativa (Fundación Rosillo)* in 1916. One member of the family was also a member of the *Junta Consultiva de Seguros* (Insurance Consultation Council). On January 10, 1922 the Consultation Board resolved to create a committee to study the issue of portfolio assignment, which prepared a draft of the decree in just 30 days. An order issued on June 12, 1922 allowed the transfer of the portfolio from *The New York Life* to *La Equitativa*. Despite legal action against this decision on the part of Spanish insurers and complaints over numerous irregularities, the assignment went ahead. Indeed, the Rosillo Foundation also acquired the portfolio of *Standard Life Assurance Company*

Limited in 1929, becoming the second largest life insurer after *Banco Vitalicio de España* in just 15 years from incorporation with a market share of 18% in 1930.

The burden of paperwork required by the *Dirección General de Seguros* (Directorate General of Insurance) increased especially for foreign firms after World War I. Thus, the Royal Order of October 27, 1922 required companies to publish their balance sheets and other accounting information in pesetas rather than in the currency of the home country. One of the changes that most affected foreign firms was the Royal Order of April 6, 1925, which changed the alternatives available for investment abroad, requiring 50% of reserves (25% of which were to be held in Spanish securities) to be deposited with the Bank of Spain or the Central Deposits Fund. The other half of these reserves could be vested in other stocks, provided these too were deposited in Spain. Just 25% of mathematical reserves and reserves for current risks could be held in foreign stocks. Finally, only 25% of reserves could be invested in property or mortgage loans. This decision had a profound impact on foreign insurers, which held their reserves in their home countries.

In this context, the foreign firms, which had traditionally been associated by nationality,¹⁰⁷ opted to create the *Agrupación Española de Compañías Extranjeras de Seguros* (Spanish Association of Foreign Insurance Companies), an organization set up to defend their interests, which were seen as threatened by the authorities. In 1926 the Association had 38 member companies, mainly comprising British and French concerns. Shortly afterwards the *Federación de Sociedades de Seguros Españolas* (Federation of Spanish Insurance Companies) was formed in 1928. Under the leadership of *La Unión y El Fénix Español* and *La Equitativa (Fundación Rosillo)*, this organization called for and supported measures to increase the requirements imposed on the multinationals. The Federation collaborated in the rising tide of economic nationalism in the sector first set in motion by the dictatorship of General Primo de Rivera, although it failed to bring together all Spanish insurers. A number of important firms like *La Catalana* and *El Banco Vitalicio de España* refused to join the new association. These were mainly registered in Barcelona and had links to the *Círculo de Aseguradores de Barcelona*.

La Unión y El Fénix Español was unquestionably one of the leading Spanish insurers from the date it was founded, despite being incorporated with a majority of French capital, and it was also one of the few Spanish companies with an international profile (García Ruiz y Caruana 2007, p. 72). This was due to its significant starting capital, which was quickly paid up, and its early involvement in a number of lines. Furthermore, the company succeeded in leveraging all of the phenomena discussed above, including diversification, the formation of cartels and economic nationalism, to consolidate its position during

¹⁰⁷ The committee of English insurance companies operating in Spain was set up in 1909 under the aegis of the *Círculo de Aseguradores de Barcelona*, and in 1912 a representative committee of French companies operating in Catalonia and the Balearic Islands was formed (Pons Pons 2007b, p. 56).

this period. In 1936 it was the market leader in fire and transport insurance, and it was in the top rank in all other lines. In 1935 its market share was close to 10% of total industry premiums.

Chart 6
La Unión y El Fénix Español in 1935

	Premiums in pesetas		Total premiums for the line	Market share
Life	10,929,795	3	105,793,686	10.33
Fire	15,115,944	1	90,299,690	16.73
Workplace accident	6,426,171	4	83,673,212	7.68
Individual accident	2,098,774	10	48,357,452	4.34
Transport	3,003,301	1	20,377,684	14.73
Theft	1,253,213	3	6,578,268	19.05
Total	38,827,198	1	396,728,268	9.78

Source: Anuario Español de Seguros (1940)

4. THE CIVIL WAR AND THE INTERRUPTION OF GROWTH

On July 18, 1936 a military uprising against the constitutional government occurred, which initially succeeded in only a part of the country. This situation led to civil war and the division of Spain into a Nationalist and a Republican zone. The outbreak of the conflict initially cut off insurance companies from a part of their agencies and branch offices¹⁰⁸ as communications were severed or became hazardous. The head offices of the majority of insurance companies were in Madrid and Barcelona, both of which were in the Republican zone. However, numerous directors crossed the lines into the Nationalist zone, leaving some companies without their senior management echelons. For example, none of the members of *La Unión y El Fénix's* Board of Directors were in Madrid on July 18, 1936. During the war, decisions were taken by the members of a committee based in Paris.¹⁰⁹ Meanwhile, a part of the insurers' employees were mobilized, resulting in staffing shortages, and problems were encountered collecting premiums and paying claims.

In the Republican zone the Ministry of Finance reacted to the initial problems resulting from the progressive defection of company directors and managers to

¹⁰⁸ For a discussion of the Spanish economy during the Civil War, see Sánchez Asiaín (1999) and Martín Aceña and Martínez Ruiz (2006). With regard to the impact of the war on management (of banks), see chapter V. in Sánchez Asiaín (1999).

¹⁰⁹ While Republican intervention in the company took the form of a control committee, the Paris committee and the Spanish directors residing in Nationalist territory managed the business from the French capital without regard to the instructions received from Madrid. In the Spanish capital, one of the firm's two directors, Alberto Martínez-Pardo, was jailed and the other fled to the Nationalist zone. The Nationalist inspectors met in Valladolid and contacted the Director in Paris. *La Unión y El Fénix* (1946, p. 119-120).

the Nationalist camp by approving the decree of October 2, 1936 and an order of October 7, 1936, requiring a Management Committee to be formed, which would assume the powers entrusted by the articles of association to the Board of Directors. These orders were applied by the regional governments existing at the time in Catalonia and the Basque Country. On October 24, 1936 the decree ordering the collectivization of industrial and commercial firms was published in the *Diari Oficial de la Generalitat de Catalunya* (Official Journal of the Catalan Regional Government). This decree classified firms as collectivized or private. In the case of the latter, responsibility for the conduct of affairs was assigned to the owner or manager, with the assistance or control of a workers' committee. In some cases, such as that of *Mutua General de Seguros*, the committee remained under the influence of the manager, who succeeded in finding seats for direct collaborators and was able to continue to run the business with few changes. Among the numerous decrees issued, the *Generalitat* approved a series of economic interventions as part of the Tarradellas Plan. The insurance sector was reorganized by decrees 32 and 34. On September 2, 1936 a decree was issued to restructure the management of insurance organizations with the aim of collectivizing certain companies that had not yet undergone this process (Arias Velasco 1977).

Meanwhile, the Nationalist authorities also began to organize economic life within their territory as the war became more protracted. Thus Decree 220, published on February 19, 1937 exempted companies from preparing their annual balance sheets and convening the annual general meeting. To benefit from this measure, each firm was supposed to make an application and, of course, it was to have its registered address in the Nationalist zone. The new regime was eager to gain recognition of its authority and win control over business in the territory it controlled. In March 1937 insurance companies were placed under the supervision of the *Servicio Nacional de Seguros* (National Insurance Office). The insurers established new, provisional offices in various provincial capitals occupied by the Nationalist forces, mostly in San Sebastián and Seville. Foreign, and especially French, concerns opted largely for the former. In general, the choice depended on the location of the key directors in the case of Spanish companies, and on that of representatives and general managers for foreign firms.

The statistics are fairly poor for this period, among other reasons because the figures for premiums collected during the war years refer only to the Nationalist zone. Their inclusion in the premiums series therefore distorts the trend. When the fighting ended in 1939, the majority of firms made an initial inventory which brought together data from the war years from both the Nationalist and Republican zones. In general, the 1940 data for premiums by line of business are lower than the general indices for 1940 (Pons Pons 2003a). At the end of the war, insurers were faced with a range of problems, including high claims due to the fighting. This made it necessary to create insurance pools and their stance was to have major repercussions for the insurance industry at the international level. The decisions reached by the consortiums set up to deal with war damage claims in matters such as insurers' liability for civil turmoil and riot

would provide a basis of experience after the end of World War II (Feldman 2003, pp. 178-183). The loss of reserves also caused difficulties, in particular for life insurers (Garrigues and Maynes 1940). As in other industries, one major impact for insurance was the loss of human capital, not only due to employees killed or “lost” in action, but also as a result of the ensuing purges. After the war ended, the employees and managers of insurance firms were subjected, like those of other companies, to ideological cleansing and laws governing the political responsibility of civilians.¹¹⁰

The new regime, however, maintained the traditional government stance towards the sector, and the legislative framework remained basically unchanged until the approval of the new Insurance Act in 1954. In the early years of the Franco regime, however, certain latent problems in this period grew worse, such as the existence of numerous very small firms with little capital and less solvency, the large numbers of small mutual societies and the fragmentation of some lines of business. What the Franco regime did, however, change was the role of the multinationals in the Spanish insurance industry, which was gradually reduced in line with the regime’s autarkic economic principles.

5. CONCLUSIONS

Initiatives and plans for the creation of joint stock insurance companies went ahead throughout most of the 19th century. Between 1848 and 1868, the successive governments of Spain applied restrictive criteria, which hindered the formation of such firms, until the incorporation of limited liability companies was liberalized in 1869. Meanwhile, other types of insurance organization developed, including mutual societies and groups of underwriters in imitation of Lloyd’s of London. In almost all cases, however, the shortage of paid-in capital, investment of the available capital in other, all too often speculative, financial ventures and short-term profit seeking through the distribution of dividends led to the failure of joint stock enterprises. Modernization came basically from abroad. After 1870, as capitalism expanded in the first flush of globalization, a significant group of mainly American, French, British and German insurance companies that had already reached maturity in their home countries, established themselves in Spain. These multinationals increased the provision of insurance products in the most backward lines, such as life insurance, where Spanish companies had a scant presence. The US and British life insurers that set up in Spain had access to the latest actuarial techniques, new products and extensive experience in their domestic markets. Competition from the

¹¹⁰ This issue has been little researched, although it seems clear that it resulted in some cases in significant changes in management. This occurred in *Mutua General de Seguros*, whose director since 1916 was sacked in May 1941 to avoid proceedings against the institution in relation to its scant collaboration in purges affecting its employees. Among the mutual society’s directors, Luis Guarro and José Barbey were subjected to political proceedings. Archives of *Mutua General de Seguros*, Minutes of the Board of Directors of Directors, volume 2. Minutes to the meeting held on May 26, 1941.

multinationals fostered concentration and mergers among Spanish companies, which gave rise to the leading Spanish firms of the 20th century, *La Unión y El Fénix Español* and *El Banco Vitalicio de España*.

Meanwhile, Spain had attracted the attention of the multinationals despite its low *per capita* income and still high rates of mortality, in view of the limited or even non-existent requirements established by government in matters of taxation, deposits and reserves. Thus, reserves were set by the companies themselves and could be vested in public and private stocks issued in their home countries. However, the continuing budget deficits endured by the restoration governments of late 19th century Spain eventually spurred them in 1893 to raise specific taxes on insurance companies and require them to set aside guarantee deposits. This change in trend continued in the early decades of the 20th century, when the 1908 Insurance Act became the first law to regulate the industry. However, this legislation did not discriminate against multinationals, although the addition of ever more requirements by the supervisory agencies gradually eroded the attractions of the Spanish market. The first to withdraw from the country were the American life insurers, in part due to problems in the USA (the Armstrong investigation of 1905), which obliged them to cut back their foreign business.

Between 1908 and 1935 various processes took place, including diversification, which resulted in the transformation of specialist into generalist insurers, the spread of cartels to all lines of business, changes in marketing and production methods and the emergence of economic nationalism. Meanwhile, the number of Spanish-owned companies increased, measures were taken to foster the acquisition of portfolios from foreign firms leaving the country, and a professional association was created exclusively for Spanish insurers, who were anxious for insurance business to be handled by domestic capital. On the eve of the Spanish Civil War, in 1935, the market share of Spanish firms had increased to at least 50% in all lines of business. However, the conflict brought a halt to the industry's growth, as it did in other sectors of the economy. In the post-war years, the autarkic economic policies of the Franco dictatorship fostered the increasing presence of Spanish capital in the insurance industry through the acquisition of portfolios and the creation of new firms, many of which were very precarious and suffered from serious financial weaknesses. The attitude of the early Francoist governments thus aggravated the problems of the insurance industry, and some of its worst features were consolidated at this time, remaining in place until the 1980s. These included an excessive number of insurance companies, small scale operations, low levels of capital and dubious solvency.

REFERENCES

- ARIAS VELASCO, J. (1977). *La Hacienda de la Generalidad 1931-1938*. Barcelona: Ariel.
- BAHAMONDE MAGRO, A. (1981). *El Horizonte Económico de la Burguesía Isabelina: Madrid 1856-1866*. Madrid: Universidad Complutense de Madrid.
- BIBILONI AMENGUAL, A. y PONS PONS, J. (1999). El desarrollo de las mutualidades patronales de accidentes de trabajo en España. El mercado balear: entre la competencia y la colusión (1920-1940). *Revista de Historia Industrial* 15, pp. 83-104.
- BORSCHIED, P. y PEARSON, R. (2007). *Internationalisation and Globalisation of the Insurance Industry in the 19th and 20th Centuries*. Zurich: Philipps-University, Marburg and Swiss Re Corporate History.
- BURGAZ, F. J. (1996). *1902-1992. 90 años de seguros agrarios en España*. Madrid: Ministerio de Agricultura, Pesca y Alimentación.
- BULEY, R. C. (1967). *The Equitable Life Assurance Society of United States, 1859-1964*. New York, 2 vol.
- CARRASCO GONZÁLEZ, G. (1999). El negocio de los seguros marítimos en Cádiz a finales del siglo XVIII. *Hispania* 201, pp. 269-304.
- CASTILLO, S. (Ed.) (1994). *Solidaridad desde abajo*, Madrid: UGT – Centro de Estudios Históricos y Confederación Nacional de Mutualidades de Previsión.
- CATALANA OCCIDENTE (1989). *125 años de CATALANA OCCIDENTE*. Barcelona.
- DE MATEO AVILES, E. (2000). *La sociedad de seguros contra incendios de edificios y los orígenes del servicio de Bomberos en Málaga durante el siglo XIX*. Málaga: Diputación de Málaga.
- DOPICO, F. y REHER, D.S. (1998). *El declive de la mortalidad en España, 1860-1930*. Zaragoza.
- FANFANI, T. (1998). L'assurance-vie en Italie entre initiative privée et monopole (XIXe siècle-début XXe siècle) en CL. E. Núñez (ed), *Insurance in industrial societies: economic role, agents and market from 18th century to today*, Sevilla: Universidad de Sevilla, pp. 31- 55.
- FELDMAN, Gerald D. (2003). Civil commotion and riot insurance in fascist Europe, 1922-1941). *Financial History Review* 10, pp. 165-184.

- FONTANA LÁZARO, J. (1961). *La Vieja Bolsa de Barcelona*. Barcelona: Ayuntamiento de Barcelona.
- FORNIES BAIGORRI, A. (1968). *La vida comercial española 1829-1885*. Instituciones, doctrina y legislación mercantil. Zaragoza.
- FRAX, E. y MATILLA, M^a J. (1994). Ayuntamiento y propietarios: las sociedades de seguros mutuos contra incendios en Madrid (1800-1880) en *Actas del Congreso La Societat Urbana a l'Espanya Contemporània*. Barcelona.
- FRAX, E. y MATILLA, M.J. (1996). Los seguros en España: 1830-1934, *Revista de Historia Económica*, año XIV, n^o. 1, pp. 183-203.
- FRAX, E. y MATILLA, M. J. (1998). *La evolución del sector seguros en Francia y España. 1800-1936*, en NÚÑEZ, Clara Eugenia (ed.), *Insurance in industrial societies: economic role, agents and market from 18th century to today*. Sevilla: Universidad de Sevilla, pp. 31-55.
- GARRIGUES, J. y MAYNES, E. (1940). *Dos dictámenes sobre liquidación de pérdidas sufridas por las inversiones afectas a las reservas matemáticas de los seguros de vida a consecuencia de la revolución comunista Española*, Barcelona.
- GARCÍA-BAQUERO, A. (1976). *Cádiz y el Atlántico (1717-1778)*. Sevilla.
- GARCÍA MONTORO (1989). *Sociedades de seguros marítimos en Málaga en el siglo XIX* en Homenaje al profesor Carlos Seco. Madrid.
- GARCÍA RUIZ, J. L. y CARUANA, L. (2006), "The internationalisation of the business in Spain, 1939-2005", *Academic Symposium on Internationalisation and Globalisation of the Insurance Industry in the 19th and 20th Centuries* (Swiss Re Centre for Global Dialogue, Zurich, 9th and 10th October 2006).
- GUILLEM MESADO, J. M. (2005). La difícil mayoría de edad de las sociedades de seguros por acciones en la primera mitad del siglo XIX. Sesión 17, VIII Congreso de la Asociación Española de Historia Económica, 13 al 16 de septiembre de 2005, Santiago de Compostela, A Coruña y Vigo, CD.
- HORS Y BAUS, P. (1955). *Tratado de los Seguros de Transportes. Marítimos, Terrestres, de valores y aéreos*. Barcelona: Gustavo Gili.
- IPARRAGUIRRE, R. (1934). *El primer ataque a fondo contra las compañías de Seguros de Accidentes de Trabajo*. Madrid: Vicente Rico S.A..
- LA UNION Y EL FENIX ESPAÑOL (1946). *80 Aniversario, 1864-1944*. Madrid.

- LEPORE, A. (2005), "Commercio e assicurazioni a Cadice tra età moderna e contemporanea: la presenza dei Lloyd's", sesión 17, VIII Congreso de la Asociación Española de Historia Económica, 13 al 16 de septiembre de 2005, Santiago de Compostela, A Coruña y Vigo, CD.
- MADOZ, P. (1986 [1845-1850]): *Diccionario Geográfico-Estadístico-Histórico de Andalucía*.
- MAESTRO, M. (1991). *Madrid, Capital Aseguradora de España*, Madrid: SEDE.
- MAESTRO, M. (1993). *Formación del Mercado Español de Seguros, 1908-1960*, Madrid: INESE.
- MARTÍN ACEÑA, P. (1993). La Creación de sociedades en Madrid (1830.1848). Un análisis del primer registro mercantil. Documento de Trabajo 9303. Fundación Empresa Pública. Programa de Historia Económica.
- MARTIN ACEÑA, P. y MARTÍNEZ RUIZ, E. (2006). *La economía de la guerra civil*. Madrid: Marcial Pons, Ediciones de Historia.
- MATILLA QUIZÀ, M. J. (1984). Los comienzos de la compañía Mercantil por acciones en Barcelona (1770-1780), *Primer Congr s d'Hist ria Moderna de Catalunya*, Barcelona.
- MATILLA QUIZÀ, M. J. (2007). La formación de capital en la España del siglo XIX: las compañías de seguros. En *Empresas y Mercado de Seguros en la España Contempor nea* (en prensa).
- WILKINS, M. (2007). Multinational Enterprise in insurance an historical overview. En Peter Borscheid y Robin Pearson, *Internationalisation and Globalisation of the Insurance Industry in the 19th and 20th Centuries*. Zurich: Philipps-University, Marburg and Swiss Re Corporate History.
- PEARSON, R. (2005). Foreign insurance companies in Spain Before 1914, sesión 17, VIII Congreso de la Asociación Española de Historia Económica, 13 al 16 de septiembre de 2005, Santiago de Compostela, A Coruña y Vigo, CD.
- PEARSON, R. y LÖNNBORG, M. (2003). Regulatory regimes and the globalisation of insurance. *Busines and Economic History 2003 Annual Meeting*.
- PONS PONS, J. (1998). *El sector seguros en Baleares. Empresas y empresarios en los siglos XIX*. Palma de Mallorca: Ed. El Tall.
- PONS PONS, J. (2003a). *Diversificación y Cartelización en el seguro español (1914-1935)*. *Revista de Historia Económica*, nº XXI, 3, pp. 567-592.

- PONS PONS, J. (2003b). Las entidades aseguradoras y la canalización del ahorro en España. *Revista Española de Seguros* 115, pp. 337-358.
- PONS PONS, J. (2005). Large Americans corporations in the Spanish life insurance market (1880-1922). *The Journal of European Economic History* 34, 2, pp. 467-481.
- PONS PONS, J. (2006). El seguro de accidentes de trabajo en España. *Investigaciones de Historia Económica* 4, pp. 77-100.
- PONS PONS, J. (2007a). Compañías de seguro marítimo en España (1650-1800). *Hispania. Revista Española de Historia* LXVII, nº 225, enero-abril, pp. 271-294.
- PONS PONS, J. (2007b), "The influence of multinationals in the organization of the Spanish Insurance market: diversification and cartelisation (1880-1939)", en Peter Borscheid y Robin Pearson, *Internationalisation and Globalisation of the Insurance Industry in the 19th and 20th Centuries*. Zurich: Philipps-University, Marburg and Swiss Re Corporate History.
- PONS PONS, J. (2008). Multinational enterprises and institutional regulation in the Life Insurance market in Spain (1880-1935). *Business History Review* 82, 1.
- PRADOS DE LA ESCOSURA, L. (2000). Internacional comparisons of Real Procut, 1820-1990: An Alternative Data Set. *Explorations in Economic History* 37, 1.
- SALES DE BOHIGAS, N. (1970). Sociedades de seguros contra las quintas (1865-1868). En LIDA, E. y ZAVALA, I. M.. *La revolución de 1868. Historia, Pensamiento, Literatura*. Madrid. pp. 109-125.
- SANCHEZ ASIAÍN, J. A. (1999). *Economía y finanzas en la guerra civil española (1936-1939)*. Madrid: Real Academia de la Historia.

PRIVATE INSURANCE IN SPAIN, 1934-2004

José Luis García Ruiz
Universidad Complutense de Madrid (Spain)
Leonardo Caruana de las Cagigas
Universidad de Granada (Spain)

1. INTRODUCTION

This paper provides an initial overview of the development of the Spanish insurance industry between 1934 and 2004. We begin in 1934 because this study is intended, at least in part, to continue the work of Frax and Matilla (1996), which covers the period 1830-1934. The milestones in our period consist of the insurance industry laws enacted in 1908, 1954, 1984 and 1995. We also focus especially on statistical reconstruction, and we have been able to build reasonably reliable series based on the upgraded official data produced after the 1954 reform. We end this reconstruction in 2004, when the amended text of the Spanish Insurance Act, which today forms the legislative framework for the industry, was passed, marking the beginning of a new stage.

2. SPANISH INSURANCE IN THE INTER-WAR PERIOD

The rather long-windedly titled “Law governing the entry of Firms, Companies, Associations and in general all organizations having as their purpose the conduct of insurance business in the Register to be created for that purpose”, enacted in 1908, was the first specific insurance legislation passed in Spain. Though in no wise interventionist, the 1908 Act was not well received in the industry, in particular among foreign-owned firms, causing some contraction. Meanwhile, insurers failed shortly afterwards to capitalize on the economic boom enjoyed by neutral Spain during the First World War, and premiums actually fell as a percentage of national income from 0.51% in 1914 to 0.34% in 1919 (Frax and Matilla, 1998, p. 40). The weakness of Spanish insurers and the sinking of a number of ships in 1915 and 1916 spurred the government to create the *Comité Español del Seguro de Guerra* (Spanish War Insurance Committee) in 1917. This state-sponsored body initially covered war risks affecting shipping, but it soon came also to provide reinsurance for ordinary maritime risks. In 1919 the Committee was renamed the *Comité Oficial de Seguros* (Official Insurance Committee) with the aim of continuing, and even

expanding, its functions. However, pressure from private firms eventually led to the Committee's dissolution in 1924.

The figures given in Chart 1 clearly reveal certain discrepancies, but also many similarities, between the different estimates of premiums for the period between 1910 and 1950. The survey carried out by the *Dirección General de Seguros* (Directorate General of Insurance) in 1953 tends to lower the figures for direct insurance published by the *Boletín Oficial de Seguros*, on which the other estimates are based, but progress is evident in all cases. Premiums were clearly above 1% of GDP at market prices in 1935 according to Prados de la Escosura (2003), signalling the incipient take-off of the Spanish industry (technically speaking, insurance *take-off* occurs when premiums/GDP rise from 1 to 5%: see Wasow and Hill, eds., 1986; and Cummins and Venard, eds., 2007). On this point, Frax and Matilla (1998) insisted on the consistent development achieved by the insurance industry in Spain after the contraction during World War I.

Meanwhile, all of the estimates show a decline in the importance of the Life business, reflecting the development of new lines and the inflationary tensions of the period. According to the detailed breakdown by lines of business given in Pons (2002), the sum of Life and related lines of business (such as Tontine and Chatelusian schemes) accounted for 52.04% of total premiums collected in 1912, but had slipped to 43.7% by 1920 (the Transport business was still not included at this date) and to 32.01% by 1935. The importance of Life business at this initial stage in the development of the Spanish insurance market needs to be understood in the context of the enormous social inequalities of the time, as César de Madariaga, the brother of the celebrated thinker Salvador de Madariaga, remarked in a study published in 1932. Demand for insurance products remained highly concentrated among the moneyed classes.

Chart 1
Evolution of direct insurance in Spain, 1910-1950
(millions of pesetas and %)

Year	Premiums I (INE)	Premiums II Rubio et al.)	% Life Rubio et al.)	Premiums III (Frax and Matilla)	% Life (Pons)	Premiums IV (DGS)	% Life (DGS)
1910	59.4	59.2	39.7	59.5	n.a.	59.5	n.a.
1915	76.7	76.7	33.0	76.6	33.0	67.2	37.6
1920	133.9	133.6	28.3	132.8	28.5	126.5	29.9
1925	209.8	210.0	23.2	210.0	23.2	189.8	25.7
1930	301.3	308.6	26.1	308.6	26.1	288.0	28.0
1935	385.4	385.4	27.3	n.a.	26.7	400.7	26.5
1942	997.9	1,067.2	19.6	n.a.	23.07 *	922.7	22.7
1945	1,169.1	1,233.7	25.1	n.a.	n.a.	1,170.2	26.9
1950	2,285.6	2,571.5	19.4	n.a.	n.a.	2,402.4	20.8

Notes: (*) 1940. Premiums I are premiums “collected”; Premiums II are premiums “written”; Premiums III are premiums “declared”; and Premiums IV are premiums “collected”. The percentage Life premiums indicated by J. Pons has been placed beside the series given by E. Frax and M.J. Matilla because the source used is the same (*Boletín Oficial de Seguros*). However, Pons takes care to note that the disaggregated premiums do not always agree with the total, the figure given by Frax and Matilla, in the source. Sources: Premiums I in *Anuario Estadístico de España (Statistical Yearbook)* published by the *Instituto Nacional de Estadística* (the 1930 volume gives a figure of 307.90 million pesetas, although this was corrected to 301.30 million pesetas in the following year); Premiums II in Rubio et al. (1977); Premiums III in Frax and Matilla (1996); Premiums IV in the 1953 *Memoria (Annual Report)* published by the Directorate General of Insurance, which contains a revision of the historical series. For the Life percentage given by the DGS, see Pons (2002).

During the dictatorship of Primo de Rivera (1923-1930), Spanish insurers intensified their activity under the protectionist umbrella of a nationalist regime, which also concentrated the industry by establishing minimum capital requirements in the Royal Decree-Law of 18 February 1927. By 1930 local firms controlled two thirds of the direct insurance business written in Spain (Chart 2).

Chart 2
Percentage of direct insurance business written by Spanish insurers, 1910-1954

Year	%	Year	%
1910	60.88	1934	65.41
1915	61.63	1942	79.90
1920	61.83	1945	81.93
1925	64.63	1950	83.90
1930	66.07	1954	85.35

Note: After 1954, the figures published by the Sindicato Nacional de Seguros reflect a share of 88.56% in 1960 followed by a gradual decline over the rest of the decade as Spain became progressively more integrated with the international economy (87.78% in 1965 and 85.40% in 1969). Sources: Estimates based on the data in Frax and Matilla (1996) until 1934 and thereafter on the Annual Reports published by the Directorate General of Insurance.

Between 1930 and 1935 the insurance sector managed only limited growth, affected by the political, economic and social convulsions of the times. Furthermore, the main innovations at this time occurred in the area of public insurance. This sector saw the development of Mandatory Passenger Insurance (1928) for public transport and export-related Bonding Insurance (1929) (Maestro, 2004), a business that has often been the object of government intervention (for example, products of this type were provided in the USA by the Export-Import Bank, a government agency created by President Franklin D. Roosevelt in 1934). Various other mandatory social insurance structures were also set up around this time, such as the *Retiro Obrero* (Retirement) (1919), *Maternidad* (Maternity) (1929) and *Paro Forzoso* (Unemployment) (1931) schemes. The mandatory Workplace Accidents scheme (1932) represents a special case, combining the characteristics of public social insurance and the possibility of provision by private insurers (Pons, 2006).

As private insurance business declined during the Great Depression, meanwhile, resistance by employers and the weakness of the state hindered the development of public sector provision. Moreover, the working classes too protested against social insurance because premiums were taken out of already low wages. The last straw came in 1935 when the statistician Higinio Paris Eguilaz showed that the actuarial bases for these schemes had been miscalculated and that social insurance charges were too high. According to Paris Eguilaz, a single premium of 17 pesetas per year would have been enough to cover the mandatory retirement scheme (*Seguro de Retiro Obrero Obligatorio*), but the actual charges could be as high as 48 pesetas (Paris Eguilaz, 1935, p. 52).

- *The insurance industry after the Civil War*

At the end of the Spanish Civil War (1936-1939) the entire insurance industry was placed under the control of the *Sindicato Nacional del Seguro*, set up in 1940 as a part of the *Organización Sindical* (a vertically structured state organization that included both employers and workers), resulting in its subjection to the corporatist ideology of Franco's New State. This totalitarian ideology may be repellent though, but its inherent economic interventionism helped the insurance industry solve the problems caused by the recent conflict. While the fighting lasted, it had been impossible to collect premiums with any regularity and hardly any new business had been written. Given the relatively small size of the insurance industry (around 1% of GDP), these difficulties were hardly serious for the economy as a whole, but solutions were needed nonetheless. The cumulative total insurance claims made during the Civil War have been estimated at 245 million pesetas (Maluquer Rosés, 1945).

The *Ley de Regularización de los Seguros de Vida* (Life Insurance Reform Act) approved on May 17, 1940 proposed the creation of an Insurance Settlement Consortium to help firms clear outstanding debts. These included the payment of claims incurred as a consequence of the "events of the Spanish war of liberation, or the execution of capital punishments, wounding, homicide or assassination connected with the revolution". The beneficiaries of Life policies arranged before April 1, 1939 would contribute to the excess mortality rate by way of a provisional charge equal to 5% of the insured capital at July 18, 1936 made by the insurer upon the final payment of the policy. These charges would be applied to fund the Consortium, which would be governed by a Board formed by the Director General of Insurance, Joaquín Ruiz Ruiz, two insurers and two policy holders appointed by the Consultative Council set up pursuant to the 1908 Act, a secretary and a controller appointed by the *Intervención General de la Administración* (State Audit Office). The Consortium's Board would be responsible for the allocation of the funds contributed to help all firms meet their commitments up to a ceiling of 12% of mathematical reserves at December 31, 1935.

Information gathering began in February 1940 for lines other than Life and Accident, which was regulated somewhat later. Once the amounts accrued during the Civil War had been established, a law was passed on October 17, 1940 to resolve the issue through an “amicable arrangement” (i.e. arbitration). By early November it was announced that all insurance firms had accepted the proposed solution. On November 21 the Insurance Industry Consultative Council was convened as a *Colegio de Amigables Compondores* (i.e. Arbitration Tribunal) and issued the necessary ruling. The Council was chaired by the Director General of Insurance and included representatives of the insurance industry (one for each line of business grouped as: Transport, Fire, Robbery and Riot, Life, and Accidents and Sickness) and of the policyholders (classified in the same way with the addition of Tontine and Chatelusian schemes and Mutual Societies) and experts such as Manuel Arburúa, Joaquín Garrigues and Higinio Paris Eguilaz. The ruling was applied to extraordinary claims relating to policies that explicitly or implicitly covered the risks of war, revolution, sedition, uprising, riot, civil turmoil, popular agitation and similar circumstances.

In the Life business, the definitive war charge could not, however, be finally established until December 12, 1942. Claims totaled some 80 million pesetas, while mathematical reserves amounted to around 18 million (Maestro, 1993). It is therefore not surprising that it would take ten years before the Director General of Insurance could propose the liquidation of the Consortium after the conclusion of the 4,962 cases considered. By this time, however, other insurance pools had been set up and had earned widespread acceptance. These included the *Consortio de Compensación de Riesgos Catastróficos sobre las Cosas* (Settlement Consortium for Catastrophic Risks affecting Goods), created in May 1944 following a major fire at Canfranc on the foundations of a similar institution set up in June 1941 to handle property damage claims associated with rioting, and the *Consortio de Compensación de Accidentes Individuales* (Personal Accident Settlement Consortium), which was formed to handle claims for occupational accidents occurring in situations of catastrophe that were not covered by ordinary policies. These two pools were merged pursuant to a law enacted on December 16, 1954 to create the *Consortio de Compensación de Seguros* (Insurance Settlement Consortium), which also took charge of farm, fisheries and forestry policies, all areas with a high exposure to extraordinary claims (*Consortio de Compensación de Seguros*, 1960). As a consequence, Spain would become one of the few countries in the world (the other major nation is France) where policyholders are provided with mandatory cover for catastrophic risks through the payment of surcharges that are passed on to the state, since reinsurance is provided by a public institution. Though the Consortium lost its exclusivity in 1990, despite resistance from the Spanish authorities, as a result of EU directives concerning the free provision of services it continues to this day to provide cover for a large share of catastrophic and extraordinary risks) (Barrero Rodríguez, 2000). Meanwhile, minimum capital requirements were raised in March 1944, and a *status quo* for the industry was imposed by decree between July 1949 and December 1952. The aim of these measures was to “strengthen existing

insurance companies”, as was expressly stated in the law of December 20, 1952, which established a new regulatory framework for entry in the Special Register of Insurance. The law put an end to the *status quo* and approved the entry of new insurance companies with minimum capital of 25 million pesetas (50% paid at the beginning) and a deposit of 5 million pesetas as guarantee. Foreign firms were also subject to a requirement for “reciprocity permitting the expansion of Spanish firms” in their countries of origin and had to make an extraordinary payment of 2 million in respect of “working capital”.

The creation of insurance pools and the *status quo* imposed aroused little debate. Likewise, the industry avoided conflict over nationalizations (which the government never proposed seriously except as a threat to gain support for its policies; see Feldman, 2003) and policies hostile to the entry of foreign capital (in fact, the Franco regime defended the rights of German insurers between 1945 and 1952 when they were attacked by competitors in the allied nations within the framework of the “Safehaven Program” approved at the Bretton Woods Conference in 1944; see Frax and Matilla, 2006). Debate centered rather on establishing the limits of “social” and “private” insurance. After 1938 a string of (very low) family subsidies were introduced, and in 1942 the long-awaited *Seguro de Enfermedad* (Sickness Insurance) finally saw the light. In the same year insurance companies were required to reinsure 10% of their Workplace Accidents portfolios (permanent incapacity and death) with a state institution (for a general introduction to the history of social insurance in Spain, see Cuesta Bustillo et al., 1988).

3. MILESTONES IN THE DEVELOPMENT OF THE SPANISH INSURANCE INDUSTRY, 1954-1984

- *The Insurance Market Regulation Act, 1954*

The second general insurance law was the Insurance Market Regulation Act passed on 16 December 1954, not long after the first specialist courses in actuarial studies were opened in the Politics, Economics and Trade Faculties of the Spanish universities in the summer of 1953. The time thus appeared ripe, but the 1954 Act was stillborn, lacking any secondary regulation to implement its provisions. This meant that it was in fact governed by secondary regulations dating from 1912 pursuant to the 1908 Insurance Act. This extraordinary situation was not remedied throughout the whole of the Franco dictatorship.

This legislative oversight arose basically because the government focused all of its attention on the development of social insurance schemes after the Civil War. In September 1939, the Retirement scheme was replaced by a *Subsidio de Vejez* (Old-Age Benefit), which was placed under the control of the *Servicio Nacional de Vejez y Maternidad* (Department of Old Age and Maternity). Changes were also made to the Workplace Accidents Scheme, although the *Caja Nacional* (National Fund) created under the Republic in 1932 by Largo Caballero was kept, since the legislator’s unconcealed intention was to set up a

social insurance scheme in this area, which finally occurred in 1966. A more innovative move was the introduction of Sickness Insurance in 1942, which was managed through another National Fund. The last institution of this type was the National Fund for Family Subsidies, which covered allowances payable to widows, orphans, school-age children and large families, as well as one-off payments for newly-wed couples and births. At the end of 1944 it was decided that all of these Funds should be amalgamated within a “total insurance” system, although this goal would not be achieved until the passage of the Social Security Bases Act in 1963.

The main effect of the 1954 Act was finally to end obsolete forms of insurance like Tontine and Chatelusian schemes (the creation of new organizations of this kind had in fact been banned in 1926, and the only one still surviving, *Los Previsores del Porvenir*, was refused permission to carry out new operations in 1944) in an effort to foster the Life business, which was universally associated with modernity. This line of business was granted exemption from the taxation of the insured capital accumulated under life insurance policies. The exemption was, however, repealed in 1958 only to be reinstated in the following year for sums of up to half a million pesetas due to the spouse of the deceased, direct descendents or ancestors. These vacillations and above all the high rates of inflation prevailing at this time inevitably frustrated the expectations raised.

The haphazard treatment of the insurance industry by the Franco regime is epitomized by the decision taken in May 1957 to downgrade the Directorate General of Insurance to a mere Sub-Directorate General subsumed within the Directorate General of Banking, Securities and Exchange and Investment. This situation continued until 1962, and its sole positive outcome was the publication of *Banca y Seguros*, a journal of some interest. Excitement among insurers was, however, short lived. In November 1967 the Directorate was again demoted to Sub-Directorate on the grounds of administrative rationalization, and its status would not change again until October 1976 under the first government of Adolfo Suarez. As a consequence, the Directorate General of Insurance did not exist as such for some thirteen and a half years under the Franco regime.

- *Insurance in the years of development*

The years of economic growth following the Stabilization Plan of 1959 were much more fertile for the insurance industry than the period of autarky. Thus, the evolution of premiums as a percentage of GDP was 1.25% in 1955; 1.63% in 1960; 2.00% in 1965; 1.71% in 1970; 1.76 in 1975 (own work based on the data given in the Appendices and the estimates of GDP at market prices contained in Prados de la Escosura, 2003). While the sector took off between 1955 and 1965, difficulties were encountered consolidating the gains made. Nevertheless, the Workplace Accidents line, a not inconsiderable business, was converted into a social insurance scheme in 1966, with the result that figures were no longer included in the private insurance statistics, a matter that must be

taken into account if the data are to be properly understood. The development of the insurance industry, and indeed of financial services in general, may have been influenced by the absence of the liberalizing winds enjoyed by the real economy. Insurance firms were subject to strict regulation and controls on premium rates and the terms and conditions of policies. This situation lasted until May 10, 1979 when the Minister of Economy, Jaime García Añoveros, signed a Royal Decree rewording article 27 of the (still) prevailing Insurance Regulations of 1912 to allow the first deregulation of premium rates and policy terms.

Growth was unmistakable, particularly in the Automobiles line of business. However, insurers' profits did not keep pace, because they were still shackled by an artificially low regime of maximum premium rates and their investments were conditioned by the strict authorization requirements established in the 1954 Act (though these were somewhat moderated by legislation of September 12, 1970 and May 24, 1971, investment would not be truly deregulated until 1978 by the Economy Minister, Francisco Fernández Ordóñez). Meanwhile, wage growth in the 1960s had driven up management costs. The combination of increasing costs, inflation and crisis in the stock market claimed its first victims among the "capitalization institutions", a kind of savings vehicle subject to insurance legislation at the time. Contributions to these vehicles stagnated around the modest figure of 2,500 million pesetas in the second half of the 1970s, and the sum of capitalization funds in 1980 was only just over 12 billion pesetas (Chart 3). The capitalization institutions were eventually restructured as public limited companies in the 1980s, and their operations were defined as Life insurance business. The absorption of these institutions was not a problem for the industry, as Life Insurance was at this time increasingly associated with saving and less with provision for the demise of the policyholder.

Chart 3
Key figures for capitalization institutions, 1955-1980
(millions of pesetas)

Year	Contributions	Capitalization Fund	Securities Investments	Property Investments
1955	142.20	309.94	231.19	64.95
1960	290.32	934.24	610.27	185.99
1965	831.07	2,382.74	1,559.10	551.47
1970	1,451.34	4,985.04	3,090.54	1,205.78
1976	2,581.55	9,676.89	6,818.31	2,186.97
1980	2,560.66	12,120.04	8,152.38	3,647.11

Source: Directorate General of Insurance

The star product in the mid-1950s was Automobile Insurance, and premiums grew from 387.1 million pesetas in 1955 to 1,611.9 million pesetas in 1960. Unquestionably, this marks the start of "mass insurance" in Spain. The rise of this product coincided with a sharp fall in Life Insurance in proportional terms (see Rubio, 1982), a development linked to the award of subsidies and social

insurance benefits, and to the high inflation prevalent in the period. Based on our estimates (given in the appendices), the share of Life Insurance declined to little more than 7% in 1966 though it recovered to 13% by 1975, still far from pre-war levels.

The consolidation of the Automobile insurance business was further helped by legislation establishing the *Seguro Obligatorio de Automóviles* (Mandatory Automobile Insurance) in 1965, a requirement that arrived fairly late in Spain, having already existed since the 1920s in Scandinavia. The only large European nation to adopt this measure later than Spain was Italy. Both countries had high rates of fatal accidents: the fatality rate per 10,000 vehicles in 1964 was 12.5 in Spain and 9.6 in Italy (see *Boletín de la Revista Seguros*, 1963, 22, pp. 264-268, and 1967, 70, pp. 230-231), compared to a rate of around 2 and falling in Spain today. This mandatory insurance was accompanied by the creation of the *Caja Central de Seguros* (Central Insurance Fund) and the *Fondo Nacional de Garantía de Riesgos de la Circulación* (National Traffic Risk Guarantee Fund), which was combined with the *Comisaría del Seguro Obligatorio de Viajeros* (Mandatory Travel Insurance Commission) set up in 1928. These autonomous bodies, and the Insurance Settlement Consortium, were placed under the direct control of the Directorate General of Insurance. The *Seguro Obligatorio de Automóviles* was the last mandatory policy-type to be created in Spain aside from Social Security insurance.

The approaches made by the Franco regime to the European Economic Community (EEC) in 1962 were a cause of some considerable concern in the insurance industry. In that year, the business school *Escuela Profesional del Seguro* opened its academic year with a high-profile conference at which these concerns were voiced (Sánchez González, 1962). At this time, the industry did not present a very competitive picture. At this conference, Hipólito Sánchez González, a senior executive in various French-owned insurance companies, a member of the Spanish parliament and the president of Icea (an institution discussed below), explained that there were too many insurers in Spain, a consequence of low capital and deposit requirements. Meanwhile, the country's main advantages over the European Common Market were the low relative claims rate (except in Workplace Accidents) and the opportunities for growth. However, management costs were too high and commissions were poorly designed, concentrating on the premiums for the first year, which had three undesirable effects: sharp falls in policy portfolios after the first renewal, the possibility of pacts between agents and policyholders with regard to commissions, and the financial strain placed upon firms because they had to disburse the whole commission in a one-off payment. Furthermore, Spanish statistics were of poor quality and it was necessary to apply French mortality tables in the Life Insurance business. (The first reliable mortality tables were published by the *Instituto Nacional de Estadística* -National Statistics Institute- in 1945, but these did not include insurance experience and were therefore of little use to insurance. It was not until 1982 that appropriate tables became available (Prieto Pérez, 1982).)

Overcoming the difficulties described by Sánchez González would prove no easy task. Increased training was, of course, one option. The *Escuela Profesional del Seguro*, where Sánchez González gave his address, had been created in Barcelona by the *Sindicato Nacional del Seguro* in 1945, and soon after it opened a school in Madrid. Its director was Juan José Garrido Comas, a lawyer and psychologist, who would succeed in ensuring the institution's survival with centers in Barcelona and Valencia after the collapse of the Francoist Syndicates. Between 1962 and 1963, the School of Insurance launched a new Diploma in Insurance in an effort to rise to the new challenges (see *Escuela Profesional del Sindicato del Seguro*, 1972). Meanwhile, in 1963 the insurance companies joined forces to create *Investigación Cooperativa entre Aseguradoras* (Cooperative Research between Insurers, or Icea), an institution that was modeled on the French *Comité d'Action pour la Productivité dans l'Assurance* (Capa) set up in 1961 to carry out general research. Capa's director, Jean-Raymond Fouchet provided considerable support for the launch of Icea (Fouchet, 1985; Icea, 1988).

Growth in the insurance industry in the 1960s was a rather disorderly affair. This was recognized in the Report issued in 1972 by the Insurance working party in connection with the III Economic and Social Development Plan, which called for far-reaching reform of the industry in Spain (See, *Comisaría del Plan de Desarrollo Económico y Social*, 1972. For details of the disgraceful manner in which the insurance industry had been ignored in the preceding plans, see Usera, 1964, *Sindicato Nacional del Seguro*, 1965; and Serra Santamans, 1972). That the legislation was anachronistic was plain for all to see: the spheres of private and social security insurance were ill-defined and legislation governing insurance contracts was needed (the first Insurance Contracts Act would not enter the statute book until 1980). Furthermore, it was clear to the Plan's designers that it would be necessary to foster concentration and greater specialization, and to deregulate the investment options available for vesting technical reserves without affecting oversight of insurers' solvency.

Not long after, Icea engaged the Stanford Research Institute to draw up a strategic plan for the Spanish insurance industry. This plan, known as the "green book" was published in 1976 and revised in 1980. It remained in force until 1998. Based on his study of the situation in 1975, the expert Peter F. Miles affirmed that the Spanish insurance industry suffered from four major problems: fragmentation, low productivity combined with high costs, poor management compared to the European average and underdevelopment of the Life and Pensions businesses (Miles, 1976). The low level of solvency was another serious difficulty resulting from the "application of a political pricing policy to premiums with real costs", which had caused "the decapitalization of the industry as a whole and, probably, solvency deficits in a large number of insurance companies" according to the journal *Seguros* in 1977 (*Seguros*, 1977, 64, p. 4). Decapitalization in turn meant difficulties in raising the funds necessary to compete with foreign firms.

4. THE CURRENT REALITY OF THE INSURANCE INDUSTRY IN SPAIN, 1984-2004

- *The penetration of insurance in Spanish society*

The key recommendations of the III Development Plan discussed above were not addressed by the legislator until the restoration of democracy in Spain. The Insurance Contracts Act was finally passed into law on October 8, 1980 and, on August 2, 1984 a new Private Insurance Regulation Act entered the statute book, the response of the then Minister of Economy to the challenges facing the industry. Meanwhile, the level of intervention in the operations of insurance companies had gradually decreased, although true competition between all insurers was only brought about by the 1984 Act, which did away with earlier discriminatory measures. According to Eugenio Prieto Pérez, president of the *Instituto de Actuarios Españoles* (Institute of Spanish Actuaries), the Act reflected the content of the first EU insurance Directives, which provided for freedom of establishment throughout the Community after 1976, even though Spain was not yet a member of the club (Prieto Pérez, 1995, p. 42). In reality, foreign firms had been allowed largely unrestricted access to the Spanish market after the economy was opened up in 1959, and freedom of establishment was therefore not a great problem (see *Seguros*, 1977, 64, P. 3).

When Spain finally joined the EEC in 1986, the Community was actively seeking to establish a “single European insurance market” as part of the economic space provided for in the Single European Act signed in the same year (see the special insurance monograph issue of *Hacienda Pública Española* in 1986, and Mansilla 1988). The “Second Directives”, which established freedom of services, would arrive soon, first in 1988 for Non-Life Insurance and then in 1990 for Life Insurance. The “Third Directives” came only shortly after, providing for a single operating license, the harmonization of investments tied to technical provisions (1992) and the standardization of accounting criteria. These Directives left only oversight of solvency in the hands of the local authorities in each country. (This is the current function of the Directorate General of Insurance, which should perhaps be structured as an agency independent of the government, like the Bank of Spain and the Spanish National Securities Market Commission. Supervision of social mutual societies operating in only one of the Autonomous Communities was devolved to regional government in the 1990s.) These changes were not enshrined in law until the 1995 Private Insurance Regulation and Supervision Act. The challenge of the European Insurance Space (EIS) was also raised, involving greater options for consumer choice and some major issues with regard to firms’ management capabilities. Finally, the more detailed treatment given in the “Fourth Directives” to the matters provided for in the earlier directives were enshrined in the Amended Private Insurance Regulation and Supervision Act of 2004.

The EIS would form a part of the European Economic Space (EES) created by the treaty signed in May 1992 by the then twelve members of the European Economic Community and the seven members of the European Free Trade

Association (EFTA) (Austria, Finland, Iceland, Liechtenstein, Norway, Switzerland and Sweden). The 1992 treaty was the successor to earlier agreements made in 1973 (when the United Kingdom and Denmark left the EFTA to join the EEC), 1984 and 1990, and the EES itself took effect on January 1, 1993, affecting 18 countries (Switzerland pulled out at the last moment) with the goal of creating a single market. Since then, numerous initiatives have been taken within the framework of the EES concerning economic freedom, competition policy, social policy, consumer protection and the environment, education, research and development, and culture. Meanwhile, farm produce, fisheries, indirect taxation and foreign policy issues were excluded from the scope of the EES. These limitations ceased to affect Austria, Finland and Sweden in 1995 when they joined the European Union (the new name given to the EEC on 1 January 1993 when the Maastricht Treaty on European Economic and Monetary Union made on February 7, 1992, came into force).

Changes in the Spanish insurance industry in the 1980s took place mainly in the second half of the decade. These developments were mainly a consequence of 1) rising wealth and living standards, which caused a significant increase in demand; 2) accession to the EEC, which attracted foreign investment from other European countries, allowing a “sweet” restructuring of the industry (Herrando Prat de la Riba, 1991); 3) the accelerating construction of the Single Insurance Market in Europe, based on deregulation and competition; 4) the injection of new blood into insurance management, and 5) the emergence of new intermediaries and competitors, mainly among the banks and savings banks. These changes intensified competition, causing serious problems in Automobile insurance, the largest line of business in the industry, due to the adaptation of the Spanish system to European norms, which placed greater demands on insurers.

As had been imagined, and feared, as far back as the 1960s, the final transformation of the Spanish insurance market was associated with openness to Europe. As late as 1980, the insurance penetration rate (measured as the ratio of premiums to GDP) was low in Spain, although similar to Italian levels and considerably higher than the rates found in developing countries (Chart 4). Progress in the late 20th and early 21st centuries can only be regarded as positive, despite the upheavals experienced. Spain has participated fully in the development of the insurance industry in both Europe and Asia, although this success has been partially offset by the declining US market. Thus, insurance penetration in the United Kingdom, Japan and France had surpassed US rates by 2005, although the slide in the American market was halted by the Financial Services Modernization Act of 1999.

Spectacular growth in the Life business in 1986 with the innovation of single premium policies played a key role in the progress of the Spanish insurance industry. This product, which fell half way, between a conventional life policy and a bank deposit, enjoyed significant tax benefits and, above all, was fiscally opaque, because it was not subject to tax withholdings at source. The single

premium policies were enthusiastically received by consumers, and there was an enormous transfer of savings held in the form of Treasury bills when their tax advantages (once again fiscal opacity) were removed. When the Ministry of Economy acted to limit the advantages of the Single Premium policies, however, cumulative redemptions caused a serious crisis in 1989-1990. Recovery began at the end of the 1990s with the launch of Unit Linked products, Life policies in which the policy holder or customer assumes the risk of the investments made with premiums but can decide how these are to be apportioned within a range of options offered by the insurer. The investment is materialized in “account units”, which are similar to investment fund units. Unit-Linked premiums reached a high of EUR 8,901 million in 2000. However, the market has declined since then (EUR 2,577 million in 2001; EUR 1,233 million in 2002; EUR 1,196 million in 2003) because of competition from similar products offered by banks, although there has been a modest recovery in recent years.

Chart 4
World insurance market indicators, 1964-2005

	World share (%)			
	1964	1980	1990	2005
Europe	25.7	32.6	33.9	37.6
North America	65.7	46.9	37.9	35.7
Asia	4.4	15.6	24.6	22.2
Latin America and Caribbean	0.8	2.0	0.7	1.7
Oceania	1.8	1.8	1.8	1.7
Africa	0.6	1.2	1.1	1.2

	Premiums / GDP (%)			
	1964	1980	1990	2005
Brazil	1.3	1.4	0.9	3.0
United States	8.0	7.2	5.1	9.2
Argentina	2.0	0.8	2.2	2.5
Spain	2.3	1.8	3.2	5.4
France	3.6	3.7	5.9	10.2
Germany	4.4	5.3	5.7	6.8
Italy	2.3	2.0	2.6	7.6
Japan	4.2	5.1	8.7	10.5
Mexico	0.8	1.1	0.8	1.7
United Kingdom	8.6	5.8	9.7	12.5

Note: The early share statistics do not add up exactly to 100 because of rounding and the unavailability of data for numerous undeveloped countries in 1964. Sources: *Experiodica* for 1964 and *Sigma* for the remaining years.

According to the latest available ranking for Spain, prepared in 2006 by the industry association Unespa-Icea, the market leader is Mapfre an entirely Spanish-owned institution based in Madrid with total premiums of EUR 7,091

million. Mapfre is followed at some distance by three multinationals (the French firm Axa-Winterthur with premiums of EUR 3,507 million, the German firm Allianz on EUR 2,632.5 and the Italian firm Generali on EUR 2,606.6); Santander Seguros (EUR 2,557.4 million), a company forming part of the Banco Santander Group; the Swiss multinational Zurich (EUR 1,935.3 million); the UK multinational Aviva (EUR 1,908 million); and three companies associated with the Spanish savings banks (Caser with premiums of EUR 1,889 million, Caifor on EUR 1,717.2 million and Ibercaja on EUR 1,590.3 million). In this light, it is clear that insurers linked to banking institutions and savings banks have been better able to withstand the challenge posed by the EIS, since these institutions practice cross-selling through “bancassurance”, a channel that has also been used by Mapfre in alliance with Caja Madrid in 2000, although the two organizations are entirely separate in this case.

5. CONCLUSIONS

It is generally held that insurance develops from Non-Life lines of business towards Life business. In the case of Spain, however, Life insurance was unquestionably the most important before the Civil War but lost share rapidly in the early years of the Franco dictatorship. The recovery began only in 1986 when combined insurance and savings products were enthusiastically taken up by the market. Based on the latest data from *Sigma* reports, it may be observed that world Life premiums (including savings-based formulas) make up around 60% of the total, although the distribution by regions is very unequal and the penetration rates in Asia and Africa are notably high. Available data therefore suggest that other variables aside from per capita income need to be considered if we are to understand the share of Life insurance.

What is beyond question is that the ratio of premiums to GDP rises with economic development. The minimum threshold is usually taken to be 1%, the level reached in Spain just before the outbreak of the Civil War. However, this ratio did not rise to 5%, the level at which we may regard the insurance market as developed, until the turn of the 21st century. Consequently, we may affirm that the development of the Spanish insurance industry in the period considered (1934-2004) was both slow and unsatisfactory. This fact explains the concerns expressed by insurers when the Spanish government applied for membership of the Common Market in 1962, and these fears resurfaced in 1986 when Spain actually did join.

The responsibility for this backwardness lies squarely with government, which proved incapable of providing an appropriate legislative framework. It is almost incredible that the 1954 Act was never accompanied by enabling regulations, and that the insurance sector should have been excluded from early economic planning. This did not, however, prevent strict regulation of premium rates and policy terms, which hindered the industry's preparation for the challenges of competition. In contrast to the banking industry, foreign insurance companies operating in Franco's Spain were never subjected to political pressure to leave

the market, although they were swamped by the plethora of Spanish-owned firms (there were 842 firms of different types in 1966!) and the strength of the largest, which were supported by powerful banking institutions (for a discussion of the internationalization of the Spanish insurance industry, see Pons, 2007; and García Ruiz and Caruana, 2007).

The creation of the EIS has been an unavoidable challenge for Spanish insurance companies. Many firms have found no better solution than to seek shelter in major multinational groups, while others have definitively joined the mesh of “bancassurance” formulas, in which the banks are the leading players. Nevertheless, the insurer that has succeeded in positioning itself as the undisputed market leader is Mapfre, a singular firm that started out as a mutual society and has gone its own way, steering clear of the banks and following only the strategy laid down by its president, Ignacio Hernando de Larramendi, a convinced Carlist. Mapfre has undoubtedly been an outsider on the stage of both Spanish and world insurance, but its capacity to generate strong earnings in Spain and the markets of Latin America cannot be denied (Hernando de Larramendi, 2000; Tortella, Caruana and García Ruiz, 2008).

REFERENCES

- *Journals and periodicals*

Actualidad Aseguradora (since 1972 the successor publication to *El Eco del Seguro*, founded in 1891).

Anuario Estadístico de España (*Instituto Nacional de Estadística*).

Banca y Seguros (*Dirección General de Banca, Bolsa y Seguros*).

Boletín de la Revista Seguros (*Sindicato Nacional del Seguro*).

Boletín Oficial de Seguros (Directorate General of Insurance).

Experiodica (Swiss Re).

Hacienda Pública Española (Spanish Ministry of Economy and Finance).

Memorias and Informes of the Directorate General of Insurance *Seguros* (*Sindicato Nacional del Seguro*).

Sigma (Swiss Re).

- *Books*

Barrero Rodríguez, E. (2000), *El Consorcio de Compensación de Seguros*, Valencia, Tirant lo Blanch.

Borscheid, P. and Pearson, R. (eds.) (2007), *Internationalisation and Globalisation of the Insurance Industry in the 19th and 20th Centuries*, Marburg, Philipps-University & Swiss Re Corporate History.

Comisaría del Plan de Desarrollo Económico y Social (1972), *III Plan de Desarrollo, 1972-1975. Subponencia de Seguros*, Madrid.

Consorcio de Compensación de Seguros (1960), *Consorcio de Compensación de Seguros. Estadística y reglamento, 1955-1959*, Madrid, Gráf. Victorial.

Cuesta Bustillo, J., Martínez Quintero, M.E., Montero García, F. and Samaniego Boneu, M. (with an introductory essay by M.D. Gómez Molleda) (1988), *Los seguros sociales en la España del siglo XX*, 3 vols., Madrid, Ministerio de Trabajo y Seguridad Social and Universidad de Salamanca.

Cummins, J.D. and Venard. B. (eds.) (2007), *Handbook of International Insurance. Between Global Dynamics and Local Contingencies*, Berlin, Springer.

Escuela Profesional del Sindicato del Seguro (1972), *25 años al servicio de la institución del seguro español, 1945-1970*, Barcelona.

Feldman, G. (2003), "Civil Disturbance and Riot Insurance in Fascist Europe, 1922-1941", *Financial History Review*, 2, pp. 165-184.

Fouchet, J-R. (1985), *Profession, assureur. Mémoires de mémoire*, Paris, L'Argus.

Frax, E. and Matilla, M.J. (1996), "Los seguros en España, 1830-1934", *Revista de Historia Económica*, 1, pp. 183-203.

- (1998), "La evolución del sector seguros en Francia y España, 1800-1936", in C.E. Núñez (ed.), *Insurance in Industrial Societies: Economic Role, Agents and Market from 18th Century to Today*, Proceedings from the session B8 of the 12th International Economic History Congress, organized by P. Borscheid, E. Frax and A. Plessis, Sevilla, Universidad de Sevilla, Fundación El Monte y Fundación Fomento de la Historia Económica, pp. 31-44.

- (2005), *Los seguros negocios del franquismo. El proceso de bloqueo, expropiación y liquidación de las compañías de seguros con capital alemán*, Paper presented to the session B17 ("El mercado de seguros en la España contemporánea", organized by M.A. Pons and J. Pons), of the VIII Congreso de la Asociación Española de Historia Económica, Santiago de Compostela, 13-16 of September.

García Ruiz, J.L. and Caruana, L. (2007), "The Internationalisation of the Business of Insurance in Spain, 1939-2005", in P. Borscheid and R. Pearson (eds.), pp. 66-83.

Hernando de Larramendi, I. (2000), *Así se hizo Mapfre. Mi tiempo*, San Sebastián de los Reyes (Madrid), Actas.

Herrando Prat de la Riba, L. (1991), "Evolución del sector asegurador y previsión frente al Mercado Único de 1992", *Boletín de Estudios Económicos*, 142, pp. 107-118.

Investigación Cooperativa entre Entidades Aseguradoras (Icea) (1988), *25 años al servicio del seguro, 1963-1988*, Madrid.

Madariaga, C. de (1932), *El seguro sobre la vida en España*, Madrid, Imprenta de Samarán y Cía.

Maestro, M. (1993), *Formación del mercado español de seguros, 1908-1960*, Madrid, INESE.

— (2004), *El crédito, el seguro de crédito y Crédito y Caución*, Madrid.

Maluquer Rosés, J. (1945), *Enseñanzas de la revolución y de la Guerra Civil española en los diversos ramos*, Madrid.

Mansilla, F. (1988), *Integración del seguro en la Comunidad Económica Europea*, Madrid, Española de Seguros.

Martín Aceña, P. and Pons, M.A. (2005), "Sistema monetario y financiero", in A. Carreras and X. Tafunell (coords.), *Estadísticas históricas de España. Siglos XIX y XX*, Bilbao, Fundación BBVA, pp. 645-706.

Miles, P.F. (1976), *Plan estratégico del seguro español*, Madrid, ICEA.

Paris Eguílaz, H. (1935), *Estudio actuarial y social de los seguros obligatorios vigentes en España*, Madrid, Sobrinos de la Sucesora de Minuesa de los Ríos.

Pons, J. (2002), "Las estrategias de crecimiento de las compañías de seguros en España, 1900-1940", in *Documento de Trabajo*, 2002/1, Madrid, Fundación Empresa Pública-Programa de Historia Económica.

— (2006), "El seguro de accidentes de trabajo en España: de la obligación al negocio, 1900-1940", *Investigaciones de Historia Económica*, 4, pp. 77-100.

— (2007), "The influence of multinationals in the organisation of the Spanish insurance market: diversification and cartelisation, 1880-1939", in P. Borscheid and R. Pearson (eds.), pp. 49-65.

Prados de la Escosura, L. (2003), *El progreso económico de España*, Bilbao, Fundación BBVA.

Prieto Pérez, E. (1982), *Tablas de mortalidad de la población española PEM 70 y PEF 70*, Madrid, Instituto de Actuarios Españoles.

— (1995), “El sector en los últimos 25 años”, in *Actualidad Aseguradora*, 20 de noviembre de 1995, pp. 41-43.

Rubio, A. (1982), “El mercado de seguros en España. Estudio de su evolución en los últimos 60 años”, *Actualidad Aseguradora*, October, pp. 9-19.

Rubio, A., Bordayo, F., Querol, V. and Sardonil, J. (1977), “Evolución del seguro español”, *Actualidad Aseguradora*, February, pp. 59-91.

Sánchez González, H. (1962), *El seguro de vida español ante el Mercado Común*, Madrid, Nuevas Gráficas.

Serra Santamans, J. (1972), *Un plan de desarrollo del seguro español*, Madrid, Sindicato Nacional del Seguro.

Sindicato Nacional del Seguro (1965), *El seguro español y el Plan de Desarrollo*, Madrid.

Tortella, G., Caruana, L. and García Ruiz, J.L. (2008), *De mutua a multinacional. Mapfre, 1933-2008*, Madrid, Ed. Mapfre.

Usera, G. de (1964), “El seguro privado y el desarrollo económico”, *Anales del Instituto de Actuarios Españoles*, 4.

Wasow, B. and Hill, R.D. (eds.) (1986), *The Insurance Industry in Economic Development*, New York, New York University Press.

APPENDICES

Appendix 1 Number of private insurance institutions, 1955-2004

Year	TOTAL	Limited Companies	Mutual Societies	Foreign Delegations	Pure Reinsurers	Capitalization Institutions
1955	518	203	213	74	13	15
1962	813	459	264	62	13	15
1966	842	463	285	63	12	19
1970	697	479	139	55	11	13
1976	718	494	141	55	12	16
1980	678	473	137	41	13	14
1985	557	411	104	31	11	-
1990	505	391	75	31	8	-
1995	419	323	63	27	6	-
2000	354	259	52	39	4	-
2004	318	225	44	47	2	-

Notes: "Private institutions" are taken to include limited companies, mutual societies, the Spanish delegations of foreign insurers, specialist (or pure) reinsurers, and capitalization institutions. The latter are included with limited companies after 1983. Employers' mutual societies were excluded from the statistics in 1966 as a consequence of the nationalization of Workplace Accident Insurance. The information provided in Martín Aceña and Pons (2005), Chart 9.14, is incomplete and contains errors. Source: Directorate General of Insurance.

Appendix 2 Direct insurance premiums and claims rates, 1955-2004 (millions of peseta)

Year	Premiums	% Life	Claims Rate Life (%)	Claims Rate Non-Life (%)
1955	4,252	16.41	40.98	49.33
1956	5,110	14.71	36.19	48.15
1957	6,895	12.42	33.35	46.80
1958	8,213	11.37	30.53	47.77
1959	9,423	10.76	37.59	52.08
1960	10,330	10.79	44.11	50.80
1961	11,620	10.67	47.12	55.75
1962	13,926	10.75	45.14	59.56
1963	17,507	9.48	46.89	62.74
1964	21,087	8.72	46.14	63.94
1965	27,157	7.76	44.50	59.43
1966	33,083	7.31	48.25	59.72
1967	28,471	9.94	48.13	60.50
1968	32,376	10.14	46.27	58.34
1969	36,812	10.64	44.58	61.11
1970	42,090	10.81	45.73	62.13
1971	49,637	10.94	45.53	65.65
1972	58,689	11.16	43.49	60.85

Appendix 2 (Cont).
Direct insurance premiums and claims rates, 1955-2004 (millions of pesetas)

Year	Premiums	% Life	Claims Rate Life (%)	Claims Rate Non-Life (%)
1973	70,492	11.91	44.31	65.37
1974	84,554	12.45	43.88	62.89
1975	103,531	12.62	42.99	59.84
1976	122,543	13.42	43.39	64.27
1977	159,242	12.92	44.98	67.25
1978	192,240	12.65	40.09	69.03
1979	227,620	12.51	41.80	69.83
1980	277,757	12.27	42.21	70.26
1981	325,394	11.73	49.18	67.41
1982	371,460	12.74	49.69	73.26
1983	420,357	11.63	57.71	70.30
1984	487,016	12.08	55.32	66.59
1985	560,810	14.23	47.22	66.59
1986	969,828	43.03	47.51	68.51
1987	1,279,426	45.25	39.06	68.34
1988	2,357,769	65.27	48.82	70.19
1989	1,834,794	46.38	156.97	78.14
1990	1,711,189	31.96	99.01	77.14
1991	2,110,074	36.34	57.37	77.98
1992	2,342,827	34.64	60.25	74.45
1993	2,556,927	34.34	62.71	74.52
1994	3,267,129	44.13	42.69	71.16
1995	3,315,853	41.39	56.78	70.77
1996	3,679,640	44.45	52.22	69.70
1997	3,979,288	47.14	54.12	70.20
1998	3,949,338	50.43	64.09	79.38
1999	4,861,300	57.10	52.28	83.82
2000	6,354,343	62.15	54.43	79.86
2001	6,450,047	58.51	60.48	78.04
2002	7,384,413	58.88	60.56	74.62
2003	6,227,879	46.52	87.36	74.25
2004	6,756,488	46.07	83.99	70.83

Notes: Until 1982, “premiums” refer to the basic concept employed by the Directorate General of Insurance for the calculation of ratios in official statistics. Between 1983 and 1997, premiums refer to “premiums written” and from 1998 to “premiums attributed”. The different concepts are used to ensure the continuity of the series. A recent series (Chart 9.14 in Martín Aceña and Pons (2005) based apparently on the same source is identical for the period 1961-1965, but generally reflects lower values until 1982 and slightly higher values thereafter. The *Sindicato Nacional del Seguro* gave slightly lower figures than those presented here in its publications, openly contradicting the much higher values usually published by *Actualidad Aseguradora*, the most widely recognized journal among professionals. No methodological explanation is given in either case. The second column of the Chart refers to the Life business as a percentage of total premiums. The sharp rise in 1986-1988 was due to the successful combination of insurance and savings products in Single Premium policies, which enjoyed certain tax advantages. The claims rate (as a percentage of premiums) given in the third and fourth columns reflects the crisis of the Single Premium product in

1989-1990. Unit-Linked funds, another savings product with tax advantages, were enthusiastically received in the 1990s but suffered a crisis at the turn of the century, which is also clearly reflected in the series. Source: Directorate General of Insurance.

Appendix 3
Key aggregate ratios by line of business, 1955-2004

Total insurance industry	1955	1970	1985	2004
% Share of foreign delegations in premiums	14.85	11.68	9.67	n.a.
% Claims/premiums	48.08	60.36	63.83	76.89
% Management costs/premiums	24.42	36.22	36.88	15.03
Life				
% Share of foreign delegations in premiums	23.92	20.33	12.36	n.a.
% Claims/premiums	40.98	45.71	47.22	83.99
% Management costs/premiums	19.38	29.78	26.63	6.42
Non-Life				
% Share of foreign delegations in premiums	13.07	10.63	9.22	n.a.
% Claims/premiums	49.47	62.13	66.59	70.83
% Management costs/premiums	25.41	36.99	38.59	22.38
Automobile insurance				
% Share of foreign delegations in premiums	19.93	11.82	10.08	n.a.
% Claims/premiums	56.96	66.94	76.64	73.17
% Management costs/premiums	29.68	35.75	38.14	16.84
Multi-risk insurance				
% Share of foreign delegations in premiums	19.58	16.45	16.88	n.a.
% Claims/premiums	30.46	42.93	43.61	60.38
% Management costs/premiums	34.95	49.34	46.31	37.74
Health insurance				
% Share of foreign delegations in premiums	10.14	6.26	3.67	n.a.
% Claims/premiums	54.68	59.94	59.46	72.41
% Management costs/premiums	21.66	38.09	35.51	17.60
Other lines				
% Share of foreign delegations in premiums	9.93	8.32	10.18	n.a.
% Claims/premiums	48.39	65.37	73.19	70.89
% Management costs/premiums	23.39	30.12	38.50	32.40

Notes: The Health line of business includes Death policies. Following the creation of the European Economic Space in 1998, information ceased to be collected on the insurance business conducted in Spain by the delegations of foreign insurers. Source: Directorate General of Insurance.

Appendix 4
Breakdown of securities and property investments made by direct insurance firms, 1915-2004 (percentages)

Year	Fixed income	Equities	Property
1915	46.8	40.4	12.7
1920	43.1	41.9	14.9
1925	48.4	35.8	15.8
1930	40.4	38.2	21.4
1935	52.4	24.9	22.8
1942	56.7	18.3	25.0
1945	64.2	10.8	25.0
1950	60.4	9.3	30.3
1955	53.6	16.2	30.3
1960	46.9	23.5	29.6
1965	n.a.	n.a.	28.7
1970	n.a.	n.a.	32.3
1975	n.a.	n.a.	37.0
1980	n.a.	n.a.	45.2
1985	54.3	7.6	38.1
1990	66.5	9.6	23.8
1995	83.9	3.1	13.1
2000	88.1	5.8	6.1
2004	91.6	3.6	4.8

Notes: Certain percentages do not equal exactly 100 due to rounding. The breaks are due to accounting changes in 1962, 1983 and 1998. In the period 1965-1980 investments could not be broken down or holdings in related companies excluded, as in the rest of the series. Source: Directorate General of Insurance.

Appendix 5
Average rate of change in GDP per capita (constant prices) in Spain, 1919-2000 (percentages)

1919-23	1924-29	1930-35	1936-38	1939-58	1959-75	1976-2000
2.8	3.4	0.9	-11.2	3.6	5.8	2.8

Note: 1919-1923: years following the boom of the First World War (brought about because of the neutrality of the country). 1924-1929: Primo de Rivera's Dictatorship. 1930-1935: the continuation of the dictatorship and the Second Republic. 1936-1938: Civil War. 1939-1958: First period of the Franco's Dictatorship (autarky). 1959-1975: Second period of the Franco's Dictatorship (market economy). 1976-2000: Democracy (economic crisis until mid-1980s and recovery after the accession to EEC in 1986). Source: Prados de la Escosura (2003).

7

THE HISTORY OF INSURANCE COMPANIES IN SWEDEN, 1855-2005¹¹¹

Mats Larsson
Uppsala University (Sweden)
Mikael Lönnborg
University College of Southern Stockholm (Sweden)

1. INTRODUCTION

Insurance has promoted sustained economic growth and transformation, and played an essential role in the formation and development of modern society. Two of the more prominent advances that insurance has facilitated have been to reduce risks with large-scale industrial investments as well as managing risks associated with the safety of individuals and personal properties. In addition, insurance has contributed significantly in reducing uncertainty for national and international trade and in general promoted new ventures through risk sharing.

The close relationship between insurance and modernisation, however, is not the topic of this chapter; instead it focuses on how insurance as a business emerged and developed as a specific market. In short, the evolution of the insurance industry was a process that happened alongside economic development and as a direct response to the industrial revolution, when new needs for risk sharing emerged. The diffusion of insurance around the globe was to a large extent a question of imitation, where latecomers often “borrowed” knowledge from more advanced countries and adapted it to national pre-conditions.

The Swedish case demonstrates an early integration within the international insurance market and the establishment of modern domestic organisations were imitated from European standards, especially from Great Britain and Germany. However, the diffusion of insurance in Sweden occurred through a combination of transforming old institutions and deploying new and “borrowed” organisational modes. The rise of the modern insurance industry can be dated exactly to 1855 when the first joint stock company selling both life and non-life insurance emerged. This was followed by a large number of joint stock as well as mutual insurers. The latter type of companies was mostly created with

¹¹¹ We wish to thank Lynn Karlsson for valuable comments.

reference to historical traditions and was often tied to the local community (in the field of non-life insurance) but they also implied that life insurance should be regarded as a social policy and not be combined with profit maximisation (these organisations were established from the late-1880s and onwards). In fact, mutual insurers have played an important role in the creation of the Swedish insurance industry and still prevail as important actors.¹¹²

The significance of insurance can also be seen through the extensive role of governments in promoting and regulating the industry. In many countries the public good/market failure nature of insurance has led to government provision in place of or alongside private provision. Detailed regulations in the field of insurance are common worldwide, but in the Swedish case they reached an unprecedented level. During, and in particular after, World War II Sweden developed a unique set of economic policies. The so-called “Swedish model” has never properly been defined, but major elements were constructed through agreements between employers’ associations and trade unions (without involvement of the state), as well as through active fiscal and monetary policies with extensive redistribution of wealth.¹¹³ One consequence of the particular brand of corporatism practiced in Sweden was also that it generated a specifically Swedish insurance (or even an entire financial) model. This mode of regulatory regime fostered a whole system of laws and regulations in order to sustain policies introduced by the Social Democratic government.

This approach of socialising risk was thus taken up in Sweden, but was part of a wider global development associated with among other things Keynesian fiscal management, Bretton Woods fixed exchange rates and commodity price stabilisation schemes.¹¹⁴ In addition, these international tendencies of a strong political governance of the economy since the 1930s was fuelled in Sweden by reoccurring attempts to nationalise the entire or parts of the insurance sector. This threat facilitated the introduction of a new insurance regulation at the end of the 1940s, and promoted agreements that forced insurers to follow direct instructions from the Central Bank in the 1950s. By consequence, the Swedish financial system developed its own logic for supporting a greater plan of transformation. This imposed on the one hand an isolated economy – for instance foreign ownership in banks and insurance companies was restricted and currency transactions suppressed; on the other hand the country remained highly dependant on international trade and Swedish multinationals corporations. This paradox created constraints as well as opportunities for domestic insurers.

The financial side effects of the Swedish model were, however, associated with high costs and would in the end result in a financial sector with strong resemblances to a planned economy. When Swedish governments (in fact both

¹¹² Larsson and Lönnborg (2007).

¹¹³ Rothstein (1996). Lundberg (1985). Childs (1936 and 1980).

¹¹⁴ Bryan and Rafferty (2006).

Social Democratic and non-socialist) in the 1980s realised that the financial sector could not support transformation and sustained economic growth, a deregulation process commenced. The re-shaping of the financial sector was associated with reforming the pension scheme and applying for membership in the European Union, which created an entirely new kind of financial system.

2. THE BREAK-DOWN OF PRE-INDUSTRIAL INSURANCE

The most important form of risk sharing during medieval times in Sweden was through the so-called “Brandstuth” or Fire Aid, which in practice was in force until 1853. This compulsory public insurance was introduced in provincial laws around 1200 and in the General Rural Law from about 1350, and got renewed in the law of 1734 as a mean of revitalising the institution. According to this institution all members of a county were forced to make contributions to persons hit by fire damages. This arrangement was administered through official means with local courts deciding upon the level of disbursement. The gradual exemptions for rural areas and companies, however, resulted in a shrinking base for the Fire Aid institution.¹¹⁵ The Fire Aid did not cover urban areas; instead local urban fire insurance companies were organised, the first one in Jönköping 1733. During the mid-18th century several local urban mutual fire insurance companies were organised – the one in Stockholm founded in 1746 still prevails –but the majority of them failed in the wake of conflagrations. These events made it clear that a nation-wide company was needed to cover larger risks in rural areas as well as towns. Following detailed deliberations, the parliament and the government organised the state-operated “General Fire Insurance Fund” in 1782. After a successful initial phase, this entity failed to accumulate sufficient funds to meet claims after conflagrations in larger towns. At the same time the company was reluctant to consider the lower risks – compared to wooden houses– connected with house constructions in brick, stone and other fire-resistant building materials. This disregard triggered fractions between different interests within the company, and finally the rural department was transformed into “the Fire Insurance Authority”, only underwriting rural risks, and the town department restarted as “the Cities Public Fire Company”. Further, the insured from the southernmost province formed their own company, “Skånska Fire Insurance Institute”. Thus, in 1828 three different companies had emerged from the “General Fire Insurance Fund”.¹¹⁶ Alongside the development of these state-operated corporations other county-based firms were founded and the pace of newly established mutual fire insurers became more rapid from the 1830s. In the early 1850s about 80 domestic and mutual companies operated on the local or county level, but insurance risks in large-scale industrial investments, for example, could not be met by these organisations alone. The only option was to place these risks with foreign insurance companies. The first foreign insurer –the British Phoenix –was

¹¹⁵ Private Insurance (1954).

¹¹⁶ Åmark (1928).

established in 1805 and in the 1850s 16 foreign fire companies conducted business on the Swedish market (see table 1). Another 50 companies followed suit in the next 30 years and of these 36 were British, 10 German, 8 French, 4 Russian, 4 Dutch, 3 Norwegian, 1 Danish and 1 Swiss. A common view, however, was that foreign insurers drained domestic capital, which was needed to finance the evolving industrial sector.¹¹⁷ These shortcomings of the prevailing fire insurance sector underpinned the emergence of a new kind of organisational vehicle.¹¹⁸ The presence of international insurers was important in securing larger risks, but they were far more vital as transmitters of modern insurance knowledge, often through their general agents who later became founders of domestic insurance companies.

Table 1
Foreign insurers in Sweden 1805-1855, year of establishment

Name of insurer (Country of origin)	Stockholm	Gothenburg	Malmoe
Phoenix (UK)	1805	1805	1832
Alliance (UK)	1824	1825	1865
Royal-Exchange (UK)	1841	1860	1861
Fifth Ass. (Germany)	1841	–	–
Assurance (Germany)	1843	–	–
Globe (UK)*	1844	1844	1845
Schlesischian Fire (Germany)	1851	1851	1853
Royal Insurance (UK)	1851	1860	1861
Imperial Assurance (UK)	1851	1851	1869
Liverpool & London (UK)	1851	–	1863
Magdeburger Fire (Germany)	1852	1852	1852
Monarch Assurance (Germany)	1853	–	–
Borussia (Germany)	1853	1853	1853
Northern Assurance (UK)	1853	1853	1854
Defender (UK)**	1854	1854	–
Paladium (France)**	1854	1854	–

Note: Globe-Assurance-Company only sold life insurance and merged in 1853 with Liverpool & London. Defender and Paladium had joint agencies in Stockholm and Gothenburg.

Source: Bergander (1967:52)

Marine insurance has a long tradition in Sweden. However, the first Swedish company for marine insurance was the “Sjöassuranskompaniet” organized by public authorities which conducted business from 1739 but was after extensive losses closed down in 1865. In addition, local mutual companies were founded, but with limited capacity, but foreign insurers covered the majority of marine risks.

¹¹⁷ Bergander (1967). Trebilcock (1985).

¹¹⁸ Bucht (1936).

The “younges” branch of insurance in Sweden is life insurance. Early arrangements developed from state initiatives for those employed by the state, but guilds and craftsmen’s associations were also engaged in mutually securing survival for widows of members, which to some extent resembled a crude form of insurance. The emergence of life insurance, however, met resistance mainly because of religious reasons, as the business was considered to be “gambling in life expectations” and therefore immoral.¹¹⁹

A governmental attempt surfaced in the 1850s, when so-called “Interest and capital insurance institutes” were founded in Stockholm and Örebro, and thirty years later 15 such companies existed. These institutes had problems expanding and therefore the issue of a modern life insurance market received renewed attention from the government. However, prior to any political conclusion, private interests managed to found the joint stock insurance company *Skandia* in 1855 and the proposal for a state-owned life insurance company was dismissed.¹²⁰

3. THE EMERGE OF JOINT-STOCK AND MUTUAL COMPANIES

A pre-condition for the modern Swedish insurance industry was the establishment of a commercial code and this was realised through the Stock Corporation Act of 1848. From the start *Skandia*, with its head office in Stockholm, sold both life and non-life insurance. The main reason for forming a combined company was that life insurance was regarded as extremely risky and non-life operations were supposed to balance these risks. The actual experience after 10-15 years of business, however, revealed that life risks was far easier to estimate than fire risks. In gaining public trust for this new organisational form, *Skandia* was equipped with an impressive share capital: 15 million crowns were subscribed, but only 10 per cent were paid-up in cash and the rest was kept as debt securities.¹²¹

The new organizational form also was in need of a large capital base. Compared to prevailing mutual fire insurers, *Skandia* used fixed premium rates with no possibility to charge clients any extra in the wake of heavy disbursements.¹²² To further increase legitimacy, the operational modes of *Skandia*, for instance calculations, the design of policy letters and instructions for agents, were directly copied from foreign insurance companies. The main founder of *Skandia*, C. G. von Koch, had previous experience and knowledge of

¹¹⁹ Söderberg (1935).

¹²⁰ Larsson *et al.* (2007). Bergander (1967).

¹²¹ Leffler (1905).

¹²² Leffler (1905).

these issues through engagement as a general agent for several British insurers on the Swedish market.¹²³

The second combined corporation was Svea (Gothenburg) founded in 1866. Large share capital was still regarded as vital and for Svea 10 million crowns (10 per cent paid-up) was regarded as necessary in building trust. Several of Svea's founders had acted as general agents for foreign insurers (the managing director was in fact the Prussian consul in Gothenburg and general agent for several German insurers). In addition, the board of directors contacted representatives from Skandia and thereby gained access to firm-specific knowledge about premiums and other operational devices from the competitor. From Svea's point of view, this was a swift way to access experience and also to co-ordinate premium levels and conditions in accordance with the competitor in Stockholm. From Skandia's horizon this co-operation was regarded as a measure to control the development of the market. Indeed the Swedish insurance market became characterised by a close co-operation, in particular among joint stock companies. In addition, tariff organisations (the first in 1873), inspired by international organisations in the UK and Germany, were established to develop norms for the insurance industry.¹²⁴

Several companies only selling life or non-life insurances were founded after 1866, but after the establishment of Skåne (Malmö) in 1884 -the third composite firm- no other corporation received concessions from the government for combined business.¹²⁵

Already in the 1870s a debate arose about the downsides of large share capital. This construction meant that owners could demand large dividends, which would interfere with the interest of the insured. The debate also revolved around the issue of whether fire and life insurance really should be included in the same firm. The differences between the branches, in particular the difference in time span, where fire insurance contracts were renewed every year, but life insurance contracts were valid for decades, appeared as an inappropriate combination. Another problem was that the majority of the assets belonged to and should be repaid with interest to policyholders in the future. Further, in the wake of heavy conflagrations during the end of the 1860s, the danger of composite firms making internal transfers was, according to critics, an indisputable argument that life and non-life insurance should be separated. The advocates of separation claimed that a "natural" division existed between fire and life insurance, and also argued that the share capital should be limited because it benefited the customers.¹²⁶

¹²³ Leffler (1905).

¹²⁴ Lönnborg (1999). Larsson and Lönnborg (2008b).

¹²⁵ Bolin (1934).

¹²⁶ Bucht (1936).

These arguments and the fact that profitability was considerably higher in life insurance resulted in the establishment of several pure life insurers. In 1871 the first joint stock company in this field – Nordstjernan – was founded in Stockholm and a year later “Thule” commenced its business. The latter was also a joint stock company, but organised with strong mutual influences. For example, Thule improved the benefits for customers through limited dividends to owners and also distributed a part of the profit to the insured. Of course these elements caused turbulence on the market, but in the long run the ideas of Thule influenced the entire life insurance market, in particular after WW I. Several other joint stock insurers commenced business, but fierce competition would arise with mutual life insurer established from the late 1880s. In 1887 the first mutual life insurer emerged, and until the turn of the century 13 corporations engaged in this “customer-friendly” activity were started.

The local and nationwide enterprises with mutual ownership and the mixed companies covered a wide variety of fire risks, which in fact limited the establishment of fire joint stocks. In 1873 the first pure fire insurance company (named Sverige) was founded, which, after major disbursement in the wake of conflagrations in Umeå and Sundsvall (in the northern province of Norrland) in 1888, was revived under the name of Fenix. In addition, after these fires several local insurers went bankrupt and a new joint stock company arose concentrating on regional risks under the name of “Norrland”. The same founders also started the life insurance company Norrland. Another consequence of the fires of 1888 was that the most important mutual insurer “the Cities Public Fire Company” introduced fixed premiums and became more similar to the joint stock companies. The last pure fire joint stock was Fire-Victoria (1898) with close relations to the life insurance company Victoria founded in 1882.¹²⁷

In 1862 the first joint stock marine insurer, “Neptunus”, was established in Stockholm (however it went bankrupt in 1874), and in 1863 “Gauthiod” began its activities in Gothenburg. Other actors broadening the competition between the two cities followed these companies.¹²⁸

As a means to limit risks the large mixed companies from the 1870s founded reinsurance companies –Freja founded by Skandia 1870 (closed down already in 1878 but restarted in 1906), Astrea founded by Svea in 1872 and Aurora founded by Skåne in 1896. These establishments also proved important for making contacts on international markets.

An important issue during the second half of the 19th century concerned the institutional set-up. The absence of a special insurance legislation created a legitimacy problem for the industry. In 1879 the Swedish Insurance Society – established in 1875 – could present a draft for an insurance legislation, which was further prepared by the Department of Civilian Affairs. The government,

¹²⁷ Åmark (1928).

¹²⁸ Englund (1982).

however, failed in presenting a bill, but in 1886 certain executive orders were issued and a part-time insurance inspector was appointed. This limited public body mainly collected statistical data; real monitoring through actual on-site inspections was not possible. From the point of view of the industry this was of course not sufficient, and the efforts for a special law continued.¹²⁹

4. THE “BIG PRINCIPLE CONTROVERSY” AND THE INSURANCE LAW OF 1903

Towards the end of the 19th century the insurance market had expanded considerably, followed by a growing competition between joint stock and mutual companies. Except for the preliminary rulings of 1886 no specific insurance legislation existed yet and the mutual corporations were exempted from supervision. At the same time a new kind of mutual company emerged, the so-called “popular life insurance companies”. The mutual insurer established in the 1880s and 1890s had no chance in reaching the blue-collar workers, mainly because it required extensive organisations collecting premiums on a weekly-basis. The first in this field was “Trygg” (Safe) established in 1899 and the success of that company induced a reaction from the joint stock companies. To confront the new competitor these companies started a joint venture “De Förenade” (The United) in 1901 specialising on these so-called “small-insurances”. These policies did not require any medical investigation and the premiums were low and often paid on a weekly basis.¹³⁰

In particular joint stock companies feared that less solvent firms, which included mutual companies as well as minor joint stocks, could undermine the public confidence. Therefore private insurers saw a special legislation as essential for a sound development of the industry. The executive orders from 1886 were not regarded as sufficient in stabilising the market and co-operation through informal agreements and cartels that restricted competition were substitutes for the non-existent legislation. After the introduction of the law, these means of co-operation were used to interpret the rules and implement a common practical use of the laws. As a mean of stabilising the market different forms of more or less formalised co-operation were established. One example was the creation of the “Fire Insurance Rating Association” (1873); similar associations were established also for other (smaller) branches of insurance and marine insurance (1893). The life insurance sector developed different kinds of co-operation, which finally resulted in the ‘Swedish Life Companies Managers Association’ founded in 1906. These trade organisations were of great importance not only for rate setting, but also for the creation of rules of conduct and to stabilise the growing industry.¹³¹ Regardless of how important these organisations were in

¹²⁹ Private insurers (1954).

¹³⁰ Lundberg and Molén (1958).

¹³¹ Lundberg & Molén (1957). Boksjö and Lönnborg-Andersson (1994).

forming codes of conduct within the industry, mutual companies refused to join them. As the competition increased on the life insurance market, the joint-stock companies accused mutual insurers of being financially weak and thereby jeopardising the public confidence and even threatening the survival of the market as such. In return, joint stock companies were accused of being overcapitalised and exploiting their customers in order to satisfy the owners' "greed". These allegations started an intensive debate –foremost in different insurance journals– among insurance companies, called the “the big principle controversy”.

An additional problem was also that, according the 1886 executive orders, mutual companies were exempted from the legislation and in practice without any supervision from the state (this also applied to foreign insurers). Not until 1895 did the managing director of the largest life insurance company Thule, present a private motion in parliament arguing for such legislation. As a consequence the government appointed a special commission and two years later a proposal had been worked out. But not until 1903 –mainly because the legislator awaited similar laws in Norway and Denmark– was a governmental bill submitted to the parliament and in 1904 the first Swedish insurance legislation finally became effective. Simultaneously the Swedish Private Insurance Supervisory Service (henceforth the Insurance Inspectorate) was established as a new independent state agency entrusted to supervise all insurers –mutual, joint stock and foreign companies– in accordance with the new law, thus ending “the big principal controversy”.¹³² As a consequence, mutual insurers began joining trade organisations, which improved co-operation and facilitated common codes of conduct; however this also promoted a further cartelisation.

In several ways the 1903 insurance legislation was a formalisation of previous experiences on the market. It was also worked out in close co-operation with managers of private companies. The “principle of solvency” from the 1886 executive orders was reinforced as the most important issue in securing the long-term survival of the industry. These solvency rules were based on ensuring that companies made safe investments, and followed funding regulations. Behind this legislation laid the target of protecting policyholders' capital and thereby ensuring the long-term stability of the market. With the priority of controlling capital investments, the insurance legislation made new entrance on the market comparatively easy. However, life insurance companies faced stricter regulations than non-life insurers. The law also included specific rules for foreign companies doing business in Sweden. In consequence, and for the first time ever, foreign insurers had to obtain state licenses and deposit a sum with the state treasure as a guarantee of solvency.¹³³ By the early 20th century the institutional framework, as well as the formal monitoring regulation for the insurance market, had been

¹³² Private Insurers (1954).

¹³³ This was in line with international requirements; see Pearson and Lönnborg (2008). SFS 1903:101. Hägg (1998).

recognised. The difference in opinion between mutual and joint stock companies had to a large extent been settled. Compared to the volatile development of the 19th century both life and non-life insurance developed fairly stably.¹³⁴

In the life insurance sector the joint stock companies dominated the market until the beginning of the 1890s, but mutual life insurance firms made an impressive catch-up and in early 1910s the market was split in half. Behind this speedy growth of mutual insurers lay foremost the development of the so-called “popular life insurance companies”. One of the most important companies in this segment was “Folket” (the people) founded in 1914. This corporation was part of the consumers’ cooperative association, and an extension of the fire insurer “Samarbete” (the co-operation) established in 1908. Later on these corporations became known as “Folksam”, and after World War II experienced an unprecedented growth. The number of insurance companies showed a steady and continued growth from the early 20th century until the late 1920s among larger companies and a decade later for minor corporations (see table 2). As clearly demonstrated by the table the largest number of companies was to be found in the segment of small parish insurers and in fact not until the 1960s was this development reversed. The limited importance of foreign insurers can be illustrated by the fact that their market share was only between 2-4 per cent, and that their share was incrementally dropping over time until the 1990s.

Table 2
Number of domestic and foreign insurers in Sweden, 1889-1950

	1889	1900	1910	1920	1930	1940	1950
Joint stock	22	35	34	55	45	47	49
Mutual, in total	539	707	1186	1189	1357	1264	1334
Which of							
National	18	30	66	99	93	94	75
County	123	127	108	85	214	177	135
Parish	398	550	1012	1005	1050	993	1124
Foreign firms	44	77	113	66	41	42	38

Source: Larsson and Lönnborg (2007:87)

5. THE INTERNATIONALISATION OF SWEDISH INSURERS PRIOR TO WORLD WAR I

Foreign insurance companies had been important for the development of Swedish insurance during the latter decades of the 19th century. But even though they remained active on the market, their market shares decreased. This indicates that Swedish insurance companies had obtained both a public acceptance and an economic stability making a controlled growth possible on the Swedish as well as on international markets.

¹³⁴ The legislation was reformed in 1917, mainly to put it in accordance with a new stock corporation act. Further, certain reinsurance methods for life insurers were forbidden.

The diffusion of insurance through internationalisation was closely connected to the emergence of joint stock companies. The earliest example of international development was shown by insurers in larger countries, initiated from the UK and then followed by Germany, France and the United States.¹³⁵ In the second half of the 19th century also Swedish companies, as well as other insurers from Scandinavia and other smaller countries in Europe, joined this international integration. The amount of international exposure was of course related to size, and thus, the largest Swedish insurers, the composite companies, engaged more heavily in risks abroad, especially in fire insurance. Measured as a degree of internationalisation (premiums abroad divided with total sum of fire premiums), these corporations had between 50 and 70 per cent of their business abroad as early as at the end of the 19th century. The differences between firms can mainly be explained by their different approaches to international business. Skandia and Skåne preferred to co-operate with European insurance companies through reinsurance, while Svea preferred underwriting policies abroad through appointed general agents on each market. However, in the 1910s Skandia, mainly through reinsurance, and Svea with an emphasis on agencies, almost had the same degree of internationalisation.

Skandia launched agencies in Norway, Denmark and Finland already in 1855. These agencies exhibited great volatility and the two Norwegian representatives withdraw in 1868, but one of these offices restarted already a year later. The Danish agency was withdrawn and restarted on several occasions, but finally Skandia remained on the market selling only life insurance. In Finland the business started with two agencies, but eventually was concentrated in one office in Helsinki (Finland was at the time part of the Russian empire). In 1856 Skandia also employed a general agent in Hamburg and another in St Petersburg; however, the commercial crisis of 1857 closed the German agency and poor risk selection in Russia led to a closure there in 1862.¹³⁶ The founder of Skandia, C. G. von Koch, was even forced to resign as a result of the turmoil in Hamburg. For a long period, the devastating experiences of international business in Germany and Russia limited Skandia's presence abroad. However, this strategy was altered at the end of the century when competition on the domestic market became extremely fierce. An important co-operation that dramatically changed the structure of the portfolio commenced in 1897 when Skandia signed a reinsurance treaty with Royal of Liverpool concerning European and non-European (US excluded) risks. This agreement was extended in 1900 when Skandia also accepted reinsurance from the United States and even shared the general agency with "Royal" in New York. Through this treaty Skandia got exposed to worldwide risks, and the American portfolio would have a significant importance for Skandia during the entire 20th century.¹³⁷

¹³⁵ For several different studies, see Borscheid and Pearson (2007). Pearson and Lönnborg (2008). Pearson (1995, 1997 and 2004). Trebilcock (1985).

¹³⁶ On the commercial crisis of 1857, see Lönnborg *et al.* (2003:115-118).

¹³⁷ Lönnborg (1999). Leffler (1905).

Svea was the Swedish insurer with the most activity abroad. The mode of internationalisation thus differed from the rest of the companies. Reinsurance was indeed important for Svea, but early on the management reached the conclusion that building a sound portfolio required representatives on site. The wide array of Svea's activities can be exemplified through a short presentation of when the company established general agencies in different cities: Christiania ("Oslo") and Bergen (1866), Copenhagen, Turku and Helsinki (1867), Hamburg, Bremen and Amsterdam (1869), St Petersburg (1872), San Francisco (1874, closed in 1878 and restarted in 1884), Mulhouse 'Alsace-Lorraine (German at the time) (1879), London (1880), New York (1882), Vienna (1883) and Valparaiso "Chile" (1885). In addition, through reinsurance contracts Svea carried risks for instance in other European countries: Australia, New Zealand, China, Argentina and South Africa.¹³⁸

Skåne was a considerably smaller company than Skandia and Svea, but established agencies in Norway, Denmark, Finland and Hamburg (1884), St Petersburg (1885) San Francisco and Denver (1888), New York (1898) and Valparaiso (1905). However, except the Scandinavian establishments, all agencies were co-operations with European insurers and were administrated by them as well. The most important partner was the Dutch company "Nederlanden", but through a lot of different treaties including reinsurance and retrocession, Skåne covered considerable amounts of foreign risks.¹³⁹

In comparison, the rate of international penetration among the combined insurers was indeed impressive at the turn of the 20th century: Svea had about 70 per cent, Skandia 60 per cent and Skåne 55 per cent of their non-life insurance portfolio abroad.¹⁴⁰ This figures exclusively concerned fire insurance, but initially life insurance was also exported, mainly to Scandinavian countries. The highest degree of internationalisation was once again found among the mixed insurance companies, with about 30 per cent foreign risks; followed by the joint-stock life insurers (around 15 per cent). The mutual life insurance companies had the lowest degree of international risks in their portfolios (between 1 and 6 per cent). The majority of these life insurance agencies were winding down in the 1920s. Only Thule and Svea continued this line of business, though on very limited scale.¹⁴¹ Two of the pure fire insurance

¹³⁸ Lönnborg (1999:92-102). Bring (1917).

¹³⁹ Lönnborg (1999:104-109). Bolin (1934).

¹⁴⁰ The reinsurance companies were solely established to diversify their owners' risks on the international market (almost exclusively the mixed companies), and it is not so surprising that they had the highest degree of internationalisation. More surprising is the fact that the differences between the mixed firms (the owners of the firms) and the reinsurance firms were quite small and diminished over time. Lönnborg (1999:112).

¹⁴¹ In addition, in 1914 the life insurance companies jointly established a company (called Sverige "Sweden" Reinsurance Company) as a way to rationalise and cost minimise the risk-sharing in life insurance. Thereby, the incentives for signing reinsurance treaties with foreign

companies –“Victoria” and “Sverige/Fenix”– had a relatively low degree of internationalisation, 10 to 20 per cent. However, the third actor in this segment, Norrland, had instead a degree of internationalisation similar to that of the mixed companies. Norrland to a large extent used the same connections as Skåne, for example the same general agent in Russia. Norrland also preferred to establish reinsurance contracts with larger European insurance firms.

Having risks also on the American market, Swedish insurers were also influenced by the San Francisco earthquake in 1906. In fact the immense losses in the wake of the earthquake no doubt led to a questioning of the entire foundation of conducting foreign business. The three mixed companies all had business in this area. Skandia had the reinsurance treaty with Royal; Svea had a general agency on site and finally Skåne had two reinsurance treaties. After serious considerations, Skandia and Svea stayed on the market, while Skåne wound their business down.

The main reason for the decisions by Skandia and Svea was that almost half of their total net fire premium income was generated in the United States. Skandia even expanded its business on the US west coast as a consequence of Royal taking advantage of the decreased competition in that area. Another consequence of the earthquake was that Skandia founded a new reinsurance company, Freja, as a mean to diversify the international portfolio. Svea initially limited its exposure in dangerous areas, but was forced to drop this policy as a response to the renewed competition. Skåne, which also suffered from earthquake losses in Valparaiso (Chile) in the same year, withdraw entirely from the American continent, and instead engaged heavily on the Russian market (which in retrospect not was such a wise strategy).¹⁴²

6. THE MARKETING, 1915-1939: RECURRENT BOOMS, CRISES AND RECOVERIES

In the aftermath of World War I Sweden experienced one of the most severe financial crises ever. This was preceded by an economic boom with export surpluses, which together with a shortage of certain commodities, due to restrictions on imports, contributed to a period of acute inflation. With import controls in place, the war helped to stimulate the establishment and growth of a large number of new enterprises especially in manufacturing. These establishments were actively encouraged by an import substitution policy of the government to facilitate national self-sufficiency. At the end of the war, however, when international trade was re-established, a large number of these newly launched firms in import-substituting industries went into bankruptcy. A further setback for Swedish industry in the early inter-war period was that important export markets disappeared. This had a particular effect on Sweden because

insurers disappeared and consequently the risk-sharing in the field of life insurance became a domestic issue. Sverige Reinsurance (1965).

¹⁴² Pearson and Lönnborg (2007:26-40).

one of the biggest export markets at the time, Russia, basically vanished after the Bolshevik revolution. The problems were accentuated by the fact that several other important markets in Central and Eastern Europe could not purchase Swedish products due to their own post-war economic distresses.¹⁴³

The major development on the domestic market during the 1920s and 1930s was the emergence of insurance groups. The legislation postulated that different branches of insurance (both within life and non-life insurance) could not be sold from the same company. When larger companies started to diversify into all different segments of the market this resulted in the emergency of insurance groups. An example of this was when the life insurer Thule acquired the non-life companies Norrland and Fenix in 1930, and another example was Skandia taking over the life insurer Nordstjernan in 1931 – although these corporations were formally kept as independent companies. Other insurers going through the same development were for instance Svea, Skåne and ‘the Cities Public’.¹⁴⁴

The international business suffered severely from World War I, and until the early 1920s the degree of internationalisation decreased considerable, for Svea by about one tenth and for “Skandia” and “Skåne” by almost two fifths. There were several reasons for this retrenchment. “Skåne” and “Svea” temporarily dismantled their agencies in Germany, which until the end of war were owned by the general agents; however because the economic turmoil in the wake of the war, underwriting was kept down. A special dilemma was the Russian revolution and in particular the following confiscation of foreign assets in 1918, which resulted in severe losses for Svea and in particular for Skåne.¹⁴⁵

During the 1920s and 1930s the international business of Swedish insurers changed considerably, and in some cases even became inter-related. Despite the extensive reinsurance business in the US, Skandia only had agencies in Norway and Finland until 1920, when the company simultaneously established an agency and bought a minor insurance company in Belgium. Svea expanded even more heavily during the 1920s. In collaboration with Norwegian “Storebrand” Svea acquired the Hudson Insurance Company of New York in 1920, but three years later they became the sole owner. In addition, in 1920 Svea also acquired a minority stake in the German company “Nord-Deutsche” and in collaboration with that company Svea established general agents in the Netherlands, Switzerland, Cuba and Estonia. While these corporations expanded abroad, Skåne still suffered from the losses in Russia and dismantled several reinsurance treaties, for instance with Nederlanden and two British insurers. In 1930 Skandia and Svea merged their US business when Skandia bought 50 per cent of Hudson insurance company. Only three years later and mainly because of disastrous business with farm risks in the southern states,

¹⁴³ Larsson and Olsson (1992:38). Lönnborg *et al.* (2003). Larsson and Lönnborg (2008a).

¹⁴⁴ Englund (1982).

¹⁴⁵ Bolin (1934).

the entire portfolio was reinsured and no further business was written. However, in 1939 Skandia acquired Hudson and that company later became the foundation of Skandia's post-war business in the US.¹⁴⁶

The depression in the 1930s was in Sweden closely connected to the collapse of the so-called "Kreuger-concern". But perhaps more important for the insurance market was that the Social Democrats entered the stage as the main political power and during the 1930s the new government pursued a cheap money policy keeping the interest rate low and making it difficult for life insurance companies to invest their capital with a return of three per cent that was required by the law. The low interest rate would indeed have a major impact on the entire market.

7. THE THREAT OF NATIONALISATION AND GOVERNMENTAL COMMISSIONS

The structure of the Swedish insurance system had been under discussion since the 19th century but the debate was intensified after World War I, when the political left pledged to nationalise the insurance industry. In fact, when the first Social Democratic government surfaced in 1920 a new governmental agency, "The Socialisation Committee" was created as a means of improving efficiency in certain industries or companies through nationalisation. However, the agency never presented any proposal for nationalisation and was phased out in the 1930s.¹⁴⁷

The 1920s were politically very unstable and no government survived long enough to undertake any long-term policy making. The 1932 election changed that and the Social Democrat party (in coalition with the Agrarian party) was given the possibility to pursue an entirely new economic policy with inspiration from Keynes and the so-called Stockholm School. However, it was not the government but a private bill presented in 1935 by a Social Democratic member of the parliament that suggested nationalisation of the entire insurance industry.

There have been two main ideas behind the political demands for socialisation. The first idea was to rationalise the industry in order to reduce the costs for consumers. The large number of insurers raised a lot of criticism because they increased the industry's administration costs. The apparently easy solution was to concentrate business to a state agency. Since the cheap money policy resulted in difficulties in increasing insurers' incomes, the economic pressure became even more burdensome for the companies. The second idea was to increase the possibility for the state to take charge of the capital market and play a more important and active role in the allocation of resources. For some, socialisation also was assumed to extend democracy.¹⁴⁸

¹⁴⁶ Lönnborg (2002).

¹⁴⁷ Hadenius (1987).

¹⁴⁸ Lewin (1967).

The bill was rejected on practical grounds, but in co-operation with the head of the Insurance Inspectorate, the insurance industry initiated the “Rationality Committee” as a means of seeking ways of improving efficiency and thereby eliminating the underlying reason for nationalisation. Further, in coordinating the resistance against a nationalisation, a new trade organisation –the “Swedish Insurance Federation”– was created in 1937. The establishment of the Federation was a direct response to a renewed bill presented in 1936 by the same Social Democrat. This bill was also rejected; but with a weak majority; however a governmental commission was appointed on the recommendations of the Insurance Inspectorate. The main reason behind this commission was to place insurance legislation on an equal footing with that of other businesses, but this also started a process that focused more directly on the ownership structure. A special insurance commission, dominated by representatives from the insurance industry, was appointed in 1937. It was, however, put on hold after the outbreak of World War II and only reopened in 1942.¹⁴⁹

The debate on nationalisation disappeared from the political forefront as a consequence of the war, but remained on the political agenda and was revived towards the end of the war and became a hot domestic political issue. Another commission was appointed in 1945 by the parliament and for a while the two commissions existed side by side. The latter one consisted only of politicians and was given far-reaching possibilities to investigate whatever issues it saw necessary to settle the industry's structure. The two commissions' premises were thus entirely different. While the 1942 commission aimed at adapting the laws to the new conditions of the market, the 1945 commission was dealing with more fundamental and politically ideological issues. To put it differently, the latter commission in practice had the possibility to decide whether privately owned insurance companies should become state property.¹⁵⁰

And so, in the late 1940s two alternative insurance models emerged: an insurance system fully controlled by the state and a system dominated by private actors, but with considerable (and increasing) state regulation. The choice between these two alternatives was, however, already partly solved before the 1945 commission delivered its memorandum in 1949. Already in 1946 the 1942 commission presented a proposal for new insurance legislation and two years later the law was passed by the parliament. By increasing state regulation and state control in the new law, the issue of nationalisation began to fade away. In any case, the 1945 commission never argued for a nationalisation of the insurance industry, but the mere possibility that the commission could propose a nationalisation made it easier for the industry to accept the tighter

¹⁴⁹ Grip (1987).

¹⁵⁰ SOU (1946:34). Hedberg and Larsson (2006).

regulations suggested by the 1942 commission, which resulted in the laws of 1948/50.¹⁵¹

8. THE NEW LEGISLATION OF 1948-1950

The threat of nationalisation was, as we already have noted, a recurring, but never fully developed theme in Sweden. It did, however, provide the basis for strengthening the state's position on the insurance market.¹⁵² Considering the general political developments after World War II it may appear a little peculiar that socialisation never became a real option. There are several possible explanations for this, one decisive factor being the relative unanimity among the actors on the market. The insurance companies (stock companies as well as mutual companies), trade organisations (primarily the Swedish Insurance Federation), the Insurance Inspectorate and even the government were all convinced that nationalising the whole industry was an administratively complicated operation. In addition, a socialisation could even have serious effects on the function of the entire market, according to the Social Democratic government. Therefore, it would be more functional to retain the basic private structure of ownership and instead implement different tools to govern the actors.

By tradition, Swedish insurance legislation had as its prime intention to protect policyholders and not the companies as such. Altogether the operation of the Insurance Inspectorate after 1948 followed 6 "principles" in monitoring the private insurance industry; "principle of solvency", "principle of equity", "principle of need", "principle of separation" (between life and non-life operations), "principle of insured's influence" and the "principle that an insurer could only conduct insurance business".¹⁵³

Since the executive orders of 1886, life insurance was based on the so-called "principle of solvency". This principle of monitoring was focused on how insured capital was invested, and in this respect government bonds were recognised as the safest equity. However, several novelties were incorporated in the new legislation. One of these areas was the restriction to establish new insurance companies, something the government had regulated during World War II through a special judicial arrangement. In the 1948 insurance law the idea of controlling the right to establish a new enterprise was included through the so-called "principle of need". This meant that a company should be able to demonstrate an actual need in order to receive a license to enter the market. This principle was an internationally unique institutional measure and gave the

¹⁵¹ However, the 1945 commission did recommend nationalisation of motor third party liability, but this proposal never led to a bill in parliament.

¹⁵² Proposals to the parliament considering nationalisation occurred frequently, and the last one, the by the Communist party suggested centralisation of traffic insurance, was rejected in 1971. Larsson *et al.* (2005:132).

¹⁵³ Larsson *et al.* (2005:75).

government/Insurance Inspectorate the possibility to more or less decide the structure of the market. In reality this protected the existing insurance companies from the threat of new competitors. During the first ten years of the new legislation, not a single new company was established within the life insurance field. And even when non-life insurance companies did get a concession, it was almost entirely to make it possible to include combination insurance as a measure to improve market efficiency. The Insurance Inspectorate considered that the market already had enough insurance companies and effectively shut potential market entrants out.¹⁵⁴

The “principle of need” was actually a part of the intention from the insurance commission (addressing the wishes from the government) to make insurance businesses more efficient. An even more obvious example of that intention was to include one additional principle, the so-called “principle of equity” for life insurance companies. The purpose of this principle was to protect customers from paying too high a premium. The “principle of equity” primarily aimed at underlining how the government gave priority to constant cost reductions among private companies. However, the principle was also a way to sustain an artificial competition and to counteract cartel agreements on the market, which affected price competition negatively.¹⁵⁵ While the “principle of equity” was a unique institutional device for Sweden, the Insurance Inspectorate never defined the term “equity” (fairness) in any proper way, and it was therefore dependent on subjective judgements of the Inspectorate.

By referring to the “principle of equity” the Insurance Inspectorate gathered information about how costs developed for different companies, which were published in official statistics. This open publication was considered as a mean to keep premiums down and underpin a constant rationalisation among companies. In the longer run, expenses were also reduced, but it would be an exaggeration to explain this development only through the “principle of equity”. Rather, it is more likely that the reduction of costs was due to a combination of product development, rationalisation and economies of scale and scope. Therefore, the higher rate of efficiency would probably have occurred even without the “principle of equity”.¹⁵⁶

Another unique rule for Sweden, introduced in connection with the 1948 law, was the so-called “principle of mutuality”, which in practice meant that profits in every life insurance company –regardless of ownership structure– should be returned to policyholders. However, this was not a formal rule; instead it was inspired by previous traditions on the market. The fierce competition on the life insurance market already before World War II induced a development where

¹⁵⁴ SOU (1946:34 and 1983:5, p. 75-77).

¹⁵⁵ However, according to for instance Folksam, this principle had the direct opposite effect, because it would increase incentives in coordinating premium settings among insurers. Grip (1991).

¹⁵⁶ SOU (1986:8).

most of the profits were returned to policyholders. However, as a part of the “principle of equity”, the “principle of mutuality” meant an informal ban on dividends among life insurance companies, and even joint stock corporations were forced into acting as mutual insurers (in fact this principle was formally valid until the year 2000).¹⁵⁷

The 1948 law also contained other elements in order to facilitate the ban on dividends among life insurers. Through the so-called “principle of separation” it was stipulated that life operations of mixed companies must be transferred to a separate company, either existing or newly founded, without any compensation to shareholders. As has earlier been stated, this principle had been in force since 1886 and was renewed in the 1903 law, but it was not until 1948 that the composite companies had to establish entire new organisations for gaining concessions to continue life operations.¹⁵⁸

That the threat of nationalisation was kept alive in order to facilitate compliance among insurers is demonstrated by the amendments to the law in 1950. As result of a compromise to avoid nationalisation, the 1945 commission suggested that the “principle of equity” should also apply to non-life companies, and this was duly implemented through an amendment to the law. An interesting aspect was that business conducted by Swedish insurance companies abroad was exempted from this principle. This of course then had the effect of creating an incentive to expand into foreign markets.¹⁵⁹

The commission also supported the idea of strengthening the position for those insured in managing the companies that insured them. The influence of the insurance co-operative ideas was to become one of the cornerstones in building mutual companies. The commission wanted this influence to increase and was willing to give priority to the founding of mutual enterprises. The commission was also in favour of representation for the insured, and in 1951 a new law was passed that guaranteed representation on the board for the policyholders in both mutual and joint stock companies.¹⁶⁰

The insurance companies were not particularly supportive of regulations that limited their freedom of action. At the same time, however, the changing policy was occurring against a backdrop of threats of even stricter regulations – and in the worst case nationalisation – a threat that some recognised as very real. Not all rules in the new laws were, however, negative for all companies, especially not the larger corporations. One particular intention of the law was to make the market more efficient through mergers. Larger companies could easier

¹⁵⁷ Grip (1987).

¹⁵⁸ Grip (1996).

¹⁵⁹ Further, because the international settings, marine insurance was also exempted from the principle. In addition, the amendments of 1950 also included a new specific legislation for foreign insurers doing business in Sweden. Lönnborg (2002). Larsson (1998).

¹⁶⁰ SOU (1949:25).

implement effective routines and develop new low cost insurance products. The larger companies gained an advantage mainly because the threshold of entering the market was raised; the market considered the 'principle of need' in the new legislation as a pretty effective barrier to entry. Still, the 1948 law abolished previous traditions, and the Swedish insurance market entered a system with the state being the key player.

In sum, the new legislation departed from international standards and considerably constrained the private insurers regarding for instance entering the market, setting premiums and conditions and making profits on life insurance. However, the institutional change also relaxed the rules that every different non-life insurance branch had to be organised as one specific company. The intention was to facilitate higher efficiency, and as a consequence a concentration process of the market commenced.

9. THE “VOLUNTARY” AGREEMENT WITH THE CENTRAL BANK

Between the early 1950s and the mid-1980s the Swedish financial market was under strong state control. The fiscal policies of the government took primacy, and monetary policies largely followed suit. Funding governmental projects, such as expanding the housing stock, exploring natural resources and rationalising the agricultural sector, was among the key fiscal demands on the state's capital budget. The control of the financial market was an important tool for this new Social Democratic policy, and the state's governing activities were realized through the central bank (the Riksbank). Thus, the central bank was given a new position on the financial market, which opened for state intervention that limited the free market substantially. Neither the allocation nor the price of credit could be totally handled by organisations on the financial market alone. Rather, the financial organisations' possibility to offer credit was instead decided by how the Riksbank evaluated the risk of inflation and how the bank decided to give priority to investments. While the government and the parliament laid down the general direction of the policy, the Riksbank was, at least formally, responsible for the policy implementation.¹⁶¹

The regulation by the Riksbank that caused the most animated debates during the 1950s related to the insurance companies' duty to invest. During World War II, the industry was forced to support the government's fund raising and therefore bought large amounts of low interest governmental bonds. After the war insurance companies as well as banks sold these bonds to find more profitable investments. These operations undermined the government's chances in funding the implementation of the “Swedish Model” and also the cheap money policy. The intention of the government was to urge cheap credits, in particular for housing and later also for state loans. At the same time, the Riksbank set the interest rate on every kind of debt. This caused a lot of criticism from many insurance companies. They argued that the regulation from

¹⁶¹ Jonung (1993). Larsson (2002).

the Riksbank was in fact contrary to the requirements of the “principle of solvency” according to the insurance law. As a result, the Riksbank’s implementation of the “voluntary” agreement was met with resistance from the insurance industry.

However, the Riksbank was acting on guidelines from the Ministry of Finance and when the insurance industry refused full co-operation the ministry initiated legislative work regulating investments as a means to put pressure on the insurance companies to sign this “voluntary agreement” with the Riksbank. Because the insurers eagerly avoided further limitations through formal legal rules, they finally agreed to comply.¹⁶² However, from a political point of view, in fulfilling the financial and monetary policies implemented by the Social Democratic government, control over the flows of capital was crucial and not negotiable. The government, however, preferred “voluntary agreements”, probably because they appeared to be a consensus solution.

The negotiations between the Central Bank and the actors on the market could be described as part of the Swedish model of negotiations where the parties met to jointly decide about the future development of the financial system, but it was not quite that simple. When otherwise referring to the Swedish model as a result of negotiations, one usually relates to compromises between relatively equal parties. In this case they were not, and the outcome seems to have been given in advance. The Riksbank was acting from a position of political strength and power, which made it possible for it to reach almost any end desired. For the insurance companies the threat of a stricter legislation, which further could limit their business, was an important factor in their complying with the instructions from the Riksbank.

10. COLLUSION, COMPETITION AND FDI, 1940-1959

During the twenty-year period beginning with the 1940s private insurers faced many issues, which to a certain extent questioned the basis for the industry. The new legislation forced the firms to change organisational structure. Life insurance was no longer a source of profit, and the “voluntary” agreement with the Riksbank forced them to invest in low yields governmental bonds.

One major consequence of the political challenges of the 1930s was a closer co-operation within the industry. Collusion and close cooperation among insurers was in fact a trademark of Sweden’s insurance industry. During the entire 20th century 90 cartel agreements were officially registered. Approximately two thirds of them concerned damage insurance and one-third involved life insurance. The collusion among life insurance companies was very

¹⁶² In comparison, similar agreements were met with commercial and saving banks without any resistance. Larsson *et al.* (2005:89-95). Jonung (1993:386-390).

active and reached its peak during the early 1950s, partly because the new legislation favoured such arrangements.¹⁶³

However, at the same time as the co-operation flourished, the relatively stable conditions were deeply challenged by two mutual companies, namely “Folksam” and the “the Cities Public Fire Company” (hereafter the Cities). The setting of premiums had previously been very similar between companies, and even though some mutual companies formally had not joined the trade organisations, they closely followed the rates set by the joint stock companies.

The Folksam Group started with non-life insurance 1908 and ‘popular’ life insurance in 1914. The company (formally two enterprises) was part of the consumer co-operative and had earlier acted in consensus with other mutual enterprises, but more surprisingly also in line with the joint stock insurers on several practical matters. In 1946 this changed entirely when Folksam introduced radical premium cuts across the entire non-life sector and, according to the statistics, with positive reactions among the public. In consequence, the growth of Folksam was deeply impressive; during the last half of the 1940s the premium income increased by 82 per cent and during the first half of the 1950s by 52 followed by 44 per cent during the second half of the decade.¹⁶⁴ This marked a break with the prior climate of consensus within the industry and dismantled the stable environment characterised by “gentlemen’s agreements”. Through these measures Folksam became regarded as the most serious competitor (and even traitor) among other mutual companies and in particular among joint stock corporations.

Following Folksam, the mutual “the Cities” also broke with the general rating policy and tried to compete especially with Folksam. Although the company gained a couple of percentages of the market, this measure was associated with heavy losses, in fact so severe that the entire company’s survival was threatened. Even though “the Cities” was a mutual company, the president of the company, Gunnar Ljungqvist, was a member of parliament for the Conservative party (and also of the 1945 commission) and “the Cities” never became a real alternative to Folksam among the working class. “The Cities” “dumping of premiums” had, according to previous studies, serious repercussion on the entire structure of the market, and among other things triggered the extensive waves of mergers occurring from the 1950s and in particular during the 1960s.¹⁶⁵

Another important structural development among Swedish insurers after World War II was their increased involvement on foreign markets. During the 1940s and 1950s, economic policies had limited the scope for international expansion,

¹⁶³ Boksjö & Lönnborg-Andersson (1994).

¹⁶⁴ Englund (1982).

¹⁶⁵ Englund (1982).

but this could not reverse the expansion abroad among a large number of insurers. However there existed major differences between various companies; from early on Skandia, for example, took a much more active interest in making foreign investments than did the rest of the industry.

With the early 1950s new opportunities arose abroad and together with the introduction of the “principle of equity” and the “voluntary” agreement with the Riksbank, the incentives to engage in new foreign business grew. In 1952 Skandia’s premium income from the US increased by more than 25 per cent because of the co-operation with the “Prudential”. The following year Skandia, in collaboration with several Swedish companies, started a company in Colombia, which was a response to a new law that enacted imported goods only to be insured in domestic companies. In 1954 Skandia’s foreign business expanded heavily with new offices in Australia, France and Netherlands. At the same time the reinsurance treaty in the US expanded through covering other risks than merely fire insurance. Before the end of the decade Skandia had also opened business in India (1957). In spite of these new businesses, however, the degree of internationalisation did not increase, mainly because the domestic portfolio grew even faster.¹⁶⁶

Svea’s international business had not fully recovered after closing down the US business in the 1930s, but after the war a complete new management tried to renew the international activities. One of the most important issues was re-entering the US, but the Riksbank in fact hindered this. The Riksbank supervised every single international currency transaction and denied every application from Svea concerning transferring funds to the US and even demanded that the company brought back their US assets to Sweden. This was an effect of the general shortage of dollars in Sweden, and Svea’s US assets could, according to the Riksbank, better serve and facilitate Swedish foreign trade if they were taken home. It even said that a re-entry in the US simply was “throwing good money after bad”- thus, quite remarkably, the central bank explicitly made business decisions for a private company. The Riksbank also decided that Skandia, with the largest foreign business, had the first call in transferring funds abroad, and the latter company made several investments in the US during Svea’s application rounds. However, Svea managed to establish business on other markets, for instance in Mexico and Columbia. Thus, it followed the general trend among joint stock companies, for instance Thule and Skåne, to seek new markets and try new strategies when the development on the domestic market was restricted. In addition, even mutual companies, such as Folksam, started business abroad (this commenced with Folksam International in 1949).¹⁶⁷

¹⁶⁶ Lönnborg (2002).

¹⁶⁷ Lönnborg (2002).

11. FURTHER CONSTRAINS THROUGH A PENSION REFORM IN 1960

The need for a supplementary pension reform was noticed already during the inter-war period. From the late 1940s the discussion became more intense and this finally resulted in a reform in 1959. This supplementary pension system affected the activities of private insurers in several ways.

As has been stated before, one of the most characteristic components of the “Swedish model” was the concord between organised labour and capital. The private and the public sector co-operating in the development of the welfare state can illustrate this. The decision to create a supplementary pension system (ATP), however, was not built on compromises. As a matter of fact this so-called “ATP-struggle” was one of the most infected political battles during the 20th century in Sweden. But unlike the “voluntary agreement” between the Riksbank and the insurance companies, parliamentary support was needed to implement the ATP reform. In spite of many state commissions and both formal and informal negotiations between different parties and interest groups, there was no possibility to reach a political consensus on this issue.

A public pension scheme had been implemented in 1913 -the first mandatory system in the world- but with very limited benefits. Incrementally, reforms had been realized in 1935 and 1948, but the mandatory state pension had remained very limited. There existed, however, major differences in pension arrangements within the labour market, where for instance employees in the state sector and private white-collar employees had supplementary pensions. The latter were part of agreements between these labour groups and the employers’ association. During the major part of the 1950s the government in Sweden consisted of a coalition between the Social Democratic Party and the Agrarian Party. The Social Democrats urged for a supplementary pension reform built on a mandatory system with the state securing the benefits against inflation, while the Agrarians instead supported plans for a voluntarily system, with the state securing the value of pension benefits. The Liberal and the Conservative parties also supported a voluntarily system, built however only on agreements between employees and employers without the state securing the value of benefits.¹⁶⁸

The issue of the mandatory supplementary pension reform (henceforth ATP) resulted in a 1957 consultative referendum. In this referendum three different alternatives were presented, clearly illustrating the clash between the different interest groups involved. The outcome of the referendum was however unclear, with popular support divided; thus the coalition government resigned and was replaced by a Social Democratic minority government. When the parliament finally came to a decision in 1959, choosing the Social Democratic alternative, it was only possible through a Liberal parliamentarian abstaining from voting.¹⁶⁹

¹⁶⁸ Åmark (2005). SOU (1950:33; 1955:32 and 1957:7). Olsson (1990).

¹⁶⁹ Molin (1965). Baldwin (1996:1990).

It is hardly surprising that the Swedish Insurance Federation did not support the ATP proposition. The Federation fought for an insurance system based on voluntary agreements and opposed state monopoly. The legislation concerning both industrial injury insurance (1901 and 1916) and traffic insurance (1929) had been accomplished through compromise (mandatory, but supplied by private companies), and this was regarded by the federation as a feasible way of dealing with the pension reform. However, the view of the co-op Folksam was far more surprising. Initially it supported a voluntarily system, primarily because it was regarded as a way of increasing the rate of savings. During the long running ATP-debate, Folksam changed its views and finally supported the alternative presented by the Social Democratic Party.¹⁷⁰

The private insurance market had limited possibilities to affect the pension reform or implement alternative solutions where the private insurance companies could participate. A matter of fact, one pre-condition made by the government was that any pension solution including private insurers was not acceptable. Unlike the debate on socialisation there was no support from the Insurance Inspectorate. That can partly be explained by the fact that the previous director general was one of the creators of the ATP-reform.¹⁷¹ Surprisingly enough private insurers did not see the pension reform as a direct threat against their business. One probable explanation is that the “principle of mutuality” in life insurance (all profit should be returned to insured) decreased the propensity of private insurers to supply mandatory insurance. Such a system could not lead to any profit. Therefore, the pension reform further underpinned the non-life sector as the “core” business and “cash-cow” for private insurers, while life insurance was considered as a “service” for customers.

12. CONCENTRATION AND INTERNATIONALISATION, 1960-1980

Consequently, the Swedish insurance model, with major political influence, potentially limited the business of private insurers. Both the regulations of the Riksbank and the new insurance legislation radically reduced investment opportunities. In addition, incentives for developing life insurance were diminished; the pension reform and the new law forcing joint stock life insurance to act as mutual corporations, all reduced the private insurers’ room to manoeuvre. However, at the same time as the Swedish insurance model limited the possibilities for private insurance to develop in certain areas, it also opened the door to other markets and stimulated structural changes within the industry.

One of the areas where the market actually developed after the implementation of the ATP was labour market insurance, especially group life insurance. In the beginning of the 1960s, several agreements in the labour market were concluded and in the 1970s blue-collar workers were included as well. These

¹⁷⁰ Larsson *et al.* (2005).

¹⁷¹ Molin (1965).

agreements guaranteed complementary insurance supplementing the undertakings of the welfare state and ATP. Labour market insurance was also the only market where the number of companies involved actually increased.¹⁷² Several of the new companies were founded in collaboration between trade unions and employer associations. Together with general rationalisations these institutional changes were important for the concentration on the insurance market, which was especially noticeable in the 1960s and 70s (see table 3).

Table 3
Number of domestic and foreign insurers, 1940-2005

	1940	1950	1960	1965	1970	1975	1980	1985	1995	2005
Joint Stock	47	49	50	33	26	26	29	34	79	113
Mutual, in total	1264	1334	1035	915	768	622	549	503	196	130
Which of										
National	94	75	53	46	39	27	26	27	19	13
County	177	135	126	115	102	98	89	36	45	36
Parish	993	1124	856	754	627	497	434	440	132	81
Foreign firms	42	38	33	32	26	17	15	14	16	25

Notes: Figures for 1995 and 2005 are estimations drawn on public records, but computed by the authors. Due to changed accounting routines for the smaller corporations, 1995 and 2005 should not be compared with previous figures.

Sources: Sweden Public Statistics, *Private Insurers (1940-1985)*.
Insurance Yearbook (1996 and 2006).

As illustrated in table 3 the market structure changed immensely from the 1960s and onwards, and two large enterprises were created through mergers. One of them was Skandia, in which almost every insurance joint stock company joined through mergers during the 1960s. Skandia and Svea merged in 1960 and one year later the Skåne group also became part of the corporation. The same year Öresund Group (mainly marine insurance) also merged and finally in 1963 the Thule group joined the new Skandia concern. After the final merger the group included 23 insurance companies, but in the following five years 20 of these disappeared through internal mergers, and thus, the group consisted of one life insurance company, one non-life and one reinsurance firm.¹⁷³

The company *Trygg-Hansa* was also created through a series of mergers among the mutual insurers (in total 40 companies in 4 corporate groups, including for instance the previously state operated "The Cities"), and the major merger was concluded in 1971.¹⁷⁴ These mergers were especially important to cut costs and made it possible to compete with especially the new Skandia regarding economies of scale.

¹⁷² Wadensjö (1997).

¹⁷³ Englund (1982).

¹⁷⁴ Fredrikson *et al.* (1972).

However, mergers were not the only option available in order to increase efficiency. Beside these two large corporations, the cooperative-unionist company Folksam grew dramatically, measured in premium incomes, and without extensive mergers. In Folksam's case the strategy was rationalising within the organisation and supplying policies in collaboration with trade unions, and this helped keeping costs comparably low. These three insurance groups came to dominate the market by the mid-1970s and also gave it a clearly oligopolistic structure.

In the 1970s, however, a “new” player surfaced and challenged the rest of the industry. After heavy losses due to increasing ratios of claims and high inflation, the larger companies Skandia, Trygg-Hansa and Folksam increased their premiums, and this opened for another company, Länsförsäkringar (County Insurances). This group is today the largest provider of non-life insurance in Sweden; however, explaining this process requires a short backdrop.

Länsförsäkringar is in practice 24 independent provincial companies joined together in an alliance. These firms started during the early 19th century as mutual county insurers (as a response to the underperforming Fire Aid) and of course concentrated on rural risks. During World War I a common organisation was founded as a mean to facilitate co-operation, and in 1937 a common reinsurance company was established. In 1944 the common organisation was turned into a joint stock company and contributed as a nationwide organisation with special lines of insurance to the regional companies. In the late 1960s these corporations suffered from urbanisation, which undermined their market shares, and as a response to this burdensome situation a new kind of co-operation, including the same brand name and intensified sales effort in larger and medium-sized cities, was launched. The “principle of need” made it impossible for individual regional companies to obtain concession in some lines of insurance, but this nationwide organisation circumvented this obstacle. For instance, expansion in third-party liability and motor vehicle insurance was made possible for every regional company thanks to this construction.¹⁷⁵

Thus in the 1970s when the rest of the insurance industry encountered difficulties and raised premiums generally, the wealthy regional companies established themselves in larger cities and retained the previous low premiums. This strategy was a big success for Länsförsäkringar, and later when the regulations were relaxed, it expanded into life insurance (1985) and banking (1996).¹⁷⁶

In the wake of the intense concentration process, the importance of cartels in private insurance declined substantially in the late 1960s. The larger companies

¹⁷⁵ Larsson & Lönnborg (2007).

¹⁷⁶ Another insurance group was the mutual Wasa that after extensive mergers emerged as a major player in the 1980s (about 12 per cent of the market), but in 1998 Wasa and Länsförsäkringar merged under the latter name, which further strengthened Länsförsäkringar.

incrementally preferred setting their own premiums and conditions regardless of competitors. The starting point for this development was 1967, when Skandia left the common tariff organisation, and the following year the rating institute was closed down.¹⁷⁷

The increased competition on the domestic market also made it more tempting to enter or deepen foreign operations. There was a general increase in internationalisation in the late 1960s and in particular from the 1970s when the Riksbank became more lenient in approving foreign investment. The new merged Skandia actively consolidated its large number of foreign agencies in order to increase efficiency and find growth opportunities. Skandia engaged more heavily in the US, but also on European markets and acquired companies in the Scandinavian countries. Trygg-Hansa as well as Folksam was also active on foreign markets and established companies for instance in the UK and the US from the 1970s, but compared to Skandia on a much lesser scale.¹⁷⁸

13. DEREGULATION, FINANCIAL CRISIS AND A NEW INSURANCE MARKET

In the beginning of the 1980s the Swedish financial market underwent an extensive deregulation. These changes were closely connected to the international process and thus became a vital part of Sweden's closer contacts with the European Union. These institutional changes most of all affected the banking system, but the private insurance market underwent an extensive transformation as well (see table 4).

At the same time as the deregulation of the financial market occurred, the pension system was substantially reformed. In the early 1980s the long-term survival of the ATP-system was seriously questioned, but it was not until 1999 that the reformed pension system was accepted in the parliament. The new pension system was based on the previous ATP. But with new calculations, new rules for capital investments and new intentions – based on the idea of a system with clear connections between inputs (fees) and outputs (benefits) – it also contained major changes. The new system could be described as a mix of PAYGO and a defined benefit-system, where the individual has to make choices concerning how part of their savings should be invested.¹⁷⁹ The possibility for free choices of investment was the major change from the

¹⁷⁷ Larsson and Lönnborg (2007). Boksjö and Lönnborg-Andersson (1994).

¹⁷⁸ Lönnborg (2002). Larsson and Lönnborg (2007). Kuuse and Olsson (2000). Huber and Stephens (1998). Katrishen and Scordis (1998).

¹⁷⁹ For extensive discussion about the pension reform, see Anderson (1998), Barr (2004), Eriksen and Palmer (2004). Lundberg (2005). Larsson *et al.* (2008). Marier (2002). For an comparison of pension reforms in Sweden, Denmark and Finland, see (Kangas *et al.*, 2006). An extensive debate of the Swedish pension reform is also available on (www.forsakringsforeningen.se/nft).

previous system, and in fact altered the preconditions for the entire savings market. Banks, insurance companies and pension funds now gained access to a market previously entirely controlled by the state.¹⁸⁰

Table 4
Examples of deregulation of the Swedish insurance Market, 1985-2000

Year	Measure
1985	The principle of need repealed
1986	The investment control dissolved
1989	The currency exchange control abolished
1990	Insurance brokers allowed
1990	Introduction of unit linked insurance
1991	Insurer can conduct business other than insurance
1995*	Introduction of European Union legislation
2000	The principle of equity repealed
2000	The principle of mutuality revoked

* *The first steps of harmonisation with EU began already in 1991, but Sweden formally joined the Union in 1995.*

Source: Larsson et al. (2005:237). Berg & Grip (1992:28-29).

Returning to the deregulation process, the so-called “principle of need” was abandoned in 1985, and this opened the market for the establishment of new actors. The principle was challenged in the 1970s when multinational firms, for instance Tetra Pak and Electrolux, obtained licenses for “self-insurance” through captives. The repeal of the principle terminated the possibility for the government to control the structure of the market, but it was not until 1990 that foreigners could legally acquire shares in Swedish financial firms. Another important deregulation was enacted in 1986 when the rules restricting capital investments were abandoned. This opened up for a more flexible administration of capital among insurers.¹⁸¹

The market was further developed as the traditional sales organisation for insurers was altered. Collusion within the industry had previously resulted in a structure without brokers. Instead each company had its own sales organisation supported by employed agents and provision based salesmen (so-called leisure agents). This arrangement, with few exceptions, remained unchallenged until the 1990s, when new legislation allowed foreign insurance companies to do business without a sales organisation of their own.¹⁸² This gave legitimacy for a

¹⁸⁰ Ds (1994:82). Haji Ghasemi (2004).

¹⁸¹ In fact, the entire Swedish financial sector was deregulated; for an overview see Lönnborg et al., (2003):134-138. Englund (1999).

¹⁸² SOU (1986:55).

growing domestic industry of financial brokers, which resulted in a more competitive market. In 2005 more than 300 independent insurance brokers had been registered.

Other parts of the deregulation opened the market for the introduction of new products, which would totally change the structure of the life insurance market. In the beginning of 1991 a new legislation concerning unit-linked insurance was implemented. This meant in practice that the customer made his/her own decisions regarding how and where the savings should be invested.

The background for this re-regulation (in practice of course a deregulation) was a growing reluctance towards the traditional situation with inefficient competition and strict rules on capital investment.¹⁸³ This institutional change was important for the creation of a financial system where banks and insurance could compete in areas previously closed by legislation. For the first time since the introduction of the 1948 insurance law, it was also possible to make a profit on life insurance, while “traditional” life insurance at the same time remained protected by the “principle of mutuality”.¹⁸⁴

This change was supported by another institutional liberalisation in 1991, when financial companies gained legal access to acquiring shares in other financial companies. An expected outcome of this policy change was that “financial warehouses” acting on several financial markets would emerge. As a consequence of this, the Insurance Inspectorate and the Bank Inspectorate merged into one governmental body – the Financial Inspectorate in 1991.¹⁸⁵

The deregulation of the insurance market was thus an incremental and rather slow process, primarily adapting to international circumstances and domestic criticism of what was regarded as an out-dated financial sector.

The process was also characterised by sudden changes, as an effect of Sweden’s application for membership in the European Union. In practice, the application (handed in 1990 by a Social Democratic government) demonstrated that the government already had decided to realize a new policy and fully adapt to European standards. In complying with EU standards, the last remains of the Swedish financial model were dismantled.¹⁸⁶

Alongside the changing institutional environment for the insurance industry the financial market was in the early 1990s hit by a severe crisis caused by a collapse of the real estate market. This crisis initially affected individual banks

¹⁸³ Because of the complex regulations concerning life insurance, the solution for a swift introduction of unit linked insurance was an entirely new legislation and only new companies could apply for concession, which facilitated collusion between insurance companies and banks; Grip (1991).

¹⁸⁴ Larsson and Lönnborg (2007).

¹⁸⁵ Larsson (1995). Ds (1990:57). Berg and Grip (1992).

¹⁸⁶ Symreng (2000). Rees and Kessner (1999). SOU (1991:89).

through heavy losses, but as problems increased the survival of the whole banking sector was endangered. Thanks to governmental support, however, it was possible to overcome the crisis relatively quickly. Insurers also encountered problems, in particular in the field of credit insurance. Losses in international business, however, also had repercussions on nearly every insurance company. This would in fact have severe consequences for the development of the insurance market as such.

For Trygg-Hansa the problems started with the demutualization in 1989. Shares were distributed to customer without charge and the company was listed on the Stockholm Stock Exchange. One of the motives behind this change in ownership structure was to facilitate the inflow of capital before reshaping the company through two large acquisitions. The first was the purchase of the American company “Home of New York” which was twice the size of Trygg-Hansa. But after heavy losses “Home” was sold to the Swiss company “Zürich”. The other investment was made in the Swedish “Gota Bank” in an attempt to develop the arsenal of financial services. Already in the early phases of the financial crisis, however, Trygg-Hansa was forced to make further contributions in restoring the liquidity as well as solvency of Gota Bank. Finally, in 1992 Trygg-Hansa no longer could continue to add new capital to Gota and the ownership of the bank was taken over by the state.¹⁸⁷

The economic problems of Trygg-Hansa also contributed to the creation of a new financial constellation, when the SEB bank acquired the insurance company in 1997. Soon after this purchase SEB sold the non-life operations of the company and rented out the brand name of Trygg-Hansa to the Danish “Codan” (owned by British Royal & SunAlliance, today RSA). This meant that for the first time ever, foreign interests controlled a domestic Swedish insurance company.

The deregulation of the financial market repealed almost every institutional obstacle for doing business abroad. However, in spite of Sweden’s membership in EU, the fall of the communist regimes in Central and Eastern Europe, and the deregulation of markets in for example South America, Japan and China, the majority of Sweden’s insurance companies decided to withdraw from foreign markets.¹⁸⁸ Despite improved international circumstances during the 1990s and the beginning of 2000s, the domestic market became increasingly important for almost every Swedish insurer. This seemingly illogical development was first and foremost explained by a lack of venture capital to compete on the international market. But also fierce competition and severe losses incurred on several foreign markets made the wisdom of retaining worldwide operations doubtful. In addition, the deregulated Swedish financial market made it more urgent than ever to consolidate the positions on the domestic market.¹⁸⁹ This

¹⁸⁷ Lönnborg *et al.* (2003).

¹⁸⁸ Swiss Re, Sigma (2005 and 2007). Lönnborg *et al.* (2004).

¹⁸⁹ Larsson *et al.* (2005, p. 265-270).

partly suggests that the strongly regulated environment did not hamper the insurers doing business abroad; it even seems likely that the 'stable' home market was a vital precondition for international business, which is a surprising conclusion.

14. RECENT (R)EVOLUTIONARY CHANGES

Without any doubt the years around the turn of the 21st century produced an entirely new Swedish insurance market. Several factors contributed to this transformation, the most significant being the accession to the European Union, the general deregulation of financial services and the financial crisis, which made a deep impact on the structure of the market. In addition, the market in itself changed and altered the pre-conditions for insurance: for instance premiums in life insurance boomed with double-digit growth boosted by the introduction of unit-linked insurance, while non-life insurance only grew in pace with the general GDP-growth.

In explaining the profound changes on the Swedish market during the last ten years, the development of the largest insurer Skandia is an illustrative example. Due to slow growth and low profitability on the domestic market, Skandia had invested in international business. This strategy was initially successful for the expansion of business, and in the beginning of the 1990s Skandia was the tenth largest re-insurer in the world, with the main focus on non-life insurance. The deregulation and in particular the launching of unit-linked insurance, however, opened the life insurance market as a mean of increasing profitability.¹⁹⁰

In 1996 a new management altered the business strategy for Skandia, and it regarded non-life insurance as an out-dated product with limited growth opportunities and weak profitability. As a consequence, the international non-life business was incrementally wound down, while the business of unit linked insurance – initially launched in the UK in 1979 as mean of circumventing the Swedish legislation – showed rapid growth in Sweden as well internationally. Thus the company was completely reorganised and the non-life portfolio transferred to a new company, "If", in collaboration with Norwegian "Storebrand" and Finnish "Sampo". Simultaneously, the business of selling variable annuities became the core industry for Skandia, in particular in the US and the UK. In short, the insurance group was transformed into a life insurance and savings company.

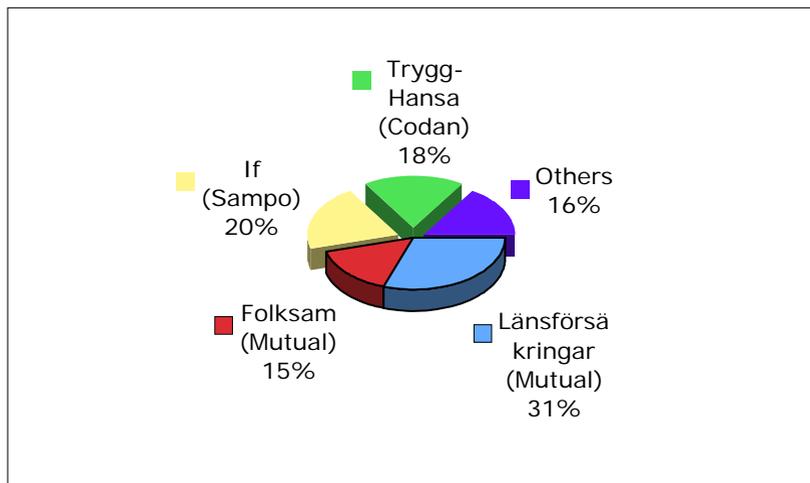
Skandia's reputation was severely hurt by a series of scandals, for instance illegal internal affairs with the subsidiary Skandia Life, providing executives (and their families) with subsidised apartments and generous bonus schemes. The top management was fired and in three cases these issues ended up in court. The scandals of Skandia, and the rapid downturn on the equity market, made the company vulnerable, and in 2003 the American Skandia was sold to

¹⁹⁰ Kuuse and Olsson (2000). Lönborg (2002).

Prudential Financial and the large business in Japan wound down. In 2005 the South African Old Mutual made a bid on the remains of the company, which was met with resistance from management and domestic shareholders. The new management desperately tried to consolidate the company and among other things sold the shares in the company If to the Finnish partner Sampo (today the sole owner of If). But in February 2006 the acquisition was completed and Skandia was subsequently de-listed in Stockholm and in London.

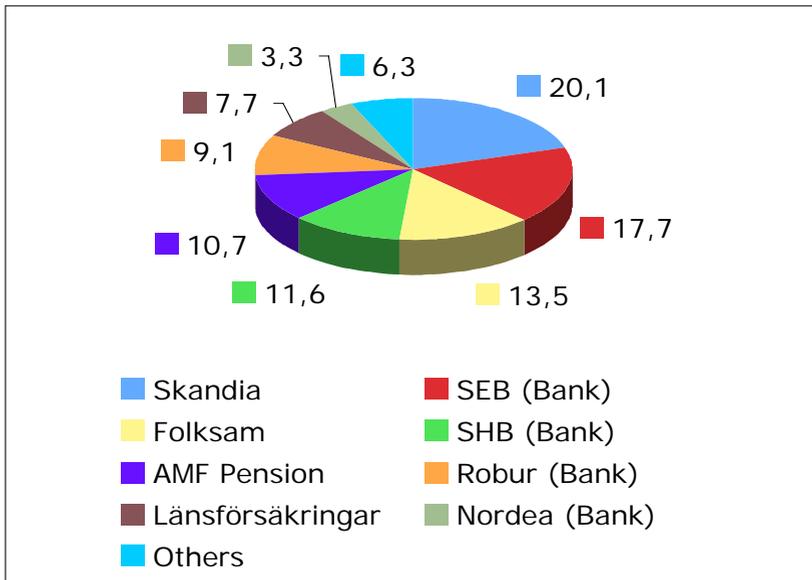
In general, the deregulation and EU membership has obviously contributed to the creation of a new capital management as well as channels of distribution through brokers. The swift transformation is best illustrated with the change in market shares for foreign insurers: in the beginning of the 1990s they had less than 1 per cent of the market for non-life insurance, but in 2005 held around 40 per cent. The mutual non-life insurers are, however, still major players on this market segment (see figure 1). Further, as demonstrated in figure 2 the market shares on the life insurance sector show that Swedish banks have captured more than 40 per cent of the market. Considering the previous nationally closed market and institutionally rigid structure among different domestic financial actors, this is an extraordinary development.

Figure 1
The Swedish non-life insurance market, 2005



Source: Statistic Sweden (2005)

Figure 2
The Swedish life insurance market, 2005



Source: Statistic Sweden (2005)

15. CONCLUSION

The formation of the Swedish insurance industry started in the 1850s in imitation of international experiences and with close co-operation with European insurers. Swedish insurance companies expanded their business abroad through reinsurance treaties and foreign agencies. Over time internationalisation has exhibited a cyclical pattern, mainly due to international and domestic economic circumstances, and without more than occasional interference from the government. In contrast, the regulatory regime introduced in the beginning of the 20th century underpinned a soft discrimination against foreign companies doing business in Sweden. Therefore domestic companies came to dominate the Swedish market till the end of the century.

The Swedish insurance industry embarked in the 1930s on a different road of development and became a vital part of the Social Democrats' policy of transforming society. During the 1940s and 1950s special legislation and measures for controlling the financial market made it possible to use insurance companies for a wider reform plan, including the allocation of resources to specifically chosen areas of the economy. The threats of nationalisation can help us understand why the insurance companies were forced to accept institutional changes that increased the state control of the market. These measures were consolidated in the 1960s and 1970s, but entirely dismantled in the 1980s and 1990s.

From the 1940s the Swedish insurance model was a combination of private and public insurance, where the private insurance industry supplemented social insurance and through legislation and “voluntary” agreements underpinned the government’s monetary and fiscal policies. The insurance system was thus a part of the regulated economy introduced by the Social Democratic Party after World War II. In addition, this financial side of the Swedish model allowed the government not only to control the domestic interest rates, but also the flow of credit.

The development of the Swedish insurance system was thus a political question, and the private industry had in practice only two options. The choice was between a public insurance system and a mixed system where the state and the private insurance industry developed their own activities based on political guidelines. This political discourse dissolved the traditional borders between private and public insurance.

The supplementary pension reform, ATP at the end of 1950s in practice further limited the opportunities for private insurance. But when certain areas of business were closed, private insurance quickly adopted and developed new areas, for instance labour market insurance and international operations.

During the 1970s and especially the early 1980s it became obvious that the Swedish economy was not in balance. The regulation of private insurance and lack of competition was identified as hindrance in transforming the economy.

This made a deregulation of the financial sector necessary. The dissolving of the Swedish insurance model began with some relatively minor changes. But as these made it obvious that further liberalisation must take place, the speed of the deregulation accelerated. The final blow against the Swedish insurance model was when the country joined European Union in 1995.

During its active period the Swedish insurance model illustrated how governmental supremacy was exercised over an economic sector of importance for the general economic policy. This system was, however, associated with high costs and resulted in an insurance system characterized by a low degree of competition and intensive collusion. Bringing international influences back in as a mean of improving efficiency dismantled the strongly regulated Swedish financial market, and in the wake of the EU accession, the insurance and the bank industries are now truly in accordance with European standards.

REFERENCES

- Åmark, K. (1928), *Städernas allmänna Brandstodsbolag 1828-1928 Minnesskrift*, Stockholm.
- Åmark, K. (2005), *Hundra år av välfärdspolitik. Välfärdsstatens framväxt i Norge och Sverige*, Boréa, Umeå.
- Anderson, K. M. (1998), *The Welfare State in the Global Economy: The Politics of Social Insurance Retrenchment in Sweden 1990-1998*, University of Washington, Seattle.
- Baldwin, P. (1996:1990), *The Politics of Social Solidarity. Class Bases of the European Welfare State 1875-1975*, Cambridge University Press, Cambridge.
- Barr, N. (2004), "Notional defined contribution pensions: What they can do, and what they can't", *Scandinavian Insurance Quarterly*, No 3, pp. 203-214.
- Berg, L. and Grip, G. (1992), *Branschglidningen mellan bank och försäkring. En översikt och introduktion*, Folksam, Stockholm.
- Bergander, B. (1967), *Försäkringsväsendet i Sverige 1814-1914*, Lund.
- Boksjö, A. and Lönnborg-Andersson, M. (1994), "Collusive and competitive institutions in the Swedish insurance market", *Scandinavian Insurance Quarterly*, No. 2, pp. 139-159.
- Bolin, S. (1934), *Skåne. Brand- och lifförsäkringsbolaget. Minnesskrift 1884-1934*, Malmö.
- Borsheid, P. and Pearson, R. (eds.), *Internationalisation and Globalisation of Insurance in the 19th and 20th Century*, Philipps-University, Marburg.
- Bring, E. (1917), "Historik", in: *Brand-och lifförsäkringsaktiebolaget Svea. Minnesskrift 1866-1916*, Gothenburg.
- Bryan, D. and Rafferty, M. (2006), *Capitalism with Derivates. A Political Economy of Financial Derivates, Capital and Class*, Palgrave Macmillan, Basingstoke.
- Bucht, O. (1936), *Försäkringsväsendets företagsformer från antiken till våra dagar*, KF, Stockholm.
- Childs, M. W. (1936), *Sweden: The Middle Way*, Faber, London.
- Childs, M. W. (1980), *Sweden: The Middle Way on Trial*, Yale University Press, New Haven.

- Ds (1990:57), *Branschglidning i den finansiella sektorn*, Finansdepartementet, Stockholm.
- Englund, K. (1982), *Insurance companies on the move: From Skandia to the Skandia group, 1855-1980*, Skandia, Stockholm.
- Englund, P. (1999), "The Swedish banking crises: Roots and consequences", *Oxford Review of Economic Policy*, Vol. 15, No. 3, pp. 80-97.
- Eriksen, T. and Palmer, E. (2004), "Swedish Pension Reform: Comments and Reflections", in Overbye, E. and Kemp, P. A. (eds.), *Pensions: Challenges and Reforms*, Ashgate, Aldershot, pp. 85-97.
- Fredrikson, V. et al. (1972), *Framtiden Livförsäkringsaktiebolag: De Förenade, Framtiden, Victoria. Minnesskrift*, Trygg-Hansa, Stockholm.
- Grip, G. (1987), *Vill du frihet eller tvång-Svensk försäkringspolitik 1935-1945*, Almqvist & Wiksell, Uppsala.
- Grip, G. (1991), *Fondförsäkringsfrågan. Om livförsäkringar med anknytning till värdepappersfonder*, Assurans, Stockholm.
- Hadenius, S. (1997), *Swedish Politics during the 20th century. Conflict and consensus*, Stockholm.
- Haji Ghasemi, A. (2004), *The Transformation of the Swedish Welfare System: Fact or Fiction? Globalisation, Institutions and Welfare State Change in a Social Democratic Regime*, Södertörn Academic Studies 22, Almqvist & Wiksell International, Stockholm.
- Huber, E. and Stephens, J. D. (1998), "Internationalization and the social democratic model. Crisis and future prospects", *Comparative Political Studies*, Vol. 31, Issue 3.
- Hägg, P. G. T. (1998), *An Institutional Analysis of Insurance Regulation. The Case of Sweden*, Lund Economic Studies 75, Lund.
- Hedberg, P. and Larsson, M. (2006), A financial system under pressure: The case of Sweden 1930-45, Uppsala Papers in Financial History, Research Report 20, Uppsala.
- Jonung, L. (1993), "Riksbankens penningpolitik 1945-1990", in: Werin, L. (ed.), *Från räntereglering till inflationsnorm*, SNS, Stockholm.
- Kangas, O., Lundberg, U. and Ploug, N. (2006), "Three routes to a pension reform. Politics and institutions in reforming pensions in Denmark, Finland and Sweden, Arbetsrapport, *Institute for Future Studies*, 2006:10, available on:

- Katrishen, F. A. and Scordis, N. A. (1998), "Economies of scale in services: A study of multinational of insurers", *Journal of International Business Studies*, 29 (2), pp. 305-324.
- Kruse, A. (1994), "The pension system", in Bengtsson, T. (red.), *Population, Economy, and Welfare in Sweden*, Springar-Verlag, Berlin.
- Kuuse, J. & Olsson, K. (2000), *Ett sekel med Skandia*, Skandia, Stockholm.
- Larsson, M. (1991), "Den reglerade marknaden -Svenskt försäkringsväsende 1850-1980", *SNS Occasional Paper 23*, Stockholm.
- Larsson, M. (1995), "Overcoming institutional barriers: Financial networks in Sweden, 1910-90", in: Cassis, Y., Feldman, G. & Olsson, U. (eds.), *The Evolution of Financial Institutions and Markets in Twentieth-Century Europe*, Sclar Press, Aldershot.
- Larsson, M. (1998), *Staten och kapitalet. Det svenska finansiella systemet under 1900-talet*, SNS, Stockholm.
- Larsson, M. (2002), "Staten, finansmarknaden och Stadshypotek", in: Sjögren, H. (ed.), *I takt och otakt med tiden. Stadshypotek mellan marknad och politik*, Ekerlid, Stockholm.
- Larsson, M., Lönnborg, M. and Svärd, S-E. (2005), *Den svenska försäkringsmodellens uppgång och fall*, Svenska Försäkringsföreningens Förlag, Stockholm.
- Larsson, M., Lönnborg, M. and Svärd, S-E. (2008, forthcoming), "The Rise and Fall of a Swedish Insurance Model", in: Olsson, M., Lönnborg, M. and Rafferty, M. (eds.), *Unplanned. The Transformation of States and Financial Markets in "Transition" Countries*, Södertörn Academic Studies, Almqvist & Wiksell, Stockholm.
- Larsson, M. and Lönnborg, M. (2007), "Ömsesidig försäkringsverksamhet och den svenska försäkringsmodellen", *Scandinavian Insurance Quarterly*, No. 1, pp. 85-100.
- Larsson, M. and Lönnborg, M. (2008a, forthcoming), "Den svenska finansmarknaden i ett långsiktigt perspektiv", in: Grip, G. (ed.), *Folksam 100 år*, Stockholm.
- Larsson, M. and Lönnborg, M. (2008b, forthcoming), "Samverkan och konkurrens inom svensk försäkring", in: Grip, G. (ed.), *Folksam 100 år*, Stockholm.

- Leffler, J. (1905), "Historik", in: *Försäkringsaktiebolaget Skandia 1855-1905*, Norstedt, Stockholm.
- Lewin, L. (1967), *The debate on the planned economy in Sweden*, Almqvist & Wiksell, Stockholm.
- Lönnborg, M. (1999), *Internationalisering av svenska försäkringsbolag. Drivkrafter, organisering och utveckling 1855-1913*, Uppsala Studies in Economic History 46, Uppsala.
- Lönnborg, M. (2002), "Skandiakoncernens internationella verksamhet 1887-1995", *Scandinavian Insurance Quarterly*, No 3, pp. 237-256.
- Lönnborg, M., Olsson, M. and Rafferty, M. (2004), "The Race for Inward FDI in the Baltic States and Central and Eastern Europe", in: Oxelheim, L. and Pervez, G. (eds.), *European Union and the Race for Foreign Direct Investment in Europe*, Elsevier, Oxford, pp. 329-359.
- Lönnborg, M., Rafferty, M. & Ögren, A. (2003), "One hundred and fifty years of financial crises in Sweden", in Hasselberg, Y. & Hedberg, P. (2003), *I samma båt*, Uppsala Studies in Economic History 65, Uppsala, pp. 113-144.
- Lundberg, E. (1985), "The Rise and Fall of the Swedish Model", *Journal of Economic Literature*, Vol. 23, No. 1, p. 1-36.
- Lundberg, F. and Molén, H. (1958), *Utvecklingslinjer inom svensk livförsäkring*, Stockholm.
- Lundberg, U. (2005), "Social democracy lost – The social democratic party in Sweden and the politics of pension reform, 1978-1998", *The Institute for Future Studies*, 2005:1, available on: [http://www.framtidsstudier.se/filebank/files/20051201\\$134701\\$fil\\$A59WF6SPDt2eAxQIY5BK.pdf](http://www.framtidsstudier.se/filebank/files/20051201$134701$fil$A59WF6SPDt2eAxQIY5BK.pdf)
- Marier, P. (2002), *Institutional Structure and Policy Change: Pension Reforms in Belgium, France, Sweden and United Kingdom*, Department of Political Science, University of Pittsburgh, unpublished dissertation, available on: <http://artsandscience.concordia.ca/faculty/marier/index.html>.
- Molin B. (1965), *Tjänstepensionsfrågan. En studie i svensk partipolitik*, Akademiförlaget, Göteborg.
- Olsson, S. E. (1990), *Social policy and welfare state in Sweden*, Lund Studies in Social Welfare III, Arkiv Förlag, Lund.
- Palme, J. (2003), "Pension reform in Sweden and changing boundaries between public and private", in Clark, G. L. & Whiteside, N. (eds.), *Pension*

security in the twenty-first century: Redraing the public-private debate, Oxford University Press, Oxford & New York, pp. 144-167.

Pearson, R. (1995), "The development of reinsurance in Europe during the nineteenth century", *Journal of European Economic History*, Vol. 24, No. 3, pp. 557-572.

Pearson, R. (1997), "British and European enterprise in American markets 1850-1914", *Business and Economic History*, Vol. 26, No. 2, pp. 438-451.

Pearson, R. (2004), *Insuring the Industrial Revolution. Fire Insurance in Great Britain, 1700-1850*, Ashgate, Aldershot.

Pearson, R. and Lönnborg, M. (2007), "Swedish insurance companies and the San Francisco earthquake of 1906", in: Borscheid, P. and Pearson, R (eds.), *Internationalisation and Globalisation*, pp. 27-40.

Pearson, R. and Lönnborg, M. (2008), "Regulatory regime and multinational insurers before 1914", *Business History Review*, Vol. 82, No. 1, pp. 59-86.

Private Insurers in Sweden (1954), *How it has Developed and How it is being Supervised*, Described by the Insurance Inspectorate, Stockholm.

Rees, R. and Kessner, E. (1999), "Regulation and efficiency in European insurance markets", *Economic Policy*, Vol. 14, Issue 29, pp. 365-398.

Rothstein, B. (1996), *The social democratic state: The Swedish model and the bureaucratic problem of social reforms*, University of Pittsburgh Press, Pittsburgh.

Söderberg, T.(1935),*Försäkringsväsendets historia i Sverige intill Karl Johanstiden*, Stockholm.

SFS 1903:94. Lag om försäkringsrörelse.

Statens Offentliga Utredningar (SOU) [Governmental Public Investigations] (1946:34), Försäkringsutredningen. Förslag till lag om försäkringsrörelsen mm, Del II, Motiv, P. A. Norstedt & Söner, Stockholm.

SOU (1949:25), 1945 års försäkringsutredning, I, Principbetänkande rörande försäkringsväsendet, P. A. Norstedt & Söner, Stockholm.

SOU (1950:33), Allmän pensionsförsäkring, Undersökningar och förslag av Pensionsutredningen, Principbetänkande, P. A. Norstedt & Söner, Stockholm.

SOU (1955:32), Allmän pensionsförsäkring, Förslag avgivet av pensionsutredningen, P. A. Norstedt & Söner, Stockholm.

- SOU (1957:7), Förbättrad pensionering. betänkande avgivet av Allmänna pensionsberedningen, Allmänna Förlaget, Stockholm.
- SOU (1986:8), Soliditet och skälighet i försäkringsverksamheten, Delbetänkande av försäkringsverksamhetskommittén, Liber Tryck AB, Stockholm.
- SOU (1986:55), Försäkringsmäklare i Sverige, Liber, Allmänna Förlaget, Stockholm.
- SOU (1991:89), Försäkringsrörelse i förändring, delbetänkande av försäkringsutredningen, Allmänna förlaget, Stockholm.
- Sverige Reinsurance (1965), *Sverige Reinsurance Company 1914-64*, Stockholm.
- Sweden Public Statistics, Private Insurers 1887-1990.
- Swiss Re (2005), "Insurance in emerging markets: Focus on liability developments", *Sigma*, No. 5/2005.
- Swiss Re (2007), "Insurance in emerging markets: Sound development, greenfield for agricultural insurance", *Sigma*, No. 1/2007.
- Symreng, J. (2000), "Försäkringslagstiftningen och den statliga tillsynens utveckling. Från nationell till internationell angelägenhet", in: *Svensk Försäkrings Framtid. Svenska Försäkringsföreningen 125 år*, Stockholm.
- Trebilcock, C. (1985 and 1998), *Phoenix Assurance and the Development of British Insurance. 2 vls*, Cambridge University Press, Cambridge.
- Wadensjö, E. (1997), "The welfare mix in pension provisions in Sweden", in: Rein, M. & Wadensjö, E. (eds.), *Enterprise and the Welfare State*, Edward Elgar, Cheltenham, pp. 266-308.

8

INSURING AMERICA: MARKET, INTERMEDIATED, AND GOVERNMENT RISK MANAGEMENT SINCE 1790

Robert E. Wright
Augustana College (USA)

A quick glance at the statistics of American insurance could easily mislead one into accepting a Whiggish view of its history. The United States is by far the largest insurance market in the world, generating over 35 percent of worldwide premiums. The industry has grown, in nominal terms anyway, for most of its long history. Previously uninsurable risks are now shared widely, and on an actuarially fair basis. Both the life-health and property-casualty-liability sides of the industry help to drive economic growth by encouraging new physical capital accumulation via their heavy investments in corporate bonds and mortgages. Insurers also induce growth by aiding the efficient management of a wide variety of risks. They also generate significant positive externalities. A closer look at America's insurance history, however, reveals something other than the steady and inevitable march of progress. For every two steps insurance has taken forward, it has been forced to take one backward. Some of those setbacks pitted man against nature, or to be more precise insurers against asymmetric information and other causes of market failure. Other setbacks were due to government failures, largely in the form of ill-conceived or overly rambunctious regulations and taxes. Many setbacks were "hybrid failures" caused partly by government and partly by market failures.

1. THE DYNAMICS THAT DROVE AMERICA'S INSURANCE INDUSTRY

Everyone, in a sense, is insured against everything. Individuals, voluntary associations, governments, businesses, and other economic entities often rely on "self-insurance" or "non-insurance", i.e., bear losses themselves. Society also insures, as when government or charitable institutions act as insurers of last resort. Markets manage some risks while others are mitigated by intermediaries, a variety of organizations, some non-profit, some mutual, some joint-stock, that deliberately pool and spread risks among their policyholders. Consensus holds that markets and intermediaries manage most types of risks more efficiently than governments or self-insurance do.¹⁹¹

¹⁹¹ Bernstein 1996; Conder and Hopkins 1981; James 1947; Lencsis 1997; Moss 2002.

At first glance, American insurance history is Whiggish, the story of self-insured risks slowly becoming managed by intermediaries.¹⁹² A closer look reveals more complexity, many directions of change, and numerous questions of importance today. Why, for example, did mutual life insurers wax and then wane? Why did for-profit corporations supplant non-profit fraternal societies? Why did prepaid physician and hospital plans disappear? To answer those and similar questions, a thorough survey of both traditional branches of the U.S. insurance industry, income (life/health), and property (property, liability, and casualty), insurance, is necessary.¹⁹³

Typically, self-insured risks became predominantly intermediary-insured due to improvements in the technology of insurance -the nuts and bolts of setting premiums and selling policies, making appropriate investments, and paying claims- and increases in consumer confidence in insurer solvency and market competition. Competition helped to drive those technological improvements and also ensured provision of the best price and quality available at any given technology frontier. However, insurers sometimes successfully resisted competition with cartels. Sometimes a certain type of intermediary or market dominated because it was the most economically efficient method of managing a particular set of risks. Sometimes, however, government regulation and taxation explain why friendly associations, mutuals, joint-stock companies, or markets dominated the provision of specific types of insurance. Similarly, political rather than economic realities often best explain the emergence and expansion of government insurance programs.

2. EARLY MARINE AND FIRE INSURANCE

A variety of natural and manmade threats ranging from shoals to storms to pirates rendered seafaring a dangerous endeavour indeed. Early merchants self-insured by dividing ownership of ships and cargoes among many owners. Extensive subdivision, however, increased coordination and monitoring costs. Cannons and convoys helped to reduce the risk of loss from pirates but also entailed a large opportunity cost. Formal insurance on ships and cargo has therefore been available in various forms for thousands of years. Unsurprisingly, colonial American merchants adopted British practices, which centred on individual underwriters and brokers due to a corporate duopoly established in 1720.¹⁹⁴

¹⁹² For the sake of space and expository clarity, the focus of this essay is domestic insurers and their domestic business. For an introduction to international insurance, both U.S. insurers conducting business abroad, and foreign insurers operating in the United States, see Wilkins 2007.

¹⁹³ Lehrman 1994; Hansmann 1985; Manes 1942; Zanjani 2003. Prepaid plans may be making a comeback. Fuhrmans 2007.

¹⁹⁴ Huebner 1905; James 1947; Mitchell 1970; Pearson 2003a; Perkins 1994; Thowsen 2003.

Freed from British bureaucrats and their insurance duopoly, Americans in the 1790s struck off in a new direction, the creation of numerous joint-stock marine insurance corporations. Within a few decades, the corporations drove individual underwriters out of business. The Quasi-War with France in the late 1790s sped the transition by highlighting the advantages of the corporations, to wit their perpetual lives and large capitals, and by demonstrating that corporations were not subject to significantly higher levels of asymmetric information than individual underwriters were, as some feared. Thanks to their larger size, corporate insurers could also spread their risks widely, allowing the law of large numbers to operate more effectually. Depredations springing from the Napoleonic wars and the War of 1812 completed the transition.¹⁹⁵

Early marine insurers competed fiercely, leading to failures and attempts at price collusion. In 1820, New York marine insurance corporations colluded to regulate premiums and policy terms. A dozen years later, their association morphed into the more active and powerful Board of Underwriters of New York. Similar boards also formed in Boston, Philadelphia, and other ports. Cartel premiums held in some periods but disintegrated in others. Free entry and rapid technological change – the 1840s and 1850s witnessed the rise of fast sailing clipper ships as well as transatlantic steamers – created incentives to cheat that proved stronger than cartel enforcement mechanisms, like the right to reinsure with cartel members. By the Civil War, the New York Board stopped trying to mandate premiums but continued to suggest non-binding rates.¹⁹⁶

Inland transportation insurance also blossomed in the first half of the nineteenth century. Although exposed to fewer hazards than transoceanic vessels, the numerous boats plying America's lakes, rivers, and canals were nonetheless subject to sundry risks. During this, the golden age of American marine insurance, insurers sought to minimize claims by salvaging what they could from wrecks, established networks of correspondents to help them to detect fraudulent claims, attempted to ensure the honesty of federal judges, and encouraged the proliferation of faster communication systems, including the semaphore and telegraph. Insurers also helped to establish private coast guards like New York's Lifesaving Benevolent Association and owned relief tugs, fireboats, and ice breakers. They also worked to reduce losses by disseminating safety information, rewarding shippers who installed safety equipment and implemented safety procedures, refusing to insure ships headed by captains or pilots of dubious experience or sub par skill, and rewarding captains who brought crippled ships safely into port.¹⁹⁷

¹⁹⁵ Huebner 1905; Kingston 2007; Pearson 2003a; Wright 2005; Wright and Cowen 2006.

¹⁹⁶ Huebner 1905; Meier 1988; Mitchell 1970.

¹⁹⁷ Huebner 1905; Mitchell 1970. For an even earlier attempt to reduce claims by increasing safety, see U.S. Treasury Department, "Letter from the Secretary of the Treasury, Accompany His Report on the Petitions of Sundry Inhabitants of the Town of Newport" (Philadelphia: 1798).

Marine insurers also pushed for legislation that led to new lighthouses, fog bells, and channel improvements as well as stricter professional requirements for pilots, eventually allowing discounts for ships skippered by captains certified by the American Shipmasters' Association. When necessary, they sought military aid, like when Panamanian bandidos threatened to cut off the insured flow of gold from California to the East Coast in the early 1850s, before completion of the Panama Railroad in 1855. Aid was imperative because at the same time insurers reeled from a spate of losses on the high seas and Great Lakes, including 19 steamers and numerous sailing ships.¹⁹⁸

Government aid became imperative again when the Confederacy began raiding Union shipping during the Civil War. After news of British complicity caused panic, President Abraham Lincoln steadied insurers' nerves by pressing depredation claims against Britain. The U.S. government eventually received \$15.5 million in reparations but Congress did not appropriate any of the money to insurers injured by Confederate marauders like the *Alabama*. Almost all the major marine insurers in New York suffered losses during the war.¹⁹⁹

By the 1860s, British and other European insurers began making major inroads into the U.S. market, first in California and later the East Coast. By World War I, the foreign companies had managed to take two-thirds of the U.S. market. The increasingly competitive environment stimulated innovation, including new regulations on cotton shipment, better vessel classification, and restrictions against overloading ships laden with oil. No amount of innovation, however, could reverse the long, slow decline of the American merchant marine. By World War I, American bottoms carried only 10 percent of U.S. trade and a tiny percentage of international trade. Instead of bringing relief, the war at first brought panic as rates soared to 25 and even 30 percent and insurers turned away many risks altogether. The government provided cover; rates dropped and the quantity of insurance underwritten increased. Within a few years, America's cargo fleet grew faster than German U-boats could sink them.²⁰⁰

Innovation continued between the wars, when marine insurers increasingly engaged in multiple line underwriting, insuring marine, fire, and casualty risks, began writing "dry" inland risks on rail and truck freight, and expanded traditional marine insurance from "marine perils" coverage to "all risks," including pilferage, breakage, and cargo contamination. An earthquake in Japan in 1923, a hurricane in Florida in 1926, and the catastrophic hurricane that hit New England in 1938, as well as the loss of passenger liners in 1928, 1931, 1933, 1934, and 1937 caused damaging claim spikes. The Great Depression hurt too, by decreasing trade and hence revenues, but overall marine insurers

¹⁹⁸ Mitchell 1970.

¹⁹⁹ Huebner 1905.

²⁰⁰ Huebner 1905; Mitchell 1970; Wilkins 2007.

weathered the downturn relatively well because they invested little in hard-hit corporate equities and mortgages.²⁰¹

Marine insurers were better prepared for World War II than World War I, thanks in part to the formation in 1925 of the American Institute of Marine Underwriters' Special Advisory Rating Committee, which evaluated civil commotions throughout the globe and disseminated to members special advisory rates for trouble spots. During World War II, the industry's American Cargo War Risk Reinsurance Exchange wrote over \$300 million in premiums. After the American Hull Insurance Syndicate suffered \$20 million in losses on 250 plus ships lost to submarine torpedoes in just 4 months, the War Shipping Administration stepped in to insure hulls from wartime perils.²⁰²

After the war, insurers began to underwrite petroleum super tanker and air cargo risks with avidity. In the 1960s, they wrote hull and cargo policies on ships powered by nuclear generators but struggled with the question of third-party liability, which could be very high indeed if a reactor melted down. At the same time, America's merchant marine again declined, resulting in reduced premium income and heightened risks on an increasingly decrepit fleet. Worse, American and foreign governments severely restricted the ability of U.S. marine insurers to underwrite risks on foreign ships. Those stresses helped to complete the transformation of specialized marine insurers into general property and casualty insurers by about 1970, when many hoary marine insurers obtained less than 10 percent of their premium revenue from marine policies.²⁰³

Companies underwriting the other traditional type of property insurance, fire, experienced a broadly similar transformation. The Great London Fire of 1666 spurred the creation of Britain's first fire insurance companies, mutual societies in which each policyholder owned a share of the risk. In 1741, a major fire ended the economic life of America's first fire insurance company, a British-style mutual established in Charleston just six years before. Thanks in part to Benjamin Franklin, fire insurance again jumped the Atlantic from Britain in 1752. That company, The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, exists today, though with only \$500 million in assets. It spurred no competitors, probably because establishing a mutual in the imperial periphery was not lucrative.²⁰⁴

By the 1790s, however, numerous insurers, most joint-stock, arose and prospered, basking in the new nation's economic promise. To spread their risks, most specialized fire insurers underwrote both urban and rural structures and quickly developed fairly elaborate premiums based on the location, use,

²⁰¹ Meier 1988; Mitchell 1970.

²⁰² Mitchell 1970.

²⁰³ Mitchell 1970.

²⁰⁴ Baranoff 2004, 2003; Oviatt 1905; Wainwright 1952.

construction, and roof characteristics of insured buildings. By the mid-1820s, for example, the Delaware Fire Insurance Company had agents throughout Delaware, south-eastern Pennsylvania, and northern Maryland “to survey the property to be insured,” which included “every description of buildings in general, merchandize, ships in port and their cargoes, household furniture and other personal property.” The agents promised premiums as favourable as those available from Philadelphia and New York insurers and that “all losses will be promptly adjusted.”²⁰⁵

In 1835, New York’s great fire demonstrated that most insurers had not diversified enough or charged high enough premiums. In response, fire insurers began to solicit business through geographically dispersed networks of agents. Except for a lull in the 1840s, scores of new companies formed each year, keeping premiums low and bankruptcies high, especially in the wake of all-too-frequent citywide conflagrations. State regulators enforced minimum capital requirements but to little effect. Of the 200 domestic companies doing business in Chicago during its great fire of October 1871, 68 went bankrupt and insured Chicagoans recovered only 40 percent of their due. After a great fire ravaged Boston’s commercial district the following year, insureds recovered only 70 percent of what insurers owed them. British insurers fared much better than American ones.²⁰⁶

The weakness of the fire insurance industry in the late nineteenth and early twentieth centuries also promoted fraud, often in the form of so-called wild cat insurers, unincorporated fly-by-night companies with impressive-sounding names. Owned by unscrupulous brokers, the wildcats collected premiums with glee but paid claims only with great reluctance.²⁰⁷ In 1900, some 185 such Chicago-based companies fleeced consumers nationwide by “cutting rates and issuing policies apparently modelled after the New York standard form, but containing specious hidden clauses likely to defeat indemnity in case of a fire loss.”²⁰⁸ The Board of Underwriters, the U.S. Postal Service, the Illinois department of insurance, and the Chicago P.D. worked together to force all the ringleaders to take flight by January 1905. Some perpetrators were caught, tried, convicted, and sentenced to fines and hard time in the state pen. “The industry has practically been blotted out,” economic crimes specialist Clifton Wooldridge boasted.²⁰⁹

Stock fire insurers were slower than marine insurers to realize that they could help to reduce the number and severity of claims. Fire insurance was essential to business as nobody would venture his own capital, and nobody would lend

²⁰⁵ *Delaware Gazette and State Journal* (August 8, 1826), 4. Perkins 1994.

²⁰⁶ Baranoff 2004, 2003; Grant 1979; Oviatt 1905; Wilkins 2007.

²⁰⁷ Grant 1979; Wooldridge 1906.

²⁰⁸ Wooldridge 1906:37-38.

²⁰⁹ Wooldridge 1906:38.

to, any sizable business venture without it. Insurers therefore had the power to force businesses to adopt fire safety standards by refusing to insure the highest risks and by carefully rating others according to the amount of risk they posed. Managers could therefore justify the cost of safety improvements. Stock insurers, however, feared safety improvements would reduce their profits. That changed in the 1880s, when fire insurance agents managed to establish and maintain local rate-setting cartels, institutions that prevented intense price competition from running insurers into bankruptcy. Premiums rose but insurers for the first time were able to price the risks associated with catastrophic fires. As a result, the Baltimore conflagration of 1904 bankrupted only a few companies and policyholders received 90 percent of their due. The massive fire spawned by the San Francisco earthquake in 1906 forced 20 companies to suspend operations, but some only temporarily. Again, insureds received 90 cents on the dollar.²¹⁰

The cartels also collected data that allowed their members to rate risks on a more actuarially sound basis, charging higher rates to policyholders who failed to install fire safety devices such as fireproof doors, sprinkler systems, and the like. Policyholders fought back but even where they successfully lobbied state legislatures for so-called “anti-compact laws” the local cartels merely morphed into private bureaus which set advisory rates that most agents adhered to, if only due to the presumption of their superiority. “If rates are scientifically constructed,” one observer noted, “or at least according to a method which is the best known device for a satisfactory rate level, then” the rates became “practically mandatory by reason of their inherent virtue.”²¹¹ Interestingly, higher premiums did not decrease insurance sales. In 1875, about half of the property that burned in the United States was insured. By World War I that figure had increased to 75 percent.²¹²

By 1900 or so most state governments, despite initial scepticism, realized the impotence of their anti-trust attempts and the importance of rate setting for insurer and hence policyholder safety. New York’s Merritt Committee (1910-11), for instance, concluded that fire insurers were only modestly profitable. Instead of allowing insurers to establish their own rates, however, some regulators began to set the rates themselves, a practice upheld by the U.S. Supreme Court in *German Alliance Insurance Company v. Kansas* in 1914. Refinements in data collection and dissemination enabled the creation of more exacting actuarial risk tables; improvements in fire prevention, control, and construction, particularly modern concrete and steel skyscrapers, eliminated citywide

²¹⁰ Baranoff 2004, 2003; Chiappori and Gollier 2006; Grant 1979; Meier 1988; Oviatt 1905; Wandel 1935; Graham and Xie 2007; Wermiel 2000.

²¹¹ Wandel 1935:33.

²¹² Baranoff 2004, 2003; Wermiel 2000.

conflagrations. Nevertheless, most insurers (and insurance commissioners) clung tenaciously to rate-setting through the 1940s and 1950s.²¹³

By the 1960s, however, rating bureaus and other insurer cartels began to disintegrate due to competition from outsiders, including mutuals, the new multi-line companies, and so-called “partial subscribers,” insurers that upheld bureau rates in some lines but not others. By the end of the decade, insurers in many states had more discretion to set their own premiums and more competitive rating systems were operational in California, New York, and other important states. Not all insurance commissioners, however, willingly ceded control. Rate regulation in some lines rebounded a bit in the 1970s and 1980s as a consumer/voter response to inflation. Today, government rate regulation ranges from “prior approval” to “file and use” to “use and file” to “no file” systems to so-called flex-rating provisions whereby insurers may not lawfully price policies 15 or 25 percent above or below the regulated rate.²¹⁴

Rigid state price regulations often injure the industry’s economic performance, so thoroughly distorting markets that yet further regulations became politically palatable. As Roger Joslin of State Farm Automobile Insurance once quipped, “affordability and availability are two distinct problems” but regulators mentioned them together “so often one might believe the words are synonyms.”²¹⁵ When regulated prices were too low companies exited the market, sometimes in a mass exodus, as when 15 auto insurance groups left South Carolina in 1990 due to the adverse regulatory environment there. Similarly, in the 1960s and 1970s rate regulations drove fire insurers out of the nation’s inner cities where risks made profits impossible without higher rates.²¹⁶ As Joslin implied, messing with p screws up q.

3. “LIFE” INSURANCE

Life insurance, annuities, and similar products could be called income insurance because they protect policyholders and beneficiaries from the loss of income associated with life events, like dying too soon, while the insured remains economically productive, or too late, after the insured’s economic productivity has ended. They also help people to save for final expenses like medical and funeral bills. In fact, the earliest life insurance, the Roman burial societies and medieval European and Japanese fraternal and guild insurance, was little more than burial insurance. Modern premium life insurance arose in fourteenth century Italy to insure the incomes of borrowers for the benefit of creditors. The volume of such insurance in force, however, was small, in part due to resistance

²¹³ Gephart 1914; Grant 1979; Lencsis 1997; Meier 1988; Riegel 1916; Wandel 1935; Wermiel 2000.

²¹⁴ Baranoff 2004; Meier 1988; Lencsis 1997.

²¹⁵ Joslin 1991:156.

²¹⁶ Cohen 1991; Cummins 2002; Harrington 1991; Syron 1973.

from religious authorities afraid of the moral implications of third-party gambling on peoples' lives. Moreover, early policies were based on conservative mortality expectations, so life annuities were more attractive investments. Traditionally, families protected themselves from the risks of premature death and superannuation with a battery of self-insurance mechanisms. Controlling one's numerous children with will bequests, maintaining extended family networks, re-marrying after the death of a spouse, and family trusts all helped but the large number of people who needed private charity suggests that they were not optimal strategies in all situations.²¹⁷

The first American life insurance policies were issued for the benefit of the families of clergymen by two economically inconsequential corporations formed in the colonial period. In the 1790s, marine insurers issued term policies to merchants and sailors undertaking long-distance voyages. Few such policies were written, however, and after a few years most marine insurers stopped offering them. Benjamin Franklin supported life insurance but died before a specialized life insurer could be established so another Philadelphian, Thomas Willing, filled the void, urging Americans to support The Pennsylvania Company for Insurance on Lives and Granting Annuities. Despite Willing's support, the company found it difficult to sell life policies, almost certainly because overly pessimistic mortality assumptions rendered them too expensive. Annuities, however, were relatively cheap and unsurprisingly their sales were relatively brisk. Trust services became another source of revenue for early life insurers. As Appendix 1 shows, few life insurance companies were established prior to 1844. None sold much insurance and some soon succumbed.²¹⁸

As Appendix 2 shows, total life insurance in force grew rapidly in percentage terms in the 1830s but remained at very low levels. In the 1840s, technological improvements led to improved pricing, new laws shielded benefits from husbands' creditors, several important mutuals began business, and new marketing and distribution techniques increased demand. Combined, those forces drove sales upward but soon after overly-litigious insurers and the bankruptcies of many of the new mutuals, most of which ran on shoestring budgets and inadequate reserves, dampened demand. New York and other states responded by insisting that life insurers maintain a cushion of equity capital, which led to the creation of so-called mixed companies the capital structures of which were partly mutual and partly joint-stock. Though ingenious, mixing the mutual and joint-stock forms exacerbated agency problems within insurers. For those reasons, the growth of insurance in force slowed in the first half of the 1850s. Growth accelerated in the second half of the decade, however, when all the insurers that actually wrote life insurance successfully weathered the Panic of 1857.²¹⁹

²¹⁷ Costa 1998; Haber and Gratton 1994; James 1947; Johnson 2003; Pearson 2003a.

²¹⁸ Brannon 1991; James 1947; Perkins 1994.

²¹⁹ James 1947; Murphy 2002; Tuckett 1850; Wright and Smith 2004.

Life insurance grew so widespread before the Civil War that some slaveholders used it to hedge against the death of some of their more skilled or at-risk slaves. Numerous companies entered the business but those that did not specialize in underwriting slave risks, like Aetna, American International Group, and New York Life, appear to have suffered losses, probably due to adverse selection, although they insisted on medical screenings, monitored slaveholder treatment of slaves, risk-rated, required significant co-insurance, and took other precautions. The companies that profited from the business, like North Carolina Mutual Life, specialized in writing insurance on slaves. Had the Civil War not ended slavery, slave insurance likely would have grown as quickly as other forms of income insurance.²²⁰

Life insurance in force surged from less than \$200 million in 1860 to about \$2 billion in 1870. Improved government regulation in Massachusetts and New York helped by reducing policyholders' fears of policy surrender and post-contractual, particularly post-mortem, defection by insurers. The decision of several large companies to insure soldiers also proved potent positive publicity. The rapid growth in life insurance about the time of the Civil War has, nevertheless, long puzzled some observers. According to one widely cited study, changes in "major cultural and ideological factors" best explain life insurance's rapid ascendance in mid-century America.²²¹ Unfortunately, that explanation remains shallow, unable to show if, why, or how culture or ideology shifted. A better explanation is that early life insurers were trapped in a Catch-22: few Americans had life insurance so life insurers were few so life insurance was overpriced so few Americans insured. A dearth of competition meant that U.S.-specific mortality tables were not well-developed, reserves and other technical aspects of running a life insurance company were not well understood, and policies were deficient in many regards. Before mid-century, most life insurers were unprofessional outfits. As one contemporary noted, "any idler – any broken-down individual – is considered sufficient for the official duties of a Life Insurance Company – and the more inefficient the employee may be, the greater sympathy he obtains from his friends and patrons."²²² By about 1860 or so, however, the industry began attracting and retaining talent at both the home office and in the ranks of agents, be they full-fledged brokers, general agents, or company employees. Together, they initiated improvements that broke the Catch-22 and opened the floodgates of supply and demand.

The supply of life insurance increased after the financial revolution of the 1790s, with the advent of mutual insurers and stock insurers offering participating policies in the 1840s, and after the refinement of mortality tables, reserve calculations, and other technical advances at mid-century. Demand increased

²²⁰ Chen and Simon 2004; Meier 1988; Murphy 2005; Savitt 1977.

²²¹ Zelizer 1979:xi.

²²² Tuckett 1850:25.

after the introduction and proliferation of the sales agency system and of improved anti-fraud and basic solvency regulation.²²³

Despite those improvements, the 1870s and 1880s were difficult for most insurers because panics and recessions took their toll on smaller, weaker companies, the bankruptcies of which decreased public confidence in the industry. Insurance in force actually shrank from its 1870 high, recovering in nominal terms only in 1888, in large part due to the proliferation of so-called tontine or deferred dividend policies which promised high returns to survivors who did not lapse their policies. Many larger insurers also fought domestic recession by expanding internationally, primarily into Canada, Latin America, and Europe.²²⁴

Also aiding in the rebound was industrial insurance, policies for small sums sold to millions of the working poor. For pennies a week, tens of millions of American families received modest protection from the death of a breadwinner or other family member, usually enough to ensure a proper burial. Industrial policies were not as flexible as standard policies, largely due to government regulations forbidding policy loans and assignments. Other restrictions were put in place by the companies themselves to reduce adverse selection. Most companies, for example, would not insure dependents unless the main breadwinner was insured. Dollar for dollar, industrial insurance was expensive compared to ordinary whole life because mortality rates among the poor were higher and the costs of collection were greater. Scale economies were important to keep costs as low as possible so relatively few insurers wrote industrial life and some smaller ones that tried, like Germania (now Guardian), exited quickly.²²⁵

Industrial insurance did not solve everyone's needs, however, so numerous assessment and fraternal insurance companies also appeared in the late nineteenth century. The former failed, largely for economic reasons. As their initial membership aged, assessments became frequent and large, inducing members to withdraw and making it difficult to attract new ones. By contrast, fraternal insurance companies that offered mostly industrial-style insurance on a mutual basis competed successfully against large corporate rivals, mostly due to their informational and associational advantages and their comparatively low formation costs. Fraternal faded only after governments began to regulate them closely.²²⁶

By the early twentieth century, life insurers were major players in the nation's burgeoning capital markets, but with power came abuse. The Armstrong and other legislative investigations revealed the prevalence of a number of shady

²²³ Meier 1988; Wright and Smith 2004.

²²⁴ Murphy 2002.

²²⁵ Davis 1944; James 1947; Rapone 1987; Wright and Smith 2004.

²²⁶ Dawson 1905; Graham and Xie 2007; Lehrman 1994; Murphy 2002; Zanjani 2003.

business and investment practices, especially at the largest insurers. In 1907, New York retaliated with a series of strict regulations on tontines, investments, lobbying practices, agent activities, proxy voting, and policy forms. Other states soon followed suit and those that did not found that New York's rules held sway anyway, due to New York insurance commissioner Henry D. Appleton's rule that companies writing business in the Empire State had to follow the state's rules not only in New York but in all other places that it did business. The new regulations aided the industry by increasing public confidence in the fairness and soundness of life insurance companies.²²⁷

4. EXPANSION OF PROPERTY INSURANCE

Those who insured ships and cargoes against a variety of hazards and buildings and their contents from fire eventually sought to insure other types of property against a wider range of risks. Often, however, technological and regulatory barriers interfered. In many cases, regulations constrained companies from writing policies in new areas; in other instances, insurers had not developed methods for determining rational premiums for new risk types. As a result, specialized firms arose to underwrite new types of risks or to insure new types of businesses. Originally, fire insurance covered "every possible loss by fire" but insurers over time began to "specify particular losses by fire for which they would not be answerable."²²⁸ New companies arose to fill the void. When the new companies took the mutual form, as most did, they were called "class mutuals" because they underwrote only one or a few classes of risks, including those peculiar to bakers, canners, factories, florists, millers, and manufacturers.²²⁹

New England textile mill owners, for example, became frustrated when fire insurers would not rate their mills by assigning lower premiums to safer ones. In the mid-1830s mill owner Zachariah Allen responded by establishing a mutual fire insurance company that specialized in insuring textile mills. Allen ensured the survival of his mutual by keeping rates low and vigorously screening and monitoring policyholders to ensure that they minimized the risk of loss. In the 1850s, mill mutuals proliferated and cooperated closely with each other, reinsuring by sharing the risks posed by their largest policyholders. In addition to charging lower initial premiums than stock insurers, mutuals returned premiums in the form of dividends when losses fell below expectations. That induced mill owners to welcome inspections and to consider carefully the safety advice their insurers dispensed. Urged on by the lure of lower net premiums, mill owners installed fire hoses, sprinklers, fire fighting towers and reservoirs, and adopted the fire-resistant architectural techniques of mutual mill insurance president Edward Atkinson. More cost effective than the absolutely fireproof

²²⁷ Dawson 1905; Graham and Xie 2007; Lehrman 1994; Murphy 2002; Zanjani 2003.

²²⁸ Ecclesine 1863:96.

²²⁹ Pierce 1958.

construction based on the British iron and brick arch system, Atkinson's "slow-burning" construction system sought via fire-resistant materials and architectural improvements to slow the progress of a fire until workers could effectively respond to the blaze. Mill mutuals also engaged in fire prevention research, operating America's only fire prevention research lab until other labs appeared in the 1890s.²³⁰

Other specialized companies also arose to underwrite new risks that fire insurers refused. The risks associated with steam boiler explosions, for example, were long covered by specialized companies. Similarly, farmers' fire insurance mutuals arose in the 1820s to insure farm buildings and their contents. By 1920 there were almost 2,000 such companies in operation throughout the United States, with the largest concentrations in the Northeast and Midwest. The reluctance of most fire insurers, including farmers' mutuals, to cover wind damage spurred the creation of yet other mutual insurance companies that specialized in underwriting wind damage risks. From the first such company, formed in 1884, the industry grew to over three score companies by 1920. Eventually, their success induced several hundred fire insurers to provide wind riders or separate wind damage policies. In fact, most mutual wind damage policies were written through fire insurance agents and most contained a clause that bridged the "windstorm-fire gap" in standard fire insurance contracts, their failure to cover fires caused by wind-related events. Nevertheless, most fire insurance companies chose to refuse wind risks.²³¹

Although policy forms were not standardized, leading to considerable confusion among policyholders and lenders, by the end of 1935 farmers' mutual windstorm-insurance companies numbered 65 and had \$2.74 billion insurance in force in 13 states. They owed their success to some extent to their loss prevention programs. Nothing could stop claims arising from powerful tornadoes but the mutuals sought to reduce the losses from less severe storms by refusing insurance on dilapidated or rickety buildings, encouraging the erection of buildings of wind-resistant construction, insisting upon proper bracing of lightly constructed buildings, requiring timely repair of damaged buildings, and by salvaging partially damaged buildings and personal property. Over 30 of the companies in operation in the mid-1930s inspected risks at the time of policy issuance and about 10 of those inspected insured property periodically. Some employed their own inspectors while others hired local agents. Because the incidence of damage from windstorms, especially hurricanes, was cyclical, companies tried to build up reserves during quiet years to meet large claim spikes. About a third of mutual windstorm insurers also carried some form of reinsurance.²³²

²³⁰ Oviatt 1905; Wermiel 2000.

²³¹ Bubolz 1938; Moore 1905; Pearson 2003b; Pierce 1958; Valgren 1924.

²³² Bubolz 1938.

The class mutual system worked because most people did not buy insurance from insurance companies, they bought them from insurance agents, separate firms that sold a wide variety of policies underwritten by different companies. One early book on insurance advertising argued that agents should spend a little money and effort on marketing and advertising. It suggested, for example, that agents build foot traffic with dramatic window displays for “aircraft damage insurance” and other exotic coverage. “All you need is a cardboard house and a toy airplane,” the author explained. “Cut a hole in the roof of the house and wedge in the nose of the airplane.”²³³

Appendix 3 shows the number of marine and fire insurance companies in operation from the late nineteenth century until 1943. In the late 1940s and early 1950s, insurance regulators finally allowed multi-line insurers to coalesce from “groups” or “fleets” of loosely affiliated companies.²³⁴ Both businesses and households appreciated the change, which allowed them to purchase comprehensive coverage from a single company rather than “obtaining numerous policies and endorsements” only to obtain in the end “a disjointed patchwork of complexities riddled with omissions and exclusions.”²³⁵

Appendix 4 shows the growth of the assets and policyholder surplus of property and casualty insurers since World War II. Through the end of that war, fire insurance dominated the larger property and liability industry, accounting for 30 percent of premiums in 1943. Fire insurance is now a minor player, however, accounting for less than 7 percent of total P-L premiums since the early 1970s. After the war, automobile insurance assumed the top spot, accounting for 40 to 50 percent of all P-L insurance since the 1970s. Liability insurance also swelled after the war, particularly after courts eschewed the long standing doctrine of contributory negligence for the much more liberal one of comparative negligence, which induced the U.S. tort system to grow from .6 percent of GDP in 1950 to 2.2 percent in 2003. Like early fire insurers, liability insurers often did not understand the risks they took on. When asbestos and other lawsuits blossomed in the 1980s, they learned the hard way.²³⁶

5. BROADENING OF INCOME INSURANCE

Life insurance and annuities protected income from the shock of a family or firm member dying too early or too late, respectively. Other income risks also loomed, however, and were sometimes mitigated by specialized companies. By the late nineteenth century, for example, companies specializing in accident policies, like Travelers, had sprouted up to afford income protection to those

²³³ Dreher 1930:144.

²³⁴ Lencsis 1997; Meier 1988; Valgren 1941.

²³⁵ Pierce 1958: 3.

²³⁶ Graham and Xie 2007; Meier 1988.

hurt or killed while travelling, still a common occurrence on the rails and seas. The “Four Horsemen of the Apocalypse” – death, want in old age, ill health, and unemployment – still rode freely, threatening the survival of working Americans. “It was recognized,” one pundit observed, “that sickness, accident, and death resulted annually in a loss of earnings, which in the aggregate amounted to large proportions, and that even the comparatively small individual loss usually resulted in hardship and privation.”²³⁷ Old age was also a rapidly emerging problem.²³⁸

Before the twentieth century, few Americans ceased all gainful employment due to advanced age, instead moving into positions requiring less strenuous physical labour. Those who grew too old to do any sort of work had several options, including relying on children, private charity, public poor houses, and/or personal savings. Government pensions helped servicemen and their families who lived into old age and widows increasingly received government payments, but usually stingy ones. Some unions also aided aged members with pension plans and some employers had explicit or implicit pension plans, but neither were a significant force. Life insurers also tried to help people to insure against superannuation, which increasingly became more of a social phenomenon than a physiological one. They continued to sell annuities and by 1900 had branched into pensions. After World War II, life insurers made major inroads into the pension business but regulations that prevented them from investing more than a few percent of their assets in common stocks slowed their growth. In the late 1950s and early 1960s, however, state regulators began to allow insurers to set up so-called “separate accounts” in which investment gains and losses accrued to the policyholder rather than the “general account,” the insurance company proper. Of course by that time Social Security was a major force in both the economy and individual retirement planning.²³⁹

Despite the proliferation of savings banks, many (though by no means all) workers found it difficult to save enough, in the face of other budgetary pressures and periods of decreasing real wages, to see them through bouts of sickness. For a variety of complex reasons, including the existence of an urban charitable system composed of poor relief and, by the early 1920s, over 1,000 dispensaries (free health clinics), a predominant political ideology biased against anything smacking of socialism, and divisive fissures within the ranks of Progressives and other reformers, employers and governments were slow to help.²⁴⁰ Workers therefore took matters into their own hands, informally by “passing the hat” to help sick co-workers, and formally by forming mutual insurance, friendly associations, or employee benefit associations that provided

²³⁷ Anon. 1931:1.

²³⁸ Hoffman 2001; Lott 1938; Moss 2002; Rubinow 1934; Whaples and Buffum 1991.

²³⁹ Coll 1995; Costa 1998; Haber and Gratton 1994; Lencsis 1997; Quadagno 1988; Walker 1989; Wright 1991.

²⁴⁰ Emery 2001; Hoffman 2001; Morgan 1922; Moss 2002; Murray 2007; Rubinow 1916.

“modest but none the less welcome relief in cases of disability arising from accident or sickness.”²⁴¹

Two decades on either side of the turn of the century between a quarter and a half of all industrial workers had some form of sickness coverage. (Most of those without insurance did not complain because they consciously chose to self-insure, confident that they were healthy or wealthy enough to do without it.) Those figures are higher than those traditionally reported because contemporaries and, until recently, scholars grossly undercounted an important source of coverage, industrial sickness funds, including mutual benefit associations and labour union-sponsored plans. Those funds were supplemented by fraternal associations that formed in the late nineteenth century along class, caste, gender, and occupational lines. Fraternal provided sickness benefits to between a tenth and a third of adult males, depending on the region and other variables.²⁴²

Unlike commercial insurers, fraternal and industrial sickness funds provided modest benefits at low cost. Adverse selection and administrative costs were low because, rather than paying agents and staffers, members recruited new members and handled paperwork themselves. They also minimized cheating by regularly visiting sick members to verify illness while providing comforting non-monetary assistance. Few members attempted malfeasance because they knew who they were stealing from, their friends, neighbours, and co-workers. Precisely because they were organized into local lodges, however, fraternal could not adequately diversify their risks, subjecting themselves to financial distress. Although few associations exited for financial reasons, government regulators increasingly scrutinized their activities, thus increasing their capital and regulatory costs. Increased competition from commercial insurers, especially their burgeoning group health lines, government programs, union plans, and mutual benefit associations sealed their fate. Hundreds of local labour unions and scores of nationals also offered medical reimbursement and/or sick pay insurance. In 1916, about one quarter of unionized workers were covered by union healthcare plans.²⁴³

Non-union workers also often formed industrial sickness or mutual benefit associations to relieve themselves of the uncertainties, unfairness, and free riding associated with informal “hat” assessments. When the worker associations proved their value in tangible terms like reduced worker turnover, management reciprocated by providing them with advice, administrative help, and, to widely varying degrees, money, transforming them by degrees into so-called establishment funds. Like their workers, managers preferred making a single contribution to an association “rather than to respond to a series of small

²⁴¹ Anon. 1931:v.

²⁴² Murray 2007; Whaples and Buffum 1991.

²⁴³ Emery 2001; Graham and Xie 2007; Hoffman 2001; Morgan 1922; Murray 2007.

solicitations” for aid from employees.²⁴⁴ By the Great Depression, hundreds of mutual benefit associations and establishment funds, most in companies with 100 or more employees, provided benefits to millions of employee-members. As mutual concerns, they paid more liberally in case of real hardship than commercial insurers did. The associations also believed they could keep costs lower than insurance companies could because they had better information with which to detect “attempted malingering or fraud.”²⁴⁵ With death benefits, however, where fraud was much less of an issue, industrial life and, beginning circa 1912, group insurance ruled, with mutual benefit associations rarely providing more than basic burial coverage averaging \$150. Commercial insurers also dominated the sale of annuities and group annuities used to fund company pension plans.²⁴⁶

Success in health insurance required mitigating adverse selection by signing up as many workers as possible or denying coverage to the riskiest workers, those over a certain age or with pre-existing health problems as determined by physical examination. Compulsion was rarely resorted to, even in establishment funds, because it was illegal in some jurisdictions, because it destroyed workers’ morale and their incentive to minimize free riding, and because insurers had other techniques to reduce asymmetric information. Setting benefit levels just right, not so low as to be of little aid but also not so high as to make the coverage unaffordable to all but malingerers, ensured wide participation while discouraging shirking. Best practice was to set the sickness benefit at one-half to two-thirds full pay. To reduce adverse selection, new employees could not receive benefits, usually for the first 30 days, and to discourage shirking benefits generally ceased after 13 weeks. To further discourage cheating, many associations withheld the first week of benefits in case of sickness, which was relatively easy to fake, but not in case of accident. They also hired their own doctors rather than relying on those hired by the workers themselves, who tended to be more sympathetic to the workers’ woes, real or otherwise.²⁴⁷

Recognition that medical care reduced the length of disability increasingly drew industrial sickness funds into providing medical benefits too, including well visits, vaccinations, inoculations, and other prophylactic services. Here, too, commercial life insurers offered a group product that had difficulty competing on a cost-benefit basis due to the superior information available to the associations. Mutual aid societies continued to thrive into the 1920s but faded during the 1930s, due largely to improvements in commercial insurers’ group health insurance actuarial tables and the emergence of sick leave, a fringe benefit paid directly by employers to sick workers. Appendix 5 details the rise

²⁴⁴ Anon. 1931:3.

²⁴⁵ Anon. 1931:2.

²⁴⁶ Anon. 1931; Graham and Xie 2007; Murray 2007.

²⁴⁷ Anon. 1931; Murray 2007.

and relative demise of mutual sickness and accident insurers in the first half of the twentieth century.²⁴⁸

Structural economic changes also aided the transition to commercial insurance. Before 1920 or so, direct medical costs were quite low, in part because medical services were rudimentary and in part because entry barriers were low. Lost wages were approximately four times higher than hospitalization and other medical costs. With the advent of modern medical practices and licensing requirements, medical treatments improved and medical costs began rising in real terms, trends that continue to this day. Increasingly, families sought to insure themselves against rising medical bills, a need filled at first not by industrial sickness funds but by prepaid hospitalization plans. Such plans helped hospitals and private clinics by providing them with a steady source of income and by reducing price competition among healthcare providers.²⁴⁹

At first limited to specific hospitals, such plans, which grew rapidly in number during the Depression, were eventually rationalized to a degree by the American Hospital Association under the auspices of non-profit Blue Cross plans. Enabling legislation allowed such plans to form without meeting the capital requirements required of joint-stock insurers or the assessment liabilities or reserve requirements of mutuals. Freed from taxation and insurance laws and their attendant costs, the plans offered insurance at rates low enough to grow the market considerably in the 1930s and 1940s, a period in which commercial health insurers suffered from extremely high lapse rates. At the same time, to retain their ability to price discriminate against their patients and to ward off compulsory national health insurance plans being bandied about in the wake of the New Deal, physicians began their own prepaid plans under the Blue Shield brand. Aided by enabling legislation similar to that encouraging the growth of Blue Cross plans, tax -and insurance regulation- exempt Blue Shield plans thrived in the 1930s. Commercial insurers countered, but their experiments with low premium, low benefit industrial-style policies that combined life, health, and accident insurance found little acceptance in the marketplace.²⁵⁰

The very success of Blue Cross and Blue Shield plans, however, planted the seeds of their relative demise. The plans showed commercial insurers that adverse selection and moral hazard could be mitigated enough to allow the market to function. Commercial insurers entered the health insurance market tentatively in the late 1930s and went in full bore after the war on the back of improved actuarial tables. The non-profit status of Blue Cross and Blue Shield plans took its toll. Enjoined to charge the same premium within a given community, Blue Cross and Blue Shield plans faced significant adverse

²⁴⁸ Anon. 1931; Meier 1988; Morgan 1922; Murray 2007; Whiteside 2003.

²⁴⁹ Cunningham and Cunningham 1997; Graham and Xie 2007; Hoffman 2001; Millis 1937; Thomasson 2003.

²⁵⁰ Cunningham and Cunningham 1997; Davis 1944; Millis 1937; Thomasson 2003.

selection after commercial insurers began to offer low premiums to healthier individuals. Although the Blues tenaciously dominated some markets, like Rochester, New York, into the 1990s, at the national level commercial insurers had outstripped the Blues in terms of the total number of people insured by the early 1950s. The Blues suffered yet more in the 1970s and 1980s because they adapted too slowly to changing conditions and the managed care revolution. Appendix 6 details the growth of health insurance enrolments during and just after the Second World War.²⁵¹

World War II provided a tremendous boost to employer-provided health insurance because it was not subject to wartime wage controls and provided tax benefits to both employers and employees. After the war, the tax-exemptions were strengthened and unions won the right to negotiate benefit packages on behalf of their members. Private insurance waxed as the Murray-Wagner-Dingell bill of 1949, a measure that would have provided all Americans with nationalized health insurance, waned. In 1958, 75 percent of Americans had some form of private health insurance. Many of the uninsured were elderly or poor, leading to the passage of Medicare and Medicaid legislation in the 1960s. Later extensions of Medicaid competed with private insurance, with each dollar of government aid shrinking private markets by an estimated 50 cents. In the 1970s, 80s, and 90s, rising medical costs put considerable pressure on the uninsured but also the Blues, commercial insurers, and the government itself.²⁵²

Early in the twentieth century, commercial insurers could not compete with the health insurance offered by fraternal and mutual benefit societies because their policies were expensive and excluded the most important diseases of the day. Early on, however, commercial life companies helped millions of people to mitigate the significant risk of long-term disability. An Illinois Health Insurance Commission study conducted in 1917 showed that serious sickness afflicted about 20 percent of wage earners annually. Some 35 percent of those missed a month or more of work and almost 10 percent lost over 3 months of wages. Lost wages exceeded over \$100 at a time when the annual income of many workers was around \$800 per year. Most fraternal societies did not cover such extended periods and by the 1920s were rapidly on the wane anyway. "Under the pressure of competition," commercial insurers showed "considerable ingenuity in the adaptation of methods and policies to the desires and needs of their customers."²⁵³ The first disability clauses in life insurance contracts, which began to appear in earnest circa 1910, merely waived the premiums of disabled policyholders. Demand for cash payments, however, drove many insurers to add disability benefit riders to their policies. Income riders worked well at first but the Depression gave disability a major blow by increasing moral hazard and precipitating losses of half a billion dollars. Some companies battled back by making contractual changes, beefing up screening, and expanding group

²⁵¹ Cunningham and Cunningham 1997; Millis 1937; Thomasson 2003.

²⁵² Cunningham and Cunningham 1997; Cutler and Gruber 1996; Thomasson 2003.

²⁵³ Millis 1937:23.

disability coverage. Deeply disillusioned with disability income riders, many others withdrew, only to return to the market after World War II. The addition of disability coverage to Social Security in the 1950s, however, injured the low end of the market, so-called “any occ” policies, but high end “his occ” policies continue to thrive to this day. Today, specialized “disability” or “accident and health” insurers as well as life and property-casualty insurers offer disability coverage.²⁵⁴

Before the late nineteenth century, workers injured on the job found it difficult to obtain monetary payments from their employers, who hid behind concepts like fellow servant, assumption of risk, and contributory negligence. In short, courts told workers that they had assumed the risk of all accidents whether caused by fellow employees, themselves, or their employers. In the late nineteenth century, those legal defences began to break down but the costs of litigation itself remained a major barrier to recovery. In response, by 1920 some 42 states had enacted laws that compensated workers hurt on the job, provided they were not intoxicated or otherwise seriously negligent at the time of the accident. Some states allowed employers to opt out of the system altogether but at the cost of giving up the traditional defences. Others forced employers to insure through state monopolies, some offered the option of insuring through the state or commercial insurers, while others relied solely on private carriers, often the same companies that sold general business liability insurance. Traditionally the purview of stockholder owned property and liability companies rather than life/health insurers, workers’ compensation insurance quickly became the most heavily regulated line. Prior approval was required in almost all states and self-insurance was possible only for the largest and most heavily capitalized companies.²⁵⁵

In most nations, including the United States, labour unions provided the first out-of-work benefits or unemployment insurance. After 1920, individual employer and employer group schemes also cropped up. Most such plans were more like guaranteed employment contracts than insurance, however, and the number of workers covered by any type of unemployment product remained tiny through the early stages of the Great Depression. Unemployment coverage expanded during the Depression but not until the 1970s was it widespread. Funded by a payroll tax, unemployment insurance pays workers a percentage of their wage if unemployed for extended periods of time, traditionally up to 26 weeks but sometimes longer during cyclical downturns. Because unemployment is subject to moral hazard and the vagaries of the business cycle, coverage is still not insurance in the private, actuarial sense of the term but rather is one of many forms of government insurance. The expense of such coverage is justified, in part, because it provides workers with extra time to find good

²⁵⁴ Coll 1995; Herrick 1956; Hoffman 2001; Lencsis 1997; Millis 1937; Morgan 1922; Pratico 2001; Wright and Smith 2004.

²⁵⁵ Armstrong 1932; Blanchard 1917; Cummins and Weiss 1991; Hoffman 2001; Kantor and Fishback 1994; Lencsis 1997; Meier 1988; Moore 1905; Moss 2002.

employment matches. Not all forms of governmental or societal insurance, however, are as easily defended.²⁵⁶

6. GOVERNMENT INSURANCE RISING

As part of their general charge to protect their citizens' lives and properties, governments have long acted as insurers of last resort for catastrophic and unexpected events, when insurance is not available at any price or at a price so high most people and firms choose to self-insure. Such a role may be legitimate, expedient, and efficient because governments have powers that private insurers do not, including the ability to limit adverse selection by compelling individuals and businesses to enrol in an insurance program and forcing them to pay premiums and taxes. State power may also enable governments to mitigate moral hazard more thoroughly or cheaply than private insurers can. Governments may also be better equipped than other parties to prevent negative events or at least mitigate their number or intensity. Finally, due to their longer time horizons government bureaucracies may weather long-term economic downturns more efficiently than commercial entities do. The Federal Housing Administration, for instance, can efficiently guarantee mortgages because it can lease the underlying collateral for years after foreclosure thereby avoiding distressed sales and loss of principal.²⁵⁷

Some government insurance, however, is a wash, with benefits nearly equalling costs, as with federal deposit insurance, which, seemingly paradoxically, prevented bank runs while simultaneously inducing banks to assume more risk. The true cost of the insurance was revealed in the wake of the Savings and Loan debacle of the 1980s. Beginning in earnest in 1969 under the pressure of federal action, by 1982 almost all states provided guaranty funds designed to protect policyholders from insurer insolvency. Like deposit insurance, guaranty funds increase risk-taking on the part of insurers and also expose taxpayers to the risk of having to bailout insolvent funds, almost all of which rely upon post-insolvency assessments subject to statutory limits.²⁵⁸

Other government forays into the provision of insurance serve mainly to distort or even destroy privately provided alternatives and effectively redistribute wealth from the broad base of taxpayers to special interest groups. In such instances, premiums received by the government are lower than those actuaries would charge while the government "pays out far more in benefits

²⁵⁶ Armstrong 1932; Hughes and Perlman 1984; Moss 2002.

²⁵⁷ Chiappori and Gollier 2006; Faure and Hartlief 2003; Fisher and Rapkin 1956; Moss 2002; Stiglitz 1993.

²⁵⁸ Graham and Xie 2007; Harrington 1991; Lencsis 1997; Moloney 1991; Moss 2002; Randall and Kopcke 1991b; Ringleb and Wiggins 1993; Stiglitz 1993; Wright 1991, 1993.

than the private insurance companies.”²⁵⁹ The government does not invest premiums, so the balance must come from taxation or borrowing.²⁶⁰

Government insurance that works well at first may later degenerate because it adapts too slowly to market changes, including increases in asymmetric information brought on by the existence of government insurance itself. In a classic case of adverse selection, companies saddled the Pension Benefit Guaranty Corporation (PBGC), the ill-advised offspring of the ERISA act of 1974, with claims it could not pay. Stronger companies avoided paying premiums by switching from defined benefit to uninsured defined contribution pension plans and weak but solvent companies dumped their pension liabilities onto the PBGC and profited from the transaction. In a classic example of moral hazard, farmers favoured with government-subsidized insurance, price supports, and disaster assistance take more financial and production risks than unsubsidized farmers do.²⁶¹

Similarly, government flood insurance programs induced construction in areas, like southern Louisiana, where it weakened natural defences against flooding and increased the damage inflicted by hurricanes. Worse, repeated government bailouts of hurricane and other victims have taught American consumers, businesses, and insurers that buying catastrophe insurance or reinsurance is a sucker's game. Farmers adversely affected by large scale events, for example, often receive government payouts even if they are not enrolled in government crop insurance programs.²⁶²

State governments also offer various types of loan guarantees and insurance. Maryland once offered automobile insurance, for example, and Wisconsin sells small life insurance policies. Often, governments provide insurance because it appears to be free. People applaud politicians for helping, forgetting that when disaster strikes the true cost of the insurance will be revealed. In the meantime, however, politicians gain popularity because they seemingly aided constituents without raising taxes. Moreover, government insurance programs are rarely actuarially sound. Governments find it politically difficult to charge premiums based on differences in risk and they face pressures from rent seekers, special interest groups that wish to displace risks onto taxpayers while retaining the rewards of their risky activities. Governments therefore often subsidize risk-taking, sometimes heavily. While governments in theory may be able to solve market failures, in practice they rarely do so, creating problems as costly as those they solve.²⁶³

²⁵⁹ Meier 1988:37.

²⁶⁰ Sniderman 1993; Stiglitz 1993.

²⁶¹ Bodie 1993; Meier 1988; Rodriguez 1993; Utgoff 2003; Wright 1993.

²⁶² Kane 1993; Kunreuther 1993; Meier 1988; Moss 2002; Wright 1993.

²⁶³ Connolly 1993; Pauly 1993; Ringleb and Wiggins 1993; Rodriguez 1993; Stiglitz 1993; Utgoff 1993; Wright 1993.

Consider, for example, Social Security. In the first third of the twentieth century industrial pension plans grew, primarily as a response to labour unrest. Employers gained by tying workers' long-term interests to their employers rather than to their unions and inducing pensioners to act as strike-breakers. Nevertheless, some elderly Americans were impoverished, causing considerable consternation among sundry progressives (i.e., liberals). The plight of the impoverished elderly worsened as the Depression deepened and many philanthropists and even state pension plans reduced rather than expanded their giving. Poverty among the elderly and widowed, many argued, was due partly to their failure to save. That failure, in turn, was largely due to regulatory impediments that prevented life insurers from educating as many people about income risks as thoroughly as they would have liked to have done. Regulations also kept administrative costs higher than insurers would have preferred. Instead of addressing those problems, however, the government rushed to take direct action. Threat of social unrest or implementation of more disruptive schemes, like those of Francis Townsend, Huey Long, or Charles Coughlin, played a major role in Social Security's passage.²⁶⁴

From the standpoint of private insurance, Social Security is deeply flawed. "Premiums" -really just payroll taxes- are based solely on income, not life expectancies. While the taxes are progressive to a point, higher mortality among certain minorities and the poor more generally mean that in practice the system is highly regressive, biased against African-American males and other groups. Nothing but a paltry death benefit is left to heirs, so Social Security exacerbates intergenerational wealth disparities by reducing the bequests of the less affluent. People married for fewer than 10 years and numerous other groups also suffer under its provisions. Benefits are not guaranteed and reserves are nominal only. The existence of the benefits for three quarters of a century have weakened markets for private insurance, life annuities, and a variety of retirement products. That, in turn, makes reforming or eliminating the program more difficult because opponents of change argue, not without evidence, that Americans do not know how to save for retirement or purchase income insurance.²⁶⁵

History may repeat itself soon. National health insurance may emerge not because of its inherent superiority but because the current system is badly mangled, awash in both market and government failures. Just after World War I, during the Depression and World War II, and in the 1960s and 1990s, members of America's political left pushed for the establishment of a compulsory, publicly-funded healthcare system. Except for the establishment of Medicare and Medicaid in the mid-1960s, they were rebuked each time by a coalition of politicians ideologically opposed to the extension of government powers,

²⁶⁴ Abbott 1941; Armstrong 1932; Belth 1991; Brannon 1991; Coll 1995; Epstein 1936; Quadagno 1988; Rubinow 1934.

²⁶⁵ Aaron and Shoven 1999; Bernheim 1991; Eisner 1998; Moss 2002; Schieber and Shoven 1999.

doctors fearful of losing their power to price discriminate, insurers threatened with extinction of major lines of business, profit-minded business managers, and workers satisfied with the status quo.²⁶⁶ After a promising start, the reforms proposed by Bill and Hillary Clinton in 1993-94 fizzled and died because many Americans met them with incredulity. The spectre of government healthcare continues to loom, however, because reform attempts like managed care - HMOs (health maintenance organizations), PPOs (preferred provider organizations), EPOs (exclusive provider organizations), and sundry hybrid forms- failed to stem rising healthcare costs or to provide millions of Americans with affordable insurance. At present, state-by-state reforms roughly based on Stanford University Professor Alain Enthoven's plan, which calls for market-based competition combined with some compulsory and regulatory features, seem the most likely outcome. Doing away with employer tax incentives would be a better start, however, because if individuals bore the costs of the healthcare system more directly the long-running inflationary cost spiral would slow, maybe stop, and possibly even reverse to some extent²⁶⁷. Terrorism insurance is a different story. The U.S. government has subsidized it since soon after the September 2001 terrorist attacks and will likely continue to do so for the foreseeable future. Insurers fear a major attack could bankrupt them and the federal government is likely to rush to the aid of victims anyway. Government aid may be justified here because terrorist attacks are unpredictable and potentially many times more devastating than a natural disaster. That makes pricing tricky, especially given that insurance company managers tend to be more risk averse than the stockholders they serve. Without the federal backstop, terror insurance might not be available at a price anyone would be willing to pay due to budget constraints and/or their inability to compute an actuarially fair rate. Government intervention may be warranted as well because moral hazard is small, it being difficult to imagine that the existence of terrorism insurance would induce businesses to behave in ways that would increase the risk of attack or reduce their incentives to take measures to prevent an attack or mitigate its effects.²⁶⁸

Nevertheless, mutual pools may provide a better remedy. Mutual pools, some with an initial government risk-sharing backstop that decreased as the pool built its reserves, worked in nuclear accident insurance, where uncertainty and high-impact loom as large as in terrorism insurance. Regardless of the details, making premiums retrospective, like participating life policies or old school ex post assessments, is a key provision. Unfortunately, interest in mutuality appears to be waning.²⁶⁹

²⁶⁶ The initial push, just after World War I, also suffered from an ill-timed recession, perceived ideological association with Germany, opposition from fraternal and unions, and reports that Britain reeled under its national healthcare system.

²⁶⁷ Cogan and Hubbard 2007; Graham and Xie 2007; Hoffman 2001; Millis 1937; Morgan 1922; Murray 2007; Naik 2007; Skocpol 1995.

²⁶⁸ Hartwig and Wilkinson 2007; Jenkins 2007; Kunreuther 1993; Ringleb and Wiggins 1993.

²⁶⁹ Anderson 1993; Connolly 1993; Kunreuther 1993; Meier 1988.

7. THE ASCENSION AND DECLENSION OF THE MUTUAL FORM

Even where government directly treads relatively lightly, it often plays a major indirect role in who provides the bulk of insurance products in specific markets. Nowhere is its role clearer than in the relative importance of fraternal, mutual, and joint-stock insurance companies over time and line. Fraternal or provident insurers are non-profit organizations. Mutuals are for-profit companies owned by their policyholders. Joint-stock companies are also for-profit but are owned and controlled by stockholders, who may be but typically are not policyholders. Each of those forms has strengths and weaknesses.²⁷⁰

As noted several times above, due to their intimacy non-profit fraternal and similar associations suffer from lower levels of moral hazard and lower administration costs than other insurers do. Those advantages are offset by their lack of risk diversification and their inability to tap economies of scale. Stock insurers can easily achieve and maintain minimum efficient scale but they must spend large sums advertising and marketing their products, screening applicants, and combating moral hazard. Due to shareholder pressure on management, they are often highly competitive and innovative in terms of rates, products, and services but by demanding market rates of return or higher those same shareholders can induce managers to take on higher levels of risk. Their profit requirements can also prevent insurers from underwriting new types of risks. By contrast, policyholder-owners often induced mutual insurers to tread where stock insurers feared to go. Policyholders were often too numerous and dispersed, however, to influence the decisions of the managers of large mutuals, hence the stereotype of the mutual “dinosaur” ploddingly providing high cost, high quality insurance. Given the inherent economic strengths and weaknesses of each form, observers might expect them all to flourish. Rather, one form or another tends to dominate each market for long periods only to rapidly give way to another. Such sea changes sometimes reflect underlying structural economic transformations but sometimes they reflect regulatory and tax changes.²⁷¹

Insurance regulation has traditionally fallen upon state governments rather than Washington, a tradition bolstered by *Paul v. Virginia* (1868-9) and the McCarran-Ferguson Act of 1945. Although federal agencies like the Federal Trade Commission sometimes try to regulate specific aspects of insurance, state regulations prevail so long as they do not violate federal mandates. Consistency in state laws, while imperfect, arose due to the prominence of the New York market, the Appleton rule, and a self-regulatory organization formed in 1871 called the National Association of Insurance Commissioners (NAIC).²⁷²

²⁷⁰ Cummins and Weiss 1991; Lencsis 1997.

²⁷¹ Cohen 1991; Cummins and Weiss 1991; Dawson 1905; Smith and Stutzer 1995; Wright and Smith 2004.

²⁷² For example, all 50 states long required fire insurance companies to use the New York Standard Fire Policy.

The threat of increased federal scrutiny of insurance implicit in *McCarran and United States v. South-Eastern Underwriters Association* (1944) provides state regulators with additional incentives to regulate effectively and more or less uniformly.²⁷³

The earliest insurance regulations increased transparency to allow market discipline and competition to weed out weak or predatory companies. Restrictions against insurers domiciled out-of-state helped to protect domestic insurers while simultaneously increasing state revenues through differential taxation of premiums or state ownership of domestic insurers' stock. Protectionist public policies, however, hurt insurers by rendering them less competitive and less diversified on both sides of the balance sheet. Failures resulted, particularly after large urban fires like that which decimated 700 commercial buildings in Manhattan in 1835. Instead of pulling down their protectionist barriers and encouraging insurers to diversify their risks more broadly, governments responded by ratcheting up minimum capitalization rules. In some states, like New York, the effect of the new regulations was to bring mutual formation to a virtual standstill. When the cost of capital grew too high for joint-stock insurers to form, fraternal and other non-profits entered, only to exit in the early twentieth century due to increased regulatory costs as well as competition from government programs and commercial insurers.²⁷⁴

Farmers' mutual fire insurance companies also fell victim to state regulators. Traditionally numerous but tiny, by World War II farmers' mutual fire insurance companies numbered about 1,900 with some \$12.5 billion insurance in force. Many carried "risks that were unduly large in relation to their respective volumes of insurance and their accumulated reserves" because farmers and their lenders wanted, for convenience sake, a single policy with a single company.²⁷⁵ Some mutuals responded by buying reinsurance on individual policies and also "excess loss" or "blanket" coverage, but at the outbreak of World War II less than half of all mutuals regularly reinsured, in large part due to prohibitive state laws. Because their risks were too concentrated, many folded or joined the emerging multi-line property, casualty, and liability conglomerates.²⁷⁶

The government's role in determining which form dominated was even more pronounced in life insurance. The first U.S. life insurers were stock companies but mutuals later took over because they offered participating policies that rebated premiums if mortality, interest, and expense assumptions proved, ex post, to be better than expected. After the failure of some mutuals in the 1840s, New York forced new entrants to form as stock companies or part mutual, part joint stock hybrids. In the wake of the Armstrong Investigation in 1905, however,

²⁷³ Graham and Xie 2007; Harrington 2000; Lencis 1997; Meier 1988.

²⁷⁴ Graham and Xie 2007.

²⁷⁵ Valgren 1941:iii.

²⁷⁶ Valgren 1941.

New York lawmakers changed their minds, inducing a wave of mutualisation. For much of the twentieth century, mutuals such as Metropolitan Life dominated the scene. Just after World War II, one out of five people in the United States and Canada owned a piece of the Met. Solving the pricing problem with participating policies was so powerful that many of the numerous but usually small stockholder-owned companies began to offer them. In the late 1950s and early 1960s a quarter of the ordinary life insurance in force at stock companies was of the participating variety despite the fact that largely intractable conflicts of interest arose between participating policyholders, non-par policyholders, managers, and stockholders and government regulations did little or nothing to extenuate them.²⁷⁷

As late as 1990, stock companies outnumbered mutuals by several thousand to about 120, but mutuals controlled about half of the industry's assets. Right about then, a wave of demutualization, aided by New York's 1988 decision to permit such conversions, struck the industry. By 2003, when the wave dissipated, only three of the ten largest life insurers remained mutuals and stock insurers dominated the industry. Insurers that demutualised proffered a number of reasons for the change but most stressed the need for improved access to capital markets to support merger and acquisitions activities and product and distribution development. Demutualising companies also argued that the joint stock form would better allow them to attract, motivate, and retain the best insurance professionals.²⁷⁸

Although the benefits of mutuality have been long understood, a considerable amount of academic research supported the demutualization wave. Since 2003, however, academic opinion has grown more sceptical and the demutualization movement itself has come to a virtual standstill with the remaining large mutuals, like Northwestern, MassMutual, New York Life, and Guardian, maintaining their mutuality. Researchers can still be found on both sides of the issue but several recent studies stress the strengths of the mutual form and the enormous windfalls some mutual executives and participating policyholders reaped during the demutualization process. The executives of companies that demutualised, some argue, cashed out while simultaneously exiting the life insurance business, or at least the traditional whole life portion of it. Far from being stodgy dinosaurs, the remaining mutuals have long since discovered ways to attract and motivate talented leaders without the lure of stock options or the stick of the capital markets. At Guardian, for example, general agents played the role of large stockholders, pressuring managers to innovate while long-term deferred compensation packages kept executives loyal and working hard to maximize long-term policyholder value.

²⁷⁷ Belth 1965; Dawson 1917; James 1947; Lencsis 1997; Zartman 1907.

²⁷⁸ Butler, Cui, and Whitman 2000; Lencsis 1997; Meier 1988; Walker 1989; Wright 1991; Wright and Smith 2004.

Moreover, mutuals have generally outperformed recently demutualised life insurers.²⁷⁹ Whether another demutualization wave will hit American shores remains largely a function of regulatory decisions. Regulators could ban demutualization outright or at least remove some of the artificial inducements to demutualise that they allowed in the first wave. Foremost of those was the distribution of surplus to existing policyholders upon demutualization, a mighty inducement indeed for policyholders of the larger and older mutuals. The decision to demutualise should be based on the comparative long-term strengths and weaknesses of the mutual and joint stock forms and not on transient considerations or policyholder or managerial opportunism.²⁸⁰

Some scholars have also criticized the demutualization of property-liability companies, which also argue, with some empirical justification, that demutualization was necessary to obtain cheaper access to capital markets and improved management. That does not mean, however, that mutuals are moribund. Outside directors, who are much more prominent in mutuals than stock insurers, are one of the mechanisms by which property and casualty mutuals maintain their competitiveness.²⁸¹

8. REGULATION AND DISINTERMEDIATION

Throughout the twentieth century, insurance companies accounted for between 13 and 25.5 percent of the assets of all U.S. financial intermediaries. In the first half of the century, the trend, on the back of often triple digit decennial growth, was upward. In the second half it was downward, mostly due to the decreased importance of life insurance.²⁸² As Appendix 7 shows, that decline was relative as insurer assets and equity grew in nominal terms almost every year.²⁸³

The relative decline of insurance can be attributed to two major causes, disintermediation and regulation. Unlike businesses in some industries, insurers have not systematically “captured” their regulators, largely because different types of insurers (stock v. mutual; large v. small; geographically concentrated v. dispersed, and so forth) have different interests. Rather than uniformly aiding insurance companies, insurance regulations also aid (or injure) other stakeholders, including consumers, non-insurance companies, political elites,

²⁷⁹ Conning 2003; Erhemjamts and Phillips 2005; Hansmann 1985; McNamara and Rhee 1992; Remmers 2003; Wright and Smith 2004.

²⁸⁰ Hansmann 1985.

²⁸¹ Cagle, Lippert, and Moore 1996; Mayers, Shivadasani, and Smith 1997; Mayers and Smith 2002; Viswanathan and Cummins 2003.

²⁸² Property and casualty insurers accounted for between 3 and 6 percent of intermediated financial assets.

²⁸³ Gregg 1957; Randall and Kopcke 1991b.

and the regulators themselves. Insurance regulations are usually complex, relegating consumers and political elites to the sidelines, but occasionally they become politically significant when a particular issue, such as no-fault auto insurance in the 1970s or hurricane insurance in the early 2000s, becomes highly salient.²⁸⁴

Not all regulations injure the economy. Policy form simplification and increased readability, for example, reduced asymmetric information by helping policyholders to better understand their purchases. Similarly, by making “conformity to statutes” clauses mandatory in most forms regulators cleverly ensured the lawfulness and completeness of insurance policies, thereby minimizing lawsuits and the need for prior approval of riders and endorsements. Long-standing laws like the requirement of insurable interest are also largely salutary, as are regulations against fraud, improper claims practices, and agent or advertising misrepresentations of policy coverage or cost. Nevertheless, if such laws give stakeholders too much power they can injure the industry and the economy. California’s unfair claims practices law, for example, encouraged policyholders to file frivolous lawsuits for unreasonably high damages before it was abandoned in 1988.²⁸⁵

Federal involvement in insurance has traditionally been, and to this day remains, slight. The bulk of the regulatory burden therefore falls upon NAIC and the states, particularly New York. As recently as 1990 the Empire State employed more actuaries than all other state insurance regulators combined. Even insurance executives admit that most state insurance regulators are woefully short of resources given the broad mandates they face. Traditionally, insurance regulators tried to limit insurance company failures by mandating capital ratios and restricting the types of assets different types of insurers could own. Today, states regulate each phase of insurance companies’ life cycles, from their entry to their exit and everything between.²⁸⁶

Although some regulations, like the untaxed inside build-up of life insurance, aided insurers, numerous other regulations injured them. Many regulations made little economic sense, forcing insurers to incur costs greater than the benefits the regulations provided. For example, government-mandated unisex rating is extremely problematic because women live longer than men, men are more likely to be involved in an automobile accident, and so forth. Far from being fair, forcing insurers to charge the same rate for different risk classes injures both the companies and their policyholders, both directly by the implied subsidy and indirectly by weakening the insurer. Regulations also induce

²⁸⁴ Lascher 1999; Meier 1988; Stigler 1971.

²⁸⁵ Lencsis 1997; Meier 1988.

²⁸⁶ Lencsis 1997; Lennon 1991; Life Insurance Association of America 1962; Pritchett 1977; Spring 1921; Wise 1991.

insurers to avoid new lines of business, such as banking, for fear of increasing their regulatory burdens yet further.²⁸⁷

Life insurers long faced regulations mandating investment of their assets in specific categories and even within certain geographical boundaries. Ostensibly enacted to ensure the solvency of the companies and hence their policies, such regulations did not demonstrably increase policyholder safety. Perversely, the tax code subsidized the smallest life insurers, to wit those with the highest costs and, more importantly, the highest probability of failing.²⁸⁸

Similarly, property-liability insurance remained a very competitive, low-profit business into the 1990s, yet regulators discouraged consolidation. Beginning in the 1970s, judicial changes destabilized most liability insurance lines by increasing the size and, perhaps more importantly, the uncertainty of claims. Due to rising claims payments and uncertainty, many medical malpractice underwriters exited in the late 1970s only to be replaced by medical mutuals. Environmental pollution liability was also hard hit and day care centre liability insurance disappeared when courts found that penalties that were multiples of policy limits could be imposed for the malfeasance of a single person.²⁸⁹ "Lottery fever," as one chagrined auto insurance executive called it, was particularly intense in large metro markets like Los Angeles, Philadelphia, and New York, where bystanders ran to get onto buses involved in accidents so they could join the inevitable lawsuit.²⁹⁰

Regulations also severely distort the market for auto insurance. Insurers struggled to develop adequate rating criteria because road, driver, and vehicle conditions remained in almost constant flux. Many states regulate auto insurance prices, most by requiring prior approval and some by requiring post-change rate filings that the insurance commissioner can disapprove. Although ostensibly enacted to ensure that insurers do not fail in large numbers and, paradoxically, to reduce collusion and hence premiums, such regulations in fact create tremendous economic inefficiencies. Regulators are not better informed than insurers. They want to keep insurers solvent but also desire to make consumers, i.e., taxpayers and voters, happy. Generally, that means keeping rates low in the short-run. In the long-run, rate regulation does not reduce premiums but instead makes rates more volatile because insurers generally do not seek reductions as they know from experience that they will not be able to raise rates quickly when costs increase. Prices increase less frequently but in larger increments, ending up at the same level as they would if unregulated. Moreover, in some instances price regulation makes it difficult for very risky

²⁸⁷ Brannon 1991; Crocker and Snow 1986; Joskow 1973; Lencsis 1997; Meier 1988; Randall and Kopcke 1991b; Wise 1991; Wright 1991.

²⁸⁸ Brannon 1991; Lencsis 1997; Meier 1988; Pritchett 1985.

²⁸⁹ Cohen 1991; Cummins and Weiss 1991; Joskow 1973; Lascher 1999; Lencsis 1997; Meier 1988.

²⁹⁰ Joslin 1991:157.

drivers to obtain any insurance at all without state intervention. In other cases, regulations force safe drivers to heavily subsidize risky ones, thereby increasing the incidence of accidents.²⁹¹

Beginning in the 1950s, and worsening in the 1960s and 1970s, life insurers faced disintermediation pressure on two fronts, reduced sales and increased policy loans. Instead of buying individual whole life insurance, post-war workers increasingly obtained term coverage through employers' inexpensive group policies. Although coverage was lost when a worker left a job, group quickly supplanted industrial insurance. Other Americans bought individual term policies and invested the rest in high yielding mutual funds. Life insurers, the equity holdings of which were by limited by law, found it difficult to compete in an era of unprecedented and persistent inflation. Also, existing whole life policyholders took out policy loans, the interest rates on which were capped at 5 or 6 percent, invested their borrowings in higher yielding money market money funds, and pocketed the difference. Others lapsed or surrendered their policies for cash. In the group arena, large employers increasingly self-insured simply because it was cheaper to do so than to buy insurance. The Great Inflation also hurt the asset side of insurers' balance sheets because regulation and custom had left them saddled with huge portfolios of long-term fixed income assets that earned little compared to new, short-term investments that better reflected the increasingly inflationary environment.²⁹²

Life insurers responded to disintermediation by morphing into financial services firms. They introduced a number of new products like mutual funds into the mix, created interest-sensitive life insurance products, including universal, variable, and flexible premium variable life and variable annuities, changed their investment strategies to increase liquidity in the face of outflows, and cut expenses in myriad ways. Some of them also took on more risk, on both the asset and liability sides of their balances sheets, hoping that increased returns would keep investors interested in their shares, policies, and guaranteed investment contracts (GICs) or other short-term borrowings. For example, two new life insurers that grew aggressively in the 1980s only to fail in the early 1990s, First Capital and Executive Life, invested heavily in junk bonds financed from the sale of GICs. Others, including Monarch, took different poisons, commercial real estate mortgages and bank loans, but suffered the same fate.²⁹³

The government tried to help, too, but inconsistently. For example, the Employee Retirement Income Security Act (ERISA) of 1974 strengthened insurer-provided pension funds by imposing a stringent fiduciary responsibility upon fund managers. But a decade later, the government allowed banks to

²⁹¹ Cohen 1991; Cummins 2002; Lascher 1999; Zoffer 1959.

²⁹² Conder and Hopkins 1981; Graham and Xie 2007; Gregg 1957; Randall and Kopcke 1991b; Schott 1971; Walker 1989; Wright 1991.

²⁹³ Graham and Xie 2007; Lennon 1991; Moloney 1991; Randall and Kopcke 1991b; Walker 1989; Wright 1991.

issue fixed and variable rate annuities. The SEC and the courts also forced insurers to register some of their newer and more innovative products, like variable annuities, on the grounds that they were not insurance under Section 3(a)(8) of the Securities Act of 1933.²⁹⁴

Tax treatment of life insurance was uneven, variable, and extremely complicated, even for experts. Generally, tax policy favoured group over individual policies because the former, like fringe benefits generally, were untaxed. Millions of individuals bought term and invested the rest, specifically in individual retirement accounts (IRAs), because the tax code ordained it. Some wealthy individuals, however, benefited from purchasing whole life policies rather than investing in tax-sheltered funds. Due to a variety of technical rules, like the “Menge 10-for-1 adjustment,” tax policies hit life insurers particularly hard when inflation and nominal interest rates were high. Companies that sold participating policies were hit particularly hard because tax authorities considered part of their premiums, that part which represented an equity stake in the insurer, a taxable security.²⁹⁵

In the end, life insurer responses to disintermediation were only partially successful. Industry assets and insurance in force continued to grow in nominal terms but life insurers’ relative share of savings eroded. Several high profile scandals (vanishing premium policies; policy twisting; investment churning) and failures in the late 1980s and early 1990s injured the industry’s prospects further, at both home and abroad. Since the late nineteenth century, U.S. life insurers had been major players in the world’s most important markets but due to the stresses of the 1970s and 1980s they began to lose ground.²⁹⁶

Property-liability insurers also shrank from the international scene in the last few decades of the twentieth century. The products of the melding of marine, fire, and sundry other insurances into multi-line companies after World War II, they suffered little from disintermediation per se but strained due to the Great Inflation and regulators’ response to it. Beginning in the late 1960s, failure rates increased and kept growing, stressing guaranty funds. By the early 1990s some, including Representative John Dingell (D-MI), feared that a Savings and Loan-style crisis loomed. Cooler heads knew that was highly unlikely but warned that about 1 in 5 property-liability insurers were severely undercapitalized and 3 in 5 were greatly exposed to interest rate risk.²⁹⁷ Public and political dissatisfaction with the industry was, according to two

²⁹⁴ Graham and Xie 2007; Lencsis 1997; Meier 1988; Walker 1989; Wright 1991.

²⁹⁵ Aaron 1983; Belth 1991; Lencsis 1997; Meier 1988; Valenti 1960; Williamson 1934.

²⁹⁶ Lencsis 1997; Pearson 2003a; Randall and Kopcke 1991a; Wright 1991; Wright and Smith 2004.

²⁹⁷ Harrington 1991; Randall and Kopcke 1991b.

contemporary observers, “widespread and ... growing” and the reasons are not difficult to detect.²⁹⁸

Underwriting tends to cycle between “soft” and “hard” every six years or so. In soft periods, ample insurance is available and prices sag, hurting profits. Eventually that leads to exit, less insurance availability, higher premiums, and more robust profits. The swings can be wild. In 1985 and 1986, for example, the market became extremely hard as premiums more than doubled industry-wide and numerous applicants could not obtain coverage at any price. In 1987, Mission Insurance Group, one of the nation’s top fifty property-liability insurers, failed, becoming a \$500 million charge against its guaranty fund. Tort liability reforms helped the industry return to profitability but other reforms were more vindictive. Policymakers and policyholders accused insurers of anticompetitive practices. Based on the industry’s partial antitrust exemption granted in the McCarran-Ferguson Act -which allows insurers to share policy forms and claims data- the assumption that the industry was not competitive was largely untrue, as shown by analyses of market concentration, actual premium dispersion, and the absence of any institution with the necessary power to coerce compliance. Nevertheless, the perception of hanky panky and waste led to tougher rate regulations and their attendant efficiency costs, including rent seeking, insurer exit, and massive, perverse cross subsidies.²⁹⁹

No major regulatory relief for the insurance industry appears in sight. Periodic calls for replacing state regulation with direct federal regulation, which date from the administration of Teddy Roosevelt, continue to wallow although the potential administrative savings are substantial.³⁰⁰ It is not clear, however, that a federal super-regulator would do a better job than state regulators. If the latter implement a bad policy, its ill-effects are usually localized. Were a federal regulator to make a mistake, the entire industry and nation could suffer. Myriad difficult technical questions also cloud the issue. Many insurers and agents feared that the federal government would become the fifty-first regulator rather than the sole overseer. As a result of this inertia, insurers may continue to lose share to market-based solutions for spreading and sharing risks.³⁰¹

²⁹⁸ Cummins and Weiss 1991:117.

²⁹⁹ Born and Viscusi 1994; Cummins and Weiss 1991; Gron 1994; Harrington 1991, 2000; Harrington and Danzon 1994; Hunter 1991; Meier 1988; Parker 1991; Winter 1991.

³⁰⁰ Not every state examines every insurer every year as states now spread the burden by sharing examinations within four geographical “zones.” Most large insurers, however, are subject to multiple examinations (because regulators conduct both financial condition and market conduct examinations). and most must keep at least four sets of books, one following statutory accounting principles for regulators, one following generally accepted accounting principles for the SEC, stock exchange, or rating service such as Best’s, at least one for tax purposes, and an economic value added or similar accounting system for internal planning and compensation purposes.

³⁰¹ Grant 1979; Lencsis 1997; Wallison 2000; Wolfe 1905.

9. MARKETS FOR RISK

Insurers sometimes cannot provide desired coverage at all, cannot provide policies to some classes of potential customers, or cannot provide them at desirable premiums. Sometimes, as in flood insurance, adverse selection is simply too strong. Other times, regulations are to blame. At yet other times, corporate governance problems within insurers cause them to miss or misjudge opportunities. Whatever their causes, such vacuums induce both risk seekers and risk avoiders to search out alternative insurance mechanisms. Traditionally, businesses responded to risk vacuums, including cyclical market hardening, by self-insuring, increasing their deductibles, and/or decreasing their coverage, essentially bearing more or all of the risk themselves. Increasingly, though, additional alternatives are available.³⁰²

So many risk vacuums have arisen in the last few decades that a whole new segment, the Alternative Risk Transfer Market (hereafter ARTM), has arisen and bodes to expand more quickly than traditional insurers in coming decades. Since the early 1990s, alternative risk transfer mechanisms have grown increasingly popular in the United States, which currently leads the world in their development. In the last decade, traditional commercial insurance premiums have stagnated while growth in ARTM has been robust.³⁰³

Born of a variety of necessities, ARTM is extremely diverse, providing clients with custom-tailored, multi-year, multi-line, multi-peril risk management solutions. Dating to the 1950s, the first and most common form of ARTM are captives, insurers owned by a non-insurance corporation or association of firms. A captive insures its owner (master), essentially providing it with a sophisticated form of self-insurance. Some captives, called pure captives, insure only the risks of their owners. Others, termed association and industrial captives, insure outside parties as well as their masters. By 2004 some 4,000 captives were active worldwide, accounting for over 8 percent of global commercial insurance premiums. Most captives are owned by large corporations but domiciled in Vermont or offshore havens like the Cayman Islands and Luxembourg. Since the early 1990s, the number of new captives formed each year has exceeded the number liquidated, sometimes by more than two to one, partly due to their preferential tax treatment. That trend is likely to continue given that the IRS in 2001 reversed earlier rulings disallowing deductions for premiums paid by masters to captives.³⁰⁴

Self-insurance groups (SIGs) are another important form of ARTM. The functional equivalent of mutuals, SIGs are generally composed of firms in similar industries that band together to insure each other's workers'

³⁰² Chiappori and Gollier 2006; Hartwig and Wilkinson 2007.

³⁰³ Graham and Xie 2007; Hartwig and Wilkinson 2007.

³⁰⁴ Hartwig and Wilkinson 2007; Lencsis 1997.

compensation and other risks. SIG members are joint and severally liable for the losses of other members, so screening and monitoring are intense and expensive. Also, regulations restrict their operation to a single state, thereby limiting their ability to diversify their risks, a potentially fatal flaw.³⁰⁵

Risk retention groups (RRGs), chartered and licensed liability insurance corporations owned and operated by their members, by contrast, can write insurance in all other states. They numbered almost 200 by July 2005, by which time they were writing more than \$2 billion in premiums a year. Many newer RRGs are helping to bolster the flagging medical malpractice marketplace, so it is not surprising that almost half of all RRGs are run by healthcare and professional services firms. Like RRGs, risk prevention groups (RPGs) are composed of entities in the same business with similar risk exposures. Unlike RRGs, RPGs merely buy liability coverage from traditional insurers or RRGs and are primarily legal mechanisms for working around restrictive local laws.³⁰⁶

Catastrophe bonds (cat bonds) allow insureds and insurers to spread risks via global capital markets. Investors purchase cat bonds for two reasons, their relatively high yields and the fact that their risks are largely uncorrelated with general financial market risks, like interest rate fluctuations. Investment bankers sell the bonds to investors, the proceeds of which are used to capitalize a special purpose vehicle (SPV) which then issues a reinsurance policy to the insured in exchange for a premium. Investors receive regular, fixed coupon payments from the SPV, which also pays any legitimate claims that arise. If claims are high, investors can lose principal. Cat bonds filled the gaps in the reinsurance market that appeared in the wake of Hurricanes Hugo and Andrew and the Northridge earthquake of 1994. Since, the market has grown so quickly that bonds are sometimes now sold to insure regular, non-catastrophic risks. By the end of 2004, cat bonds covered some \$4 billion of at-risk capital, most of that covering U.S. earthquakes and hurricanes but some cat bonds covering European and Japanese windstorms and Japanese earthquakes were also outstanding.³⁰⁷

Although they rapidly swelled in value to about \$20 billion, cat bonds held up extremely well during the subprime mortgage disaster of 2007, bolstering the perception that they can be used to hedge against financial market shocks. Their very success, however, may doom cat bonds to cause the next financial disaster! They may not be alone. By late 2007, about \$20 billion of life acquisition cost securitizations (more dramatically called XXX or death bonds) were also outstanding. Issuing companies receive the present value of the expected profits to arise from a pool of life insurance policies. Recent research suggests that insurers have systematically underestimated improvements in life expectancy and hence have seriously under priced annuities. That would not be

³⁰⁵ Hartwig and Wilkinson 2007.

³⁰⁶ Hartwig and Wilkinson 2007; Lencsis 1997.

³⁰⁷ Bernero 1998; Hartwig and Wilkinson 2007.

the first time they did so but insurers now have an out, selling mortality-contingent bonds in the world's capital markets.³⁰⁸

Exchange-traded insurance derivatives keyed to temperatures and other weather risks are now also available. Technically, such derivatives are not insurance contracts, so the holder need not have an insurable interest or suffer damages in order to cash in and for hedgers significant basis risk can be present. Basis risk is, however, offset by the liquidity and inexpensiveness of most exchange-traded derivatives, as well as the elimination of policy limits, claims filing delays, and so forth. Also increasingly common are OTC derivatives, like catastrophe reinsurance swaps, where the hedger pays a commitment fee in exchange for a contingent payment based on a catastrophic loss. In some such contracts, exposure to uncorrelated risks, like a Tokyo earthquake and an Atlantic hurricane, are swapped.³⁰⁹

Contingent capital is a relatively new and still minor type of ARTM whereby the insured is promised a loan or equity if a triggering event occurs. It does not shift risk per se but ensures that the insured can spread the cost of losses over time.³¹⁰

10. CONCLUSIONS

The U.S. insurance industry is important not only to the over 2 million workers insurers employ and the hundreds of millions of people and businesses they insure but also to the domestic and world economies. Both life and non-life insurance help to drive economic growth by encouraging new physical capital accumulation via their heavy investments in corporate bonds and mortgages. Insurers also induce growth by aiding the efficient management of a wide variety of risks. The United States is still by far the largest insurance market in the world, generating over 35 percent of worldwide premiums and its ARTM segment is the largest and most advanced in the world.³¹¹

Unfortunate, then, are signs that portions of the insurance industry are far from healthy. Increasing numbers of homeowners are dropping wind coverage in high premium areas along the Gulf and Atlantic coasts. Apparently, only mortgage stipulations have prevented an even larger exodus. Many businesses are also self-insuring a variety of risks.³¹²

³⁰⁸ Banks 2004; Bernero 1998; Friedberg and Webb 2007; Kindleberger 2000; McDonald and Plevin 2007.

³⁰⁹ Banks 2004; Lencsis 1997.

³¹⁰ Banks 2004; Hartwig and Wilkinson 2007.

³¹¹ Arena 2006; Faure and Hartlief 2003; Graham and Xie 2007; Lencsis 1997; Randall and Kopcke 1991b.

³¹² Faure and Hartlief 2003; Lencsis 1997; Plevin 2007.

Unfortunate, too, are indications that systemic risks stemming from natural disasters, environmental pollution, technological breakdown, health crises like global pandemics, and terrorism are on the increase. “Many catastrophes,” two observers recently noted, “are of such magnitude that they can hardly be considered insurable, at least in the long run.”³¹³ Population shifts to coastal and other catastrophe-prone areas have exacerbated the trend. Such gigantic risks pose both threats and opportunities to traditional insurers and emerging alternative risk transfer mechanisms as well as to other businesses already under stress from recent growth in the scope and extent of their exposure. Corporations and other business enterprises, for example, are now sometimes held liable for actions that were considered lawful and ethical when committed. Increasingly, insurers and insured alike face what some have termed a “claim culture,” an environment where victims seek revenge on convenient deep pockets rather than those who wronged them.³¹⁴

Many policymakers now seem to understand that insurers have incentives to provide a variety of public goods. They already crash test automobiles in a more rigorous manner than governments do, for instance, and early on encouraged the purchase of safety devices with premium discounts. Similarly, mutual insurers led the fight against fire-prone construction. The removal of legal barriers could induce insurers to conduct lifesaving research in additional areas, including healthcare. Prudential, for example, knew intimate details about the link between cancer and tobacco well before the government moved on the issue. Insurers could also license drivers and would undoubtedly do a better job than government bureaucrats, facing political pressures to allow as many people on the road as possible, currently do.³¹⁵

Government, however, appears reticent to help the private sector to succeed. So, instead of creating a federally regulated coastal hurricane zone and inviting insurers into it, state and federal governments appear bent on expanding their respective spheres of influence, the likely effect of which will be the mass subsidization of coastal dwellers by inland taxpayers. Regulations regarding mutuals should also be reconsidered as the mutual form can be effective in a variety of insurance situations on both the life-health and property-liability sides of the industry.³¹⁶

Government regulations also appear to impede the coverage of new risks. If Chiappori and Gollier are right, that is a serious problem because “the adverse consequence of the limits of insurability are overwhelmingly underestimated.”³¹⁷

³¹³ Faure and Hartlief 2003:11.

³¹⁴ Faure and Hartlief 2003; Sandor 1998.

³¹⁵ Hoffman 1931; Semmens 2007; Wermeil 2000; Zoffer 1959.

³¹⁶ Cummins and Weiss 1991; Fishman 2007; Wright and Smith 2004.

³¹⁷ Chiappori and Gollier 2006:1.

In *New Financial Capitalism* (2003), Robert Shiller explains the need to develop institutions, especially markets, to help people hedge against declines in their home equity, something many people would have cherished in 2007. Shiller argues convincingly that more people would take career risks if they could hedge their future income against failure. That, in turn, would endow the world with more rocket scientists, brain surgeons, social scientists, and high quality artists, musicians, and so forth. Finally, Shiller thinks nations could hedge their GDPs so that if catastrophe strikes they will not have to depend on aid alone. The technological barriers to creating institutions for sharing and spreading such risks are coming down but the markets have yet to form. Apparently, it is difficult to be an insurance entrepreneur because the risk of attracting damaging regulation is too high. Perhaps what we need first is insurance against poorly devised regulations.

11. ACKNOWLEDGEMENTS

This paper was prepared for the MAPFRE conference in Madrid, Spain, May 2008. The author wishes to thank Amanda Gugliotta for research assistance and George Smith and Robin Pearson for introducing him to the history of insurance.

REFERENCES

- AARON, H. (1983). *The Peculiar Problem of Taxing Life Insurance Companies*. Washington, D.C.: The Brookings Institution.
- AARON, H. and SHOVEN, J. B. (1999). *Should the United States Privatize Social Security?* Cambridge, Mass.: MIT Press.
- ABBOTT, G. (1941). *From Relief to Social Security: The Development of the New Public Welfare Service*. Chicago: University of Chicago Press.
- ANDERSON, D. R. (1993). Commentary. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 140-144.
- ANON. (1924). *The Insurance Year Book: Casualty, Surety & Miscellaneous*. Philadelphia: The Spectator Co.
- (1931). *The Present Status of Mutual Benefit Associations*. New York: National Industrial Conference Board.
- ARENA, M. (2006). Does insurance market activity promote economic growth? a cross-country study for industrialized and developing countries. World Bank Policy Research Working Paper 4098.

- ARMSTRONG, B. (1932). *Insuring the Essentials: Minimum Wage Plus Social Insurance – A Living Wage Program*. New York: Macmillan Company.
- BANKS, E. (2004). *Alternative Risk Transfer: Integrated Risk Management Through Insurance, Reinsurance, and the Capital Markets*. Hoboken, N.J.: John Wiley and Sons.
- BARANOFF, D. (2003). *Shaped by Risk: The American Fire Insurance Industry, 1790-1920*. Ph.D. diss., Johns Hopkins University.
- (2004). *Fire Insurance in the United States*. In Robert Whaples (ed.), *EH.Net Encyclopedia*.
- BELTH, J. (1965). *Participating Life Insurance Sold by Stock Companies*. Homewood, IL: Richard D. Irwin.
- (1991). Discussion. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 218-221.
- BERNERO, R. (1998). Second-generation OTC derivatives and structured products: catastrophe bonds, catastrophe swaps, and life insurance securitizations. In Michael Himick (ed.), *Securitized Insurance Risk: Strategic Opportunities for Insurers and Investors*. Chicago: Glenlake Publishing Co., pp. 39-75.
- BERNHEIM, B. D. (1991). How strong are bequest motives?: evidence based on estimates of the demand for life insurance and annuities. *Journal of Political Economy* 99, pp. 899-927.
- BERNSTEIN, P. L. (1996). *Against the Gods: The Remarkable Story of Risk*. New York: John Wiley & Sons.
- BLANCHARD, R. (1917). *Liability and Compensation Insurance*. New York: D. Appleton and Co.
- BODIE, Z. (1993). Commentary. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 161-166.
- BORN, P. and VISCUSI, W. K. (1994). Insurance market responses to the 1980s liability reforms: an analysis of firm-level data. *Journal of Risk and Insurance* 61, pp. 192-218.
- BRANNON, G. M. (1991). Public policy and life insurance. In Richard E. Randall and Richard W. Kopcke, eds., *The Financial Condition and Regulation of*

Insurance Companies. Boston: Federal Reserve Bank of Boston, pp. 199-217.

BUBOLZ, G. (1938). *Farmers'-Mutual Windstorm-Insurance Companies*. Washington, DC: Farm Credit Administration, Bulletin No. 21.

BUTLER, R., YIJING C., and WHITMAN, A. (2000). Insurers' demutualization decisions. *Risk Management and Insurance Review* 3, pp. 135-154.

CAGLE, J., LIPPERT, R. and MOORE, W. (1996). Demutualization in the property-liability insurance industry. *Journal of Insurance Regulation* 14, pp. 343-369.

CARTER, S. B. (2006). *Historical Statistics of the United States: Earliest Times to the Present*. New York: Cambridge University Press.

CHEN, C. and SIMON, G. (2004). Actuarial issues in insurance on slaves in the United States South. *The Journal of African American History* 89, pp. 348-357.

CHIAPPORI, P. A. and GOLLIER, C. (2006). Introduction. In Pierre-Andrew Chiappori and Christian Gollier (eds.), *Competitive Failures in Insurance Markets: Theory and Policy Implications*. Cambridge: MIT Press.

COGAN, J. F. and HUBBARD, R. G. (2007). Bringing the market to health care. *Wall Street Journal* (15 September).

COHEN, J. (1991). Discussion. In Richard E. Randall and Richard W. Kopcke, eds. *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 53-56.

COLL, B. (1995). *Safety Net: Welfare and Social Security, 1929-1979*. New Brunswick, N.J.: Rutgers University Press.

CONDER, J. M. and HOPKINS, G. (1981). *The Self-Insurance Decision*. New York: National Association of Accountants.

CONNING RESEARCH & CONSOLUTING (2003). Life insurance demutualization: an interim report card. Strategic Study Series.

CONNOLLY, D. R. (1993). Government risk-bearing: what works and what doesn't. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 131-139.

COSTA, D. (1998). *The Evolution of Retirement: An American Economic History, 1880-1990*. Chicago: University of Chicago Press.

- CROCKER, K. and SNOW, A. (1986). The efficiency effects of categorical discrimination in the insurance industry. *Journal of Political Economy* 94, pp. 321-344.
- CUMMINS, J. D. (ed.), (2002). *Deregulating Property-Liability Insurance: Restoring Competition and Increasing Market Efficiency*. Washington, DC: AEI-Brookings Joint Center for Regulatory Studies.
- CUMMINS, J. D. and WEISS, M. A. (1991). The structure, conduct, and regulation of the property-liability insurance industry. In Richard E. Randall and Richard W. Kopcke, eds., *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 117-154.
- CUNNINGHAM, R. and CUNNINGHAM, R. M. (1997). *The Blues: A History of the Blue Cross and Blue Shield System*. Dekalb, IL: Northern Illinois University.
- CUTLER, D. M. and GRUBER, J. (1996). Does public insurance crowd out private insurance? *Quarterly Journal of Economics* 111, pp. 391-430.
- DAVIS, M. E. (1944). *Industrial Life Insurance in the United States*. New York: McGraw-Hill.
- DAWSON, M. (1905). Fraternal life insurance. *Annals of the American Academy of Political and Social Science* 26, pp. 128-136.
- (1917). Mutualization of life insurance companies. *Annals of the American Academy of Political and Social Science* 70, pp. 62-76.
- DREHER, R. (1930). *Insurance Advertising: Dealing with the Specific Problems Which Confront Every Insurance Agent*. Boston: Boston Insurance Company.
- ECCLESINE, J. B. (1863). *A Compendium of the Laws and Decisions Relating to Mobs, Riots, Invasion, Civil Commotion, Insurrection, &c., as Affecting Fire Insurance*. New York: Grierson and Ecclesine.
- EISNER, R. (1998). *Social Security: More, Not Less*. New York: Century Foundation Press.
- EMERY, H. (2001). Fraternal sickness insurance. In Robert Whaples (ed.), *EH.Net Encyclopedia*.
- EPSTEIN, A. (1936). *Insecurity, a Challenge to America: A Study of Social Insurance in the United States and Abroad*. 3rd ed. New York: Random House.

- ERHEMAMTS, O. and PHILLIPS, R. (2005). What drives life insurer demutualizations? Working Paper.
- FAURE, M. and HARTLIEF, T. (2003). *Insurance and Expanding Systemic Risks*. OECD Policy Issues in Insurance No. 5.
- FISHER, E. and RAPKIN, C. (1956). *The Mutual Mortgage Insurance Fund: A Study of the Adequacy of Its Reserves and Resources*. New York: Columbia University Press.
- FISHMAN, J. S. (2007). Before the next “Big One hits”. *Wall Street Journal* (27 August).
- FRIEDBERG, L. and WEBB, A. (2007). Life is cheap: using mortality bonds to hedge aggregate mortality risk. *The B.E. Journal of Economic Analysis & Policy* <http://www.bepress.com/bejeap/vol7/iss1/art31>
- FUHRMANS, V. (2007). To cure insurance woes, doctors try prepaid plans. *Wall Street Journal* (October 22).
- GEPHART, W. F. (1914). Fire insurance rates and state regulation. *Quarterly Journal of Economics* 28, pp. 447-465.
- GRAHAM, L. and XIE, X. (2007). The United States insurance market: characteristics and trends. In J. David Cummins and Bertrand Venard (eds.), *Handbook of International Insurance: Between Global Dynamics and Local Contingencies*. New York: Springer, pp. 25-146.
- GRANT, H. R. (1979). *Insurance Reform: Consumer Action in the Progressive Era*. Ames, Iowa: Iowa State University Press.
- GREGG, D. (1957). *Group Life Insurance: An Analysis of Concepts, Contracts, Costs, and Company Practices*. Homewood, IL: Richard D. Irwin.
- GRON, A. (1994). Capacity constraints and cycles in property-casualty insurance markets. *RAND Journal of Economics* 25, pp. 110-127.
- HABER, C. and GRATTON, B. (1994). *Old Age and the Search for Security: An American Social History*.
- HANSMANN, H. (1985). The organization of insurance companies: mutual versus stock. *Journal of Law, Economics, and Organization* 1, pp. 125-153.
- HARRINGTON, S. E. (1991). Public policy and property-liability insurance. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 239-259.

- (2000). The history of federal involvement in insurance regulation. In Peter J. Wallison (ed.), *Optional Federal Chartering and Regulation of Insurance Companies*. Washington: AEI Press, pp. 21-44.
- HARRINGTON, S. E. and DANZON, P. M. (1994). Price cutting in liability markets. *Journal of Business* 67, pp. 511-538.
- HARTWIG, R. and WILKINSON, C. (2007). An overview of the alternative risk transfer market. In J. David Cummins and Bertrand Venard (eds.), *Handbook of International Insurance: Between Global Dynamics and Local Contingencies*. New York: Springer, pp. 925-952.
- HERRICK, K. (1956). *Total Disability Provisions in Life Insurance Contracts*. Homewood, IL: Richard D. Irwin.
- HOFFMAN, B. (2001). *The Wages of Sickness: The Politics of Health Insurance in Progressive America*. Chapel Hill: University of North Carolina Press.
- HOFFMAN, F. (1920). *National Health Insurance and the Friendly Societies*. Chicago: Fraternal Congress.
- (1931). Cancer and smoking habits. *Annals of Surgery* (January), pp. 50-67.
- HUEBNER, S. (1905). The development and present status of marine insurance in the United States. *Annals of the American Academy of Political and Social Science* 26, pp. 241-272.
- HUGHES, J. J. and PERLMAN, R. (1984). *The Economics of Unemployment: A Comparative Analysis of Britain and the United States*. New York: Cambridge University Press.
- HUNTER, J. R. (1991). Discussion. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 260-268.
- INSTITUTE OF LIFE INSURANCE (1960). *The Historical Statistics of Life Insurance in the United States, 1759 to 1958*. New York: Institute of Life Insurance.
- INSURANCE INFORMATION INSTITUTE (1969-1987/1987). *Insurance Facts; Property/casualty Fact Book*. New York: Insurance Information Institute.
- JAMES, M. (1947). *The Metropolitan Life: A Study in Business Growth*. New York: Viking.
- JENKINS, H. W. (2007). Terror insurance is here to stay. *Wall Street Journal* (8 August).

- JOHNSON, P. (2003). Insurance: life insurance. In Joel Mokyr (ed.), *The Oxford Encyclopedia of Economic History* 3, pp. 92-94.
- JOSKOW, P. (1973). Cartels, competition and regulation in the property-liability insurance industry. *Bell Journal of Economics and Management Science* 4, 375-427.
- JOSLIN, R. S. (1991). Discussion. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 155-160.
- KANE, E. J. (1993). Commentary. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 42-44.
- KANTOR, S. and FISHBACK, P. (1994). Coalition formation and the adoption of workers' compensation: the case of Missouri, 1911 to 1926. In Claudia Goldin and Gary Libecap (eds.), *The Regulated Economy: A Historical Approach to Political Economy*. Chicago: University of Chicago Press, pp. 259-297.
- KINDLEBERGER, C. (2000). *Manias, Panics, and Crashes: A History of Financial Crises* 4th ed. New York: John Wiley & Sons.
- KINGSTON, C. (2007). Marine insurance in Philadelphia during the Quasi-War with France, 1795-1801. Working paper.
- KUNREUTHER, H. (1993). Ambiguity and government risk-bearing for low-probability events. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 21-41.
- LASCHER, E. (1999). *The Politics of Automobile Insurance Reform: Ideas, Institutions, and Public Policy in North America*. Washington: Georgetown University Press.
- LEHRMAN, W. G. (1994). Diversity in decline: institutional environment and organizational failure in the American life insurance industry. *Social Forces* 73, pp. 605-635.
- LENCISIS, P. M. (1997). *Insurance Regulation in the United States: An Overview for Business and Government*. Westport, CN: Quorum Books.
- LENNON, T. (1991). Discussion. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 97-103.

- LIFE INSURANCE ASSOCIATION OF AMERICA. (1962). *Life Insurance Companies as Financial Institutions*. Englewood Cliffs, N.J.: Prentice-Hall.
- LOTT, E. (1938). *Pioneers of American Liability Insurance*. New York: United States Casualty Company.
- MANES, A. (1942). Outlines of a general economic history of insurance. *Journal of Business of the University of Chicago* 15, pp.30-48.
- MAYERS, D. and SMITH, C. (2002). Ownership structure and control: property-casualty insurer conversion to stock charter. *Journal of Financial Services Research* 21, pp. 117-144.
- MAYERS, D., SHIVDASANI, A. and SMITH, C. (1997). Board composition and corporate control: evidence from the insurance industry." *Journal of Business* 70, pp. 33-62.
- MCDONALD, I. and PLEVEN, L. (2007). "Cat bonds" and insurer-inspired issues weather the credit storm. (23 August).
- MCNAMARA, M. and RHEE, S. G. (1992). Ownership structure and performance: the demutualization of life insurers." *Journal of Risk and Insurance* 59, pp. 221-238.
- MEIER, K. J. (1988). *The Political Economy of Regulation: The Case of Insurance*. Albany: State University of New York Press.
- MILLIS, H. A. (1937). *Sickness and Insurance: A Study of the Sickness Problem and Health Insurance*. Chicago: University of Chicago Press.
- MITCHELL, C. B. (1970). *A Premium on Progress: An Outline History of the American Marine Insurance Market, 1820-1870*. New York: Newcomen Society.
- MOLONEY, T. E. (1991). Discussion. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 55-66.
- MOORE, W. F. (1905). "Liability Insurance". *Annals of the American Academy of Political and Social Science* 26, pp. 319-339.
- MORGAN, G. (1922). *Public Relief of Sickness*. New York: Macmillan Company.
- MOSS, D. (2002). *When All Else Fails: Government as the Ultimate Risk Manager*. Cambridge: Harvard University Press.

- MURRAY, J. E. (2007). *Origins of American Health Insurance: A History of Industrial Sickness Funds*. New Haven: Yale University Press.
- MURPHY, S. (2002). Life insurance in the United States through World War I. In Robert Whaples (ed.), *EH.Net Encyclopedia*.
- (2005). Security in an uncertain world: life insurance and the emergence of modern America. Ph.D. diss., University of Virginia.
- NAIK, G. (2007). In Holland, some see model for U.S. health-care system. *Wall Street Journal* (6 September).
- OVIATT, F. C. (1905). Historical study of fire insurance in the United States. *Annals of the Academy of Political and Social Science* 26, pp. 155-178.
- PARKER, H. G. (1991). "Discussion". In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 180-189.
- PAULY, M. V. (1993). Commentary. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 66-70.
- PEARSON, R. (2003a). Insurance: historical overview. In Joel Mokyr (ed.), *The Oxford Encyclopedia of Economic History* 3, pp. 83-86.
- (2003b). Insurance: fire insurance. In Joel Mokyr (ed.), *The Oxford Encyclopedia of Economic History* 3, pp. 90-92.
- PERKINS, E. (1994). *American Public Finance and Financial Services, 1700-1815*. Columbus, OH: Ohio State University Press.
- PIERCE, J. E. (1958). *Development of Comprehensive Insurance for the Household*. Homewood, IL: Richard D. Irwin.
- PLEVEN, L. (2007). As premiums rise, homeowners drop wind coverage. *Wall Street Journal* (4 September).
- PRATICO, D. (2001). *Eisenhower and Social Security: The Origins of the Disability Program*. New York: Writers Club Press.
- PRITCHETT, B. M. (1977). *A Study of Capital Mobilization: The Life Insurance Industry of the Nineteenth Century* Rev. Ed. New York: Arno Press.
- (1985). *Financing Growth: A Financial History of American Life Insurance Through 1900*. Philadelphia: S. S. Huebner Foundation.

- QUADAGNO, J. (1988). *The Transformation of Old Age Security: Class and Politics in the American Welfare State*. Chicago: University of Chicago Press.
- RANDALL, R. E. and KOPCKE, R. W. (1991a). The financial condition and regulation of insurance companies: an overview. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 1-18.
- (1991b). Insurance companies as financial intermediaries: risk and return. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 19-52.
- RAPONE, A. (1987). *The Guardian Life Insurance Company, 1860-1920: A History of a German-American Enterprise*. New York: New York University Press.
- REMMERS, B. (2003). Life insurer demutualization in the current era. *Journal of Insurance Regulation* 22, pp. 75-87.
- RIEGEL, R. (1916). Fire insurance rates: problems of cooperation, classification, regulation. *Quarterly Journal of Economics* 30, pp. 704-737.
- RINGLEB, A. H. and WIGGINS, S. L. (1993). Institutional control and large-scale, long-term hazards. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 1-16.
- RODRIGUEZ, J. (1993). Information and incentives to improve government risk-bearing. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 177-182.
- RUBINOW, I. M. (1916). *Standards of Health Insurance*. New York: Henry Holt and Co.
- (1934). *The Quest for Security*. New York: Henry Holt and Co.
- SANDOR, R. (1998). The convergence of the insurance and capital markets. In Michael Himick (ed.), *Securitized Insurance Risk: Strategic Opportunities for Insurers and Investors*. Chicago: Glenlake Publishing Co., pp. 1-10.
- SCHIEBER, S. and SHOVEN, J. B. (1999). *The Real Deal: The History and Future of Social Security*. New Haven: Yale University Press.

- SCHOTT, F. (1971). Disintermediation through policy loans at life insurance companies. *Journal of Finance* 26, pp. 719-729.
- SEMMENS, J. (2007). On the road. *Wall Street Journal* (1 September).
- SHILLER, R. (2003). *The New Financial Order: Risk in the 21st Century*. Princeton: Princeton University Press.
- SKOCPOL, T. (1995). *The Time is Never Ripe: The Repeated Defeat of Universal Health Insurance in the 20th Century United States*. Dublin, Ireland: Economic and Social Research Institute.
- SMITH, B. D. and STUTZER, M. (1995). A theory of mutual formation and moral hazard with evidence from the history of the insurance industry. *Review of Financial Studies* 8, pp. 545-77.
- SNIDERMAN, M. S. (1993). Preface. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. ix-xv.
- SPRING, S. (1921). *Laws Controlling the Investment of Insurance Funds: The Laws of All the States in the United States Governing the Investment of Funds by Life, Fire and Casualty Insurance Companies*. Boston: Financial Publishing Company.
- STALSON, J. O. (1942). *Marketing Life Insurance: Its History in America*. Cambridge, Mass: Harvard University Press.
- STIGLER, G. (1971). The theory of economic regulation. *Bell Journal of Economics and Management Science* 2, pp. 3-21.
- STIGLITZ, J. E. (1993). Perspectives on the role of government risk-bearing within the financial sector. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 109-130.
- SYRON, R. (1973). Administered prices and the market reaction: the case of urban core property insurance. *Journal of Finance* 28, pp. 147-156.
- THOMASSON, M. (2003). Health insurance in the United States. In Robert Whaples (ed.), *EH.Net Encyclopedia*.
- THOWSEN, A. (2003). Insurance: maritime insurance. In Joel Mokyr (ed.), *The Oxford Encyclopedia of Economic History* 3, pp. 86-91.
- TUCKETT, H. G. (1950). *Practical Remarks on the Present State of Life Insurance in the United States, Showing the Evils Which Exist, and Rule for Improvement*. Philadelphia: Smith and Peters.

- UNITED STATES. (1905-2006). *Statistical Abstract of the United States*. Washington: U.S. G.P.O.
- (1975). *Historical Statistics of the United States, Colonial Times to 1970*. Washington: U.S. Dept. of Commerce, Bureau of the Census.
- UTGOFF, K. P. (1993). The PBGC: A costly lesson in the economics of federal insurance. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 145-160.
- VALENTI, R. (1960). Federal taxation of life insurance companies: the savings institution approach. *Journal of Finance* 15, pp. 424-425.
- VALGREN, V. N. (1924). *Farmers' Mutual Fire Insurance in the United States*. Chicago: Chicago University Press.
- (1941). *Reinsurance Among Farmers' Mutual Fire Insurance Companies*. Washington, D.C.: Farm Credit Administration, Bulletin No. 45.
- VISWANATHAN, K. and CUMMINS, J. D. (2003). Ownership structure changes in the insurance industry: an analysis of demutualization. *Journal of Risk and Insurance* 70, pp. 401-437.
- WAINWRIGHT, N. (1952). *A Philadelphia Story: The Philadelphia Contributionship for the Insurance of House from Loss by Fire*. Philadelphia.
- WALKER, K. (1989). *Guaranteed Investment Contracts: Risk Analysis and Portfolio Strategies*. Homewood, IL: Dow Jones-Irwin.
- WALLISON, P. J. (2000). Introduction. In Peter J. Wallison (ed.), *Optional Federal Chartering and Regulation of Insurance Companies*. Washington: AEI Press, 1-17.
- WANDEL, W. (1935). *The Control of Competition in Fire Insurance*. Lancaster, Pa.: Art Printing Co.
- WERMIEL, S. (2000). *The Fireproof Building: Technology and Public Safety in the Nineteenth-Century American City*. Baltimore: Johns Hopkins University Press.
- WHAPLES, R. and BUFFUM, D. (1991). Fraternalism, paternalism, the family, and the market: insurance a century ago. *Social Science History* 15, pp. 97-122.
- WHITESIDE, N. (2003). Insurance: health and accident. In Joel Mokyr (ed.), *The Oxford Encyclopedia of Economic History* 3, pp. 94-98.

- WILKINS, M. (2007). Multinational enterprise in insurance, an historical overview. In Peter Borscheid and Robin Pearson (eds.), *Internationalisation and Globalisation of the Insurance Industry in the 19th and 20th Centuries*. Zurich: Phillips-University, Marburg.
- WILLIAMSON, K. M. (1934). Bases of state taxation of domestic stock insurance companies. *Journal of Political Economy* 42, pp. 344-370.
- WINTER, R. (1991). The liability insurance market. *Journal of Economic Perspectives* 5, pp. 115-136.
- WISE, W. R. (1991). Discussion. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 231-238.
- WOLFE, S. H. (1905). State supervision of insurance companies. *Annals of the Academy of Political and Social Sciences* 26, pp. 137-152.
- WRIGHT, B. (1993). Public insurance of private risks: theory and evidence from agriculture. In Mark S. Sniderman (ed.), *Government Risk-Bearing: Proceedings of a Conference Held at the Federal Reserve Bank of Cleveland*. Boston: Kluwer Academic, pp. 44-65.
- WRIGHT, K. (1991). The structure, conduct, and regulation of the life insurance industry. In Richard E. Randall and Richard W. Kopcke (eds.), *The Financial Condition and Regulation of Insurance Companies*. Boston: Federal Reserve Bank of Boston, pp. 73-96.
- WRIGHT, R. E. (2005). *The First Wall Street: Chestnut Street, Philadelphia, and the Birth of American Finance*. Chicago: University of Chicago Press.
- WRIGHT, R. E. and COWEN, D. J. (2006). *Financial Founding Fathers: The Men Who Made America Rich*. Chicago: University of Chicago Press.
- WRIGHT, R.E. and SMITH, G. D. (2004). *Mutually Beneficial: The Guardian and Life Insurance in America*. New York: New York University Press.
- ZANJANI, G. (2003). The rise and fall of the fraternal life insurer: law and finance in U.S. life insurance, 1870-1920. Working paper.
- ZARTMAN, L. W. (1907). Control of life insurance companies. *Journal of Political Economy* 15, pp. 531-541.
- ZELIZER, V. A. R. (1979). *Morals and Markets: The Development of Life Insurance in the United States*. New York: Columbia University Press.
- ZOFFER, H. J. (1959). *The History of Automobile Liability Insurance Rating*. Pittsburgh: University of Pittsburgh Press.

APPENDICES

Appendix 1 Number of U.S. Life Insurance Companies, 1759-2003

YEAR	NUMBER	YEAR	NUMBER	YEAR	NUMBER	YEAR	NUMBER
1759	1	1804	2	1844	16	1889	60
1760	1	1805	2	1845	18	1890	60
1761	1	1806	2	1846	20	1891	63
1762	1	1807	2	1847	25	1892	66
1763	1	1808	2	1848	30	1893	66
1764	1	1804	2	1849	38	1894	66
1765	1	1805	2	1850	48	1895	67
1766	1	1806	2	1851	50	1896	67
1767	1	1807	2	1852	45	1897	69
1768	1	1808	2	1853	41	1898	73
1769	1	1809	2	1854	43	1899	82
1770	2	1810	2	1855	42	1900	84
1771	2	1811	2	1856	38	1901	86
1772	2	1812	4	1857	37	1902	95
1773	2	1813	3	1858	36	1903	101
1774	2	1814	4	1859	38	1904	106
1775	2	1815	4	1860	44	1905	126
1776	2	1816	4	1861	48	1906	163
1777	2	1817	4	1862	50	1907	190
1778	2	1818	5	1863	53	1908	211
1779	2	1819	5	1864	61	1909	254
1780	2	1820	6	1865	79	1910	284
1781	2	1821	6	1866	100	1911	304
1782	2	1822	7	1867	113	1912	305
1783	2	1823	7	1868	127	1913	302
1784	2	1824	7	1869	129	1914	307
1785	2	1825	7	1870	123	1915	295
1786	2	1826	7	1871	108	1916	293
1787	3	1827	7	1872	96	1917	295
1788	3	1828	7	1873	96	1918	295
1789	3	1829	7	1874	86	1919	314
1790	3	1830	9	1875	76	1920	335
1791	2	1831	9	1876	69	1921	339
1792	2	1832	10	1877	65	1922	347
1793	2	1833	12	1878	61	1923	358
1794	4	1834	13	1879	59	1924	369
1795	4	1835	15	1880	58	1925	379
1796	4	1836	17	1881	55	1926	396
1797	4	1837	18	1882	56	1927	407
1798	4	1838	18	1883	56	1928	433
1799	4	1839	17	1884	56	1929	438
1800	4	1840	15	1885	59	1930	438
1801	4	1841	14	1886	60	1931	413
1802	2	1842	15	1887	60	1932	392
1803	2	1843	15	1888	44	1933	375

Appendix 1 (cont.)
Number of U.S. life insurance companies, 1759-2003

YEAR	NUMBER	YEAR	NUMBER	YEAR	NUMBER	YEAR	NUMBER
1934	371	1951	680	1969	1790	1987	2337
1935	373	1952	731	1970	1780	1988	2343
1936	372	1953	833	1971	1779	1989	2270
1937	436	1954	917	1972	1753	1990	2195
1938	435	1955	1107	1973	1766	1991	2064
1939	446	1956	1189	1974	1757	1992	1944
1940	444	1957	1271	1975	1746	1993	1844
1941	438	1958	1362	1976	1742	1994	2136
1942	435	1959	1425	1977	1789	1995	2079
1943	437	1960	1441	1978	1840	1996	1679
1944	451	1961	1449	1979	1895	1997	1620
1945	473	1962	1469	1980	1958	1998	1563
1946	514	1963	1490	1981	1991	1998	1470
1947	539	1964	1551	1982	2060	1999	1280
1948	584	1965	1634	1983	2117	2000	1225
1949	612	1966	1711	1984	2193	2001	1171
1950	650	1967	1723	1985	2261	2002	1123
		1968	1776	1986	2254	2003	2337

Sources: (Institute of Life Insurance 1960; Historical Statistics; Statistical Abstract)

Appendix 2
Total Life Insurance in force, 1820-2003

YEAR	Total Life Insurance in Force (\$)	YEAR	Total Life Insurance in Force (\$)	YEAR	Total Life Insurance in Force (\$)
1820	100,000	1883	1,872,100,000	1919	32,967,000,000
1825	200,000	1884	1,995,900,000	1920	40,540,000,000
1830	600,000	1885	2,007,100,000	1921	43,944,000,000
1835	2,800,000	1886	2,096,900,000	1922	48,342,000,000
1840	4,700,000	1887	2,784,200,000	1923	55,097,000,000
1845	14,500,000	1888	2,742,000,000	1924	61,327,000,000
1850	97,100,000	1889	3,122,600,000	1925	69,475,000,000
1854	94,000,000	1890	3,522,200,000	1926	77,642,000,000
1855	106,000,000	1891	3,869,000,000	1927	84,775,000,000
1856	106,500,000	1892	4,267,000,000	1928	92,590,000,000
1857	120,600,000	1893	4,609,000,000	1929	102,086,000,000
1858	130,500,000	1894	4,847,000,000	1930	106,413,000,000
1859	151,700,000	1895	4,988,000,000	1931	106,970,000,000
1860	173,000,000	1896	5,207,000,000	1932	101,559,000,000
1861	173,000,000	1897	5,555,000,000	1933	96,246,000,000
1862	191,800,000	1898	6,053,000,000	1934	96,677,000,000
1863	276,100,000	1899	6,822,000,000	1935	98,464,000,000
1864	404,300,000	1900	7,573,000,000	1936	102,653,000,000
1865	589,900,000	1901	8,369,000,000	1937	107,794,000,000
1866	874,200,000	1902	9,369,000,000	1938	108,927,000,000
1867	1,168,000,000	1903	10,217,000,000	1939	111,569,000,000
1868	1,534,600,000	1904	11,165,000,000	1940	115,530,000,000
1869	1,824,600,000	1905	11,863,000,000	1941	122,178,000,000
1870	2,006,100,000	1906	12,285,000,000	1942	127,721,000,000
1871	2,083,000,000	1907	12,639,000,000	1943	137,158,000,000
1872	2,079,200,000	1908	13,085,000,000	1944	145,771,000,000
1873	2,040,800,000	1909	13,878,000,000	1945	151,762,000,000
1874	1,947,600,000	1910	14,908,000,000	1946	170,066,000,000
1875	1,873,900,000	1911	16,125,403,000	1947	186,035,000,000
1876	1,690,600,000	1912	17,301,000,000	1948	201,208,000,000
1877	1,513,100,000	1913	18,683,000,000	1949	213,672,000,000
1878	1,519,700,000	1914	19,737,000,000	1950	234,168,000,000
1879	1,474,900,000	1915	21,029,000,000	1951	253,140,000,000
1880	1,522,700,000	1916	22,853,000,000	1952	276,591,000,000
1881	1,606,500,000	1917	25,243,000,000	1953	304,259,000,000
1882	1,720,800,000	1918	27,922,000,000	1954	333,719,000,000

Appendix 2 (cont.)
Total life insurance in force, 1820-2003

YEAR	Total Life Insurance in Force (\$)	YEAR	Total Life Insurance in Force (\$)	YEAR	Total Life Insurance in Force (\$)
1955	372,332,000,000	1972	1,627,985,000,000	1989	8,694,000,000,000
1956	412,630,000,000	1973	1,778,300,000,000	1990	9,391,000,000,000
1957	458,359,000,000	1974	1,985,652,000,000	1991	9,985,000,000,000
1958	493,491,000,000	1975	2,139,500,000,000	1992	10,405,000,000,000
1959	542,128,000,000	1976	2,343,100,000,000	1993	11,104,000,000,000
1960	586,448,000,000	1977	2,582,700,000,000	1994	11,057,000,000,000
1961	629,493,000,000	1978	2,870,200,000,000	1995	11,638,000,000,000
1962	675,977,000,000	1979	3,222,100,000,000	1996	12,705,000,000,000
1963	730,623,000,000	1980	3,541,200,000,000	1997	13,364,000,000,000
1964	797,808,000,000	1981	4,063,900,000,000	1998	14,471,000,000,000
1965	900,554,000,000	1982	4,476,900,000,000	1998	15,495,000,000,000
1966	984,689,000,000	1983	4,946,100,000,000	1999	15,953,000,000,000
1967	1,079,821,000,000	1984	5,500,100,000,000	2000	16,290,000,000,000
1968	1,183,354,000,000	1985	6,053,200,000,000	2001	16,346,000,000,000
1969	1,284,529,000,000	1986	6,720,100,000,000	2002	16,764,000,000,000
1970	1,402,544,000,000	1987	7,451,600,000,000	2003	8,694,000,000,000
1971	1,503,334,000,000	1988	8,020,500,000,000		

Sources: (Institute of Life Insurance 1960; Historical Statistics; Statistical Abstract)

Appendix 3
Number of Fire and Marine Insurers, 1890-1943

YEAR	NUMBER	YEAR	NUMBER	YEAR	NUMBER
1890	580	1908	598	1926	860
1891	523	1909	598	1927	870
1892	491	1910	597	1928	886
1893	489	1911	593	1929	931
1894	558	1912	595	1930	904
1895	583	1913	605	1931	903
1896	541	1914	596	1932	683
1897	530	1915	613	1933	721
1898	504	1916	608	1934	784
1899	475	1917	636	1935	788
1900	493	1918	630	1936	582
1901	482	1919	781	1937	604
1902	489	1920	789	1938	608
1903	546	1921	802	1939	596
1904	515	1922	754	1940	595
1905	575	1923	763	1941	589
1906	597	1924	801	1942	589
1907	618	1925	854		

Sources: Statistical Abstract

Appendix 4
Property and Liability Insurers assets and surplus,
1941-2004

Year	Assets (\$)	Surplus (\$)
1941	5,334,660,000	2,561,052,000
1942	5,684,846,000	2,670,138,000
1943	6,407,754,993	3,050,156,924
1944	7,010,352,817	3,334,811,748
1945	7,851,357,549	3,806,041,968
1946	8,315,383,906	3,545,731,618
1947	9,407,587,538	3,636,104,266
1948	10,529,572,033	3,897,349,408
1949	12,100,009,682	4,720,401,298
1950	13,475,873,231	5,330,539,454
1951	14,755,738,356	5,739,022,690
1952	16,396,982,856	6,245,594,709
1953	17,872,242,938	6,573,167,512
1954	20,416,474,686	8,391,745,213
1955	22,304,574,053	9,461,461,288
1956	23,105,999,312	9,606,823,494
1957	23,448,699,858	8,859,054,957
1958	26,308,586,493	10,678,793,572
1959	28,601,876,057	11,632,988,742
1960	30,132,406,146	11,929,916,532
1961	33,690,107,050	14,594,277,025
1962	34,216,778,301	14,143,661,471
1963	37,076,168,470	15,747,425,498
1964	39,864,789,714	16,990,160,905
1965	41,842,855,546	17,111,905,675
1966	42,288,391,548	15,556,228,227
1967	46,561,650,223	17,500,514,573
1968	51,225,612,595	19,106,998,848
1969	52,368,770,719	16,703,920,054
1970	58,593,659,921	18,520,912,881

Appendix 4 (cont.)
Property and liability insurers assets and surplus, 1941-2004

Year	Assets (\$)	Surplus (\$)
1971	67,284,413,414	22,749,478,855
1972	78,885,040,254	28,211,379,307
1973	83,862,353,131	27,091,141,493
1974	82,115,346,219	20,898,084,479
1975	94,118,024,372	25,302,572,639
1976	112,974,633,256	31,394,299,646
1977	135,513,191,258	37,371,668,356
1978	149,097,279,952	35,378,833,175
1979	174,227,967,482	42,456,100,830
1980	197,661,000,000	52,196,000,000
1981	212,302,000,000	53,804,000,000
1982	231,693,000,000	60,395,000,000
1983	249,121,000,000	65,606,000,000
1984	264,734,000,000	63,809,000,000
1985	311,365,000,000	75,511,000,000
1986	374,088,000,000	94,288,000,000
1987	426,700,000,000	104,000,000,000
1988	476,900,000,000	118,200,000,000
1989	527,000,000,000	134,000,000,000
1990	556,300,000,000	138,400,000,000
1991	601,400,000,000	158,700,000,000
1992	637,300,000,000	163,100,000,000
1993	671,500,000,000	182,300,000,000
1994	704,600,000,000	193,300,000,000
1995	765,200,000,000	230,000,000,000
1996	802,300,000,000	255,500,000,000
1997	870,100,000,000	308,500,000,000
1998	938,000,000,000	339,500,000,000
1999	947,300,000,000	342,000,000,000
2000	924,900,000,000	124,500,000,000
2001	952,800,000,000	295,400,000,000
2002	1,014,600,000,000	292,500,000,000
2003	1,194,900,000,000	359,800,000,000
2004	1,310,100,000,000	415,000,000,000

Sources: Statistical Abstract

Appendix 5
Mutual Sickness and Accident Insurers, 1901-1948

Year	Number	Premiums and Assessments (\$)
1901	107	2,957,402
1902	112	3,656,496
1903	130	4,809,694
1904	133	5,361,051
1905	165	6,134,358
1906	147	6,557,854
1907	135	7,626,956
1908	156	8,222,089
1909	150	9,070,084
1910	197	9,291,449
1911	166	9,848,646
1912	152	11,698,107
1913	156	13,413,242
1914	195	12,922,347
1915	177	10,969,273
1916	167	14,399,253
1917	167	15,627,030
1918	161	15,235,258
1919	123	19,294,757
1920	67	19,537,920
1921	62	18,929,000
1922	82	19,429,000
1923	127	31,462,000
1924	107	41,758,000
1925	167	40,807,000
1926	173	44,901,000
1927	173	47,579,000
1928	160	44,245,000
1929	148	51,314,000
1930	156	47,036,000
1931	134	42,252,000
1932	109	35,180,000
1933	101	31,063,000
1934	112	31,254,000
1935	109	32,707,000
1936	105	37,116,000
1937	102	43,011,000
1938	102	49,537,000
1939	131	59,313,000
1940	110	45,304,000
1941	104	52,046,000
1942	103	59,752,000
1943	99	67,014,000
1944	81	74,474,000
1945	79	86,863,000
1946	65	93,603,000
1947	65	111,667,000
1948	43	112,942,000

Source: Statistical Abstract

Appendix 6
Health insurance by policy type, 1939-1955

Year	Hospital Insurance		
	Insurance Companies		Blue Cross Plans
	Group Policies	Individual Policies	
1939	1,260,000	NA	4,410,000
1940	2,500,000	1,200,000	6,012,000
1941	3,850,000	1,500,000	8,399,000
1942	5,080,000	1,800,000	10,215,000
1943	6,800,000	2,100,000	12,600,000
1944	8,400,000	2,400,000	15,772,000
1945	7,804,000	2,700,000	18,881,000
1946	11,315,000	3,000,000	24,250,000
1947	14,190,000	7,584,000	27,489,000
1948	16,741,000	11,286,000	30,448,000
1949	17,697,000	14,729,000	33,381,000
1950	22,035,000	17,682,000	37,435,000
1951	26,663,000	21,574,000	38,421,000
1952	29,455,000	21,412,000	40,694,000
1953	33,575,000	23,475,000	42,863,000
1954	35,090,000	25,338,000	44,201,000
1955	39,029,000	26,706,000	47,733,000

**Appendix 6 (cont.)
Health insurance by policy type, 1939-1955**

Year	Hospital Insurance		
	Insurance Companies		Blue Shield, other medical society sponsored, and Blue Cross plans
	Group Policies	Individual Policies	
1939	630,000	NA	167,000
1940	1,430,000	850,000	370,000
1941	2,300,000	1,000,000	775,000
1942	3,275,000	1,200,000	965,000
1943	4,700,000	1,400,000	1,235,000
1944	5,625,000	1,600,000	1,768,000
1945	5,537,000	1,800,000	2,535,000
1946	8,661,000	2,000,000	4,436,000
1947	11,103,000	4,875,000	6,966,000
1948	14,199,000	6,944,000	9,855,000
1949	15,590,000	9,315,000	13,463,000
1950	21,219,000	14,104,000	18,097,000
1951	26,376,000	16,395,000	21,852,000
1952	29,621,000	18,354,000	27,273,000
1953	34,039,000	20,212,000	30,915,000
1954	35,723,000	21,442,000	34,399,000
1955	39,725,000	22,445,000	39,165,000

Source: Statistical Abstract

HISTORY OF INSURANCE COMPANIES IN JAPAN, 1879-1945

Takau Yoneyama
Hitotsubashi University (Japan)

1. INTRODUCTION

We have two big changes in insurance business in Japan. First, the insurance law that stipulated fundamental rules for insurance contract is making total amendment of the existing law after about 100 years of the last amendment. The new insurance law will be passed in the regular session of the Diet, and enact in the next spring.

Second, Japanese insurance system is going to transform into the new system which is emphasizing the principle of market. For example, the draft paper of consultative committee for the Financial Service Agency of Japan recommended them to convert the current solvency regulation based on RBC formula into the advanced approach to solvency like Solvency II in Europe. Bancassurance moved ahead, and all banks can become to sell all insurance products over the counter on December 2007. The authorities become to emphasize the principal based regulation.

Although Japanese insurance system had been Rhine-Alpen type by Michel Albert,³¹⁸ so-called a regulation oriented system after the WWII, it is gradually affected by market discipline. Historically speaking, Japanese insurance system that had transformed in 1940s is changing into the new system again.

This paper aimed at making clear of the history of Japanese insurance companies before the WWII and pointed out historical features, and we will try to identify the Chandler's proposition on the first mover's advantage.³¹⁹ He insisted that the first movers could continue to keep their advantage unless they failed to invest in wrong way. This paper verifies the thesis using by the first movers in Japanese insurance business. Moreover, this paper could explain what the post-war insurance system was form historical perspectives.

³¹⁸ Cf. Michel Albert, *Capitalisme contre capitalisme*, Édition du Seuil, 1991.

³¹⁹ Cf. A. D. Chandler, Jr., *Scale and Scope: The Dynamics of Industrial Capitalism*, Belknap Press of Harvard U.P., 1990.

2. THE EARLY NON-LIFE INSURANCE MARKET, 1879-1919

Japanese people did not always follow in the western wake on business risk management. The Dojima Rice market in Osaka was approved to open commodity futures trading by Edo feudal government in 1730. It is the first dealing in commodity futures in the world. I have evidence that a merchant made a reserve for fire damage. However, these risk treatments were not generally put to practical use, and were not understood systematically. Therefore, once modern insurance were introduced to Japan keeping with modernization and industrialization, the traditional risk treatments were mostly abandoned. And then modern insurance was accepted to the Meiji Japan.

In the closing days of the Tokugawa government, Japanese intellectuals had already introduced modern insurance business. After the Meiji Restoration, new insurance businesses were started. The most successful enterprise is Tokio Marine, which began to cover only cargo insurance in 1879,³²⁰ and expanded subsequently its business into hull insurance.³²¹ The first-mover, Tokio Marine, was followed by challengers, Teikoku Marine (1893), Nippon Marine and Transport (1893) and Nippon Marine (1896). They sold not only marine insurance but also fire insurance from their start, in order to undermine the first-mover's advantage. While Tokio Marine kept good connections with powerful shipping companies and trading companies, some challengers had good backing, and others had strong financial standing. Therefore the first-mover's advantage was not too difficult to overcome.

As capital capacity of those non-life insurance companies was limited, their competitiveness in domestic market depended on reinsurance covers, especially London covers. For that purpose, they entered into London reinsurance business. A few years later, they had huge reinsurance claims in London markets by 1896. Tokio Marine barely escaped financial disaster owing to the efforts of K. Kagami, a future president. The Nippon Marine and Transportation went into bankruptcy in 1901, because of irrecoverable losses in London reinsurance contracts. The other challengers delayed the financial problems.

After huge losses in London reinsurance business, the difference in competitiveness between Tokio Marine and the others widened. Tokio Marine only continued London reinsurance business and enjoyed the confidence of London brokers. The advantage brought its genius into full play in the maritime boom after the WWI. Tokio Marine enjoyed unprecedented profit at that time.

³²⁰ Tokio Marine incorporated on December 1878 and opened its business on August 1879. By the way, Tokio means definitely Tokyo. It is no significant reason. Tokio Marine only preferred Tokio to Tokyo.

³²¹ Cf. *The Tokio Marine & Fire Insurance: The First Century 1879-1979*, Tokio Marine and Fire Insurance Company, 1980.

3. GROWTH OF FIRE MARKET AND INDUSTRIAL ORGANIZATION OF NON-LIFE INSURANCE COMPANIES AFTER THE GREAT KANTO EARTHQUAKE, 1920-1936

In Edo period, they said, "Fires and spats are the most attractive features in Edo." Edo was the capital of Tokugawa feudal government and renamed Tokyo by Meiji Government. Once fire occurred in Edo, lots of fire brigades gathered together from every community and fought the fire showily. Since the town of Edo mostly consisted of wooden houses, they sometimes experienced great fire in Edo period. In the early Meiji period, Paul Carl Heinrich Mayet,³²² a foreign technical expert in Government employ, proposed a National fire insurance plan, but they failed to put it into practice. After a period of time, an entrepreneur tried to make fire insurance company. He made use of materials which were drawn up in the process of National fire plan. After tasting all sorts of hardships, he established the first fire insurance company, Tokyo Fire,³²³ in Japan. Meiji Fire and Nippon Fire followed Tokyo Fire. As the early financial footing of Tokyo Fire was not good, it didn't have enough time to build the first-mover's advantage. On the contrary, followers had good backing from their beginning. These three fire insurers were building the first-movers' advantage by getting the growing insurance needs for factories and warehouses.

On the other hand, fire insurance in personal line was behind in commercial line. Because inhabitants in Tokyo became familiar with fires, they nearly lost consciousness to fire prevention. In accordance with urbanization, however, fire in personal line was growing rapidly. By early 1920s, fire insurance became to be as important business as marine. But fire insurers including foreign insurers competed hard, and fire market was often in confusion.

Tokio Marine expanded its business into fire insurance in 1913, and the senior director, K. Kenkichi, immediately played important role in forming a strong cartel organization. As a result, domestic fire market was organized and the profit of fire insurance companies became more stable. No sooner fire insurers had enjoyed favorable market than the great disaster hit them. At the noon of 1st September 1924, the great earthquake occurred in Kanto region. The Great Kanto earthquake suffered considerable damage especially in Tokyo and Yokohama. The amount of damage expected to be ten-times more than total assets of all Japanese non-life insurance companies. Fortunately for fire insurers, they exempted from claims for earthquake fire because of exemption clause in the policy conditions. In spite of no legal binding force to fire insurers, public opinions and political influence lastly forced them to pay 10% of the insurance amount of all suffering contracts in 1924. Even in 10% payment,

³²² He was born in Berlin at 11 May 1846 and died at 20 January 1920. He was employed as a teacher of Germany and Latin in Tokyo Medical School in 1876. He published a book on Japanese personal fire insurance at Berlin in 1878. National fire insurance plan was based on this book.

³²³ Cf. Tokyo Fire is the forerunner of Yasuda Fire. See in detail, *The Yasuda Fire and Marine Insurance 1888-1988: A Century of Achievement*, Yasuda Fire and Marine Insurance Company, 1988.

almost non-life insurance companies could not pay it without long-term Governmental loan. It was only Tokio Marine and a few companies that they paid it by their own abilities.

The result of the earthquake fire problem had an influence on the advantage of Tokio Marine in domestic fire and marine market. Under the strong leadership of K. Kagami, the strong cartel organization kept in order of fire market. A few non-tariff insurer challenged the cartel, but such insurers had not so strong to undermine organizational unite. After the settlement of fire earthquake problem, Tokio Marine switched policy to get better risks than the other insurers even at the cost of market shares.³²⁴ As Tokio Marine made use of its first-mover's advantage for stabilizing of fire market, it lost the market share. But it collected better risks so that it enjoyed better profits.

4. MODERN LIFE ASSURANCE AND INDUSTRIAL STRUCTURE, 1885-1912

Before introduction of the modern life assurance, various mutual aids built in the traditional society were popular in Japan. Even in the Meiji period, fraternities and mutual financing associations had been in local communities.

It was in 1885 that the first modern life assurance company emerged in Japan. No sooner the Meiji Life, a first mover, had been established than Teikoku Life and Nippon Life³²⁵ followed the Meiji life in 1889. Although these first movers in life assurance drove away traditional mutual aids in the upper and middle classes, small mutual associations survived in the local communities. Some of such associations converted into mutual saving banks for the common people. New companies for insurance were projected by such fraternities and associations in the 1880s and 1890s, but we could not find long-lived companies among them. On the contrary, most of challengers were established by entrepreneurs and industrialists. Daido Life, Aikoku Life, Jinjyu Life, and Yurin Life became to be powerful challengers, but the big three, Meiji Life, Teikoku Life and Nippon Life, did not lose their position as first movers by 1910.

5. URBANIZATION AND POPULARIZATION AND LIFE ASSURANCE, 1913-1936

When industrialization had been well under way, needs for life insurance began to change. Urbanization was important as well. Life assurance demand in big cities was growing faster than the country side.

³²⁴ As for change of Tokio Marine's strategy, see Yoneyama, "The Great Kanto earthquake and the response of insurance companies: a historical lesson on the impact of a major disaster", A paper presented to Asia-Pacific Economic and Business History Conference in 2007.

³²⁵ Nippon Life is the only Japanese life company published the company history in English version. Cf. *The 100-Year History of Nippon Life: Its Growth and Socioeconomic Setting 1889-1989*. Nippon Life, 1992.

While the insurance contract law had already enacted as a part of the Commercial Law in 1898, the Insurance Business Law put in force in 1900. In addition to joint-stock company, mutual company was accepted for the first time under the Insurance Business Law. A drafting member who studied in Germany, T. Yano, insisted to include mutual insurance company in the draft. T. Yano was impressed with Gotha Life³²⁶ as a mutual insurance company. Notwithstanding the new law, no mutual insurance company was founded successfully. And then, T. Yano resigned from the chief of insurance section in Ministry of Agriculture and Commerce, and organized the first mutual insurance company in 1902. He named it Dai-ichi Mutual Life which meant the First Mutual Life in English. Dai-ichi Mutual Life did not establish agencies in order to save expense cost. Its main product was endowment insurance with high dividend. Dai-ichi Mutual Life started slow in the early stage because of such a strategy. Chiyoda Mutual Life established in 1904 was so aggressive in marketing that exceeded the Dai-ichi Mutual Life in insurance amount soon.

The main life product in the early 1920s was endowment insurance with lower dividend, but it was difficult that such a product gave prospective clients lived in big cities satisfaction. Newly growing middle class changed insurance needs, and the life product offered by Dai-ichi Mutual Life was adapted to such insurance needs. Although it should be paid large amount of premium, the insured expected high return in the form of insurance dividend. With urbanization, the number of nuclear family was growing in big cities. Managers and engineers in big corporation, professionals, and high ranking government officials and officers were not satisfied with cheap life products that needed large expense loading, and they became to understand advantage of the high-priced life product that needed no shareholders' dividend. As a result, Dai-ichi Mutual Life suddenly grew in 1920s and caught up with first movers and Chiyoda Mutual Life by 1925.

Challengers that had longer history than two mutual companies were comparatively strong, but they were joint-stock company, and offered cheap life products with high expense loading. They could not grow insurance amount keeping in step with urbanization. Moreover, economic depression, 1927-1931, hit largely the challengers' financial conditions. Consequently they lost confidence and the big five life insurers grew their market share. In contrast with traditional challengers, the newly built life assurance companies like Mitsui Life and Sumitomo Life kept confidence and grew steadily because of having supported by Zaibatsu, a financial and industrial group. At the same time, popularization occurred in 1920s. Since average income in low-income households rose especially among the economic boom after WWI, they were increasingly saving small money.

³²⁶ As for Gotha Life, see C. Walford, *The Insurance Cyclopaedia*, Vol.V, London, 1878, pp. 467-9. German life assurance companies at the same period, see Heinrich Braun, *Geschichte der Lebensversicherung und der Lebensversicherungstechnik*, 2. Aufl., Berlin, 1963, pp. 214-17.

By the way, Japanese conscription substantially started in 1873 under the Conscription ordinance. Before WWI, the modern Japan made wars against China and Russia, lots of Japanese people were called up for military service. In spite of growing nuclear family in cities, countryside had still been larger part of population. For the small-scale farmers, if their sons had called up for military service, they temporarily lost a young worker at least. Since there were no concerns about murder for insurance money in traditional countryside, a conscription insurance company set up in 1898. Conscription life insurance provided such a product that a parent had bought conscription insurance for a baby boy, the parent was paid insurance money, when young son was called up for military service.³²⁷

The name of first mover was the Conscription Life Insurance Company which renamed the Dai-ichi Conscription Life in 1924. Two challengers followed the company, but could not undermine the first mover's advantage. The real challenger was comparatively a latecomer. A manager who left from the Dai-ichi Conscription Life asked Kaichiro Nezu, the head of a small Zaibatsu, to support his project. He successfully established a conscription insurance company as a mutual form in 192x. As the insured were usually paid money from insurance company at the end of insurance term, conscription life insurance was a kind of saving for small income household.

Facing at popularization, the government started industrial life assurance in 1916. The common people could buy life assurance at the counter of post office with which they got friendly. The industrial life assurance was different form ordinary life assurance and conscription life assurance. The insurance amount was very limited and its premium usually was paid per a month. Moreover, the insured was exempted from medical checkup. Although some insurance men worry about intensifying competition before the beginning of industrial life assurance, there was hardly competition between post office and private life insurers. Contrary to their expectations, industrial life assurance was largely diffused to lower income households, and let them know what was insurance. We have a lot of examples that they bought industrial life assurance at first, and then assured their lives with private life insurers.

6. WAR ECONOMY AND INSURANCE COMPANIES, 1937-1945

After Sino-Japanese War occurred in 1937, governmental control over insurance companies became strict under quasi-war economy. Especially the Ministry of Finance, MOF, expected that assets of life assurance companies could be invested largely into government bonds. The assets accounted 10% of all monetary institutions by 1930. The Ministry of Commerce and Industry

³²⁷ With respect to conscription life assurance in Germany, see Braun, *Geshichte der Lebensversicherung und der Lebensversicherungstechnik*, 2. Aufl., Berlin, 1963, pp.276-78. It seems that there were no conscription life assurance companies in Great Britain and US. In German it was called *Miltärdienstversicherung* or *Wehrdienstversicherung* and it was called *assurance pour le service militaire* in France.

coordinated with life assurance companies, and they invested much more national debt in returns of strong encouragement to all life assurers of reducing the expected interest rate in 1938. The authority of insurance business transferred from Ministry of Commerce and Industry to MOF in 1941. Under war economy, the unification of life insurance products were largely promoted and nearly lost autonomy as private business.

Non-life insurance Association forced to reorganize into the Non-life Insurance Regulation Organization. The authority ordered to merge smaller ones to bigger companies, so the number of non-life insurance company decreased to 18 companies. As for life assurance, no sooner Nippon Life had merged Aikoku Life in 1945 than the war ended.

7. CONCLUSIONS

First of all, to sum up the history of Japanese insurance company is as follows. We had traditional risk treatment on marine and life in the pre-industrialized Japan. But there were no treatment for fire risks without self-protection.

When a set of modern business system was transferred after the Meiji Restoration, traditional risk treatments could not adapted to business risks. And then entrepreneurs and industrialists incorporated modern insurance companies which were mainly joint-stock company. Traditional risk treatments, however, did not disappeared at all. While some associations make an effort to found a mutual insurance company in regional area, others tried to build a saving bank for common people in early Meiji period. After all they could not accept business risks that were rapidly growing.

We regard industrialization, urbanization and popularization as important factors for promoting modern insurance in the pre-war Japan. For industrialization, it was natural that foreign trade was important. Maritime business was one of the key industries in the early Meiji period, because of Japan as islands. Japanese industrialists thought that it was necessary to have own marine insurance company. In 1879 Tokio Marine opened its business and to build soon the first mover's advantage in marine business.

The first fire insurance plan was oriented to personal fire risks in Tokyo, but such a national fire insurance project failed, partly because of political reason. As industrial risks like warehoused and factories increased rapidly, the first movers of private fire insurers had a capability for such business needs.

Urbanization was an important factor on life assurance. The middle class in greater cities had been increasing in the 1910s. While traditional extended family system began to break down in urban communities, nuclear families increased. Nuclear families included in managers and engineers in business corporations, professionals, and high ranking government officials and officers.

They had comparatively high salary of the head of family. Therefore, the budget of family totally depended on the head of family. In other words, they were high salary but high risk family. In additions, they also hoped they made sure of having a fund for meeting the future needs on their children. Of course they should prepare to save money for surviving family, if the master of the family had died.

Although Dai-ichi Mutual Life was a latecomer, it met the demand of nuclear families in greater cities in the 1920s. First movers, Meiji Life, Teikoku Life and Nippon Life, and a strong challenger, Chiyoda Mutual Life, followed Dai-ichi soon, but Dai-ichi undermined their advantage and became one of the big five life assurers.

At the same time, popularization occurred in 1920s. Since average income in low-income households rose especially among the economic boom after WWI, they were increasingly saving small money. Conscription life insurance provided such a product that a parent had bought conscription insurance for a baby boy, the parent was paid insurance money, when young son was called up for military service. Conscription life assurance regarded as not only protection for called up but also savings for lower income households. The first mover was the Conscription Life Insurance Company established in 1898. Two challengers followed the company, but could not undermine the first mover's advantage. The real challenger was Fukoku Conscription Mutual Life.

Facing at popularization, the government started industrial life assurance in 1916. The common people could buy life assurance at the counter of post office with which they got friendly. The industrial life assurance was different form ordinary life assurance and conscription life assurance. Although some insurance men worry about intensifying competition before the beginning of industrial life assurance, there was hardly competition between post office and private life insurers. Contrary to their expectations, industrial life assurance was largely diffused to lower income households, and let them know what was insurance. As we have already recognized, the modern insurances were developed in keeping a pace with industrialization, urbanization and popularization.

Next, we will point out the characters of Japanese insurance company from a historical perspective. First, the role of the Government was more important than Great Britain. Japan was a latecomer on modern insurance business as well as the other modern industries. In order to catch up with the backwardness, the Meiji government usually supported to promote key industries. As the government regarded marine insurance as a key business, it supported the first mover faced at troubles in the early stage. As for personal fire, national fire insurance project planned in the early Meiji period, but it failed to be realized. The Ministry of Communication introduced industrial life assurance, after making a research on the failure of Gladstone's Post Office

insurance.³²⁸ The Ministry of Agriculture built up agricultural insurance system like livestock insurance and forest insurance as well. Social health insurances were introduced into risky industries like for miners and crew, but the coverage was very limited.

Second, in spite of the Government support at the early stage, private insurance company continued to be the most important in insurance market. Industrial life assurance did not compete with private ordinary life insurer except conscription life insurance. The Government did not prevent private insurance business. Before the quasi-war economy, marine, fire and life insurance companies played autonomously in the market under comparatively liberal regulation of Ministry of Commerce and Industry.

Third, we can find that the most long-lived companies were the first movers which continued to invest the profits from its advantage into building new advantage, as A. D. Chandler said. In marine, Tokio Marine is the only first mover which has kept its advantage until now. Tokio Marine also had already gotten advantage in fire insurance by 1920. Besides Tokio Marine, the large non-life insurance companies have long-tradition. The forerunner of Sampo Japan is the first mover in fire insurance, Tokyo Fire. Sumitomo and Mitsui Marine can go back into the history of three stronger challengers, Taisho Marine,³²⁹ Osaka Marine and Fuso Marine.³³⁰ A predecessor of Nippon Koa was a first mover in fire market, Nippon Fire.

Same as life assurance, three of the top four life assurance companies, Nippon Life, Dai-ichi Life and Meiji-Yasuda Life originated from the first mover. Sumitomo Life was a latecomer, but became a strong challengers supported by Zaibatsu after economic depression.

Lastly, it may be emphasized that the conscription life assurance was developed largely. It is said that *Miltärdienstversicherung*, conscription life assurance, was introduced from Germany. The diffusion of *Miltärdienstversicherung* in Germany was far less than in Japan. Japanese conscription life companies appealed to consumers to have nationalistic fervor, and the products became to be popular to lower income households. They also developed new products that emphasized savings, and to sell saving-type life products in the same channel. The growth rate of their business results was better than ordinary life assurance companies. As the Constitution of Japan declares to have no military powers, conscription life assurance companies

³²⁸ Cf. Morrah, *A History of Industrial Life Assurance*, George Allen and Unwin, London, 1955, pp. 29-31. It explains how Gladstone introduced Post Office insurance system into Britain. As for process of the failure, See in detail, Wilson and Levy, *Industrial Assurance: An Historical and Critical study*, Oxford U.P., 1937, pp.96-112.

³²⁹ Taisho Marine is the forerunner of Mitsui Marine. See in detail, *Building Protection: The Story of Mitsui Marine & Fire Insurance 1918-1993*, Mitsui Marine and Fire Insurance Company, 1994.

³³⁰ Osaka and Fuso Marines are the forerunners of Sumitomo Marine. See in detail, *Sumitomo marine & Fire Insurance: The First Century, 1893-1993*.

could not sell the main products after the WWII. Consequently, the main three conscription life converted successfully into ordinary life mutual company. Fukoku Life especially continued to be well-financed independent life insurance company until now.

Japanese historical evidences in insurance industry generally verifies Chandler's first movers' advantage proposition. However, we are not sure that the first movers' advantages in Japanese companies will continue in the future, because Japanese insurance system is drastically changing now.

REFERENCES

Albert, Michel, *Capitalisme contre capitalisme*, Édition du Seuil, 1991.

Braun, Heinrich, *Geshichte der Lebensversicherung und der Lebensversicherungstechnik*, 2. Aufl., Berlin, 1963.

Chandler, A.D., *Scale and Scope: the dynamics of industrial capitalism*, Belknap Press of Harvard U.P., 1990.

Mitsui Marine and Fire Insurance Company, *Building Protection: The Story of Mitsui Marine & Fire Insurance 1918-1993*, The Company, 1994.

Morrah, Dermot, *A History of Industrial Life Assurance*, George Allen and Unwin, London, 1955.

Nippon Life, *The 100-Year History of Nippon Life: Its Growth and Socioeconomic Setting 1889-1989*, The Company, 1992.

Sumitomo Marine & Fire Insurance Company, *Sumitomo Marine & Fire Insurance: The First Century, 1893-1993*, The Company, 1993.

Tokio Marine and Fire Insurance Company, *The Tokio Marine & Fire Insurance: The First Century 1879-1979*, The Company, 1980.

Walford, Cornelius, *The Insurance Cyclopaedia*, Vol. IV, London, 1871/1880.

Wilson, Arnold, and Hermann Levy, *Industrial Assurance: An Historical and Critical study*, Oxford U.P., 1937.

Yasuda Fire and Marine Insurance Company, *The Yasuda Fire and Marine Insurance 1888-1988: A Century of Achievement*, The Company, 1988.

Yoneyama, Takau, "The Great Kanto earthquake and the response of insurance companies: a historical lesson on the impact of a major disaster", A paper presented to Asia-Pacific Economic and Business History Conference in 2007 at Melbourne.

HISTORY OF SOCIAL SECURITY IN LATIN AMERICA

Carmelo Mesa-Lago
University of Pittsburgh (USA)

1. ABSTRACT

This paper briefly describes the world history of social security in four stages focusing on the role played by Latin America in each; compares the historical inception of social security programs (mainly pensions and health care) in Latin America with other regions of the world showing that it was first after the industrialized countries and pioneer in the Western Hemisphere; analyzes significant diversity in social security coverage and benefits between population groups within each country, as well as by the degree of social security development between Latin American countries; examines the enforcement of social security principles at the eve of the reforms and identifies the problems faced; explains how such problems were aggravated by the regional economic crisis of the 1980s and new ideological world trends that created fertile ground for profound reforms; summarizes the key features of pension and health care reforms, how they replaced/modified conventional principles with new principles or assumptions, and the degree of privatization achieved. The core of the paper evaluates the social, administrative and economic-financial effects of pension and health care reforms on the conventional social security principles (coverage, equal treatment, solidarity, sufficiency, unity, efficiency, social participation and financial sustainability), as well as whether the reforms new goals and assumptions have been met (state subsidiary role, competition, freedom of choice, better compliance, higher pensions, cut in administrative costs, increase in national saving, portfolio diversification, and higher capital returns). Performance of public and private systems is systematically compared. The paper ends with the major conclusions.

2. A BRIEF WORLD HISTORY OF SOCIAL SECURITY

The history of social security can be divided into four stages focusing on the role played by Latin America in each (based on ILO 2001; Mesa-Lago 2008a).

2.1 First stage: 1883-1941

In 1883-1889 Otto von Bismarck introduced in Germany a trilogy of separate social insurances to protect employed workers against the risks of old-age, disability and sickness, and this model later expanded to Europe and other industrialized countries, based on compulsory affiliation, contributions by employers and workers, and state regulatory role.

The model was designed fundamentally for salaried urban workers employed in the formal sector of the economy and was easy to extend in industrialized countries but much more difficult in developing countries with large marginal-urban and agricultural-rural labor. In 1919, at the end of World War I, the International Labor Organization (ILO) was founded and enthroned social insurance as a key tool for the protection of workers and their families; the first generation of ILO agreements was based on the concept of social insurance and applied to certain groups of workers. In 1919-1930 five countries in Latin America introduced social insurance pension programs: Uruguay, Chile, Brazil, Argentina and Cuba. In 1935 the United States enacted the Social Security Act, for the first time using that term, followed by New Zealand in 1938.

2.2 Second Stage: 1942-1979

The modern concept of social security³³¹ was developed by William Beveridge in its report *Social Insurance and Allied Services* (1942), which proposed a social security plan integrating social insurances, social assistance and voluntary supplementary insurances, to cover all the population, financed largely by taxes. The new model was followed by some countries whereas others continued with the Bismarck model. In 1944, when World War II was ending, the ILO Declaration of Philadelphia raised social security to an international instrument and declared the need to expand its coverage. The Universal Human Rights Declaration of 1948 established that all members of society have an individual right to social security, and the ILO defined it as the protection provided by society to all its members, through public policies against social risks: sickness, maternity, occupational accidents and diseases, unemployment, old age, disability and death, as well as medical assistance and family allowances.

The ILO International Conferences, integrated by representatives of workers, employers and governments, approved several Conventions and Recommendations reinforcing social security principles, some of them based on the wider scope and geared to all the population, but without abandoning employment-related coverage. An important convention established the social security "minimum norm" that set basic requisites related to risks, benefits and entitlement conditions. The ILO conventional social security principles reigned in the world without any significant challenge until the 1980s: (1) universal coverage, (2) equal treatment, (3) solidarity, (4) sufficiency of benefits, (5) unity, state

³³¹ Social security is used herein in its widest scope and integrating all its branches, which hasn't occurred in Latin America, thus social insurances is used instead.

responsibility, efficiency and social participation in the administration, and (6) financial sustainability. In this stage most Latin American countries implemented employment-based social insurances instead of universal integrated social security; however when the non-Hispanic Caribbean countries³³² achieved independence they kept the British-style public universal health system.

2.3 Third Stage: 1980-2001

Economic, fiscal, social and demographic changes and events that occurred in the last two decades of the 20th century prompted a new change. Many of the oldest social insurance programs in Latin America and some social security schemes in Europe suffered financial problems and actuarial disequilibrium, aggravated by population aging and leading to increasing fiscal burden (the 1980s economic crisis in Latin America accelerated the financial deterioration in the pioneers). Parametric reforms³³³ to strengthen social insurance/security were not always successful, creating a fertile ground for more profound changes. Chile pioneered structural reform and privatization of pensions (later implemented in other nine countries in Latin America and several in Eastern Europe) as well as health care reforms. New ideological trends, such as neoliberalism, the Washington Consensus and globalization endorsed economic structural reforms and privatization.

The important financial issues of social security generated the interest of international financial organizations, which became involved in this field. Two important reports of the World Bank influenced structural reforms in the world and the region, and other international/regional financial organizations (IMF, Inter-American Development Bank) joined in to transform the traditional social security model and create a new paradigm, partly deviating from the conventional principles and introducing new different principles and assumptions. The ILO Convention of 2001 declared that social security continues to rely on its essential principles but facing new challenges: there is no single right model of social security in the world, each society must determine how best to ensure income-security pensions and access to healthcare, but all systems should conform to certain basic principles.

2.4 Fourth Stage: 2001 onwards

In the mid-1990s, the flaws of privatized pension programs began to be discussed and a significant debate ensued among international organizations concerning the predominant goals of pension programs. The World Bank and

³³² Non-Hispanic countries are former British, Dutch and French colonies, except Haiti that is traditionally included in Latin America.

³³³ "Parametric reforms" preserve a public system by strengthening its finances and/or adjusting its benefits, whereas "structural reforms" partly or totally replace a public system with a private one.

IMF emphasized economic-fiscal goals such as elimination/reduction of deficits, generation of a surplus to invest and promote capital markets, portfolio diversification and higher capital returns. Conversely, the ILO and the International Social Security Association (ISSA) reinforced the fundamental social goals, like intergenerational solidarity and adequate pensions (Mesa-Lago 1996). The Economic Commission for Latin America and the Caribbean published a series of studies on pension reforms in the region and, eventually, took a critical stand on private system flaws but endorsing a balance between goals (ECLAC 2006).

The crisis in Argentina at the start of the new century provided proof of the financial and political vulnerability of private pension systems. Structural reforms approved in 2001 in Ecuador, Nicaragua and Dominican Republic were respectively annulled, declared unconstitutional and delayed, and no other country has privatized its system. In 2005 the World Bank published *Keeping the Promise of Social Security in Latin America* that evaluated the ten-year performance of structural pension reforms in the region, acknowledged serious problems (lack of competition, high administrative costs, poor compliance, neglect of social assistance pensions for the poor) and called for some changes but without entirely dropping its original approach (Gill et al 2005). Argentina introduced partial reforms in 2007, finally Chile -the pioneer in privatization- approved in 2008 a reform to correct the flaws of its pension system. These events have moved international organizations toward some convergence.

3. SOCIAL SECURITY INCEPTION, EVOLUTION AND PROBLEMS IN LATIN AMERICA

Latin America introduced its social insurance programs quite before other developing nations in Africa, Asia and the Middle East, as well as in the United States and Japan. The two most important programs, in term of coverage, revenues and expenditures are pensions (old-age, disability and survivors) and sickness-maternity. Table 1 shows the historical inception of social insurance pensions by world regions in the 100 years elapsed from 1889 to 1990. Earliest and fastest were the 29 industrialized countries, which by 1950 had implemented their programs. Next were the 20 nations of Latin America that had their programs in operation by mid-1960s; the non-Hispanic Caribbean nations had not achieved their independence yet, nevertheless by 1980 all of them had their programs in place too. In contrast, by 1990 only 84% of 63 countries in Africa, Asia, the Middle East and Oceania had implemented their schemes.

Table 1
Period of Inception of Social Insurance Pension Programs by World Regions, 1889-1990

Year of Inception	Industrialized Countries ^a			Latin America and Non-Hispanic Caribbean ^b			Asia, Middle East and Oceania			Africa		
	No	Cum. ^c	%	No	Cum. ^c	%	No	Cum. ^c	%	No	Cum. ^c	%
1889-1920	15	15	52	1	1	3	0	0	0	0	0	0
1921-1930	6	21	72	3	4	12	0	0	0	1	1	3
1931-1940	6	27	93	3	7	20	0	0	0	0	1	3
1941-1950	2	29	100	6	13	38	2	2	8	2	3	8
1951-1960	0	29	100	2	15	44	11	13	52	10	13	34
1961-1970	0	29	100	14	29	85	3	16	64	15	28	74
1971-1980	0	29	100	5	34	100	5	21	84	4	32	84
1981-1990	0	29	100	0	34	100	0	21	84	0	32	84
Without	0		0	0		0	4		16	6		16
Total	29	29	100	34	34	100	25	21	84	38	32	84

(a) Includes seven European countries considered not completely industrialized according to the World Bank classification. (b) Excludes Antigua and Barbuda.

(c) Cumulative.

Source: Author based on legal data from US-SSA 2006.

Table 2 does the same exercise concerning the inception of social insurance sickness-maternity programs, which took longer than pensions in the industrialized countries but were in force by 1970.³³⁴ All Latin American countries except Haiti had their programs in place by mid-1960s (overlapping with the public health sector usually in charge of protecting most of the population); only other three countries from the non-Hispanic Caribbean had not enacted programs by 1990.

The latter group, however, together with Cuba and Brazil have social insurance monetary benefits (paid leave for sickness and maternity) but health care is provided by public national health systems. Only 52% of the nations in Asia, the Middle East and Oceania had their programs in place by 1990, and only 24% in Africa.

³³⁴ The U. S. federal government has a social insurance/assistance health care scheme for retired people age 65-67 and above, but lacks a national social insurance program for all the labor force and the population; 45 to 50 million people lack insurance.

Table 2
Period of Inception of Social Insurance Health Programs by World Regions,
1883-1990

Years of Inception	Industrialized Countries ^a			Latin America and Non-Hispanic Caribbean			Asia, Middle East and Oceania			Africa		
	No	Cum.	%	No	Cum. _b	%	No	Cum. _b	%	No	Cum. _b	%
1883-1920	18	18	62	0	0	0	0	0	0	0	0	0
1921-1930	5	23	79	1	1	3	0	0	0	0	0	0
1931-1940	2	25	86	7	8	24	0	0	0	1	1	3
1941-1950	1	26	90	8	16	47	4	4	16	1	2	5
1951-1960	0	26	90	3	19	55	5	9	36	5	7	18
1961-1970	3	29	100	3	22	64	4	13	52	2	9	24
1971-1980	0	29	100	7	29	85	0	13	52	0	9	24
1981-1990	0	29	100	1	30	88	0	13	52	0	9	24
Without	0	0		4		12	12		48	29		76
Total	29	29	100	34	30	88	25	13	52	38	9	24

(^a) Includes seven European countries considered not completely industrialized according to the World Bank classification. (^b) Cumulative.

Source: Author based on legal data from US-SSA 2006.

Table 3 provides a more detailed historical inception of all five social insurance programs in Latin America and the non-Hispanic Caribbean in 1920-2005. Pensions are operational in all 34 countries, whereas occupational accidents and diseases in 33, and sickness-maternity in 31. However the other two programs have advanced considerably less. Family allowances exist in 10 countries; besides their philanthropic goal they were initially introduced in Europe as stimulus for families to procreate children, but in many Latin American countries the major concern is high population growth (the most aged countries have family allowances, except Cuba). Unemployment compensation exists in only 9 countries (actually 7 because Ecuador and Mexico only provide a pension for dismissal at advanced age) because this phenomenon is often chronic and structural rather than cyclical as in industrialized economies. Another reason for the lag in these two programs is the substantial resources demanded by pensions and health care, which deplete funds for the rest.

Social assistance is not included in Table 3, but very few countries provide it despite a regional average poverty incidence of 42% in the total population. Social assistance means-tested pensions for the uninsured poor exist in only six countries: Argentina, Brazil, Costa Rica, Cuba, Chile and Uruguay; all with the highest coverage in their contributory programs. The remaining countries lack social assistance pensions and they endure the highest poverty incidence and

lowest contributory coverage, particularly the least developed.³³⁵ Assistance pensions are not granted in 70% of the countries, 60% in private systems and 80% in public systems, the difference largely explained by the level of development of the countries and social insurance systems rather than their private-public nature (due to space limitations, this paper won't deal with social assistance).

Table 3
Historical Inception of Social Insurance Programs in Latin America and the
Non-Hispanic Caribbean: 1920-2005
(number of countries with programs in operation)

Programs	Introduction of the First Law										Without Program
	1920	1930	1940	1950	1960	1970	1980	1990	2000	2005	
Pensions (OA-D-S) ^b	1	4	7	13	16	27	34	34	34	34	0
Occupational risks	11	19	24	26	28	30	30	30	33	33	1
Sickness-maternity ^c	0	2	7	16	19	22	31	31	31	31	3
Family allowances	0	0	1	3	6	7	7	7	8	10	24
Unemployment ^c	0	0	1	2	3	5	5	7	8	9	25

(a) Excludes Surinam for lack of information; other countries have incomplete data. (b) OA-D-S=old-age, disability and survivors. (c) Monetary, health care or both; the non-Hispanic Caribbean, Cuba and Brazil have public national health systems instead of social insurance. (c) Ecuador and Mexico don't really have unemployment insurance but a pension for dismissal at advanced age.

Source: Author based on US-SSA 2006

Table 3 is deceptive because of significant diversity in coverage and benefits within the population in each country and between countries. Concerning the first, certain groups of the population were covered on all risks, with liberal entitlement conditions, benefits and fiscal subsidies whereas the majority was excluded. My first social security book demonstrated that programs in the region, particularly in the pioneer countries, evolved in piece meal fashion, segmented by occupational groups, each with a separate scheme, its own legislation, administration, benefits and financing. Four "pressure groups" extracted social insurance concessions from the state, generating considerable system stratification (by order of importance): (1) armed forces, basing their power on weapons, maintenance of order and even direct control of government; (2) politico-administrative, including top officials of the three government branches, as well as civil servants, deriving their force from enacting laws and handling national affairs; (3) economic-market, based on the importance of their skills for the national economy and welfare, such as professionals, financing and other white collar employees; and (4) trade unions, getting their strength from association and ability to paralyze the major sources of production or services, e.g., main exports, energy, public utilities, transportation, etc.

³³⁵ Bolivia has a non-contributory pension scheme not targeted on the poor but granted regardless of income, even to those who receive a contributory pension and leaving most of the elderly unprotected.

My historical analysis based on five countries showed a common pattern of evolution. The excellence of social insurance schemes resulted from the power of pressure groups; the two mightiest (armed forces and politico-administrative) got their social insurance programs first, and enjoyed full coverage, the most liberal entitlement conditions (earlier retirement ages, seniority pensions, no waiting period for health care), the most generous benefits (pensions based on the last salary before retirement and adjusted with the salary of the person occupying the previous job, first-rate hospitals of the armed forces), and substantial fiscal subsidies (armed forces schemes are often fully financed by the state). The economic-market group followed in importance; lawyers, physicians, teachers, public notaries, banking and insurance employees had first-rate schemes largely financed with special taxes imposed on their services and paid by users (stamps on legal documents, taxes on financial transactions and medicines). Finally the trade union group was quite diverse and its power depended on the importance of its trade (monopolies being the strongest) and degree of unionization. Workers in petroleum, public utilities and transportation were quite successful, as well as those in beef, sugar or copper production (respectively in Argentina, Cuba and Chile), but those in less important activities like agricultural plantations got coverage last and with meager benefits or were unprotected. The bulk of the population: peasants, self-employed, unpaid family workers, and the poor were not organized, lacked power and social insurance protection; only in a few countries part of them were eligible for social assistance. Such stratification unleashed significant inequalities and regressive effects; “privileged” schemes stimulated other groups to fight for similar concessions generating a “massification of privilege”, increasingly financially unsustainable schemes and heavier fiscal burden. The state and political parties played a role in the stratification process granting concessions to the groups in exchange for support and votes (Mesa-Lago 1978).

Table 3 is also deceiving because of significant diversity in social insurance development between nations. In 1980 I classified and ranked the 20 Latin American countries³³⁶ by their degree of social insurance development measured by 12 indicators: date of inception of their first pension and sickness-maternity programs, economically active population (EAP) coverage on pensions and population coverage on health care, percentage contribution on salary, social insurance expenses relative to GDP and government expenditures, pension share on social insurance total expenses,³³⁷ system deficit or surplus as percentage of revenue, ratio of active workers per one pensioner, population age 65 and over, and life expectancy at birth. A positive relationship was found between the overall

³³⁶ Due to space limitations I focus on Latin America and exclude the non-Hispanic Caribbean countries, which were late comers in creating their programs but rapidly expanded population coverage particularly in health care; none of them have implemented structural reforms.

³³⁷ The older the system and the population, the higher the number of pensioners that demands resources; conversely, relatively new systems and young populations have few pensioners and their reserves are mainly assigned to health care.

level of development and the degree of social insurance development (Mesa-Lago 1989).

Based on their rankings, the 20 countries were clustered into three groups with the following characteristics: The pioneer-high group (Uruguay, Argentina, Chile, Cuba, Brazil and Costa Rica³³⁸) was the first to introduce social insurances in the region (in the 1920s and 1930s), by 1980 had the highest coverage and life expectancy and most aged populations, but also the highest costs, salary contributions, pension share and financial deficit, as well as the lowest active/passive ratio. The intermediate group (Panama, Mexico, Peru, Colombia, Bolivia, Ecuador and Venezuela) introduced their programs mostly in the 1940s and 1950s and by 1980 had reached a middle level of coverage, had lower costs, contributions and pension share, higher active/passive ratio, and enjoyed a better financial situation than in the first group, although some were approaching disequilibria. The latecomer-low group (Paraguay, Dominican Republic, Guatemala, El Salvador, Nicaragua, Honduras and Haiti) was the last to implement their programs (in the 1960s and 1970s) and by 1980 their populations were the youngest but their life expectancy the shortest, their costs, contributions and pension shares were the lowest (the health care share was the highest), the active/passive ratio the highest, and they suffered less financial problems than the other two groups, but endured the poorest coverage.

The degree of system stratification varied also within groups and countries. The highest segmentation occurred in the pioneer-high group (there were 32 and 50 pension schemes in Chile and Cuba), although processes of total or partial unification and standardization of entitlement conditions took place in the 1960s and 1970s. There was relative less stratification in the intermediate group because their programs were somewhat influenced by the Beveridge report and the ILO, as well as learning from the mistakes of the pioneers, but with important exceptions, e.g., Venezuela had (and still has) the most stratified pension system. The latecomer-low group was the least stratified but with important exceptions also, thus Honduras and Paraguay had (and still have) highly segmented pension systems (Mesa-Lago 1989).

4. STATUS OF SOCIAL SECURITY PRINCIPLES BEFORE THE REFORMS

At the eve of the reforms, the enforcement of social security principles in Latin America showed mixed results and significant diversity among countries: (1) The average regional coverage rose in 1970-1990, despite the severe economic crisis of the 1980s, and amply exceeded the ILO minimum norm on pension coverage by 1990 (63% vis-à-vis 20% of the EAP) but was below the minimum norm on healthcare coverage (52% versus 75% of the population), however the latter excluded public access and private insurance coverage.

³³⁸ Costa Rica was included in the pioneers, because albeit its programs (and population) were young and didn't suffer financial troubles until much later than the pioneers, said programs rapidly expanded coverage virtually reaching universality, and the population enjoyed high life expectancy.

Pioneer-high countries were above the minimum norm in pensions and met the norm in healthcare but the latecomer-low countries were well below both norms. (2) Equal treatment was eroded by stratified systems mainly but not exclusively in the pioneer-high group, introducing unjustified inequalities in coverage, entitlement conditions, benefits and financing among various occupational groups; although said inequalities were reduced by unification and standardization processes, still privileged schemes subsisted for the armed forces in virtually all countries, for civil servants in most, and for other occupations in several. Women lower retirement ages than men, combined with women higher life expectancy and smaller contribution density, provoked lower pensions, although such inequalities were mollified with equal minimum pensions and unisex mortality tables. There were also inequalities in healthcare services between urban and rural zones, as well as among geographic regions. (3) The principle of solidarity was legally proclaimed in all countries but eroded in practice by stratification, low coverage in half of the countries, contribution ceilings in most, and generalized skewed allocation of healthcare resources. Social insurance normally had a regressive impact on distribution, attenuated or compensated in countries with high coverage, low stratification, and inclusion of low-income groups. (4) The principle of sufficiency of benefits also legally ruled in the region but really subordinated to the level of coverage. Entitlement conditions were most liberal in the pioneer-high group but strictest in the latecomer-low group. In most countries the adjustment of pensions exceeded the rise in the cost of living until 1980, but deteriorated during the crisis due to high inflation. (5) The principle of unity in administration was found in only three countries, due to rampant stratification especially in the pioneer-high group, though the process of unification reduced the number of separate schemes and created a central administrative agency in some countries. The overlapping and lack of coordination between social insurance and public healthcare persisted in most countries. State responsibility ranged from total to very restricted but, with few exceptions, the role of the government was negative. Administrative costs were low in countries with the largest coverage and high in those with the lowest coverage. Virtually all countries had tripartite participation in management (workers, employers and government) but in some the state had a majority in the councils or controlled the selection of workers' representatives. (6) The principle of financial sustainability had diverse enforcement; nine countries had partial funding (PF) albeit enduring actuarial disequilibrium of divergent magnitude; six countries had or were close to pay-as-you-go (PAYG) with significant deficit, and the pioneer countries (except one) had PAYG, suffered the greatest deficit and required fiscal subsidies. The general trend was towards an increment in both the cost of social insurance/ GDP and the pension share in social insurance total expenditures, while the share of healthcare declined. The ILO minimum norm demanding that the salaried worker should not pay more than 50% of the total contribution was enforced, as only 32% was paid by workers vis-à-vis 68% by employers and the government. But the high contribution (especially in the pioneer-high group) generated perverse incentives for employer evasion and payment delays and the state was one of the principal debtors to social insurance. The investment of the pension reserves was generally inefficient, because of its heavy concentration

in public-debt securities and a few instruments that generated low capital returns; in half of the countries such returns were negative; these problems were largely caused by the lack of capital markets and state interference. The pension program often invested heavily in hospital infrastructure, positive under a social viewpoint but poor financially; as the pension program matured it could no longer transfer resources to healthcare and eventually both programs were overcome by deficit particularly in pioneer-high countries.

The previous evaluation should take into account diverse development levels within Latin America and with the rest of the world. Most of the region was ahead of other developing countries, but below the developed ones; the latter, however, enjoyed or were closed to full formal employment, fair income distribution, universal coverage, and high compliance. Conversely, countries of middle development, as Latin America, confronted: high open unemployment and underemployment, significant informal employment combined with a still sizable rural employment, very unequal income distribution, and a tax system incapable of efficiently collecting social security contributions. Such notable socioeconomic differences impeded social security principles to function in the same fashion. And yet the Latin American pioneers introduced their social insurance programs before the United States and Japan (Mesa-Lago 2008a).

5. SOCIAL SECURITY REFORMS AND THEIR EFFECTS

The economic crisis of the 1980s aggravated previous social insurance problems particularly but not exclusively in the pioneer-high group. GDP fell sharply and provoked high open unemployment, decrease in formal employment (covered by social insurance) and expansion of informal employment (uncovered) thus resulting in a decline in coverage. Drastic reduction in fiscal expenditures curtailed transfers to pension programs and slashed health care budgets, whereas the decline in employment and real wages induced a fall in contribution revenue. Hyperinflation stimulated evasion and payment delays, shrunk capital returns of invested pension reserves, and put enormous pressure to adjust the badly eroded real value of pensions. The fall in revenue and increase in pension expenditure aggravated the deficit in the pioneer-high group and in most countries in the intermediate group, whereas reduced the surplus in the latecomer-low group. Structural economic reforms starting in the 1980s contributed to the problems because of their emphasis in cutting fiscal expenditures and balancing government budgets thus leading to dismissal of civil servants, further cuts in fiscal transfers and healthcare budgets (Mesa-Lago 1994).

Such situation created a fertile ground for radical social insurance reforms. Before the regional crisis, however, Chile's military regime pioneered the implementation of structural pension and health care reforms, without any previous public discussion. The pension reform of 1979-1980 replaced the existing multiple public schemes (that became unified and their benefits standardized), based on defined benefit, pay-as-you-go and public administration, with a new private system based on defined contribution, fully-

funded individual accounts, and administration by private for-profit corporations (AFP).³³⁹ A brief period was granted to those already insured to choose between staying in the public system and moving to the private one (most insured moved) and all new entrants in the labor force were obliged to join the private system; 96% of all contributing affiliates were in the private system by 2004 and only 4% left in the public. The health reform of 1981 eliminated the multiple social insurance schemes and created a dual system: the public-social insurance sector that has separate insured-financier and provider, and the private sector with for-profit corporations that own their own services or contract with private providers (ISAPRE). Contrary to the pension reform, 70% of the insured were affiliated to the public system in 2006 and only 16% in the private system, while 14% were paying directly for their care or were unprotected (Mesa-Lago 2008b).

During the first decade of the Chilean reform there were no followers in the region probably due to widespread rejection of the military regime and its policies. Inspired by Chile's reforms, the World Bank published two reports recommending structural reforms: *Investing on Health* (1993) and *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth* (1994). The new paradigm eliminated or modified conventional social security principles and introduced new principles and assumptions: sought a subsidiary role of the state; replaced solidarity with "equivalence" that ties benefits with income/contributions/ risks, eliminated intergeneration transfers, and shifted the solidarity function to the state; ignored issues of gender equity and income redistribution; introduced competition between private administrators/providers and freedom of choice among affiliates, believing they would increase efficiency and reduce administrative costs; abolished social participation; asserted that fully-funded pensions after a transition would eliminate fiscal costs, increase national savings, develop capital markets, diversify investment portfolios and boost capital returns, hence paying better pensions; and assumed that ownership of individual accounts, private management, enhanced efficiency and better pensions and health services would encourage affiliation and prompt payment, expanding coverage and improving compliance.

There is a strong debate on the degree of influence exerted by Chile and the two World Bank documents and subsequent loans to promote structural reforms in the region (see Weyland 2004; Mesa-Lago 2008a). In any event, nine other Latin American countries totally or partially privatized their pension programs in 1993-2001 following three approaches: Chile's "substitutive" model (followed by Bolivia, Mexico, El Salvador and Dominican Republic) shut the public system and replaced it with a private system; the "parallel" model (Colombia and Peru)

³³⁹ In defined benefit, the law sets the pension formula, and minimum and maximum pensions, all guaranteed to the insured, but as the system matures the contribution tends to increase; in defined contribution, the pension level is uncertain, determined by the contributions made, the amount accumulated in the individual account and its capital return, which are largely outcomes of macroeconomic performance. Public systems have solidarity among generations and a collective pool of resources, many are on PAYG and lack reserves, but others are PF and have reserves; private systems don't have solidarity and are individually fully-funded, each insured person owing its individual account.

didn't shut the public system, created a new private system and allowed the two to compete; and the "mixed" model (Argentina, Costa Rica and Uruguay) integrated a public system that was not closed and grants a basic pension (first pillar) with a private system that provides a supplementary pension (second pillar).

Table 4
Comparison of Performance between Private and Public Pension Systems
in Latin America: Circa 2005 (in percentages unless specified)

PRIVATE SYSTEMS	Argentina	Bolivia	Chile	Colombia	Costa Rica
Coverage/EAP					
Before reform	50	12	64	32	48
2004	24.3	10.5	57.3	22.2	46.6
Coverage elder (65+)					
Men	74.3	16.1	72.6	22.9	71.1
Women	64.2	12.7	57.2	13.1	54.2
Privatization	86	100	96	53	100 ^h
Contribution/total^a					
Worker	40	100	100	25	55
Employer	60	0	0	75	42
Compliance ^b	40.6	47.5	51.2	50.6	65.3
Administrators (No.)	11	2	6	6	8
Concentrated 3 big	53	100	79	68	66
Administrative cost ^c	1.45	0.80	1.65	3.36	n.a.
Investment					
In public debt	60.9	70.0	16.4	47.3	72.1
Real capital return ^d	9.2	9.1	10.1	5.9	6.5
Total pension fund					
Million US\$	22,565	2,060	74,756	16,015	711
% GDP	12.9	21.6	59.4	17.2	3.7
Deficit/GDP^e	-2.5	-3.5	-6.0	-1.6	0.0

The degree of pension privatization varies among the ten countries: 100% in Bolivia and Mexico, 95-96% in Chile, El Salvador and Dominican Republic; 86% in Argentina, 76% in Peru, 53% in Colombia, and 37% in Uruguay.³⁴⁰ The remaining ten countries have kept their public systems and some have executed parametric reforms: Brazil, Cuba, Ecuador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay and Venezuela (privatization laws in Ecuador and Nicaragua were annulled and declared unconstitutional respectively, and their systems remained public at the start of 2008).

Virtually all countries have implemented health care reforms but with an enormous variety of approaches and considerably less privatization than in pensions that makes useless to distinguish between public and private systems. All countries

³⁴⁰ In Costa Rica all insured must be in the public program (main provider of pension) and in the private one (provider of a supplementary pension).

have social insurance programs, except Brazil and Cuba that have public systems and Haiti with insignificant social insurance. The largest private sector in terms of affiliates circa 2004 were 24% in Brazil, 16% in Chile, 12% in the Dominican Republic and 8% in Argentina and Venezuela; the regional average was about 10.5% (see Tables 4 and 5). And yet the private sector owns the majority or a disproportionate part of facilities and equipment and its total-expenditure share exceeds its affiliation share.

Table 4 (cont.)
Comparison of Performance between Private and Public Pension Systems
in Latin America: Circa 2005 (in percentages unless specified)

PRIVATE SYSTEMS	República Dominicana	El Salvador	Mexico	Peru	Uruguay	Average
Coverage/EAP						
Before reform	30	26	37	28	73	38 ⁱ
2004	14.2	20.1	28.0	14.8	58.8	26.3 ⁱ
Coverage elder (65+)						
Men	15.5	18.0	17.8	27.7	76.9	37.4 ⁱ
Women	5.9	9.6	18.0	14.6	78.9	31.6 ⁱ
Privatization	95	95	100	76	37	84
Contribution/total^a						
Worker	29	46	24	100	54	56
Employer	71	54	56	0	46	44
Compliance ^b	47.2	39.5	37.6	36.2	55.7	41.7 ⁱ
Administrators (No.)	7	2	21	4	4	6.0
Concentrated 3 big	85	100	38	76	86	75
Administrative cost ^c	0.58	2.81	1.56	1.82	0.99	1.63 ⁱ
Investment						
In public debt	0.0	81.0	82.1	20.3	59.5	46.4 ⁱ
Real capital return ^d	-1.0	8.6	7.5	8.4	11.6	7.6
Total pension fund						
Million US\$	381	2,896	55,205	9,397	2,153	18,614 ⁱ
% GDP	1.3	18.3	7.0	12.1	15.3	13.8 ⁱ
Deficit/GDP^e	n.a.	-1.4	-0.5	-0.7	-4.0	-2.7

Based on at least 25 years of pension and health care reforms, the rest of this paper evaluates their impact on conventional social security principles (social, administrative and economic effects); contrasts performance between private and public systems, and assesses whether the reforms new principles and assumptions have been met (the source of this section unless specified is Mesa-Lago 2008a). See Tables 4 and 5 for performance of pension and health care systems.

Table 4 (cont.)
Comparison of Performance between Private and Public Pension Systems
in Latin America: Circa 2005 (in percentages unless specified)

PUBLIC SYSTEMS	Brazil	Cuba	Ecuador	Guatemala	Haiti	Honduras
Coverage/EAP 2004	45.2	n.a.	19.4	20.2	n.a.	18.9
Coverage elder (65+)						
Men	80.0	n.a.	17.3	17.0	n.a.	n.a.
Women	76.4	n.a.	10.8	4.6	n.a.	n.a.
Contribution/total ^a						
Worker	29	4	66	33	50	28
Employer	71	96	34	67	50	57
Administrative cost ^c	0.003	n.a.	0.17	0.02	n.a.	n.a.
Investment						
In public debt	12.1	0	n.a.	n.a.	n.a.	n.a.
Real capital return ^f	n.a.	0	n.a.	10.4	n.a.	6.2
Total pension fund						
Million US\$	149,600	0	2,122	498	n.a.	322
% GDP	18.1	0	7.8	2.4	n.a.	16.0
Deficit/GDP ^g	-4.8	-2.3	+1.4	+0.2	n.a.	+0.2

PUBLIC SYSTEMS	Nicaragua	Panamá	Paraguay	Venezuela	Average
Coverage/EAP 2004	16.4	53.4	8.5	20.5	39.0 ⁱ
Coverage elder (65+)					
Men	n.a.	52.0	18.9	26.7	67.4 ⁱ
Women	n.a.	48.2	14.5	18.0	63.8 ⁱ
Contribution/total ^a					
Worker	60	71	39	12	34
Employer	40	29	61	88	66
Administrative cost ^c	1.59	n.a.	n.a.	n.a.	0.003 ⁱ
Investment					
In public debt	33.5	51.6	n.a.	n.a.	n.a.
Real capital return ^f	n.a.	5.0	n.a.	n.a.	n.a.
Total pension fund					
Million US\$	267	1,681	n.a.	n.a.	22,233 ⁱ
% GDP	5.6	13.0	n.a.	n.a.	16.8 ⁱ
Deficit/GDP ^g	+1.2	-0.3	+0.4	-2.4	-0.5

^a In some countries the state makes a contribution, hence the total shown is not 100%. ^b Percentage of affiliates that contribute regularly. ^c Administrative costs as percentage of taxable wages. ^d Annual average since the inception of the private system until 2005. ^e Deficit resulting from the cost of the transition financed by the state as percentage of GDP. ^f Annual average in different periods. ^g Deficit/surplus of the system as percentage of GDP. ^h In Costa Rica all affiliates are both in the public-basic and private-supplementary pension programs. ⁱ Weighted by EAP, elderly population, affiliates, total fund, etc.; rest non-weighted; no averages in investment in public systems due to insufficient observations.

Sources: Author's elaboration based on Mesa-Lago 2008a, some figures updated to 2006 from IAOS 2007; elderly population covered average weighted based on CELADE 2003.

Table 5
Performance of Social Insurance Health Care Programs (Public Systems in Brazil and Cuba): Circa 2003-2004 (in percentages, unless specified)

Countries ^a	Population coverage		Private sector ^c	Expenses first level ^d
	Before reform	2000-2004		
Argentina	57.6	54.4	7.9	n.a.
Bolivia	25.8	n.a.	0.5	n.a.
Brazil	75.5	75.5	24.5	n.a.
Chile	83.4	72.1	16.3	21.4
Colombia	23.7	53.3	5.0	n.a.
Costa Rica	86.2	86.8	13.2	26.0
Cuba	n.a.	n.a.	ⁱ	29.7
Dominican Republica	n.a.	7.0	12.0	4.8
Ecuador	18.0	16.5	1.7	18.8
El Salvador	n.a.	15.8	1.5	12.0
Guatemala	16.6	16.6	0.2	n.a.
Haiti	n.a.	0	n.a.	n.a.
Honduras	n.a.	11.7	1.5	7.1
Mexico	41.8	45.3	1.1	25.0
Nicaragua	18.3	7.9	2.8	31.0
Panama	61.1	64.6	n.a.	n.a.
Paraguay	12.4	12.4	6.3	n.a.
Peru	n.a.	26.0	1.7	38.0
Uruguay	15.8	15.9	30.0 ^j	4.4
Venezuela	38.4	38.3	8.0	20.0
Average ^b	^g	41.0 ^h	10.5	19.4

Countries ^a	Total Health Expenditures			
	Public	Social insurance	Private	Out of pocket ^e
Argentina	21.0	27.6	51.4	28.6
Bolivia	22.4	41.6	36.0	28.5
Brazil	45.3	0	54.7	35.1
Chile	48,8	48,8	51,2	23,7
Colombia	28.6	55.5	15.9	7.5
Costa Rica	9.0	69.8	21.2	18.8
Cuba	86.8	0	13.2	9.9 ^k
Dominican Republica	27.4	5.8	66.8	47.3
Ecuador	26.3	12.3	61.4	54.1
El Salvador	25.8	20.3	53.9	50.4
Guatemala	19.7	20.0	60.3	55.4
Haiti	38.1	0	61.9	43.0
Honduras	49.9	6.6	43.5	37.3
Mexico	15.4	31.0	53.6	50.5
Nicaragua	35.5	12.9	51.6	49.4
Panama	29.5	36.9	33.6	27.6
Paraguay	19.0	12.5	68.5	51.1
Peru	27.8	20.5	51.7	40.8
Uruguay	14.0	13.2	72.8 ^j	18.2
Venezuela	33.1	11.2	55.7	53.2
Average ^b	31.4	20.0	48.6	36.8

Table 5 (cont.)
Performance of Social Insurance Health Care Programs
(Public Systems in Brazil and Cuba): Circa 2003-2004
(in percentages, unless specified)

Countries ^a	Expenses (US\$ per capita)	Contributions ^f	
		Employer	Worker
Argentina	1,067	67	33
Bolivia	176	100	0
Brazil	597	0 ⁱ	0 ⁱ
Chile	707	0	100
Colombia	522	67	33
Costa Rica	616	62	37
Cuba	251	0 ⁱ	0 ⁱ
Dominican Republica	335	70	30
Ecuador	220	100	0
El Salvador	378	71	29
Guatemala	235	50	25
Haiti	84	50	50
Honduras	184	62	31
Mexico	582	60	6
Nicaragua	208	70	26
Panama	555	94	6
Paraguay	301	61	39
Peru	233	100	0
Uruguay	824	62	38
Venezuela	231	75	25
Average ^b	415	61	25

^a Brazil and Cuba have public systems, not social insurance; in Chile public and social insurance are merged. ^b Weighted in coverage, private sector and first-level expenses; rest non-weighted. ^c Based on percentage of total affiliates. ^d Percentage of total health expenditures. ^e Percentage of private expenditures; the rest are insurance plans and others. ^f In some countries employer plus worker contributions add less than 100% because of state contribution. ^g It's impossible to estimate due a 24-year span between the first and the last reform; average coverage in 1990 was 52%. ^h Excludes Brazil's population and public system, if it were included coverage would increase to 62%. ⁱ The population doesn't have access to the private special care only available to foreigners who pay in hard currency. ^j Affiliation in private but not-for-profit mutual aid entities responsible for 55% of expenditures. ^k Underestimated due to growing informal charges in the public system to get faster access to services, and out-of-pocket hard-currency payments for medicines extremely scarce in state pharmacies. ^k Fully financed by taxes in public sector.

Sources: Author's elaboration based on Mesa-Lago 2008a.

5.1 Social Effects

This section evaluates the impact of the reforms on coverage, equal treatment, solidarity and sufficiency of benefits.

- *Coverage*

Pension coverage of the EAP averaged 31% in Latin America in 2004, but ranged 45-59% in the pioneer-high group (except Argentina due to the crisis) and Panama; 19-28% in the intermediate group (except Bolivia and Peru where it was much lower), and 9-20% in the latecomer-low group. Contrary to the structural reform assumption of expansion of coverage, it actually fell in all ten private systems and their average declined from 38% before the reform to 26% in 2004, vis-à-vis 39% in public systems. Social insurance health care coverage in the region averaged 41% in 2000-2004 (a decline from 52% in 1990); it ranged 54-87% in the pioneer-high group and Panama, 17-53% in the intermediate group, and 7-17% in the latecomer-low. Total population coverage by social insurance before and after the reform, feasible only in 12 countries, was stagnant or declined in nine and only increased in three.

Resilient obstacles for universal coverage are the expansion of the urban informal sector (self-employed, domestic servants, unpaid family workers, microenterprise employees), and the persistence of a significant rural sector in the least developed countries, both sectors either excluded from legal coverage or granted ineffective voluntary affiliation.³⁴¹ Pioneer-high countries have the lowest informal/rural sectors while the opposite is true of latecomer-low countries; social insurance coverage is directly correlated with formal urban employment and inversely related with informal-rural employment. In addition, labor “flexibilization” has proliferated part-time employment, subcontracting and other types of jobs not covered by social insurance. The system contributes to the problem, thus compulsory legal coverage of the self-employed seems to increase coverage substantially whereas voluntary coverage doesn’t; a great barrier to self-employment affiliation is a contribution equal to the sum of the percentages paid by salaried workers and employers; fiscal subsidies to low-income self-employed and similar groups provide incentives for affiliation; special regimes for rural workers or peasants have better coverage than those with voluntary or restricted coverage. The healthcare system significantly influences the degree of exclusion: a segmented or highly segmented system without coordination and poor solidarity is typical to all countries with low coverage; conversely countries with fairly unified and coordinated systems and solidarity have achieved higher coverage.

Coverage of working women is lower than men (38% of total affiliates in the ten pension private systems in 2006; AIOS 2007), caused several factors: women have lower labor participation rate than men and are concentrated on informal jobs lacking social insurance coverage; most women have indirect insurance as spouses of male insured and loss coverage when he abandonment, divorce or death of the insured; direct insurance declines when women exit the labor force

³⁴¹ Self-employment coverage ranges 0.1-30% for pensions and 0.2-15% for health care; domestic service 3-39% and 3-31% respectively; agricultural work 4-12% and 1.5-6 respectively (but increases to 18-50% in Brazil’s, Ecuador’s and Mexico’s special programs for rural workers and peasants); and coverage of microenterprises is one-third to one-thirtieth that of large enterprises.

to raise children; and in one-fourth of the countries the female spouse is legally covered for maternity but not sickness or vice versa. Chile just established that, in case of divorce, the pension fund saved during the marriage is divided between the spouses with a maximum of 50% (Mesa-Lago 2008b). In 2003 coverage by pensions of the population age 65 and above was considerably higher among women than among men, exception in Uruguay where the opposite was true. Average elderly coverage in the ten private pension systems was 37.4% men and 31.6% women, whereas averages in eight public systems were 67.4% and 63.8% respectively (because of Brazil's high coverage and population weight). Argentina's overall elderly coverage fell from 77% before the reform to 63% in 2005 (Ministerio 2007)

There is a positive relationship between coverage on the one hand and income, education, high degree of development, urban location and non-indigenous ethnicity on the other hand. The lower the income and education, the lower social insurance coverage and vice versa. The best covered geographic areas are the most developed, urbanized and wealthier whereas the worst are the least developed, rural and poor. Indigenous populations are largely excluded from coverage because they are poor or have low-income, work in the informal sector and/or live in rural areas.

- *Equal Treatment*

Virtually all structural pension reforms (but also parametric reforms in public systems), excluded several powerful insured groups separate schemes with more generous entitlement conditions and financing: retirement at 10 to 22 years younger, less years of contribution, seniority pensions regardless of age, pensions equal to the last salary and adjusted to the active personnel's salary, contributions smaller to those of the general program or not at all, coupled with substantial fiscal subsidies. The armed forces in all countries (except Costa Rica, Panama, and partly Bolivia) have successfully resisted integration albeit they implemented Chile's structural reform. Superior civil servant schemes also remain in 13 countries and for other groups in 17 countries, except in Bolivia and Panama. In five countries, pensions of armed forces, civil servants, congressmen, judges and teachers are from six to 36 times higher than the average pension in the general program. Brazil parametric reform increased the very low retirement ages of civil servants.

Healthcare reforms, with very few exceptions, didn't standardize benefits and in 12 countries maintained the previous three sectors (public, social insurance and private) preserving unjustified differences. The armed forces in all countries (except Costa Rica and Panama) have their own hospitals that usually provide better care than that offered by the public sector and social insurance; and 18 countries still have separate schemes for powerful groups with superior benefits. The most standardized systems (Cuba, Costa Rica, and Panama) predated the 1980s reforms. Colombia and Chile reforms established relatively homogenous conditions in previous multiple social insurances (under a public

system in Brazil) but expanded the private sector and its inequalities. Argentina reform reduced but not eliminated inequalities in benefits among social insurances and created new private providers with divergent benefits.

Despite improvement in national averages in health indicators in most countries, in half of them significant inequalities persist in the distribution of physicians, hospital beds and health standards between sectors, geographic areas and indigenous/non-indigenous populations (particularly in latecomer-low countries and some in the intermediate group). The public sector still gets a proportion of resources much lower relative to the population legally assigned, while the opposite occurs in social insurance, especially when there are separate schemes; the private sector appears to be in similar or better situation than social insurance. Geographical inequalities persist and are accentuated in Argentina, Brazil and Mexico by segmentation between federal, state/provincial, municipal and private providers; five countries introduced solidarity /compensation funds, but their results have not been evaluated with one exception.. A close relationship exists between indigenous persons, their location in rural/underdeveloped areas, their poverty incidence and the worst health resources and standards: indicators of indigenous people are much worse than those of non-indigenous people and national averages. Reforms have not significantly reduced these inequalities.

Female pensions are usually lower than male's due to external factors, thus relative to men women have: lower labor participation rate, higher unemployment, smaller salary for equal work, lower contribution density (due to all previous factors and exit from work to raise children), and 4-5 years longer life expectancy. But the system is also a factor: five private and five public set a retirement age for women five years younger than men resulting in average retirement spans 9-10 years larger than men's. The other ten systems (equally divided) set equal retirement ages regardless of sex, which facilitate women to accumulate more contributions and bigger individual-account funds, but don't compensate for higher female life expectancy. Women home work raising children and caring for the elderly is neither remunerated nor protected by pensions. Chile's reform of 2008 created a universal bonus granted to mothers for each children born alive and deposited in their individual accounts (Mesa-Lago 2008b).

Although gender inequalities exist in private and public pension systems, the latter are relatively more neutral or positive because they grant the minimum pension with none or fewer years of contribution, base the pension formula on the latest years of working life, and use unisex mortality tables. Private systems accentuate gender inequalities because they require more contribution years to grant the minimum pension, are based on contributions during all the working life, and apply mortality tables differentiated by sex, all of which result in lower women pensions. Longitudinal data from Chile, after 25 years of reform, show women having lower funds in individual accounts, replacement rates and average pensions relative to men, and 45% of female insured getting a benefit lower than the minimum pension.

Gender equity demands that health resources and services are allocated and received according to the needs of each sex and paid based on the economic capacity of individuals and families regardless of differential risks by gender. Healthcare reforms that privatized services have aggravated gender inequalities because private providers often exclude women in fertile age or charge them superior premium due to higher care costs. User fees introduced in the public sector by the reform particularly affect poor women because they use such services for them and their children more often than men.

- *Solidarity*

Common mechanisms against solidarity in private and public pension systems are: the exclusion of privileged schemes that don't contribute to the general program but enjoy generous benefits and fiscal subsidies; the exclusion from coverage of most self-employed and other low-income groups; the lack of social assistance pensions for the poor (in 8 public and 5 private systems); and, in countries with low coverage, the uninsured that is majority partly finances coverage of the minority insured often through sale or special taxes (in private systems to finance transition costs).

Relying on the new principle of equivalence, however, private systems have considerably more mechanisms against solidarity than public systems: most increased the worker contribution that is much higher than in public systems; half of them eliminated or reduced the employer contribution that is retained in all public systems; charge high administrative costs to the insured (not in public systems); defer tax payment on workers contributions that proportionally favour those with higher income (not granted by public systems); augmented years of contributions for minimum pensions (not required or fewer in public systems); don't impose a ceiling on pensions as public systems do; lack intergenerational solidarity as in public systems; generate inequality against older insured who bear higher installation costs of infrastructure than younger insured; and accentuate gender inequalities that are mollified in public systems.

Most health care reforms, replaced solidarity with equivalence in less degree than in pension reforms. Pro and con solidarity mechanisms are respectively: integration with similar benefits in all three sectors versus segmentation with dissimilar benefits largely based on income; granting a universal basic package of benefits in the entire system regardless of age, gender, risk, location and income versus partial or differentiated packages between insured groups or sectors; compensation/solidarity funds that finance the basic package reducing geographical inequalities versus absence of those funds; significant versus small proportional allocation of resources to the first level of care vis-à-vis the two higher levels; progressive fiscal transfers to the public sector versus regressive cross subsidies from the public to social insurance and private sectors and their affiliates; fiscal subsidies that finance free care to the poor and low-income groups (decreasing as their income increases) versus fiscal

subsidies increasing with income; partial retention of contributions to those who opt out to the private sector versus full portability of such contributions; private insurance firms and providers practicing adverse risk selection versus banning or controlling that practice; substantial versus small out-of-pocket expenses, and absence versus charge of user fees in the public sector. In eight out of eleven systems with data, mechanisms against solidarity are predominant, in only two mechanisms favourable to solidarity prevail, and one has a balance between such mechanisms. Countries with a significant private sector have stronger mechanisms against solidarity than those with smaller private sectors.

- *Sufficiency of Benefits*

Five structural pension reforms increased statutory ages for retirement but most public systems didn't; average retirement ages are higher in private than in public systems, while retirement spans are lower. Private systems usually allow retirement before the statutory age to insured that have saved certain amount in their individual accounts and, in all of them except Bolivia, when entitlement conditions are met (including 20 to 35 years of contributions) but not the needed accumulation in individual accounts, the insured have the right to a minimum pension and the state finances the difference; seven private systems, however, increased the years of contribution making more difficult to gain that right. Only a minority of insured with high income and contribution density will save enough in the individual account, retire before the statutory age, and receive a pension with an adequate replacement rate. One third of affiliate men and about half of affiliate women in Argentina, Chile and Peru won't be eligible for a minimum pension; Chile's 2008 reform created a universal social assistance pension combined with a state solidarity contribution to make contributory pensions better (Mesa-Lago 2008b). All public systems legally grant a minimum pension with fewer restrictions than private systems, allegedly justified by the need to fortify financial sustainability, but generates disincentives for affiliation and compliance, and adverse effects on poverty.

The pension formula in public systems determines the base salary on the average last five years of salary, a too short period with negative effects: stimulates under reporting of salaries during most of the working life and over reporting in the last years before retirement (to minimize the contribution and maximize the pension); penalizes those honestly reporting their full salary as well as manual labourers suffering a decline in salary due to physical deterioration at the end of their working lives; undermines the link between contribution and pension size; and submits the pension level to inflation hazard. Replacement rates exceed the ILO minimum norm of 45%: the minimum ranges 50-70% and the maximum 80-100%. These entitlement conditions are financially unsustainable and, if not tightened, will eventually lead to financial bankruptcy in many public systems.

Private systems tend to have better pension adjustment than public systems. Five public and three private systems lack mechanisms for annual adjustment or the

government has discretionary power to do it, often depending on available fiscal resources. Four each private and public systems adjust their pensions to the consumer price index; three private adjust to either the wage index, automatically to the currency unit or to the U.S dollar; and one public adjusts based on the minimum salary. Absence of pension adjustment can lead to decline in the real pension and increased poverty.

The structural reform pledge that private systems will pay better pensions cannot be proven due to lack of comparative statistics on average pensions in both systems, the small percentage of current private pensions relative to total pensions, and difficulties to project private replacement rates. Chile's private pension averaged 16% higher than the public pension in 2004, conversely, Argentina's was 6% lower in 2005; Colombia's public pension was higher than the private because of a generous formula, but it was tightened in 2002; and 18% of Dominican Republic insured will get a pension lower than if they had stayed in the public system. Chile's projected replacement rates in the private system range 53-64% vis-à-vis 61-80% in the public system; Argentina's average private replacement rate is projected to decline from 72% to 53% in 2005-2050, worse than the public average rate.

Fifteen health care reforms prescribed a basic benefit package for all the population but only seven, mostly in the pioneer-high group, have fully implemented it; in eight the package is limited or partial, and five lack the package (before the reform and today, social insurance normally provides the basic package and even comprehensive care to their insured, often a population minority). Most packages are restricted to primary health care; only in five countries it includes some middle and high-complex actions but limited in scope. Package coverage of the total population ranged 11-33% in Mexico, Guatemala and Brazil in 2002-2006; the package doesn't reach the poorest population and rural areas in some countries, and excludes groups in others. In 2004-2007, Chile introduced and expanded "guaranteed health benefits" to all the population.

The annual cost per capita of the package varies greatly: US\$8-150 in seven countries; Colombia's package granted to poor and low-income affiliates in the subsidized regime is half the level of that granted to middle and high-income insured in the contributory regime. The package is free for all only in Brazil, whereas in Bolivia even the poor pays affiliation and user fees; the other countries grant the package free to the poor and charge co-payments to the rest of the population according to income. The package is crucial to extend primary-level care to poor and vulnerable populations, and reduce out-of-pocket expenses, but endures various flaws: the target population lacks proper information or ignores the package existence; beneficiaries' profiles are difficult to determine; provision has not been adapted to important local differences; only three countries prevent providers to practice risk selection in granting the package; providers lack incentives to prioritize prevention; personnel often is insufficient or lacks the needed training; fiscal funds have been cut or there is a

deficit; and the package has not been evaluated thus hindering an assessment of its results.

Only seven countries provide universal and full coverage of catastrophic illnesses and high-complex procedures (the pioneer-high group and Colombia); three cover them partly and ten lack it in the public sector but provide them with restrictions in social insurance. This program burden makes it difficult to finance in the least developed countries, which face a trade-off with extending basic-package coverage to all the population. Only seven countries conduct periodic surveys on users' satisfaction, which indicate that reforms have not improved perceived quality.

5.2 Administrative Effects

This section assesses the impact of the reforms on the conventional principles of unity, state responsibility, efficiency and social participation, and tests whether the reform new principles/assumptions of state subsidiary role, competition, freedom of choice and lower administrative costs have materialized.

▪ *Unity*

No clear cut separation exists on unity between private and public pension systems: 13 remain either segmented or highly segmented (seven private and six public), and unification (complete or partial) has been accomplished by structural or parametric reforms. Among private systems, Bolivia integrated 6 schemes and 28 supplementary funds, Chile 30 out of 32 schemes, and Costa Rica 17 out of 19 schemes (prior to the structural reform). Among public systems, Panama has the most unified, Cuba unified 51 schemes, and Guatemala and Nicaragua have relatively unified systems. The armed forces retains a separate scheme in all private and public systems with the exceptions of Bolivia (albeit with a special regime), Costa Rica and Panama; civil servants schemes continue in 12 countries, seven in public and five in private systems; and there are separate schemes for numerous groups subsisting in all systems but three of them.

Most health care reforms endorsed a move towards system integration or coordination but except for five (two of them in the 1960s and 1970s, before the reform wave) there has been little or no progress, and 15 countries still have segmented or highly segmented systems (13 without coordination and two with some/low coordination), compounded in countries with federal systems. Only Costa Rica and Cuba have totally unified systems; Panama and Colombia have fair integration and coordination respectively; and Chile is segmented but highly coordinated. Reforms didn't incorporate separate schemes for the armed forces in all countries (except Costa Rica and Panama); policemen in nine countries; civil servants and teachers-universities in eight countries each, and other groups in seven countries.

- *State Role*

Contrary to reformers' allegation that the state plays a subsidiary role in private pension systems, its functions are vital: mandatory affiliation, regulation and supervision, financing of all transition costs, guaranteed minimum pensions, minimum average capital returns and protection of affiliates when private administrators go bankrupt, and provision of social assistance pensions.³⁴² The state also fully finances the shut down public systems, manages and subsidizes public systems/pillars in five countries, and handles disability and survivors risks in three. All private systems have a public superintendent that regulates and oversees the system, financed by the state in half of them. Among public systems the state administrative-financial role is total in Cuba, and is important in managing all Brazilian public programs that also receive fiscal transfers; but such role is diluted in five countries with high segmentation among many autonomous schemes that lack coordination and public supervision; in these countries the role of the state is similar or even smaller than in most private systems. There is virtually no public system with a sole pension superintendence, a serious problem in those highly segmented. Costa Rica and Chile are unique in having a single superintendence for the entire system; in other countries overseeing functions are divided into state agencies often generating jurisdictional conflicts, overlapping and lacunae.

The joint scope of public sector and social insurance in health care remains overwhelmingly predominant after the reforms; the private sector is a minority (10.5%) albeit growing. Despite the reform goal to strengthen the ministry regulatory function over segmented systems, it continues weak or very weak in virtually all countries, in three of them shared by diverse geographic units that dilute the central ministry's power. In half of the countries the ministry can't regulate or control social insurance and the private sector, a void aggravated where there are several independent social insurance schemes. Cuba's state since the 1960s solely operates, finances, regulates and supervises its public system; Chile's state virtual lack of control over the private sector in the 1980s was corrected under democratic governments that regulated insurance firms (ISAPRE), restricted its abuses and created a single superintendence to oversee the entire system; Colombia had a single superintendence prior to the reform but it has not been significantly reinforced. The ministry's function of supervision is weak or very weak in ten countries; other five have a health superintendence but only in two oversees all the system; in three countries the superintendence either is very weak or oversees only part of the system or shares that function with the ministry. The fragmentation of regulatory and/or supervisory functions among several agencies creates jurisdictional confusion and weakens such functions. The private sector has a separate regulatory agency in five countries and is under the ministry/superintendence jurisdiction but with ineffective regulation in other three.

³⁴² Despite the reforms, 66% of total contributors in the region were in public pension systems in 2004 and only 34% in private systems.

- *Freedom of Choice*

Reformers allege that the goodness of the private system and freedom of choice promoted the shift of insured from the public system, and indeed an average 84% of total contributors in the ten private systems are in the private system/pillar. But such shift was caused by other reasons than the private system goodness: the law forced all insured to move in three countries, cut the contribution in the private system (or increased the contribution in the public system) or introduced incentives for the transfer in another three, divided the insured by age and obliged the younger to move in six countries, and obliged all new workers to join the private system in eight countries. Employers forced or influenced the shift at least in Argentina, Chile and Peru. The move was prompted also by reformers' promises, enhanced by advertisement, of better pensions, lower administrative costs and pension-fund insulation from state interference, although such promises generally have not materialized. Uruguay public system keeps 63% of the insured because the older could choose to stay and most of them did, and low-income insured normally cannot join the private system. Colombia's insured in the public system were higher than in the private until 2003 because the former paid better pensions and there was freedom to change every three years, but the 2002 reform tightened the public pension formula and rose to five years the period for change, still 47% of the insured was in the public system in 2004. Private system insured have freedom to change administrators more than once a year in Mexico, once a year in four countries, but only every two years in other five countries; in some countries, the undecided insured are assigned to a specific administrator by the state, the employer or a lottery. Argentina's reform of 2007 allowed private insured to return to the public system and shift between the two systems every five years, and assign the undecided to the public system (Ministerio 2007). Freedom of choice high cost to administrators has led to restrictions in most countries, significantly reducing the percentage of shifts and fomenting industry collusion, a point acknowledged by the World Bank (Gill et al 2005).

Freedom of choice in health care corrected unfair situations previously existing, e.g., social insurance services deteriorated badly in some countries forcing affiliates to buy private insurance and pay double contribution. But said freedom exists in only nine countries and strongly curtailed: the insured can choose the insurance firm but not the provider that is selected by the firm; there are closed insurance firms and only a minority of high-income insured enjoy freedom of choice because can afford the co-payments charged; only a tiny proportion of affiliates change providers and many are made or influenced by employers; insurance firms create their own providers network and send the insured to it; many departments and municipalities only have one insurance firm or provider; some rural areas lack providers and insured living outside of the capital city cannot select the best providers that are located there.

- *Competition*

Reformers argued that opening public and social insurance sectors to competition, the entry and diversification of private administrators/providers and

freedom of choice would improve efficiency, quality and consumer satisfaction, and cut costs. But for competition to function properly, an adequate number of administrators must exist, which largely depends on the insured market size. Countries with the largest number of insured have the highest number of pension administrators (21 in Mexico and 11 in Argentina), while those with the smallest number of insured have only two administrators (Bolivia and El Salvador). Bolivia has a virtual monopoly because the state divided the insured by their place of residence between the two administrators and banned changes until 2000, but only 0.4% of affiliates shifted between the two in 2007 (AIOS 2007). Even countries with an appropriate number of administrators have a high and increasing concentration in the biggest three (averaging 75% in the ten countries). Surveys in Argentina, Chile and Mexico show that the insured lack knowledge or have incorrect information on key features of the private system, they don't select administrators based on their commissions and capital returns but on influence from salesmen (who are paid a commission for each worker they move) or employers, and they don't have the skills to select the best administrators, which spent lavishly in advertisement but little or nothing on educating the insured. Mexico has recently improved insured information, whereas Chile has just created a pension education fund to disseminate information and educate the population, as well as new mechanisms to improve competition (Mesa-Lago 2008b).

Similarly, competition doesn't exist or is obstructed in many health systems, albeit is generally stronger than in reformed pensions, because the latter administration is more concentrated whereas the health system requires considerable more and widely-dispersed facilities. Obstructions to competition existing in five countries are: closed insurance firms; no competition between social insurance and private pre-paid providers banning the insured to directly select the latter; state sole insurer in many communities; most departments lack at least two providers and ban mutual-aid societies to compete with them. The number of insurance firms ranges from 1,587 in Brazil to 10 in Honduras; there are neither private insurance firms nor providers in Cuba and no insurance firms in Haiti. Insurers and providers are private for-profit in most countries, but in three could be public, private, social insurance and/or mutual-aid societies. The concentration of affiliates in the three largest insurance firms is considerably lower than in pensions: ranged from 38% in Colombia to 100% in Peru. In 1994-2004, however, the number of such firms diminished in most countries and their concentration rose from 42% to 67% in Argentina and 48% to 61% in Chile due to the following causes: bankruptcy of small firms or merges with the large ones; rising premium and co-payments that saturated the market, and transfer of older affiliates to the public sector that covers high risks free or cheaper. The immense majority of insured lacks information or skills to make rational selections of insurance firms/providers: in Chile there are about 40,000 health plans with diverse packages, making extremely complex to make the decision; in Colombia most insured (particularly low income) incorrectly believe they don't have freedom of choice.

- *Efficiency*

Many private systems have hired fairly well-qualified personnel, most have improved efficiency in providing periodic information to the insured on their individual accounts (albeit little understood and used), and some have developed a simpler, more expedite process of requesting and granting pensions (Chile, Colombia) but not others (Argentina, Dominican Republic). Most public systems (particularly in the latecomer-low group) lack such advances, as well as electronic techniques for enrollments, archives, individual accounts and collection of contributions, and many of them are besieged by excessive personnel often with low skills. Even so Brazil has notably improved electronic techniques and its average time to grant a pension is shorter than Argentina's and Colombia's.

Little or no progress has been achieved by health reforms in efficiency and old problems persist. The World Bank 1993 goal to double or triple allocation of resources to the primary level and halve the share to the two higher levels had not been met in at least 12 countries by 2004 when averages were 19.4% and 80.6% respectively. Hospital bed occupation was low in most countries: 72% in social insurance, 60% in the public sector and probably the lowest in the private sector. All latecomer-low countries and the two least developed intermediate countries have both very low population coverage and occupation. The average days of hospital stay is high: 9.4 in Cuba; if cut to half, occupation would fall from 69% to 37%. The ratio of physicians per nurse is 1.7 in the public sector, 2.5 in social insurance, and 3.6 in the private sector. Other inefficiency problems are: lack or nonintegrated or deficient information systems; no data on personnel productivity and absence of incentives for performance; long waiting lists for procedures; poor maintenance of infrastructure; and inadequate supply or control of medicines. Diverse types of reforms have introduced policies to improve efficiency but evaluation of results has not been conducted in most countries.

- *Administrative Costs*

Structural reformers asserted that private system administrative costs would be cut by competition but it doesn't exist or functions improperly in most cases. Said costs are paid by the insured except in three countries where they are shared with the employer. As percentage of salary, administrative costs ranged from 2.2% in Bolivia (due to lack of competition) to 3.7% in Mexico, for an average of 2.8% in eight private systems in 2006. As percentage of the total deduction (deposit in the individual account, net commission for the old-age program and premium for disability-survivors), administrative costs ranged from 18% in Bolivia to 36% in Argentina and averaged 24% (AIOS 2007). The net commission is the major component of such cost and has not significantly declined in most private systems; the premium is the smaller component and fell for several years but is increasing in some countries and by 2006 had closed the gap with the net commission. In 1981-2006 Chile's total commission only diminished 0.07 percentage points. Administrative costs as percentage of total taxable wages averaged 1.63% in the ten private systems vis-à-vis 0.003% in six public

systems/pillars (0.48% excluding Brazil); such costs jumped six fold after the reform in El Salvador. Public systems considerably lower administrative costs are explained by their lack of profits (38% of administrative cost in private systems), commissions to salespeople and advertisement, as well as taking better advantage of economies of scales. Most administrative costs in public systems result from excessive personnel and expenditure in salaries and fringe benefits.

In health systems, social insurance had the lowest administrative costs, ranging 1-8% of total expenditures in four countries mostly the pioneer-high group that also had the lowest costs before the reform. Twelve countries in the latecomer-low and intermediate groups had higher administrative costs (9-18%) in either social insurance or the public sector. Administrative costs in the private sector were higher than in the public sector or social insurance in the three countries where data were available: Chile 18% and 1%, Dominican Republic 34% and 27%, and Colombia 18% and 15%. Peru's percentage of administrative expenditure in the reformed social insurance in 2003 was three times that before the reform. Reasons for higher costs in the private sector are similar to those in pensions but also: more fragmentation of insurance firms/providers that impede them to take advantage of economies of scale; and private insurance firms that lack own facilities and contract or subcontract with providers each one earning a profit. The most important component of administrative expenditure is personnel cost; as percentage of total expenditures ranged 43-74% in eleven countries. Countries with the highest personnel expenditure are left with few resources to finance medicine, medical-surgical inputs and investment.

▪ *Social Participation*

Structural pension reforms were approved without social dialogue except in Colombia and Costa Rica; in 2006-2008 Argentina and Chile appointed representative commissions and held a public debate that shaped reforms of their original models; Brazil parametric reform was also submitted to ample public discussion. Structural reforms abolished the representation of workers, employers and government in pension management, which existed in virtually all public systems albeit not always effectively. The tripartite representation was kept in the public systems/pillars of Colombia, Costa Rica and Uruguay, but there is none in the regulation, management, supervision and provision of private pensions by fund administrators, insurance companies and superintendencies (in 2008 Chile introduced an users advisory commission but with workers and pensioners in minority). The insured cannot make any decision on the investment of its own fund, except in Chile and in other three countries where the insured can choose between two and five investment funds. Tripartite representation remains in all public systems except Cuba; joined worker and employer representatives have a majority in councils of seven countries, a tie with government representatives in one, and are in a minority in two.

Despite laws in half of the countries stipulating social participation in health systems, the reforms didn't implement it and most government authorities made the ultimate decision; participatory bodies are limited to marginal or support

activities; and there is no social participation in the private sector. The top national agency in the entire healthcare system or the public sector lacks social representation in five countries but have it in four. Social insurance is much better thus 15 countries have boards with tripartite representation; non-government representatives enjoy majority at such boards in eight countries but are in minority in five; the board president is the state representative in at least five countries. All countries have participatory bodies at the intermediate or local level, but mostly exercise support and advice functions rather than decision and management; their degree of implementation ranged from 4-7% in Panama and Paraguay to 100% in Brazil and Costa Rica. Surveys on participation in three countries reported that 68% of affiliates lack ways to express their views, only 38% of hospitals have a community representative, and 75% of users state that there was no participation.

5.3 Economic-Financial Effects

This section evaluates the impact of the reforms on financial sustainability (contributions, compliance, financial-actuarial equilibrium), and reform goals/assumptions (promotion of national saving, capital markets, portfolio diversification and capital returns).

▪ *Contributions*

Out of the total contribution to private pension systems, 56% is paid by workers and 44% by employers (state contributions excluded), whereas in public systems the proportions are 34% and 66%. Bolivia, Chile and Peru eliminated the employer contribution and the worker pays 100% of the total contribution (55% in Uruguay), hence violating the 50% maximum set by the ILO minimum norm; the remaining countries meet such norm; half of the structural reforms augmented the worker contribution. None of the public systems have eliminated or reduced the employer contribution and, with two exceptions,³⁴³ they comply with the ILO minimum norm. The average total contribution in private systems is 14% compared with 10.6% in public systems. Regardless of the type of system, total contributions are highest in pioneer-high countries, due to the maturity of their programs and aged populations, and lowest in latecomer-low countries because they have younger programs and populations. In two private and six public systems the state should contribute through a percentage of the wage bill. The self-employed contribution averages 12% of income versus 8% salaried workers in private systems, compared to 9% and 4% in public systems, an insurmountable barrier to their coverage in both.³⁴⁴

³⁴³ In Ecuador and Panama where the worker pays 66% and 71% of the total contributions in pensions, but zero and 4% of the total contribution for health care.

³⁴⁴ In Costa Rica the self-employed contribute according to income and the state provides a subsidy in lieu of the employer contribution, which diminishes with income.

Contrary to structural pension reforms, those in health care maintained the employer contribution in 17 countries, and most didn't increase the worker contribution, partly because of its significant raise by the pension reform. Excepted is that eliminated the employer contribution and increased the worker's. Also contrary to pension reforms, the regional worker average contribution is 26% while the employer's is 74%, hence meeting the ILO minimum norm. The self-employed contribution averages 7.5% of income versus 2% salaried workers, a lower burden than in pensions. Public systems in Brazil and Cuba don't have contributions as they are financed by taxes and the state respectively. At least in five reformed systems, social insurance affiliates are charged co-payments when they opt out to private insurance firms or providers.

Chile's ISAPRE were free for two decades to fix co-payments without a ceiling and annually increase them according to risk, badly harming the elderly, fertile-age women and the chronically sick, but the superintendence now sets a price index and a ceiling, and restricts annual increases. Reforms also imposed user fees in the public sector of most countries; a few exempted the poor but not the least developed thus generating regressive effects and serious obstacles to access. The reforms created national solidarity or compensation funds in five countries (four pioneers and Colombia) either to finance the basic package or high-complex care.

- *Compliance*

The reform assumption that ownership of the individual account, equivalence and higher pensions in private systems create strong incentives for paying contributions punctually has not materialized. Average affiliates who actively contributed to the ten private systems fell from 58% to 41.5% in 1998-2006 (AIOS 2007), due to the following reasons: labor-market exit, unemployment, shift from formal to informal employment, temporary jobs, perceived higher risks in private than public systems, high and increased contributions imposed on workers, employer retention of worker's contribution, and declining or halting contributions after the insured gain the right to the minimum pension. No systematic data are available on public-system compliance thus impeding proper comparisons. The state legal contributions to six public systems are usually not honored or done irregularly, and the government is a major debtor to the general pension program. Regardless of the pension system, compliance is higher in the pioneer-high group and lowest in the latecomer-low group.

The situation in health care is not better. In five out of seven countries, the percentage of total formal salaried workers that contributed to all social insurances programs declined during the reform. The state didn't comply with its financial obligations to the health reform in Colombia, and neither to social insurance sickness-maternity programs in other countries provoking huge debts; private employers also built up high debts. The reform claim of improving efficiency didn't materialize as proved by continuous poor collecting capacity, weak inspection, lack or poor access to payroll of enterprises, cumbersome and

prolonged administrative and judicial processes to collect debts, uncontrolled fraud and corruption, and new problems such as free raiders in subsidized regimes and payment to fictitious affiliates.

The reforms also created disincentives for compliance, like increase in contributions or co-payments, opening of social insurance services to the uninsured population combined with a deterioration in the quality of services, a contribution higher than the value of the basic package received by high-income affiliates, and absence of insurance-firm measures to control under-declaration of salary by their affiliates. A minority of reforms introduced measures to cope with compliance (e.g., Costa Rica creation and punishment of “social security crimes”, and Chile establishment of special courts to collect debts) but an evaluation of the impact of such measures has not been published and is needed.

- *Financial-Actuarial Equilibrium*

It's correct that structural reforms reveal the implicit pension debt hidden in public systems, but the assertion that fiscal costs in the transition will gradually decline and disappear is questionable. Said fiscal costs are: the operational deficit in the closed public system left with ongoing pensions but none or few contributors; the value of contributions paid to the public system by insured who moved to the private, and the minimum pension granted to insured in the private system whose individual account fund is insufficient to finance such pension; the state also finances social assistance pensions for the uninsured poor. The disappearance of the first two fiscal costs should take 40-70 years, and the last two costs are projected to increase.³⁴⁵ Furthermore, actual fiscal costs are considerably higher than initially projected in most countries, will take longer than anticipated and grow in the next 40 years in most countries with projections. Fiscal cost in eight private systems averaged 2.7% of GDP in 2001. Chile's average is much higher (5.7% in 1981-2004 and 5% projected in 2005-2010, 30 years in total), because its reform provided the most generous rights/benefits during the transition; Chilean cost has been financed by steady annual substantial fiscal surpluses, an example not replicated elsewhere. High projected fiscal costs moved Nicaragua to repeal its reform law, and Dominican Republic to postpone its full implementation. Four structural reforms tried to reduce fiscal costs by sacrificing benefits of the insured and pensioners.

Public pension systems lack standardized projections on fiscal costs as in private systems, but several of them have actuarial projections. Brazil and Cuba (pioneer-high group), as well as Venezuela, suffer financial deficit and the worst actuarial disequilibrium, whereas Ecuador and Panama (intermediate group) have a better situation, and surpluses are generated in Honduras, Guatemala and

³⁴⁵ The World Bank has acknowledged that the reforms placed too much emphasis on mandatory savings in the contributory regime and neglected public social assistance pensions for the poor, hence recommended a reversal in policy (Gill et al 2005).

Paraguay (latecomer-low group). Brazil parametric reforms tightened entitlement conditions and benefits in civil servants schemes, which improved but not achieved actuarial equilibrium; Cuba endures the worst financial-actuarial disequilibria and no parametric reform; Panama imbalance seems to be improved by its 2007 parametric reform, whereas Venezuela's enacted but not implemented such reform. The equilibrium contribution in Brazil, Cuba and Venezuela have to be increased significantly (to less extent in Panama and Nicaragua), whereas Ecuador and Honduras contribution are sustainable for a long period, and Guatemala's is excessive. Costa Rica public-pillar equilibrium was fortified by a parametric reform in 2005 that gradually raises the contribution from 7.5% to 10.5%. The average financial deficit in the ten public systems (plus Costa Rica public pillar) is -0.5% of GDP, one fourth of the average deficit of -2.7% of GDP due to fiscal costs in eight private systems.

More than two thirds of countries endured financial deficit in their social insurance sickness-maternity program in 2000-2004 and all except two had implemented reforms. Historical series on six countries with reforms showed a financial deterioration during or after the reform, whereas two countries exhibited some improvement, and two countries without reform a worsening. According to actuarial projections, the current social insurance contribution must be raised substantially to restore long-run equilibrium in Mexico,³⁴⁶ Panama and Venezuela; the current contribution is also insufficient in Chile, Peru and Uruguay. Projections on the basic package accessible only in two countries indicate an uncertain financial sustainability. The reform has not fulfilled its objective of financial sustainability in social insurance. Evaluation of private system sustainability is possible in only four countries, two endured deficit (including Colombia) and two generated a surplus (including Chile).

The per capita health care expenditure rose in all countries in 1997-2003, except three that declined. Pioneer-high countries had the highest per capita in 2003 and amply exceeded the regional average (except Cuba), and so were the three most developed intermediate countries; conversely, all latecomer-low countries and four intermediate had a per capita inferior to the average. Regional average shares of health expenditure in the three sectors and within the private sector components showed little change in that period: the public sector was stagnant, social insurance declined, the out-of-pocket share decreased and that of private insurance rose.

One percentage point was transferred from social insurance and half a percentage point from out-of-pocket expenses toward private insurance. In 2003 the distribution was: 31% public sector, 20% social insurance, 37% out-of-pocket expenses, 10% private insurance and 2% others. Out-of-pocket expenses decreased in eleven countries, a positive trend because as lower they are, more equitable and less regressive the financing system is. And yet out-of-pocket remained the largest component in total expenditures; countries with the

³⁴⁶ Mexico has failed to correct the huge actuarial deficit of the social insurance (IMSS) employee pension scheme, which unless radically restructured will collapse and jeopardize healthcare for 45 million people.

smallest out-of-pocket were in the pioneer-high group and two in the intermediate group, whereas all countries in the late-comer group and most in the intermediate group had the highest.

- *Capital Accumulation*

Confirming the structural reform assumption, private systems have substantial capital accumulation albeit with significant variation between them: 59% of GDP in Chile in 2005, 12-22% in other six systems, 7% in Mexico, and 1-4% in the remaining two. The biggest accumulation measured in U.S. dollars, however, was in the voluntary supplementary funds to Brazil's public system (higher than Chile's), and ranked third relative to GDP (18%, 2.5 times that of Mexico). Six public systems are partly funded (Ecuador, Honduras, Guatemala, Nicaragua, Panama and Paraguay), as well as Costa Rica public pillar, whereas the remaining four are on PAYG (including Brazil, but most of its supplementary funds are fully or partly funded).

The average accumulation in the ten private systems (US\$18,614 million) and percentage of GDP (13.8%) were lower than in seven partly funded public systems/pillars including Brazil (US\$22,223 million and 16.8% respectively), but the opposite was true subtracting Brazil (US\$1,000 and 7.5%).

- *National Saving and Capital Markets*

There is contradictory or inconclusive evidence on these two assumptions. Six studies on Chile, the most successful and longest reform in operation, have measured the net impact of its pension fund accumulation on national saving, annually subtracting fiscal costs; most show negative results averaging about - 3% of GDP in the first 16 years of the reform, and one warned Latin America against expectations that the reform would increase national saving. Two studies estimated a positive impact but with divergent magnitude, excluding components of fiscal costs, and based on questionable assumptions. One study concluded that empirical evidence coincided with the assumption that pension reform had contributed to financial market development, but cautioned that such evidence was not sound proof that the pension reform had been the decisive factor. The other study sustained that pension funds robustly contributed to financial market development and recommend the most radical structural reform possible to maximize such effect. The World Bank, however, judged tenuous the evidence that pension reform contributes to capital development because its impact must be isolated from other parallel structural reforms that could have contributed to such development, an extremely difficult exercise (Gill et al 2005). Most countries actually lack capital markets or they are incipient and/or not properly regulated or they don't trade sufficient instruments, problems that particularly afflict small countries, regardless of their type of pension system.

- *Portfolio Diversification*

Opposite to structural reformers' assumption, most private systems have failed to diversify their pension fund portfolios: 61-79% of investment in six out of the ten systems was concentrated on public debt paper in 2006. It took 25 years in Chile to cut such investment from 46% to 13%, largely due to the positive role of the superintendence. Only in Peru the investment share in stocks was significant (42%), it ranged 6-15% in other four countries, and zero in five; some countries ban investment in foreign instruments and only Chile had a sizable share (32%), other six countries 3-10%, and zero in three (AIOS 2007). Partly-funded public systems/pillars suffer from similar lack of diversification: 52-89% of the pension fund is invested on public debt paper in four of them (but 12% and 34% in two) and a sizeable share deposited in the central bank that pays interest below the market rate or in CDs in three countries, only 0.4% is in stocks in two countries (but 20% in Brazil) and investment in foreign instruments is banned, miniscule or nil.

- *Capital Returns*

There is inconclusive evidence on this reform assumption. In the ten private systems, annual average real capital returns since their inception until 2006 ranged from -1% in Dominican Republic to 12% in Uruguay and the systems averaged 7.6% (lower than Chile's average in the stock market and Peru's interest from banking deposits). These are gross rates of return, without subtracting administrative costs hence the net average rate is lower but data are not available. Historical series show significant volatility and a declining trend in capital returns, which have been afflicted by economic crises; high interest rates from public-debt securities contributed to good capital returns in the past but have decreased sharply. Returns fluctuations involve a risk: if the insured retire during a capital market boom, the pension will be good, but if the individual-account fund shrinks badly during a prolonged recession, the pension will diminish drastically as happened in Argentina. Rates of return in four partly-funded public systems/pillars ranged 5-10% in 1992-2005 (no data were available on Brazil supplementary funds); the rate of Costa Rica's public pillar was higher than in its private pillar; the average of the four countries was 7.3% similar to the 7.6% average of ten private systems. Because of the guaranteed defined benefit, public pensions are less affected to market volatility than private pensions, but they are not impervious to lack of portfolio diversification and low capital returns.

6. CONCLUSIONS

In the four stages of world historical evolution of social security Latin America pioneered: the introduction of social insurance pension and health care in the Western Hemisphere (ahead of other developing regions), structural reform-privatization (influencing other regions), and the "reform of the reforms". However, significant social security differences in inception, coverage and benefits were found within countries (four pressure groups, ranked by the

excellence of their schemes: armed forces, politico-administrative, economic-market and trade union), as well as in social security development between countries (three groups ranked by their advance: pioneer-high, intermediate and latecomer-low). The ILO social security principles are: universal coverage; equal treatment; solidarity; sufficiency of benefits; unity, state responsibility, efficiency and social participation, and financial sustainability.

Before the reforms, the enforcement of such principles was quite advanced in the region but behind that of developed countries and confronting several problems: insufficient health care coverage (also in pensions in the latecomer-low group); stratified systems, privileged schemes and geographical inequalities that afflicted equal treatment and solidarity; sufficiency generally subordinated to coverage, and liberal entitlement conditions in the pioneer-high group; lack of coordination and overlapping between social insurance and public health sectors; high administrative costs in countries with low coverage; poor financial sustainability in the pioneer-high group, pension-fund investment concentrated in public-debt securities, and mostly low or negative capital returns.

These problems were aggravated during the economic crisis of the 1980s and the new ideological currents supported radical reforms to cope with them. Chile pioneered both the structural reform that privatized the public pension system and health reforms that privatized only a minority. The Chilean model influenced the World Bank, which in turn designed a new social security paradigm that abolished or modified several social security principles and introduced new principles (state subsidiary role, equivalence, competition, freedom of choice), as well as assumptions of positive reform effects (enhanced compliance, better pensions, lower administrative costs, increased national saving, portfolio diversification, and higher capital returns). Half of the Latin American countries totally or partially privatized their pension systems (the other half retains public systems) whereas the degree of privatization was considerably lower in health care. The evaluation of the effects of pension and health care reforms found an erosion in most conventional social security principles, and that most of the reforms new principles and assumptions have not materialized.

Private pension systems have achieved the following: standardized entitlement conditions, and pension formulas in public systems/pillars; tight linkage between contributions and benefits; better pension adjustment; significant increase in capital accumulation (albeit the highest is in Brazil); improvement in some efficiency aspects, and providing limited freedom of choice in some countries. Conversely, they confront the following problems: coverage decline of the population, EAP and the elderly (aggravated by increasing informality and unprotected jobs); absence of social assistance pensions for the poor in half of them; accentuation of gender inequality; predominance of mechanisms against solidarity; maintaining privileged schemes and failure to integrate most systems; 33-50% of insured without access to minimum pensions in several countries; malfunction of competition in most countries leading to elevated and sustained administrative costs, which are significantly higher than in public systems (El Salvador costs jumped seven times after the reform); insured lack of information

on key aspects of the system and scarce skills to make rational choices; dearth of social participation in the administration; workers paying 100% of the contribution in three countries; growing non-compliance in eight out of ten countries; transition fiscal costs higher and more prolonged than initially anticipated, and lack of portfolio diversification in most. The assumptions that the private system would pay better pensions, increase national saving and develop capital markets have not been rigorously proven; capital returns are similar to those in partly-funded public systems if Brazil supplementary funds are included but higher if Brazil is excluded.

Public pension systems have performed better than private ones on higher coverage, better solidarity albeit eroded, mollification of gender inequality, requiring less years of workers' contribution for the minimum pension, retaining the employer contribution, lower administrative costs, and better social participation. Public pension systems share some common challenges with private systems: coping with the problem of growing informality and labor flexibilization that affects coverage, resilient privileged schemes and need to integrate their systems, lack of social assistance pensions in most countries, poor compliance, and dearth of portfolio diversification. Public systems have problems of their own: too low ages of retirement in some countries and liberal formulae to calculate pensions in most; often excessive bureaucracy and administrative inefficiency; poor transparency and need to supply regular information on administrative costs, compliance and actuarial balances (as well as on portfolio composition and capital returns in most of them); nil or poor relationship between contributions and the pension level in several countries; social participation not always effective; serious problems of financial sustainability in half of the countries and state failure to honour its financial obligations in most of them.

Health care reforms have not corrected most previous problems: regional coverage of the population by social insurance fell between 1990 and 2001 (public access and social insurance coverage declined or stagnated in most countries whereas private coverage slightly increased); the least developed half of the region still has the lowest coverage/access; informal and agricultural workers remain legally or practically excluded; and geographic, ethnic and income disparities in coverage/access continue. The traditional three sectors and separate schemes survive with their unequal treatment whereas the most standardized systems predated the reforms; significant geographic inequalities persist in the distribution of resources and health indicators; privatization aggravated gender inequality because of risk selection practiced against women in fertile age. The substitution of solidarity by equivalence (albeit in less degree than in pensions) led to predominance of mechanisms against solidarity and there is a relationship between high degree of privatization and low solidarity. The basic package, important to extend primary-care to the poor and reduce out-of-pocket expenses, was introduced in 15 countries but has been fully implemented in seven and only three prevent providers' risk selection; different packages are given to groups of affiliates in some countries, a free

package for all only exists in Brazil, and lack of evaluation hinders assessment of results.

There has been little or no progress in integration and coordination, as 15 countries have segmented or highly segmented systems, 13 without coordination (two totally unified systems predate the reforms); the ministry regulatory function remains weak or very weak in virtually all countries and in half doesn't control social insurance and the private sector. Freedom of choice (a reform goal) exists in only nine countries and with strong restrictions, and the insured lacks information and skills to make rational selections. Most reforms pursued an improvement in efficiency but their results have not been evaluated and pre-reform problems persist: the goal to double or triple fund allocation to the first level has not been met (its share of total expenditure is 19%) and private hospital bed occupation is lower than in the public and social insurance sectors. The reform has not reduced administrative costs, which are higher in the private sector than in the public and social insurance sectors (Peruvian costs in social insurance jumped three-fold). Despite legal mandate of social participation in half of the region (virtually nil in the reform process), government authorities usually make decisions and consulting bodies in several countries are limited to marginal/support activities; participation is higher in social insurance but predates the reforms.

Out-of-pocket expenses slightly declined in the region but still have the largest total-expenditure share and the highest is in the least developed countries; the inverse relationship between share of the population covered and expenditure share in the three sectors has a regressive impact on financing. Opposite to pensions, health reforms kept the employer contribution in 18 countries (except for Chile) and most didn't increase the workers' contribution; national solidarity/compensation funds were established in five countries but their results have not been evaluated except in one country; user fees introduced in most countries don't exempt the poor and low-income groups generating strong regressive effects and obstacles to public access particularly in the least developed; compliance to social insurance fell in five out of seven reformed systems. Financial sustainability in social insurance is poor, at least six countries have suffered deterioration during the reform, and the current contribution is insufficient to maintain long-term equilibrium in six countries.

After 90 years of social insurance in Latin America, the balance shows considerably progress but also set backs and significant differences between countries and within each, hopefully the identification of problems will contribute to their solution (for detailed policy recommendations see Mesa-Lago 2008a).

REFERENCES

Asociación Internacional de Administradoras de Fondos de Pensiones (AIOS). 2007. *Boletín Estadístico AIOS*, Nos. 16 and 17 (December 2006, June 2007).

Centro Latinoamericano y Caribeño de Demografía (CELADE). 2003. "El Envejecimiento de la Población: 1950-2050", *Boletín Demográfico* No. 72 (Santiago).

Economic Commission for Latin America and the Caribbean (ECLAC). 2006. *La Protección Social de Cara al Futuro: Acceso, Financiamiento y Solidaridad* (Montevideo: Trigésimo Período de Sesiones de la CEPAL).

Gill, Indermit, Truman Packard and Juan Yermo. 2005. *Keeping the Promise of Social Security in Latin America*, (Washington D.C.: Stanford University Press and World Bank).

International Labor Organization (ILO). 2001. *Social Security: A New Consensus* (Geneva).

Mesa-Lago, Carmelo. 1978. *Social Security in Latin America: Pressure Groups, Stratification and Inequality* (Pittsburgh: University of Pittsburgh Press).

-1989. *Ascent to Bankruptcy: Financing Social Security in Latin America* (Pittsburgh: University of Pittsburgh Press).

-1994. *Changing Social Security in Latin America: Towards the Alleviation of Social Costs of Economic Reform* (Boulder: Lynne Rienner).

-1996. "Pension System Reforms in Latin America: The Position of International Organizations," *CEPAL Review*, 60 (December): 73-98.

- 2008a. *Reassembling Social Security: A Survey of Pension and Healthcare Reforms in Latin America* (Oxford: Oxford University Press).

- 2008b. *Correcciones al Modelo de Mercado en Chile: El Camino a la Equidad Social* (Santiago: Fundación Ética Mundial, Welthetos en América, en prensa).

Ministerio de Trabajo, Empleo y Seguridad Social (MTESS). 2007. *Proceso de Reforma del Sistema Provisional Argentino* (Buenos Aires: Secretaría de Seguridad Social, abril).

U.S. Social Security Administration (US-SSA). 2006. *Social Security Programs Throughout the World: The Americas* (Washington D.C.).

Weyland, Kurt, ed. 2004. *Learning from Foreign Models in Latin American Policy Reform* (Washington, D.C. and Baltimore: Woodrow Wilson Center Press and Johns Hopkins University Press).

11

EL SEGURO EN IBEROAMÉRICA: DESARROLLO ECONÓMICO, SEGUROS Y PENSAMIENTO POLÍTICO

William R. Fadul
Ex-presidente de FASECOLDA (Colombia)

PREFACIO

Escribir una ponencia sobre *El Seguro en Iberoamérica* fue el encargo que me hicieron habida cuenta de mi condición de ex dirigente gremial de este Continente. Al no ser abogado de seguros ni técnico en la materia, no me quedaba salida distinta a ensayar el enfoque ecléctico. Eso hice. Me propuse resumir la evolución de la actividad como hecho legal -reglamentario y de supervisión- y agregarle a esto el análisis conjunto de los seguros y de la Seguridad Social. Lo anterior, dentro de un marco obvio de evolución política y económica.

Este ensayo pretende -nada más ni nada menos- que establecer, en una nota integral, la problemática esbozada arriba y el examen de los principales mercados en Iberoamérica. Espero de los lectores benevolencia porque no fue fácil hallar referencias bibliográficas al respecto ni mucho menos comprimir los temas en el espacio disponible.

Agradecimientos

- *A MAPFRE Internacional por la honrosa invitación para participar en el Encuentro Internacional sobre la Historia del Seguro*
- *Al Centro de Estudios del Instituto de Ciencias del Seguro de la Fundación MAPFRE*
- *A FUNDACIÓN MAPFRE en España y en los países iberoamericanos.*
- *A FIDES y las asociaciones de seguros de los países miembros (Fenaseg, Amis, AACH, ABA, Fasecolda y otros)*
- *A la Compañía Suiza de Reaseguros*
- *A muchos amigos, entre ellos José Luis Catalinas, Begoña González García, Recaredo Arias, Izamar Nogueira, Jorge Claude, Carlos Baudoin, Santiago Osorio, Sonia Galvis, Camilo Cortés. Los que no menciono con nombre propio quedan disfrutando del encanto de la discreción y, de verdad, omitidos por la limitación de espacio.*

1. INTRODUCCIÓN

Los pactos de solidaridad para cubrir siniestros de transporte marítimo y terrestre se conocen desde hace varios siglos. Sin embargo, la primera compañía de seguros -*The Mercer Company*- se creó en Inglaterra sólo a mediados del siglo XVII como respuesta a una necesidad derivada del ejercicio mutual de esa protección. Es decir, para responder a una demanda real, al igual de lo que sucedió con el Lloyd's de Londres.

En Iberoamérica las primeras compañías se crearon en el siglo XIX. Por ello, la actividad de los seguros en la región no lleva más de 150 años y su desarrollo, al igual que otros sectores de la vida económica, social y política, ha estado influenciado por el pensamiento político de los gobernantes quienes muchas veces han seguido tendencias importadas de otros países, comportamiento que condujo a decisiones erráticas, reglamentos restrictivos y confusas conductas de control. De forma sucinta podría esquematizarse ese proceso así:

- Durante el siglo XIX estas jóvenes naciones se movieron estimuladas por el impulso nacido de la independencia de España y las rivalidades entre las clases dominantes, lo cual hizo que su desarrollo económico fuera lento con las excepciones de Cuba, por su desarrollo agrícola y de Argentina que se destacaba por su riqueza agrícola y ganadera y por la laboriosidad de la inmigración recibida de Europa.
- En ese período el seguro es incipiente y durante su transcurso se incluyen los principios legales regulatorios de la actividad en los primeros códigos de comercio expedidos por sus gobiernos. Sólo al final del mencionado siglo se crean compañías tanto de capital extranjero como nacional.
- En las primeras décadas de la centuria pasada -el siglo XX- imperó el librecambismo, que entrañaba la libertad de comercio. Luego vino una ola de proteccionismo como consecuencia de la crisis de los años treinta, durante la cual ocurrieron nacionalizaciones y se crearon monopolios de seguro directo y de reaseguro y sistemas de protección de la salud y de pensiones también ejercidos por monopolios estatales.
- Este ciclo estuvo acompañado del modelo desarrollista de la Comisión Económica para América Latina (CEPAL), que atribuía a los Estados la capacidad de producir desarrollo económico y social endógeno mediante la modernización industrial acelerada y una fuerte protección aduanera frente a la competencia externa. En los años cincuenta, dicho esquema coincidió con la reconstrucción de la capacidad productiva de algunos países europeos destruida durante la Segunda Guerra Mundial, los cuales competían con la incipiente producción de los industriales de Iberoamérica.
- Más adelante, el derrumbe del socialismo soviético, simbolizado por la caída del muro de Berlín, coincidió con el auge de la tendencia neoliberal que preconizó menos Estado, más injerencia privada, apertura de los mercados y

desregulación de las normas restrictivas del comercio y las actividades sociales, escuela que rápidamente hizo carrera en Iberoamérica y tuvo consecuencias en los seguros y reaseguros.

- En ese sentido, el desmantelamiento del Estado productor y/o empresario trajo consigo privatizaciones de empresas estatales y la terminación de monopolios oficiales de seguro directo, reaseguro y seguridad social, hecho que marcó una nueva era para la modernización y los volúmenes de producción de primas.
- La ola de la integración económica regional produjo la formación de diversas organizaciones como la ALALC, el Mercosur, la hoy llamada CAN, el G-3 y el Nafta. La propuesta de Estados Unidos de crear una entidad de integración del comercio continental –El ALCA– no prosperó y llevó a ese país a suscribir tratados binacionales. Sus efectos en la actividad aseguradora fueron menores.
- En los últimos tiempos surgió el terrorismo moderno con acceso a herramientas de destrucción de gran capacidad que llevó a la creación de mecanismos gubernamentales para cubrir los daños causados por los ataques terroristas mediante los Fondos de Terrorismo. Sin embargo, esto sólo se ha dado en los países más desarrollados, cuyos Estados tienen capacidad para responder por tales eventos. Dicho capítulo está pendiente en la agenda de los seguros del continente.
- En el orden universal, la globalización de la producción de bienes y servicios tomó fuerza con el desarrollo de la tecnología informática y de las comunicaciones y dio pie a la llamada “Globalización Financiera” que integró a los mercados mundiales en esa materia. Iberoamérica no ha sido ajena a este fenómeno aun cuando sigue dependiendo de los *commodities* (agricultura, ganadería y minería) y ciertos servicios (turismo, remesas de emigrantes y otros rubros). Esto sin que avance firmemente la producción de bienes de alto valor agregado o de que haya avances significativos en tecnología e informática.
- Por ello, al margen de la incursión de muchos países subdesarrollados en el campo de la producción de hardware, software y prestación de servicios informáticos –los Tigres Asiáticos, Japón, China e India, Irlanda y Finlandia, entre otros–, Iberoamérica no ha emprendido una carrera a fondo en estas materias, con lo cual se crea el riesgo de que continúe la dependencia de terceros en materia de precios para sus productos primarios.
- Es pertinente anotar, sin embargo, que los países con las mayores economías de Iberoamérica (Brasil, México, Argentina, Venezuela, Colombia, Chile y Perú) registran estabilidad política, desarrollo democrático, crecimiento razonable del PIB y control de la inflación.

- El reordenamiento internacional en torno a las adquisiciones cruzadas de compañías de seguro y reaseguro y de empresas corredoras llevó a que los gestores de estos entes decidieran invertir en la compra de entidades de seguros en Iberoamérica. En la actualidad la participación en el mercado directo tiende a ser mayoritaria en cabeza de las compañías de capital extranjero.

2. PARTICIPACIÓN DE IBEROAMÉRICA EN EL MERCADO MUNDIAL DE SEGUROS

Los procesos anteriores provocaron que la pobreza se profundizara al trasladarse las personas del campo a las ciudades. Es decir que al tiempo que algunos segmentos de la población alcanzaban un mayor grado de bienestar, educación y privilegios, otros se hundían en la pobreza urbana o permanecían en la miseria rural, sin ingresos para cubrir las necesidades básicas o con mínima capacidad de subsistencia digna.

La creencia de que el destino está predeterminado y que de nada sirven las actitudes preventivas parte de la falta de educación avanzada, lo cual añadido a la pobreza y a la ignorancia, confinaron a la actividad aseguradora sólo a las empresas privadas, el Estado y la población con altos ingresos.

La consecuencia es contundente: mientras que Iberoamérica tiene el 8,5% de la población universal su participación en el mercado mundial de primas no alcanza a ser el 2% del total.

3. EL SEGURO DE IBEROAMÉRICA EN EL SIGLO XXI

En los primeros años de este siglo se dan en el mundo eventos de alta severidad y de impacto penetrante que obviamente guardan relación con este continente. Veamos:

3.1 La consolidación de la globalización

En los primeros siete años del presente siglo, China e India que representan alrededor del 40% de la población del planeta, incrementaron su capacidad tecnológica y productiva, pusieron en jaque al resto del mundo en desarrollo -entre ellos a Iberoamérica- y retaron a las economías desarrolladas de Europa y los Estados Unidos. Queda la incógnita de Japón y Rusia en la geopolítica asiática. La pregunta para todos es ¿cómo afectará este desenvolvimiento a la actividad de los seguros y el reaseguro en nuestro continente?

- *La izquierda política en Iberoamérica*

Las democracias Iberoamericanas han escogido en buena parte a la izquierda moderada (Chile, Argentina, Brasil, Uruguay y Guatemala) mientras que otras optan por la izquierda de viejo cuño marxista (Venezuela, Ecuador, Bolivia y Nicaragua). Cuba se decidió -sin reconocerlo abiertamente- por un esquema parecido al de China: Gobierno socialista y apertura a las actividades capitalistas con recursos y tecnología foráneos mediante regímenes económicos especiales para las regiones o actividades previamente escogidas para alcanzar el desarrollo acelerado. Sin embargo, en los países gobernados por líderes de esta escuela de pensamiento político aún no se evidencian acciones restrictivas de la libertad en el negocio de los seguros. Hasta ahora sólo se han tomado medidas relacionadas con recursos naturales, tenencia de la tierra (reforma agraria) y negocios estratégicos como las comunicaciones y el petróleo. Es más, se advierte una tendencia a la apertura al capital extranjero para el ejercicio de las actividades de seguros, reaseguros y corretaje.

- *Los organismos internacionales y las ONGs*

Mención aparte debe hacerse del papel que han jugado organizaciones como la Unión Europea, los bancos multilaterales, el Comité de Basilea, la IAIS y su capítulo latinoamericano ASSAL, la OCDE y otros organismos de similar objeto. De su gestión se desprenden conceptos fundamentales que han sido promovidos, enseñados y finalmente impuestos en materia de liberalización y apertura de los mercados, de estandarización y de reglamentaciones tendientes a la desregulación.

En la historia reciente del seguro en Iberoamérica bien puede decirse que conceptos esenciales recientemente adoptados devienen de esa coyuntura: los márgenes de solvencia, los fondos de garantía, las reservas técnicas, las normas de inversión, la gestión de riesgos, el lavado de activos y otros.

- *El descalabro financiero y los siniestros catastróficos*

A finales del siglo XX y comienzos del XXI sobrevino una crisis financiera que significó pérdidas para los aseguradores y reaseguradores mundiales cuyo monto estuvo alrededor de los doscientos mil millones de dólares. El impacto en Iberoamérica se sintió de manera proporcional, especialmente por la vía del reaseguro.

Los grandes siniestros naturales ocasionaron elevados costos al seguro y al reaseguro a nivel global: huracanes, terremotos, tsunamis, a más de los eventos causados por la mano del hombre como el derrumbe de las torres gemelas de Manhattan, el metro de Londres y los trenes de Atocha en Madrid.

Los primeros causaron desolación y daño en el continente pero los segundos, los del hombre -con excepción de las acciones guerrilleras- no tuvieron las magnitudes de lo ocurrido en Estados Unidos y Europa.

▪ *La Seguridad Social en Iberoamérica*

En sus comienzos los regimenes de Seguridad Social se inspiraron en los modelos europeos de países industrializados, concebidos bajo la responsabilidad del Estado ante el ciudadano para lo cual se crearon monopolios de pensiones (basados en el sistema de reparto) y de prestación estatal de los servicios de salud y riesgos profesionales.

Las transformaciones a los regimenes de trabajo y a la susodicha Seguridad Social fueron posteriormente influenciadas por las reformas laboral, pensional y de salud introducidas en Chile a comienzos de los años ochenta del siglo pasado, las cuales corrieron paralelas con el neoestructuralismo de Estado, la economía abierta y los regimenes políticos democráticos de izquierda y de derecha.

En el mundo básicamente hay tres modelos de previsión (pensiones) que se conforman así:

- El sistema único de reparto (monopolio estatal);
- El sistema de reparto combinado con ahorro individual obligatorio y/o voluntario;
- El régimen de ahorro individual obligatorio combinado con ahorro individual voluntario.

Iberoamérica ha sido pionera en la introducción del último de estos esquemas que empezó con la reforma chilena en 1981, se extendió a otros países del continente y luego a determinadas naciones de Europa del Este.

Según Joseph Stiglitz, los “mitos de la reforma de la Seguridad Social” a la chilena han sido utilizados como verdades absolutas. Entre estos mitos están:

- La privatización de la Seguridad Social aumenta el ahorro nacional;
- El retorno en el sistema de capitalización es superior al del sistema de reparto;
- El mercado de trabajo funciona mejor con los sistemas de capitalización;
- La competencia disminuye los costos administrativos;
- Los planes de capitalización individual son menos susceptibles a las influencias políticas;
- La seguridad social privada es más eficiente y está menos expuesta a la corrupción.

Sin desconocer la dosis de razón teórica que pueda encontrarse en esas observaciones, es de advertir que el sistema lleva más de dos décadas funcionando en los países del área, con cobertura poblacional importante, lo cual

permite adelantar razonables evaluaciones de su aplicación en los órdenes económico, financiero y social.

En particular habría que hacer énfasis en el riesgo de mediano y largo plazo de los portafolios en que se hallan invertidos los ahorros y en las tasas de rendimiento (a veces demasiado altas) asumidas por las compañías de seguro en el campo de la rentas vitalicias, sobre todo ahora cuando sus economías tienden a estabilizarse y los retornos son inferiores a los históricos. A ello se añade que la falta de actualización de las tablas de mortalidad de rentistas y el descalce entre activos y pasivos pueden requerir de aumentos considerables en el capital de solvencia en los próximos años.

▪ *Población y mercados de seguros en Iberoamérica*

La población y las primas de seguro directo por país en Iberoamérica (miles de millones de dólares) se muestran en el siguiente cuadro:

Países	Población en 2006 (millones)	Primas (miles de millones de dólares)		
		2006	2005	2000
Brasil	190,7	30.390	23.947	12.554
México	100	15,072	12.866	9.470
Argentina	40	5,632	4.619	6.778
Venezuela	25	4.886	3.351	2.227
Chile	17	4.704	4.519	2.687
Colombia	44	3.200	2.765	1.832
Perú	25	1.083	975	555
Ecuador	15	616	543	209
República Dominicana	8	499	463	409
Panamá	3	474	430	365
Costa Rica	6	423	376	324
El Salvador	7	386	350	307
Uruguay	6	336	293	403
Total	510,7	71.428	58.787	40.092

*SwissRe

Cuadro de primas de seguro directo por continente

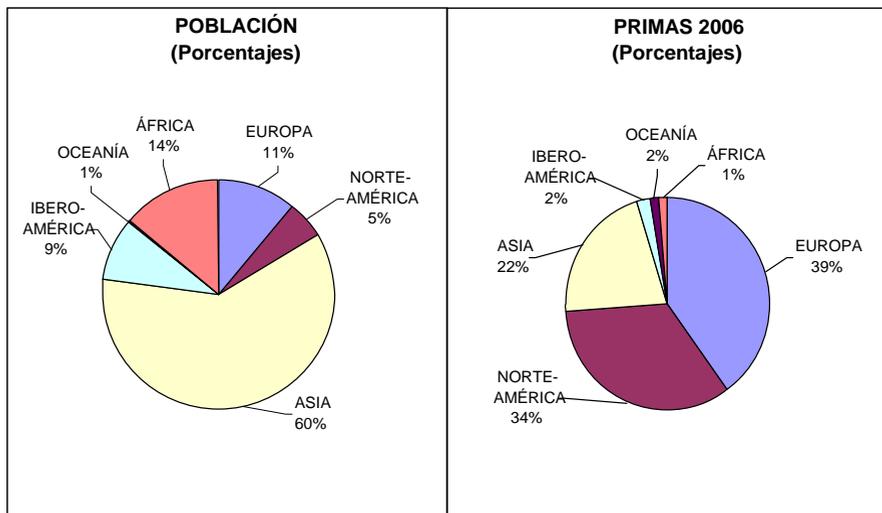
	PRIMAS TOTALES (Miles de millones de dólares)		
	2006	2005	2000
Norteamérica	1.258.301	1.221.635	905.514
Europa	1.484.881	1.287.920	786.089
Asia	800.819	759.779	647.119
Latinoamérica	71.428	58.787	40.092
Oceanía	58.316	57.756	38.946
África	49.667	40.025	27.145

*SwissRe

La comparación de primas directas versus población entre Iberoamérica y los demás continentes muestra el desequilibrio entre las regiones en cuanto al consumo per cápita de seguros:

	Primas 2006 (millones de dólares)	%	Población (millones)	%	Primas per cápita
EUROPA	1.484.881	39,9	725	11.2	2.040
NORTEAMÉRICA	1.258.301	33,8	332	5.1	3.789
ASIA	800.819	21,5	3.917	60.7	204
IBEROAMÉRICA	71.428	1,9	559	8.7	127
OCEANÍA	58.316	1,6	33	0.5	1.767
ÁFRICA	49.667	1,3	888	13.8	56
TOTAL	3.723.412	100	6.454	100	576,9

En forma gráfica el contraste se destaca así:



4. COMPORTAMIENTO GLOBAL DEL MERCADO DURANTE LAS TRES ÚLTIMAS DÉCADAS

El comportamiento de los mercados en Iberoamérica en los últimos años arroja sorpresas que justifican un análisis de ese fenómeno ya que al tiempo que entre 1980 y 2006 algunos mercados crecen muy poco (Argentina), otros lo

hacen medianamente (México, Colombia, Venezuela y Panamá) y finalmente Chile y Brasil muestran guarismos muy superiores.

Los siguientes cuadros respaldan esta afirmación:

MERCADOS IBEROAMERICANOS (CRECIMIENTO DE PRIMAS TOTALES)			
Países	1980 (Millones de USD)	2006 (Millones de USD)	RELACIÓN (2006/1980)
Argentina	3.609	5.632	1,56
Venezuela	1.109	4.886	4,40
Panamá	112	474	4,23
Colombia	402	3.200	7,95
México	1.533	15.072	9,83
Brasil	2.111	30.390	14,40
Chile	217	4.704	21,63

MERCADOS IBEROAMERICANOS (CRECIMIENTO DE PRIMAS VIDA)			
Países	1980 (Millones de USD)	2006 (Millones de USD)	RELACIÓN (2006/1980)
Venezuela	209	162	0,78
Panamá	51	168	3,32
Argentina	234	1.713	7,31
Colombia	88	947	10,80
México	446	6.814	15,29
Brasil	336	13.699	40,77
Chile	46	2.898	62,73

MERCADOS IBEROAMERICANOS (CRECIMIENTO DE PRIMAS NO VIDA)			
Países	1980 (Millones de USD)	2006 (Millones de USD)	RELACIÓN (2006/1980)
Argentina	3.375	3.918	1,16
Panamá	62	306	4,97
Venezuela	901	4.724	5,25
Colombia	315	2.253	7,16
México	1.088	8.258	7,59
Brasil	1.775	16.691	9,40
Chile	171	1.806	10,54

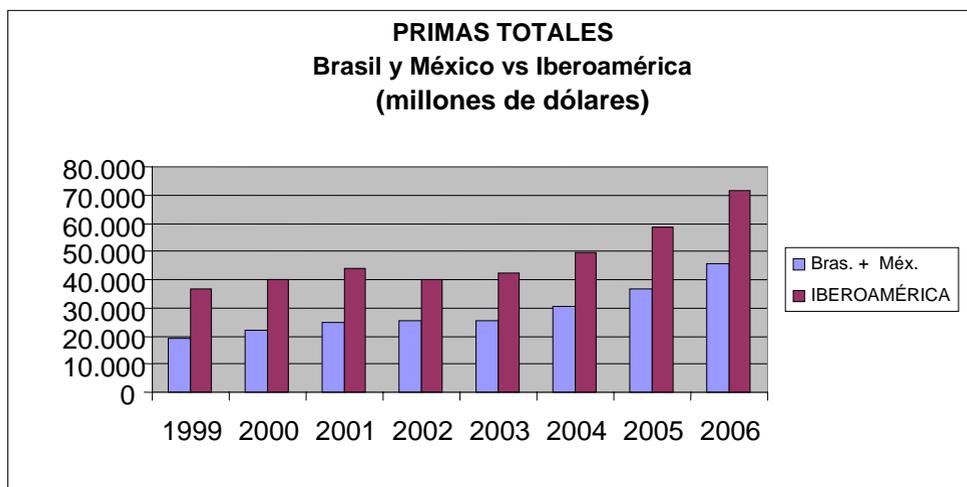
5. VISIÓN PROSPECTIVA DEL SEGURO EN IBEROAMÉRICA

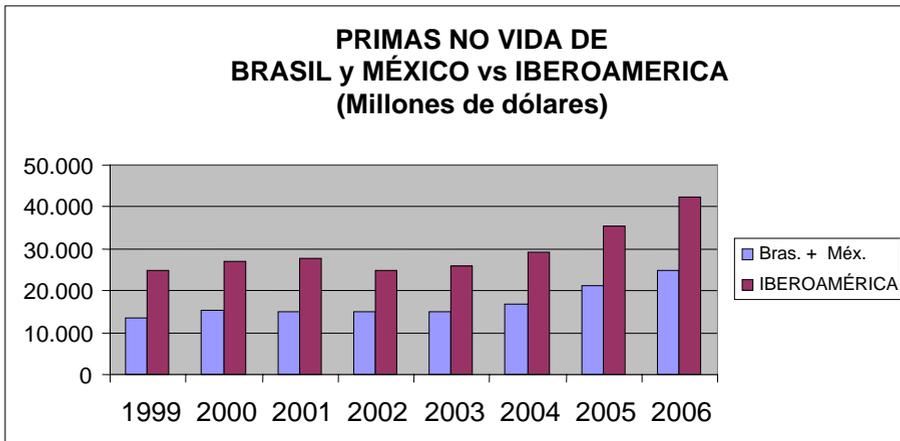
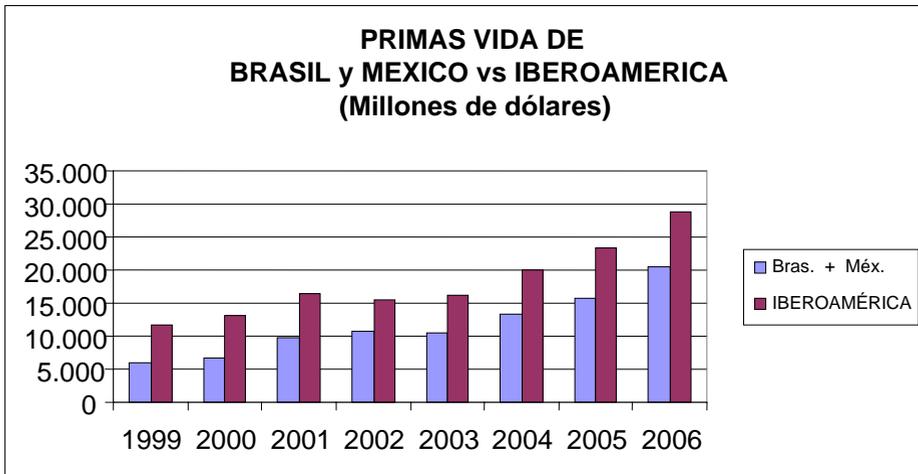
Es indudable que la futurología universal está atada a fenómenos como la globalización, la tecnología, las comunicaciones, la pobreza, el terrorismo y los problemas internacionales de solución común: calentamiento global, contaminación, drogas, corrupción y tantos otros. El porvenir de Iberoamérica está entonces ligado a ese desenvolvimiento de la humanidad. En la forma en que las sociedades de estos países jueguen el papel que les corresponde, su futuro económico, social y político se comportara de una u otra manera.

Los seguros, por consiguiente, seguirán esa ruta. Claro que la Seguridad Social tendrá cada día un papel más importante y que modalidades como los seguros obligatorios y los microseguros adquirirán un mejor posicionamiento pero en ningún caso habrá desarrollos mayores si la economía no crece por encima de las cifras actuales de incremento del PIB y si no hay un mejor reparto de la riqueza al tiempo que se mejoren la productividad y la competitividad.

Es pertinente acotar que la tendencia de elegir gobiernos de izquierda al estilo del viejo cuño comunista podría introducir conductas de aseguramiento mediante monopolios estatales de seguro directo y de reaseguro. ¿Por qué no?

Otro aspecto para resaltar es la importancia relativa de los mercados de Brasil y México dentro del total del mercado Iberoamericano, que gráficamente se aprecia de la siguiente manera:





6. CONCLUSIONES

A manera de resumen sobre la evolución de los seguros en Iberoamérica digamos que:

- La actividad aseguradora en el continente no muestra un patrón común, sobre todo en lo que trata con el reaseguro. Mercados como México, Colombia y Venezuela, por ejemplo, no han incursionado en monopolios de reaseguro como si lo hicieron otros.
- Los recientes hechos políticos han llevado a una mezcla ideológica entre izquierda extrema, izquierda moderada, gobiernos de centro y regimenes de derecha, lo cual puede arrastrar al desorden político y normativo.

- Dentro de ese mare mágnun se darían cambios en la actividad de seguros al pretender implantar prácticas populistas inconvenientes, con efectos perversos en este negocio.
- La reforma a la Seguridad Social, con la participación del sector asegurador, ha generado importantes oportunidades de negocio, pero igualmente ha aumentado la exposición a riesgos de largo plazo. Es un tema que genera inquietud porque su incidencia en la producción de la actividad tiene un peso relativo muy alto.
- La integración multilateral continental parece condenada al fracaso, hecho que le dio paso a convenios bilaterales y a conductas propias de los mercados globalizados, lo cual en seguros aun no permite formular pronósticos dada la característica global que es inherente al negocio.
- La problemática global en materia ambiental plantea retos a la región ante los cuales habrá que responder con eficacia y unidad, conducta que no parece fácil si persisten las actuales diferencias ideológicas. Esto hará difícil la oferta de productos de seguros para temas relativos a esas amenazas globales.
- A dichas circunstancias se agrega el hecho de que la presencia del capital foráneo, que trae sus propias políticas, sus productos y sus técnicas universales, plantea un desafío de cambio para los países y para los inversionistas, reaseguradores y corredores del exterior.
- Queda planteada la necesidad de desarrollar productos, baremos técnicos y modelos de mercadeo y distribución que se acoplen a las condiciones de Iberoamérica dentro de la coyuntura global.

NOTA DE ACTUALIDAD

(Diciembre de 2008)

A) Antes de persistir en enunciados como los anteriores, habida cuenta de la situación en curso, es imprescindible recordar hechos como los siguientes:

- La crisis económica global desatada en Estados Unidos y luego globalizada, desde el mes de septiembre de 2008.
- El cambio de gobierno y de liderazgo en ese país.
- La crisis petrolera y sus efectos futuros en las políticas energéticas globales.
- El avance de los regímenes con ideología de izquierda -extrema o moderada- en los países de la región latinoamericana.
- La estructura de producción interna y más comercio internacional generada por la política de *menos Estado y más empresa privada*, la cual fue adoptada en Iberoamérica en las últimas décadas.
- La inminente revisión de los esquemas neoliberales y de los sistemas “desregulados” de control y supervisión financiera y de seguros.

B) No cabe duda de que estos aspectos conforman una mezcla de decisiones de conducta, políticas públicas y gestiones privadas que necesita ser decantada antes de ensayar soluciones para lo que habrá de acontecer en el mundo y, en particular, en Iberoamérica en la actividad que nos ocupa: los seguros.

C) Por lo tanto, nuestra percepción en este momento va en el sentido de formular una reflexión para quienes tienen la compleja tarea de apostarle al futuro de la zona:

“Sólo las clases pensantes y los detentadores de poder político y económico tienen la fortaleza para conformar un liderazgo continental que conjugue los problemas (retos y amenazas) de la región: *pobreza, subdesarrollo, corrupción, cambio climático*, etc., con el recurso humano que representa una población *joven, entusiasta y capaz de crear un mundo nuevo*”.

“Esa es una responsabilidad ética, social, estatal, corporativa y humana, ante la cual no pueden estar ausentes o ser indiferentes los conductores del negocio asegurador continental”.

MERCADOS NACIONALES

(ordenados por país, según el tamaño del mercado)

1. BRASIL

1.1 Siglo XIX

En Brasil, el más importante mercado de seguros de Iberoamérica, se registra el funcionamiento de la Compañía de Seguros Buena Fe (1808) radicada en Bahía y de la compañía de seguros Conceito Publico, que fue regida por las regulaciones de la Casa de Seguros de Lisboa.

En la segunda mitad del siglo XIX se autorizaron 32 compañías de origen foráneo (portuguesas, inglesas, alemanas). Finalmente, la historia económica señala que la exportación de café tuvo un papel preponderante en el desarrollo del seguro marítimo, al igual que el azúcar, el algodón y el caucho natural. El siguiente resumen fue sacado de un escrito de Therezinha Vollú da Silva Filha:

En 1850 se promulgó el código comercial brasileiro que reguló el seguro marítimo y el aseguramiento de los esclavos. En la segunda mitad del siglo XIX se estableció una supervisión mínima que exigía la presentación de balances a las autoridades. Para finales del siglo XIX el capital inglés predominaba en las inversiones extranjeras de seguros en Brasil (17% del capital foráneo), cifra que disminuyó a menos del 1% al iniciarse el siglo XX. En 1916 se emitió el Código Civil Brasileiro que creó el seguro obligatorio de accidentes de trabajo. En 1939 se creó el Instituto de Reaseguros de Brasil (IRB), que consolidó la intervención estatal en el mercado de seguros. Durante la segunda guerra mundial se cancelaron las licencias de las aseguradoras alemanas e italianas.

El seguro de vida tenía poca aceptación y un limitado desarrollo debido, entre otras cosas, a que durante la esclavitud esta cobertura solo se autorizaba para los esclavos.

A mediados del siglo XX se registraba una hiperinflación que tuvo efectos negativos en los seguros, lo que llevó a la creación del Sistema Nacional de Seguros Privados en 1966, que constaba de la Comisión Nacional de Seguros Privados (CNSP), la Superintendencia de Seguros Privados (SUSEP), el IRB y las sociedades aseguradoras y corredoras autorizadas. En esa ocasión se estatizó el seguro de accidentes de trabajo. Posteriormente, la bancarización de los seguros condujo a un mercado marcadamente oligopólico y de poca competencia, esquema que empezó a romperse en 1986 cuando se le permitió al capital extranjero controlar el capital accionario de las aseguradoras en Brasil.

La crisis de los seguros a nivel mundial en la década de los noventa llevó a cambios radicales en el sector que adoptó una posición de compromiso social oficialmente transmitida a los órganos del Estado y que traería consecuencias

en los años siguientes. En 1996 se dieron cambios en cuanto a la liberación de las limitaciones del capital extranjero, el monopolio del IRB y la entrada de compañías foráneas a la actividad de la salud.

Al resumen anterior habría que agregarle que entre los años 1998 y 2001 hubo reformas que condujeron a que las aseguradoras de salud se convirtieran en empresas especializadas, bajo la supervisión de la Agencia Nacional de Salud Suplementaria (ANS). De otro lado, los aseguradores mantienen la expectativa de que el Seguro de Accidentes de Trabajo (SAT) vuelva a ser parte de las coberturas atendidas por las compañías del sector.

Cabe anotar que el mercado de seguros de Brasil realizó un cambio más lento que el de otros países Iberoamericanos pero finalmente desembocó en las medidas de fondo anotadas arriba, hecho que llevó a que muchas empresas extranjeras se establecieran en el país en la última década del siglo XX y en lo corrido del XXI, acabando así con el proceso de aislamiento y de barreras de entrada al desarrollo internacional de los mercados, los capitales y las finanzas. Es decir, dándole cabida a los recursos globalizados.

En resumen, al apuntarle a la meta de llevar al 5% el indicador Primas/PIB en el 2004, la industria se comprometió en el orden económico, social y ético frente a los retos de la nación, mediante el Plan Sectorial de la Industria de Seguros, promovido por FENASEG, el gremio asegurador.

1.2 Capitalización

La capitalización empezó a funcionar en 1929 mediante los *Títulos de Capitalización*. Luego las compañías del ramo se afiliaron a la Asociación de Compañías de Seguros y entraron a formar parte de este sector, bajo la supervisión del Departamento Nacional de Seguros Privados y Capitalización. Después de sufrir los efectos negativos de la alta inflación, a la altura de 1994, el sistema de capitalización se recuperó con un indicador de 0,24% del PIB. En el año 2002 operaban en Brasil 23 sociedades de capitalización.

1.3 Seguridad Social

▪ *Pensiones*

El costo de la transición del sistema de reparto al de capitalización individual se estima entre el 200% y el 250% del PIB del país (valor presente de las obligaciones futuras). La previdencia complementaria de pensiones cumplió treinta años con las Entidades Cerradas de Previsión Complementaria, que operan en las empresas y se acercan a los tres millones de afiliados con un ahorro previsional acumulado de 200 millones de dólares. De mantenerse el ritmo actual se llegará a \$300 mil millones en el año 2010. Las primas de los

fondos abiertos, gestados por las compañías de seguros, son de \$4.000 millones/año.

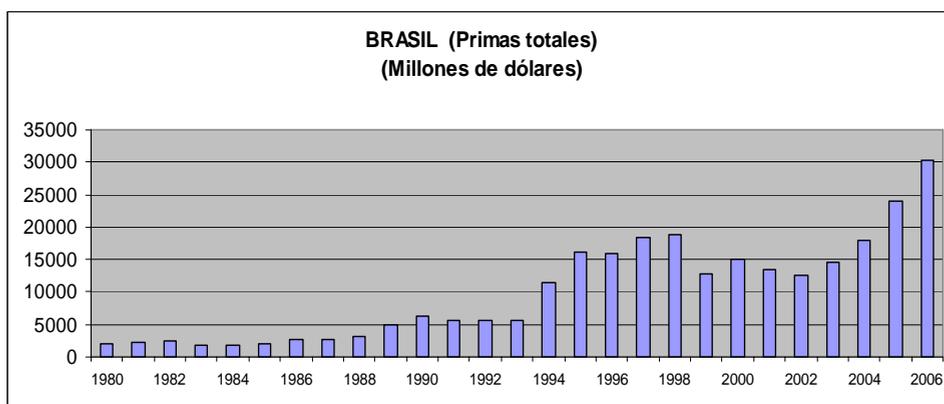
- *Salud*

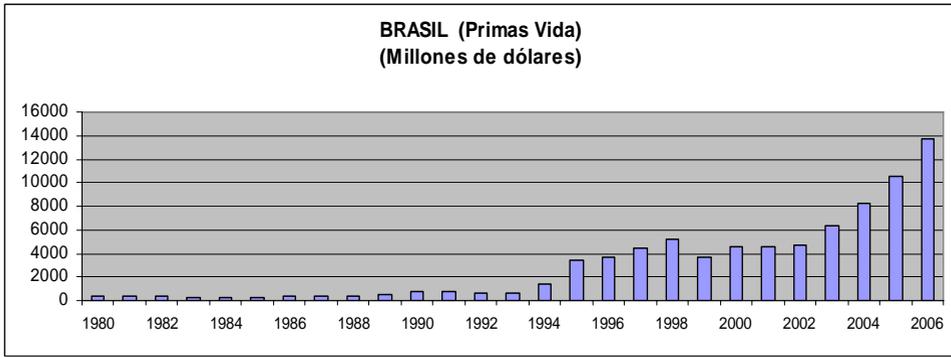
El esquema sanitario brasileño ha seguido la trayectoria de los países Iberoamericanos. Cajas de Jubilación y Pensiones (CAPs), financiadas por trabajadores, empresas y gobierno e Institutos de Jubilación además del Ministerio de Sanidad. Dicha estructura, junto con los subsistemas del Ministerio de Sanidad y de los estados y municipios, permaneció hasta los años 80. En 1988 se creó el Sistema Único de Sanidad (SUS), que unificó estas estructuras.

1.4 Producción, penetración y densidad del seguro en la economía

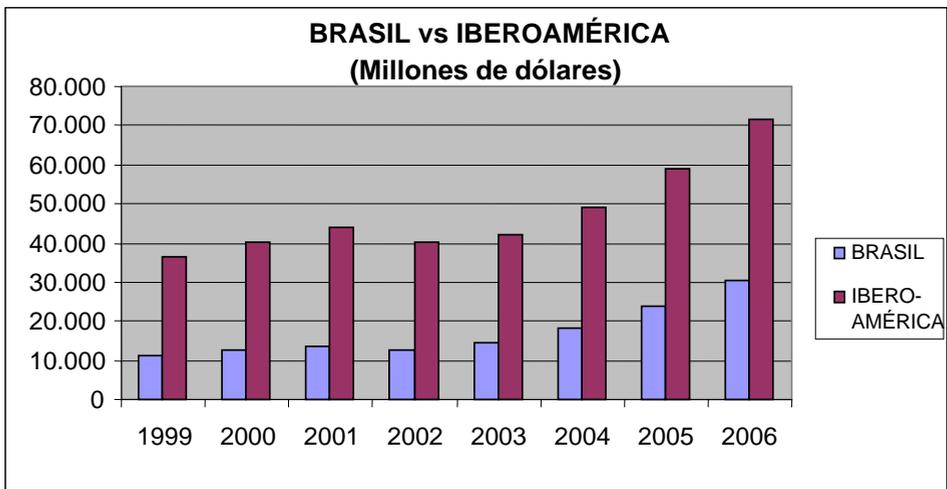
El incremento del mercado brasileño de seguros confirma que el crecimiento económico no necesariamente genera crecimiento en la actividad de seguros ya que éste puede expandirse aún bajo condiciones económicas no favorables, gracias a factores propios de la industria. En este caso, el crecimiento en el mercado de seguros está correlacionado con una inflación baja y estable, especialmente en la década de los 90 y con la desregulación, la apertura al capital extranjero, el crecimiento de la previdencia complementaria, la adopción de estándares internacionales en 2003 y la autorización al capital extranjero para operar el reaseguro. Dicho desarrollo hizo que la industria aseguradora jugara un papel multidimensional en la globalización de mercados al crear instrumentos para diversificar riesgos. Además, llevó a explorar nuevas áreas de operación como los fondos de pensiones públicas que hasta hace poco eran exclusivamente dominio del sector estatal. Las cifras se aprecian en los siguientes gráficos:

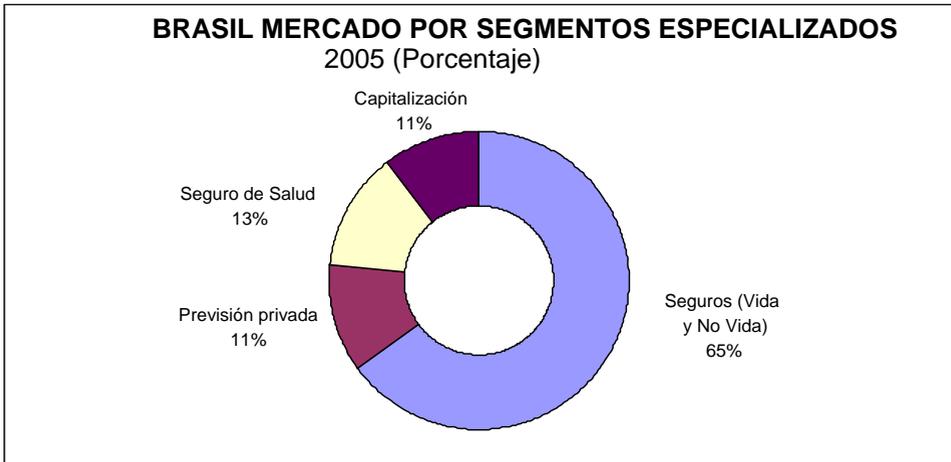
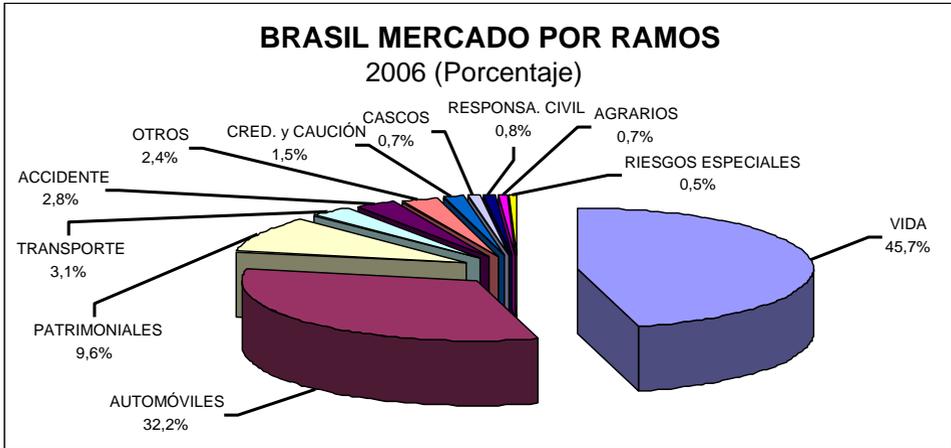
Primas totales, Vida y no Vida





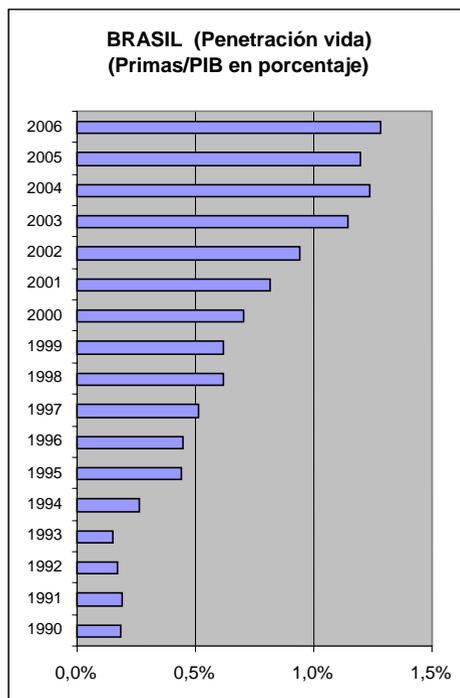
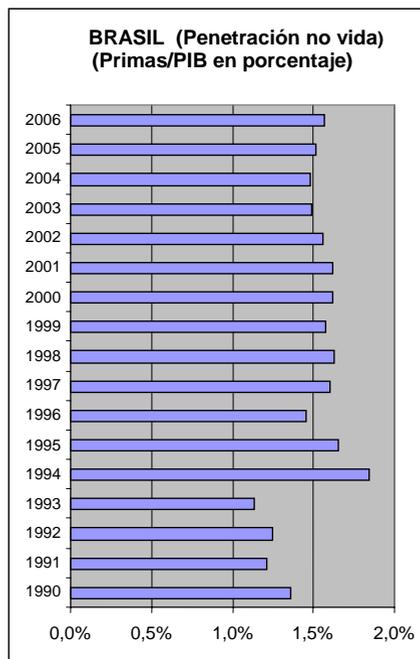
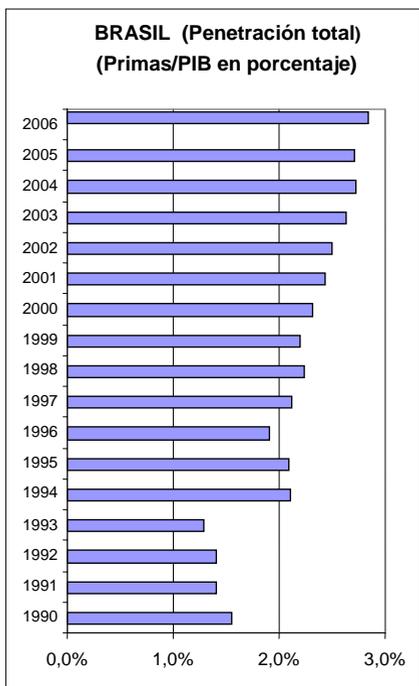
El *primaje* del año 2006 es el 43% de las primas de Iberoamérica



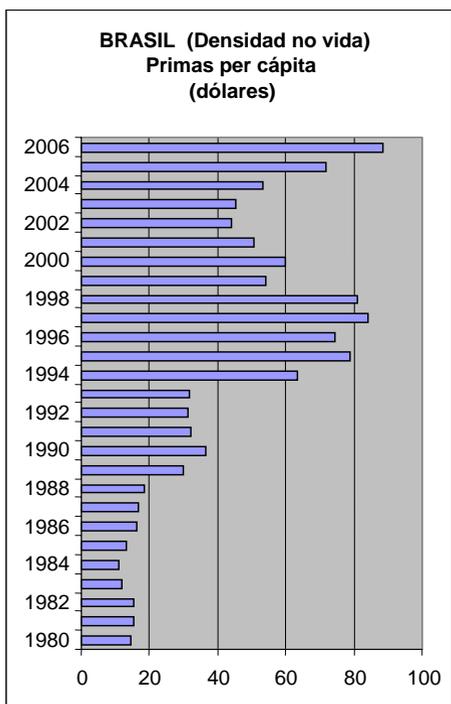
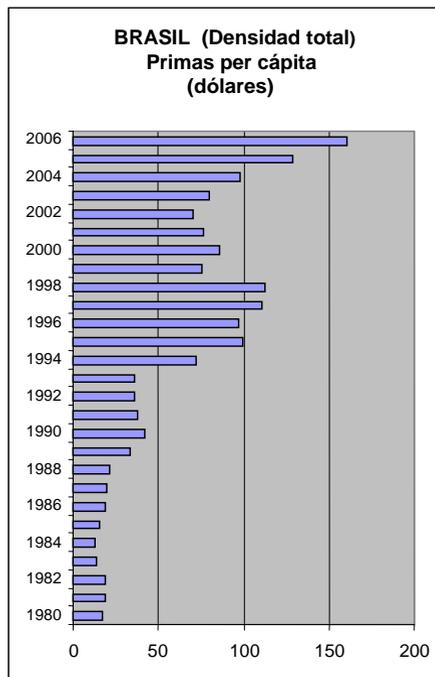
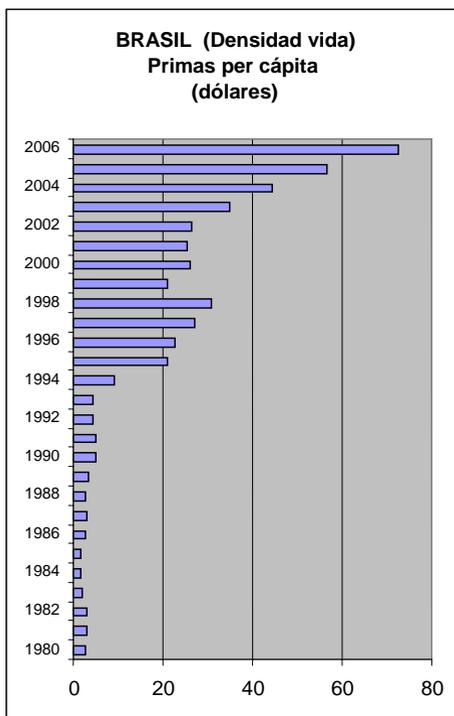


Penetración del seguro en la economía

El incremento constante de primas, no obstante el crecimiento de la población, hace que el índice de Penetración (Primas/PIB, en porcentaje) sea de los más altos de Iberoamérica:



Densidad del seguro en la economía (primas per cápita)



1.5 Siglo XXI

En esta centuria las cifras básicas de la economía brasileña, que está entre las primeras diez del mundo, son de obligada referencia para recordar su dimensión:

A finales del 2006 terminó el monopolio del reaseguro ejercido por el IRB (Brasil Re), mediante ley que regula dicho mercado y las operaciones de coaseguro, contratación de seguros en el exterior y colocación de seguros en moneda extranjera.

Año	Producto Interno Bruto (PIB) (millones de dólares)	PIB per cápita (dólares)
2003	1.340.000	7.600
2004	1.375.000	7.600
2005	1.492.000	8.100
2006	1.536.000	8.300
2007	1.655.000	8.800

Así se formalizó la apertura de los reaseguros a la competencia privada nacional e internacional, después de diez años de negociaciones. Dicha apertura será gradual. Durante los tres primeros años la inversión extranjera estará limitada al 40% del mercado brasileño. Sin embargo, la idea del Gobierno es no privatizar la parte que es de propiedad estatal del IRB y mantenerlo como un participante más en el mercado abierto de reaseguros, dentro del nuevo modelo de la apertura. La SUSEP emitió a finales del año 2007 diversas resoluciones que -después de setenta años- abren el monopolio del IRB. Es previsible que las cifras de reaseguro se doblen en cinco años.

La minuciosa reglamentación expedida por la SUSEP trata de prever las contingencias para que los reaseguradores locales y foráneos puedan recibir negocios del mercado de seguros del país. Se crean las figuras del reasegurador local, el admitido y el eventual y se fijan los capitales mínimos, las reservas y las provisiones técnicas y matemáticas. Se instituyen además reglas y procedimientos para la retención local y el corretaje de reaseguro. Cabe anotar que hay una alta concentración en la producción ya que los diez primeros grupos acumulan el 77,4% de las primas. En el mercado están autorizadas 130 compañías aseguradoras.

El tamaño de la economía brasilera y su potencial de crecimiento convierten a ese mercado en uno de los más atractivos dentro de los países en desarrollo. En seguros específicamente está el crecimiento de primas de seguro directo, la liberación del reaseguro y los desarrollos futuros de la Seguridad Social en los campos de la salud, los riesgos profesionales y el sistema pensional con sus fondos cerrados y abiertos. Todo ello ha generado una migración importante hacia ese país de los inversionistas en la industria aseguradora internacional.

La evolución de los seguros, como es obvio, está ligada al progreso económico, a la Seguridad Social, a la globalización, a los convenios de integración multilateral y a los desarrollos legislativos, reglamentarios y sociales –educación y evolución científico-tecnológica– unidos a las variables que se moverán con mayor intensidad en los próximos años.

2. MÉXICO

2.1 Siglo XIX

En la segunda mitad del siglo XIX los agentes de las compañías aseguradoras inglesas y norteamericanas colocaban activamente los negocios del ramo, lo cual llevó a que dentro del primer Código Civil Mexicano, en 1870, se regularan los contratos de seguros. Sin embargo en 1854, en el Código de Lares, ya había rudimentos sobre la materia. Más adelante, en 1884, el Contrato de Seguro Mercantil y el de Seguro Marítimo se incluyeron en dicho Código. En 1892 se promulgó la primera Ley Sobre Compañías de Seguros con bastante libertad de operación y muy pocas exigencias.

2.2 Siglo XX

Ante el crecimiento económico de México en las primeras décadas del siglo XX, la actividad aseguradora tomó impulso: en 1910 se expidió la Ley Relativa a la Organización de las Compañías de Seguros Sobre la Vida que estableció restricciones al ahorro de las reservas técnicas. El nuevo reglamento de dicha ley, en 1923, introdujo una mejor vigilancia sobre las operaciones. En ese periodo se crearon más de veinte (20) compañías de seguros.

En el año de 1935 se produjeron decretos para el cálculo de las primas y las reservas, la deducción de primas cedidas en reaseguro y la disolución de sociedades nacionales de seguros, normas que fueron recogidas en la Ley General de Instituciones de Seguros. Esta ley motivó la salida de la mayoría de las compañías extranjeras del mercado mexicano ya que establecía que la filial local respondiera con su activo y con el de la matriz en el exterior.

En cuanto a reaseguros, la norma tendía a favorecer a las empresas mexicanas y a procurar fondos a la economía nacional ya que el reaseguro solo podía llevarse al exterior si las empresas locales no aceptaban total o parcialmente el riesgo. En 1935 había en México 66 sociedades aseguradoras, 14 locales y el resto europeas y norteamericanas. Hasta 1940 se produjeron decretos adicionales que reglamentaban aun más el proteccionismo. En 1943 se puso en vigor la Ley del Seguro Social, que dio inicio al régimen actual, que ha perdurado con las modificaciones que se señalan más adelante.

En 1946 se reformó la Ley General de Instituciones de Seguros que, suavizó la prohibición de contratación de seguros en el extranjero y las autorizaciones

para nuevas empresas aseguradoras, elevó el capital mínimo exigido y creó la inspección y vigilancia de los gastos.

Entre 1950 y 1975 hubo grandes desarrollos en el país: se crearon nuevas universidades y se incrementó la producción petrolera. México era el cuarto productor mundial de dicho combustible. En el lapso corrido entre 1957 y 1975 la actividad legislativa disminuyó aún cuando se expidieron leyes para los seguros agrícolas, de grupo y otros. En 1976 se dispuso un seguro de responsabilidad civil obligatoria, que nunca operó. En 1981 se reformó la Ley General de Instituciones de Seguros, las cuales deberían ser constituidas como sociedades anónimas.

En 1985 el país fue azotado por dos sismos de gran intensidad con indemnizaciones de 275 millones de dólares para cubrir 7.000 reclamaciones. En 1988 el huracán Gilberto provocó grandes daños que costaron 112 millones de dólares. Esos siniestros fueron premociones de lo que acontecería más adelante en materia de sismos, huracanes y catástrofes naturales.

2.3 Supervisión de seguros

En 1946 se creó la Comisión Nacional de Seguros, que luego se fusionó con la Comisión Nacional Bancaria (1970), decisión que fue reversada en 1990.

La Comisión ha sido muy activa en los aspectos generales y macroeconómicos del seguro mexicano (Negociación del NAFTA –Estados Unidos, Canadá y México– y otras negociaciones locales e internacionales). Dicha entidad, además, a partir de 1998 coadyuvó a que el seguro mexicano se orientara hacia un mercado con mayor libertad operativa, apoyado en sistemas electrónicos y en la tecnificación del manejo de datos, para facilitar la transparencia y la supervisión del Estado. También –en el orden global– ayudó a afianzar la imagen del seguro en el país. El director de la Comisión presidió el Comité Ejecutivo de la IAIS y participó en la ASSAL y la OCDE, al igual que en el Fondo Monetario Internacional, el Banco Mundial, el Comité de Basilea, la IOSCO, la Asociación de Ginebra y FIDES.

La Comisión introdujo un modelo para simular siniestros sísmicos y crear reservas técnicas de terremoto, procedimiento que ha sido paradigmático a nivel mundial. Finalmente, cabe comentar la fluida relación entre dicha institución y el gremio de los aseguradores, la Asociación de Instituciones de Seguros, AMIS.

2.4 Seguridad Social

En 1995 se expidió la Nueva Ley del Seguro Social (IMSS), que contempló la creación de instituciones de seguros en el sistema pensional y en rentas vitalicias (AFORES-SIEFORES), para atender a los productos previsionales de

la Seguridad Social. Dentro de las normas se contemplaron disposiciones para cubrir vejez e invalidez. El monto de ahorro acumulado (por las AFORES-SIEFORES) en 2006 era de 73.000 millones de dólares, 12,25 % del PIB de México. En 2007, este sistema contaba con 21 Afores, 37.513.270 afiliados y fondos por 81.859 millones de dólares. En salud, el desarrollo lo han hecho las Instituciones de Seguros Especializadas en Salud (ISES).

2.5 Las cifras de los seguros

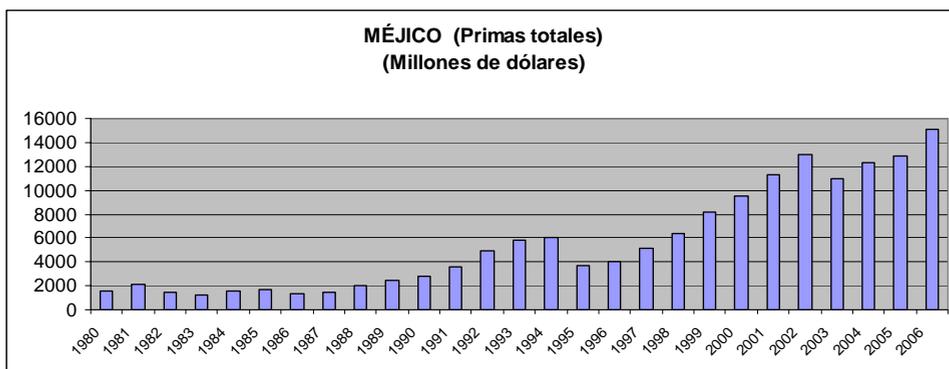
A partir de 1990 la abrumadora dinámica de crecimiento económico ha debido enfrentar los resultados del Nafta (TLC), el desarrollo de la Seguridad Social, la globalización y los embates de China e India. Veamos:

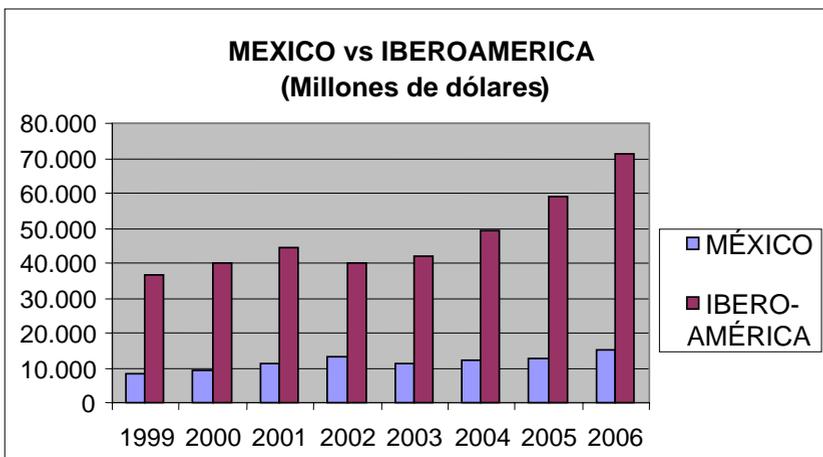
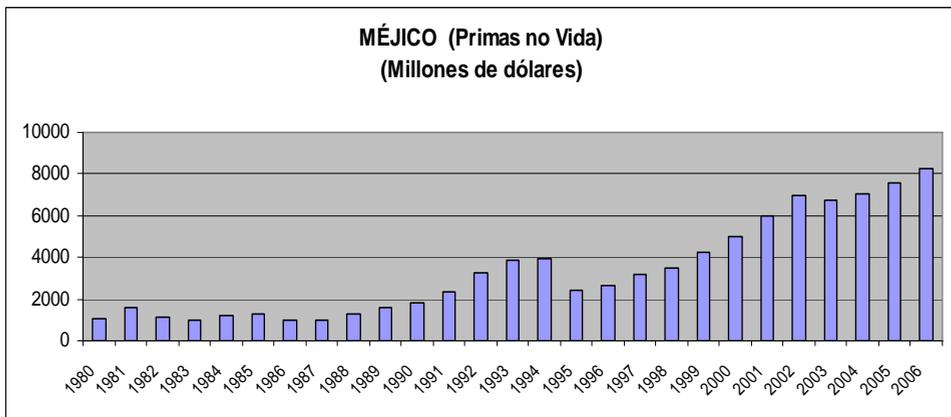
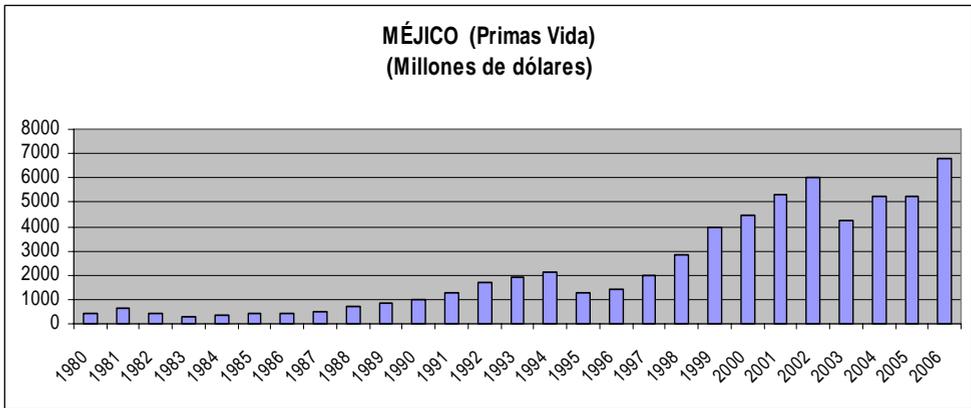
- En el 2003 había 85 empresas de seguros: once de pensiones; catorce de salud; sesenta del resto del sector.
- La producción se concentró con tendencia mayoritaria en el capital extranjero;
- El reaseguro contaba con dos empresas nacionales. Al no existir monopolio de reaseguro, las sesiones se hacen principalmente a los mercados europeos (mas del 60%) y al americano (entre 30 y 35 %);
- Los indicadores económicos y financieros del seguro –incluidos más adelante– muestran esta fortaleza.

2.6 Producción, penetración y densidad del seguro en la economía

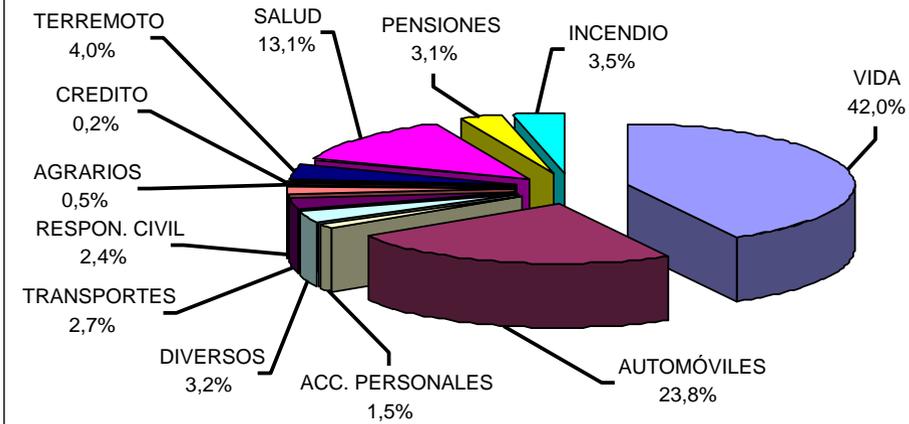
A continuación se presentan –en gráficos– las cifras comparadas del mercado mexicano:

Primas totales, vida y no vida



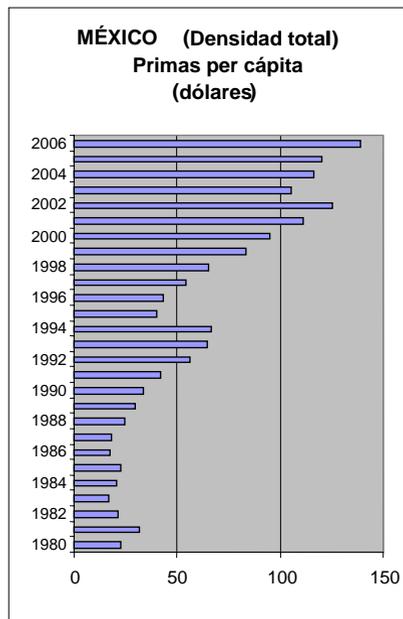
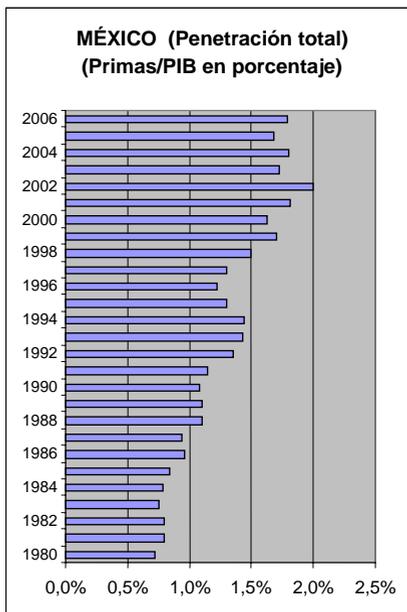


MÉXICO MERCADO POR RAMOS 2006 (Porcentaje)

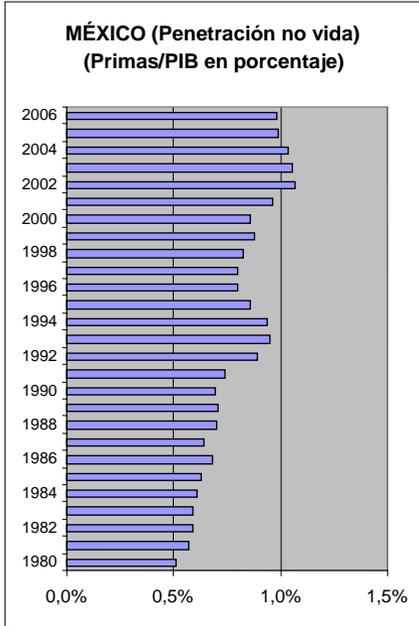


Penetración del seguro en la economía

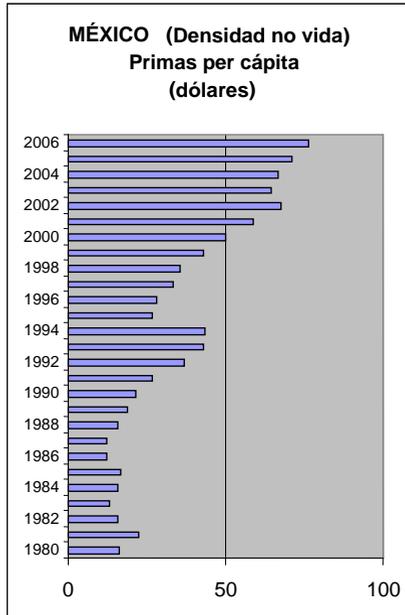
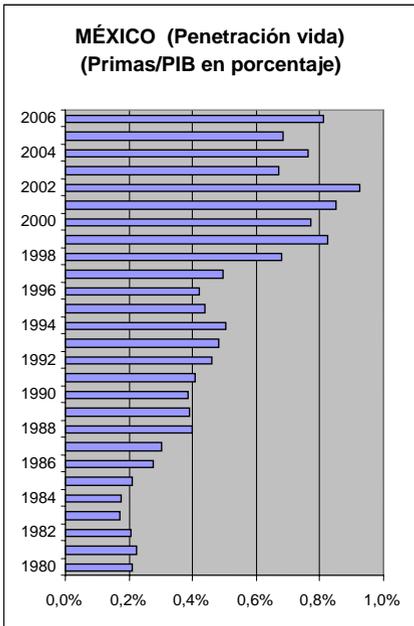
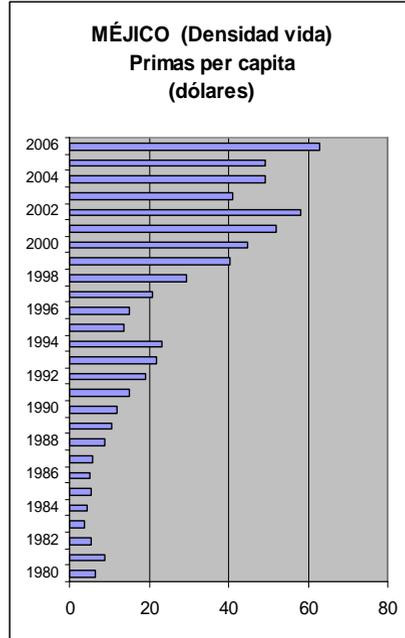
Densidad del seguro en la economía (primas per cápita)



Penetración del seguro en la economía



Densidad del seguro en la economía (primas per cápita)



2.7 Siglo XXI

Las reservas técnicas y los ahorros pensionales cuentan con elevadas proyecciones exponenciales, si se incluyen las rentas vitalicias. En seguros específicamente incluiríamos el crecimiento de primas de seguro directo, el reaseguro, la intermediación especializada (tecnológica y de recursos humanos) y los desarrollos futuros de la Seguridad Social.

El crecimiento de México se expresa en las cifras básicas de la economía:

Año	Producto Interno Bruto (PIB) (millones de dólares)	PIB per cápita (dólares)
2003	900.000	9.000
2004	941.200	9.000
2005	1.006.000	9.600
2006	1.064.000	10.000
2007	1.149.000	10.700

La evolución de los seguros está ligada al progreso económico, a la globalización, a la integración multilateral y a los desarrollos internos -legales, técnicos y políticos- que se presentarán en los próximos años. Sin embargo, México cuenta con las mismas carencias de los demás países de Iberoamérica: pobreza, desnutrición, informalidad laboral, educación precaria, malos servicios de salud, problemas pensionales, insuficiencias sociales, poca investigación científica, infraestructura inadecuada, baja productividad y precarios niveles de competitividad.

En este caso particular es obligado considerar la problemática energética y la producción petrolera local, además de la coyuntura agrícola e industrial y la incursión del país en los servicios de información, comunicación y televisión. Y la actividad del turismo que proporciona muy buena parte de las divisas que ingresan al país.

El futuro dependerá de la integración multilateral, la evolución política de la izquierda en Latinoamérica y las políticas de inmigración de los Estados Unidos. Si México adopta las medidas adecuadas y el mundo no se convulsiona por problemas no previsibles, su economía debería estar muy rápidamente entre las quince o veinte primeras del mundo y los seguros, sumados a los ahorros y a las protecciones de la Seguridad Social, serán más atractivos para el mundo asegurador.

(Nota de actualización: A la altura del mes de diciembre de 2008, el desplome del sistema financiero, la economía, la producción y el empleo en los Estados Unidos hace necesario colocar las observaciones anteriores bajo el lente de la Crisis Economía Global que amenaza desde el horizonte).

3. PUERTO RICO

3.1 Siglo XX

Puerto Rico es un Estado Libre Asociado, lo cual equivale a un territorio no incorporado de los Estados Unidos de América, con estatus de autogobierno. Aun cuando no es un país iberoamericano, sí tiene la vocación de tal, al punto de que es miembro activo de FIDES. Tiene cuatro millones de habitantes y es bilingüe español-inglés, aunque el español predomina. El inglés se enseña como segunda lengua. Los nativos de la isla son ciudadanos de los Estados Unidos con todos los derechos y deberes que confiere esa ciudadanía. El PIB (nominal) es de 86.500 millones de dólares y el PIB per cápita de \$22.058, mucho más alto que el de cualquier país iberoamericano.

Las entidades bancarias y aseguradoras internacionales disfrutaban de beneficios contributivos que elevan las ventajas competitivas para realizar negocios financieros a nivel mundial, tales como exenciones sobre impuestos de la renta, tasas municipales, gravamen de la propiedad, dividendos, ganancias de sociedades, intereses y cargos financieros a entidades bancarias internacionales.

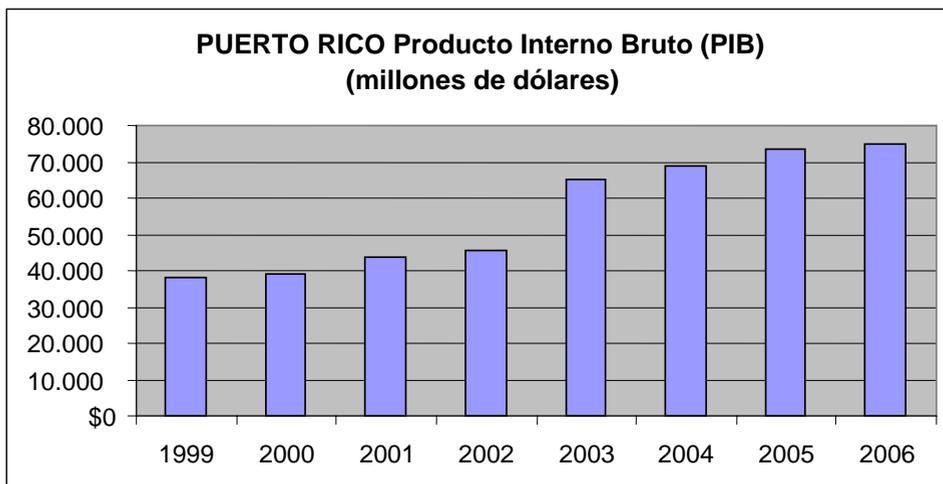
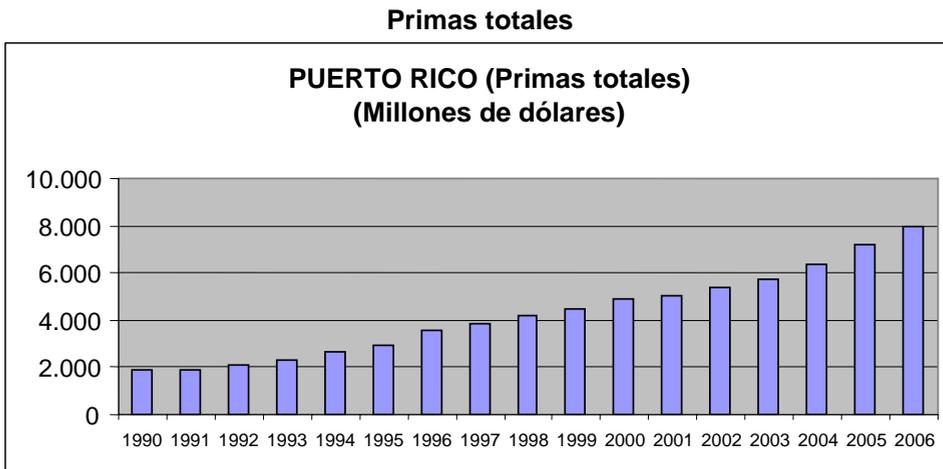
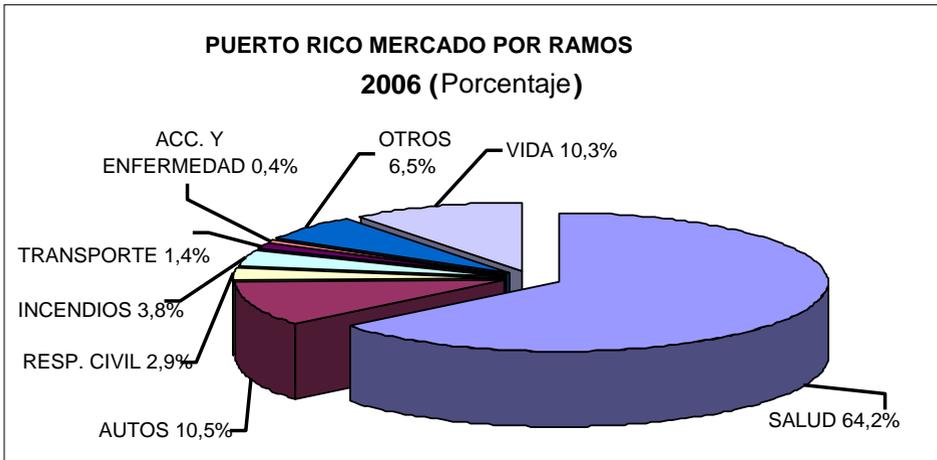
En el 2004 se aprobó el funcionamiento de las compañías foráneas y se incorporaron las exenciones contributivas contempladas en la Ley de Aseguradores y Reaseguradores Internacionales. El estatuto exige el ingreso derivado por el Asegurador Internacional o su propietario, los beneficios recibidos de estas sociedades y los ingresos en liquidación total o parcial. Sus negocios se hacen en buena parte con instituciones del continente de los Estados Unidos.

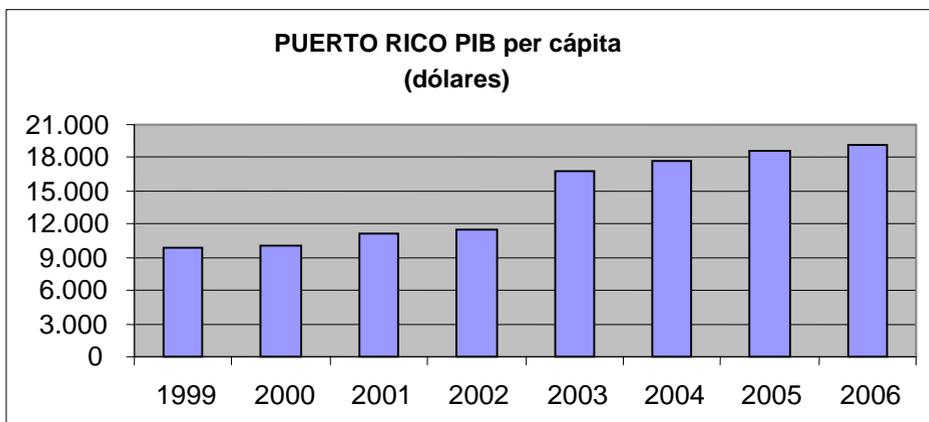
La industria de seguros ha crecido durante los últimos años. Se suscriben más de siete mil millones de dólares en primas y se generan cerca de treinta mil empleos directos e indirectos. Si bien las compañías aseguradoras locales suscriben el 80% del total de primas, en el Estado hay establecido un grupo importante de compañías foráneas. La actividad es supervisada por la Oficina del Comisionado de Seguros.

Puerto Rico aspira a convertirse en el principal centro internacional de seguros del hemisferio iberoamericano. Tomando como base su tamaño es el tercer mercado más grande de seguros en Latinoamérica, sólo superado por Brasil y México. Las primas sobrepasan a los siete mil millones de dólares.

3.2 Siglo XXI

El ramo de salud -a diferencia de Iberoamérica- tiene una participación que sobrepasa el 50% del *primaje* total. Esto es debido al sistema privatizado de la prestación de esta cobertura en los Estados Unidos.





4. ARGENTINA

4.1 Siglo XIX

La Historia del Seguro argentino se remonta a finales del siglo XVIII y se vincula al desarrollo de la actividad comercial y económica en el Virreinato debido al auge del comercio en el Río de la Plata. Producida la emancipación de España, se empezaron a asentar allí representantes de aseguradores extranjeros, particularmente de Inglaterra.

La primera compañía de seguros –La Confianza– se gestó en 1796. En el siglo XIX, el crecimiento económico y comercial del país, con un esquema agroexportador, generó un considerable aumento de la actividad aseguradora. En 1860, en Buenos Aires, se constituyó la Compañía Argentina de Seguros Marítimos S.A. Posteriormente se establecieron compañías de origen nacional y se radicaron empresas extranjeras. En 1890 comenzó la supervisión administrativa de las empresas de seguros mediante un Cuerpo de Inspectores de Sociedades Anónimas y en 1897 se creó la Inspección General de Sociedades.

4.2 Siglo XX

En 1937 se creó la Superintendencia de Seguros de la Nación y en 1946 se constituyó el Instituto Mixto Argentino de Reaseguros (I.M.A.R.) que dio origen al Instituto Nacional de Reaseguros (INdeR), cuya gestión llevó a que el mercado operara sobre bases técnicas muy permisivas porque los aseguradores directos tomaban los negocios, los cedían a dicha entidad y luego recibían en retrocesión aquellas coberturas que les resultaban de interés. De esta forma el INdeR acumuló malos riesgos y retuvo muchos de ellos, práctica que llevó a la corrupción y luego a la quiebra y a su liquidación.

A mediados del siglo XX existían 181 entidades de seguros entre sociedades anónimas (43 de ellas extranjeras), cooperativas, mutuales y organismos oficiales. En el marco de la desregulación de la economía (1991) que permitió de nuevo el registro de entidades de seguros, que se mantenía cerrado desde 1977, la Superintendencia dispuso el Reglamento General de la Actividad Aseguradora, que flexibilizó y *desreguló* el sector en algunos ramos y temas específicos de coberturas de seguros y seguridad social, tales como *Vida Previsional* (jubilación y pensiones) y *Riesgos del Trabajo*.

En 1998 se aumentaron los capitales mínimos, se abrió el registro para nuevos operadores y sobrevino la concentración del mercado por compras, ventas, fusiones, revocaciones y liquidaciones de compañías de seguros. La crisis de fines de 2001 acentuó esta tendencia con la participación de accionistas locales. Desde el 2002 se incrementó la adquisición de empresas extranjeras por grupos nacionales. En el 2005 el número de entidades (Patrimoniales o Mixtas y de Vida, Retiro y Riesgos del Trabajo) se había reducido de 256 en 1995 hasta 192.

4.3 Seguridad Social

- *Pensiones*

En 1994 se instituyó el Sistema Integrado de Jubilaciones y Pensiones, mediante el seguro de retiro pensional y el seguro de vida previsional. Dicho esquema –mixto– está integrado por el Régimen Previsional Público (de Reparto) y por el de ahorro individual con más once millones de personas afiliadas a las Administradoras de Fondos de Pensiones, AFPs. El sistema administra recursos por 30.000 millones de dólares y cuenta con 4,7 millones de aportantes.

(Nota de actualidad: A fines del año 2008 el Congreso de la República Argentina aprobó la ley por medio de la cual se dispuso la nacionalización del sistema pensional)

- *Salud: las Obras Sociales Nacionales*

La salud está ligada a las mutuales o sociedades de socorro mutuo que dieron paso a las llamadas Obras Sociales, hasta 1970, cuando comenzó la estatización del sistema. Allí se da la apertura a la competencia entre las Obras Sociales, que permite al beneficiario la elección del prestador del servicio.

En 1995 fue sancionada la ley de Riesgos del Trabajo que estableció que todo empleado deberá estar asegurado por su patrono en una Aseguradora de Riesgo de Trabajo (ART).

- *Inflación e hiperinflación*

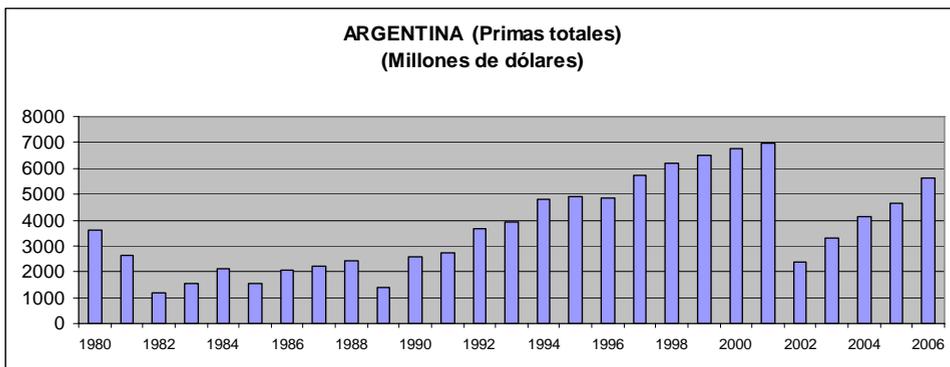
Durante el siglo XX Argentina tuvo un proceso de inflación e hiperinflación que perduró por muchas décadas. En 1989 los precios llegaron a niveles nunca antes registrados: el país vio “morir” a su moneda y “explotar” su sistema de precios. La variación anual de los precios al consumidor llegó al 3.000%, tal como sucedió en otros países latinoamericanos en ese período: Nicaragua, Bolivia, Perú y Brasil, cuyos precios crecieron en 1993 hasta el 2.700%.

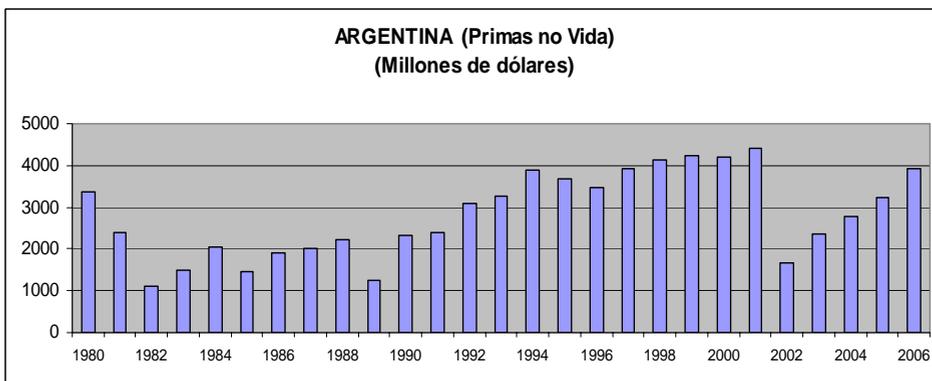
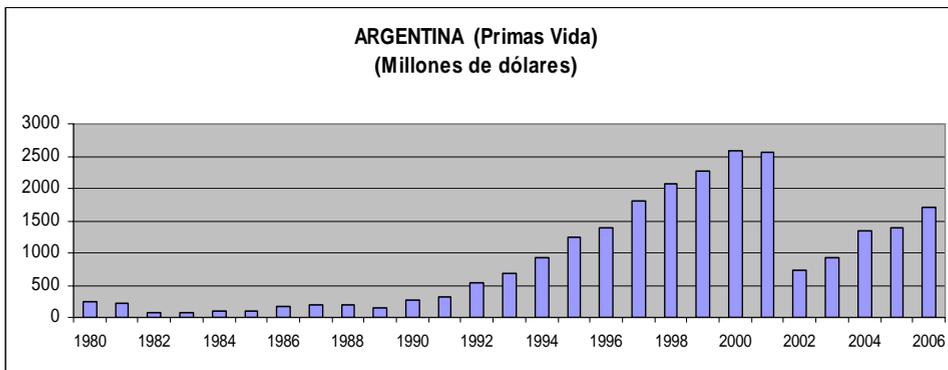
4.4 Producción, penetración y densidad del seguro en la economía

Entre 1980 y 1992 la economía sufrió un deterioro que se reflejó en el primaje asegurador. De 1993 a 2001 (nueve años) el país registró un crecimiento elevado y la bonanza llegó al sector seguros que elevó dicha producción a casi 7.000 millones de dólares.

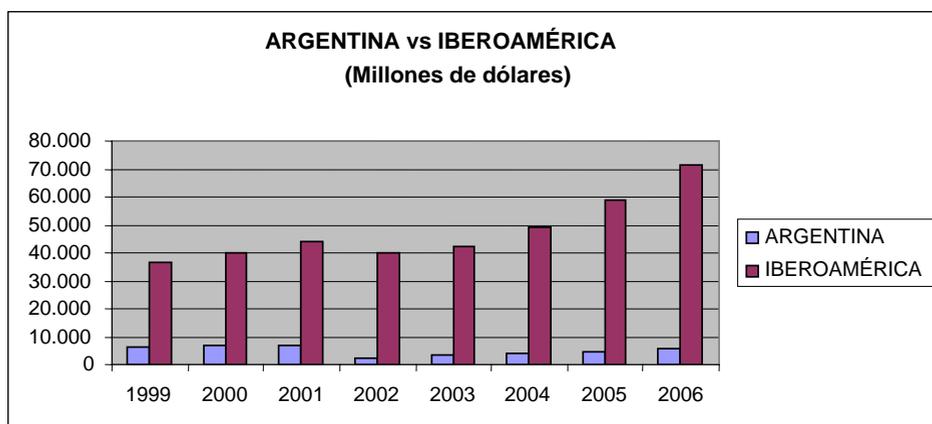
Debido a la crisis del 2002, conocida como *el corralito*, los montos cayeron drásticamente, el PIB se desplomó y el efecto se sintió, obviamente, en los seguros. Allí recomienza la recuperación que alcanza los niveles actuales. El comportamiento se aprecia en los siguientes gráficos:

Primas totales, Vida y No Vida

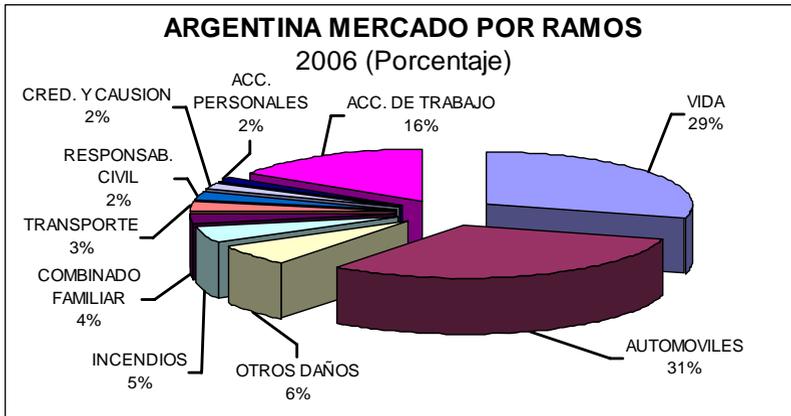




En el año 2000 Argentina tenía una participación mucho más alta en el seguro de Iberoamérica que en el 2006, no obstante la recuperación, tal como se aprecia en el gráfico siguiente:

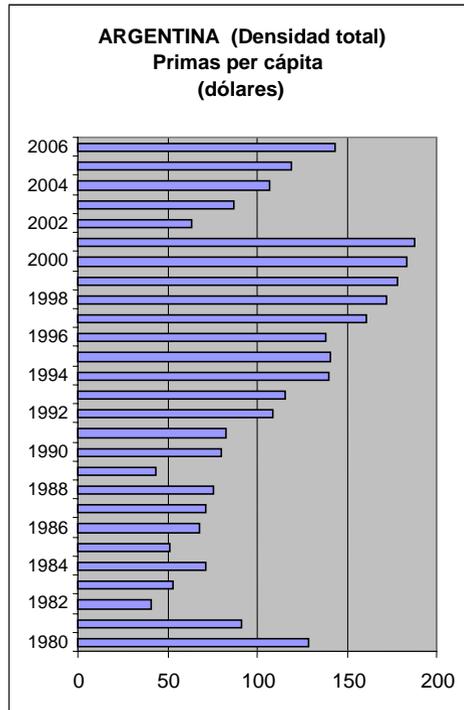
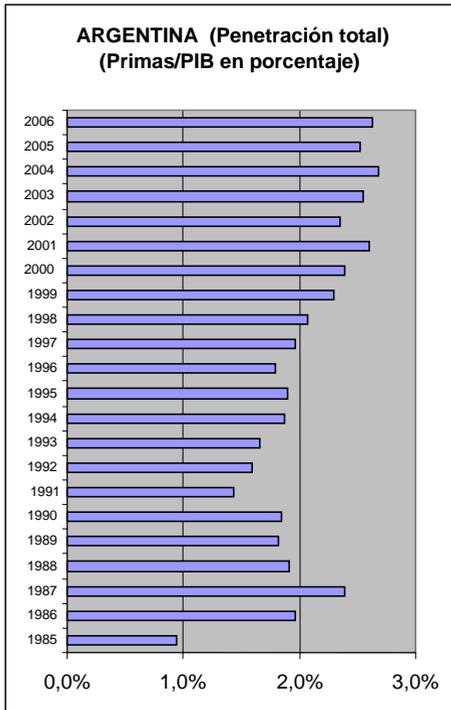


El efecto de esta coyuntura en la producción del sector asegurador, en el año 2006, se visualiza así:

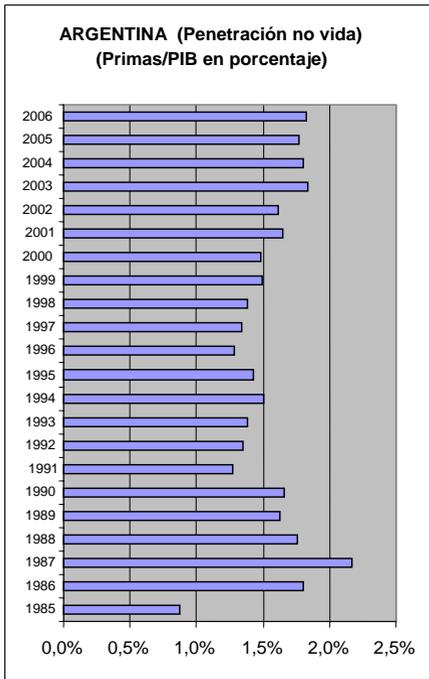


**Penetración del seguro
en la economía**

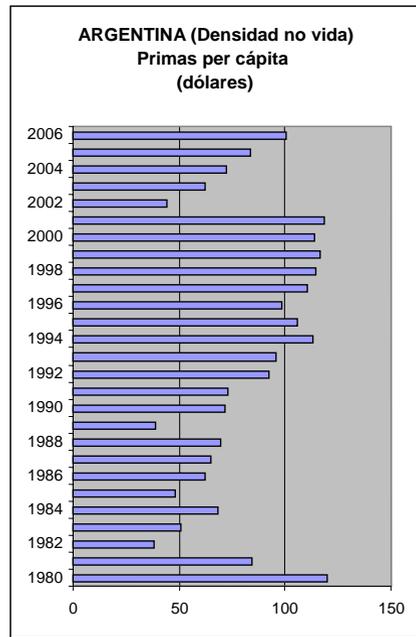
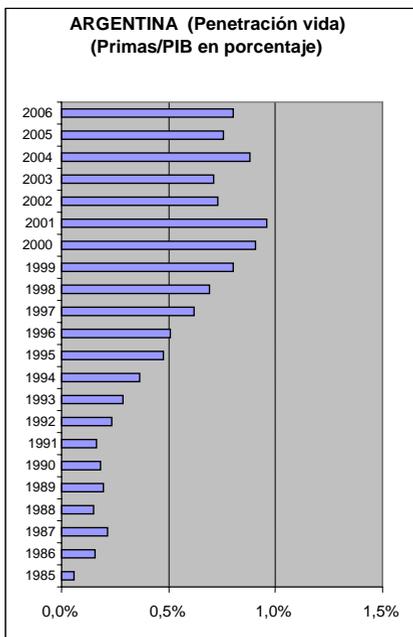
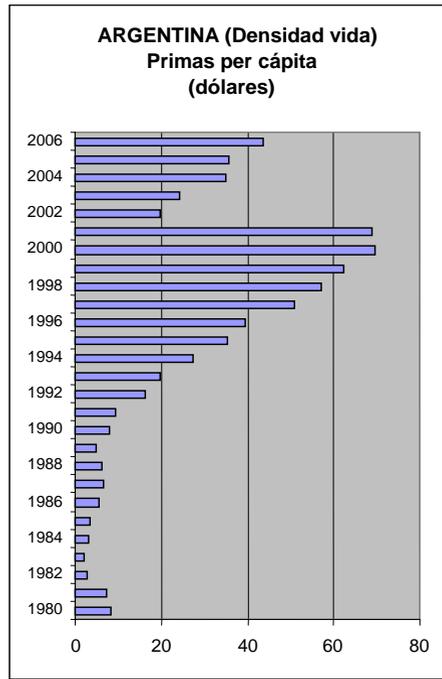
**Densidad del seguro en la economía
(primas per cápita)**



Penetración del seguro en la economía



Densidad del seguro en la economía (primas per cápita)

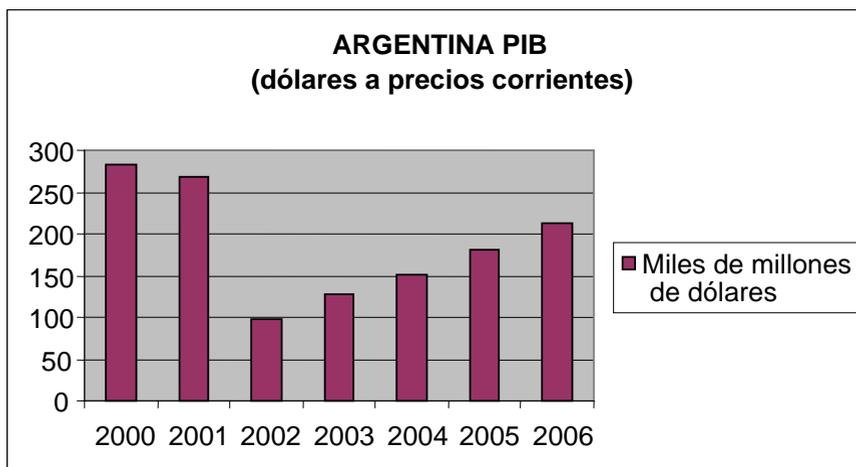


4.5 Siglo XXI

En los comienzos del siglo XX Argentina se contaba entre las primeras economías del mundo a tiempo que en los inicios de la presente centuria sufrió la más grave crisis de su economía con desplome del sistema financiero y colapso de la moneda, lo que trajo quiebras, desempleo nunca visto y niveles de pobreza e indigencia que colocaron a la nación en grados de deterioro comparables con las naciones tradicionalmente pobres en el continente iberoamericano. El Producto Interno Bruto cayó radicalmente en el 2002. La severidad de la crisis en el año 2002 se aprecia en los índices de pobreza y desocupación: 42% y 22 %, respectivamente.

Las primas de seguros se derrumbaron. Sin embargo, una vez más la economía argentina resurgió de sus propias cenizas y en el año 2006 muestra guarismos de PIB y de primas que se incrementan durante el 2007, cuando se rescatarían los niveles del 2001.

Es previsible que dados los desarrollos agrícolas, industriales y comerciales de Argentina en pocos años este mercado se coloque a la cabeza de las cifras de la producción per capita de primas en el continente Iberoamericano.



5. CHILE

5.1 Siglo XIX

En 1865 el Congreso de la República aprobó la legislación “del Seguro en General y del Terrestre en Particular”, que hizo parte del clausulado del Código de Comercio de 1867. A partir de allí se autorizaron diversas compañías de seguro de vida, que no perduraron. Sólo a partir de 1980 el ramo de Seguro Vida toma importancia en la actividad aseguradora.

En 1899 se fundó la Sociedad Contra Incendios y Riesgos del Mar, hoy la Compañía de Seguros AETNA, seguida en 1903 por la Americana, ahora la Real Chilena S.A. Luego, en 1905, se fundó la Compañía de Seguros La República.

Es de anotar que Chile ha sido un país de grandes siniestros naturales, entre ellos los terremotos, por hallarse en una zona sísmica de alta peligrosidad y por los incendios forestales, factores que influyeron en el desarrollo local de la actividad aseguradora.

5.2 Siglo XX

Durante el siglo XIX y comienzos del XX, el reaseguro se mantuvo como actividad privada respaldada por los “Fondos de Reaseguro” de las propias compañías aseguradoras y por el reaseguro internacional.

En 1931, durante la Gran Depresión, se produjo una regulación que estuvo vigente hasta 1980, por la cual el Estado aprobaba las tarifas, las pólizas, las reservas de riesgos en curso, las reservas matemáticas y los balances de las compañías, siguiendo el modelo que imperaba en Iberoamérica. Sin embargo, existía la obligación de reasegurarse en la Caja Reaseguradora creada en 1931 y que subsistió hasta 1989, cuando fue vendida al grupo Mapfre de España. En 1953 se creó el Instituto de Seguros del Estado, ISE, con el cual las empresas públicas y semipúblicas debían contratar sus seguros.

En 1980 se institucionalizó un modelo de desarrollo basado en la libre competencia de los medios de producción. La iniciativa privada se convirtió así en el motor del desarrollo, mediante un entendimiento entre el sector empresarial y los gobernantes para mantener -hasta hoy- los principios y elementos esenciales del modelo: apertura al comercio internacional, libertad de capitales, mercadeo global de los productos chilenos (vinos, frutas, cobre, etc.), entre otros factores. La industria del seguro participa de la libre competencia y de la inversión extranjera como lo hizo el resto de la economía del país.

5.3 Seguridad Social

▪ *Pensiones*

En el país existía un galimatías imposible de valorar social y económicamente, lo cual llevó a una trascendental transformación. Chile es pionero de las reformas de la Seguridad Social en Iberoamérica ya que:

- En 1981 introdujo un cambio radical en los sistemas pensional y de salud.

- Para lo primero, las pensiones, abandonó el método monopólico estatal de reparto y trasladó esta protección –en cabeza de los aportantes al sistema– a los fondos obligatorios de pensiones, AFPs. Esta iniciativa desató una ola de cambios en países de la región y después en otros del este de Europa.
- Por otra parte, creó las ISAPRES (Instituciones de Salud Previsional) que le dieron paso a un servicio privado obligatorio de salud.

El mecanismo de retiro mediante ahorro individual contempla un esquema de contribuciones mensuales como ahorro pensional (10% del salario), que se hacen en cuentas individuales de capitalización, manejadas por las AFPs más los costos de administración y los seguros de invalidez y muerte. La contribución patronal fue eliminada y en el año de inicio del nuevo sistema los trabajadores tuvieron un reajuste salarial por el mismo monto. A partir de 2008 unos 600.000 chilenos que no cotizaron al sistema recibirán una pensión mínima de 157 dólares mensuales, sufragada por el presupuesto nacional. Entre 1981 y 2000, las AFPs recolectaron recursos por 35,8 mil millones de dólares, el 54% del PBI chileno. Con este desempeño, los fondos de pensión acumularían activos equivalentes al 100% del PBI chileno en el 2030.

El cambio ha sido elogiado pero también ha recibido críticas como las siguientes:

- 1) Baja cobertura del sistema. La relación entre contribuyentes y población ocupada descendió del 71,2% en 1975 al 63,6% en el 2000.
- 2) Los costos de administración de las AFPs son altos en comparación con otros sistemas.
- 3) Concentración económica y oligopolio del mercado: las cinco mayores AFP's captan más del 90% del ahorro pensional.
- 4) Vulnerabilidad de los beneficios frente a la tasa de rentabilidad.

Será necesario en el futuro trabajar sobre esas variables pero, sin duda, hasta la fecha la carga pensional dejó de ser responsabilidad del fisco nacional, con excepción de la garantía de pensión mínima.

▪ *Salud*

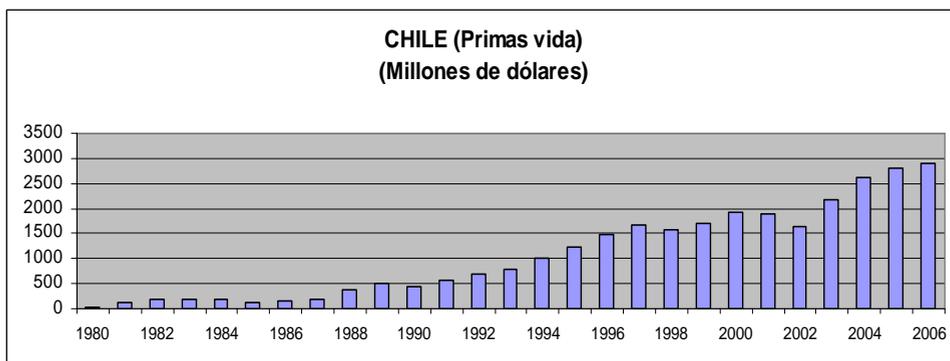
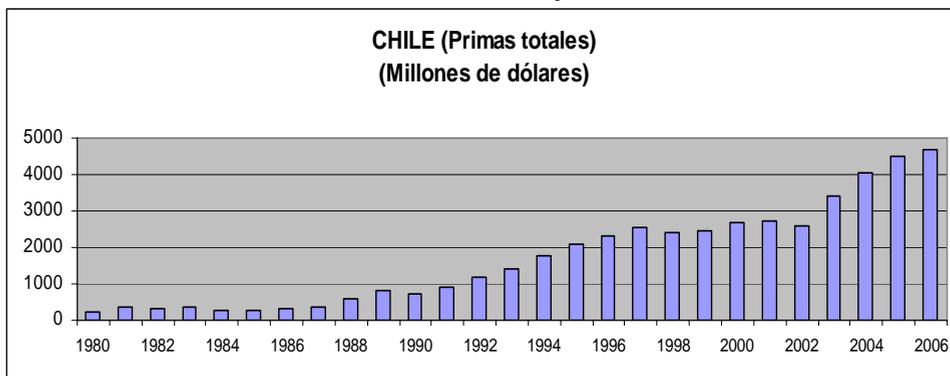
Chile cuenta con un sistema mixto de salud aun cuando desde 1952 dispone del Servicio Nacional de Salud. Las Instituciones de Salud Previsional, ISAPRES, nacieron en 1981 con la reforma del sector que llevó a la administración privada de la cotización obligatoria de salud de los trabajadores y a la libertad para optar al Sistema de Salud de preferencia, adecuado a la capacidad de pago para escoger entre una ISAPRE o el Fondo Nacional de Salud, FONASA. Es obligatorio cotizar el 7% del salario a una ISAPRE o al mencionado instituto FONASA.

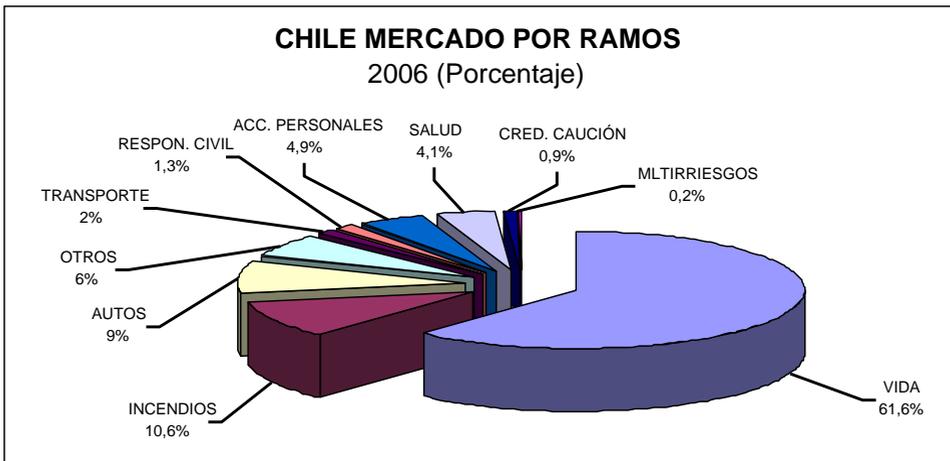
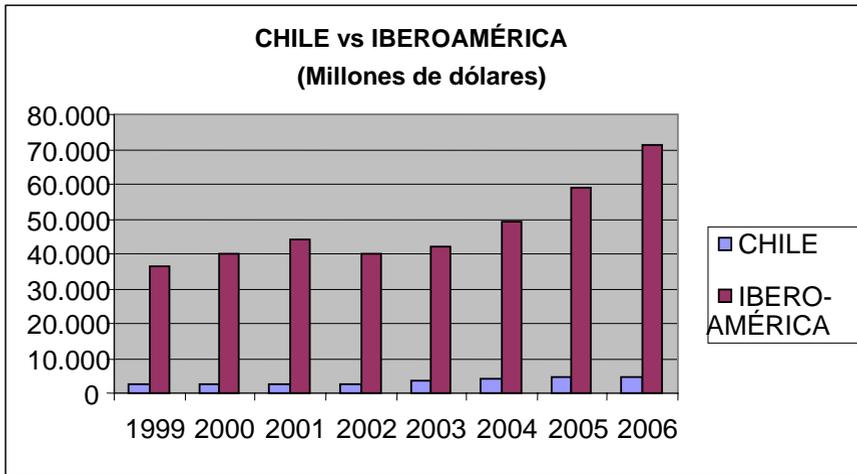
Las primeras, las ISAPRES, son instituciones privadas que asignan planes y coberturas de acuerdo con el monto aportado por el afiliado. El FONASA es un monopolio del Estado que recibe los aportes de los afiliados y a cambio ofrece un plan homogéneo de salud (igual) para todos sus cotizantes. El déficit se compensa con subsidio fiscal para la entidad.

5.4 Producción, penetración y densidad del seguro en la economía

El sostenido crecimiento de la economía chilena ha colocado al mercado de ese país entre los primeros de Iberoamérica en términos de penetración:

Primas totales, Vida y No Vida



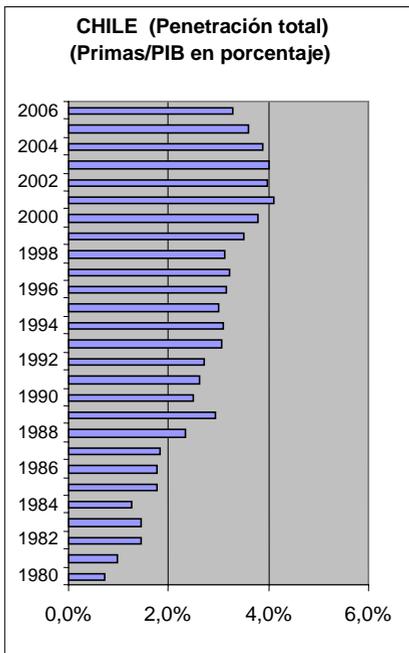


Sin embargo, dada la población del país, su participación en el mercado Iberoamericano de seguros es baja:

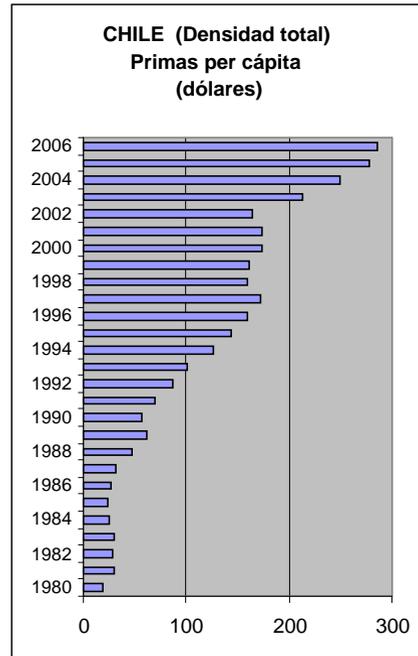
Penetración del seguro en la economía

Durante el período 1980-2003 se registró una expansión económica que impulsó el desarrollo del seguro. A partir del 2004 se registra la disminución del índice Primas / PIB. En cuanto a la densidad (primas per cápita), se registra un crecimiento constante en el período considerado 1980-2006 aun cuando este indicador es bajo comparado internacionalmente. El comportamiento se aprecia en los siguientes gráficos:

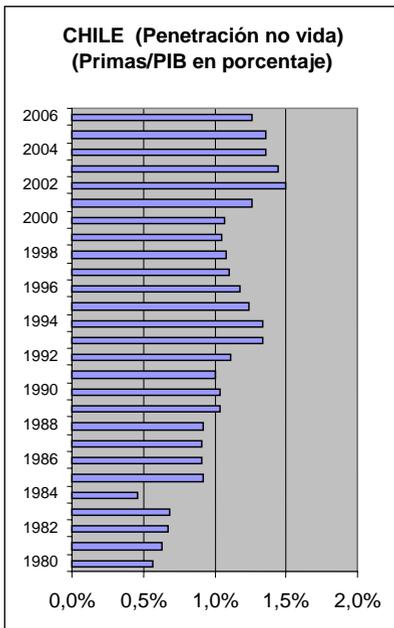
Penetración del seguro en la economía



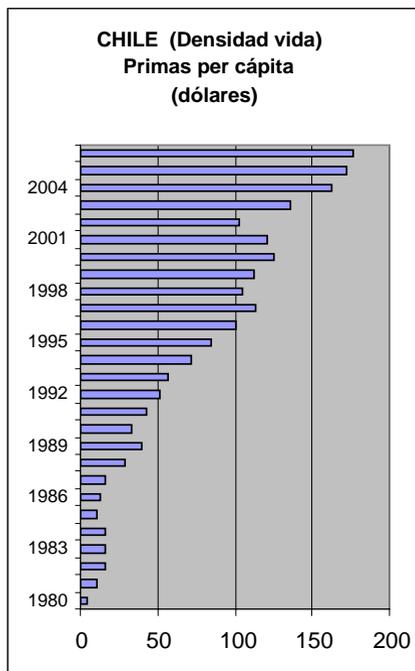
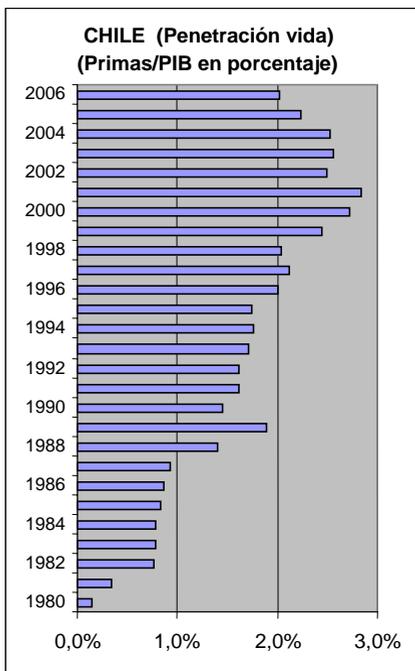
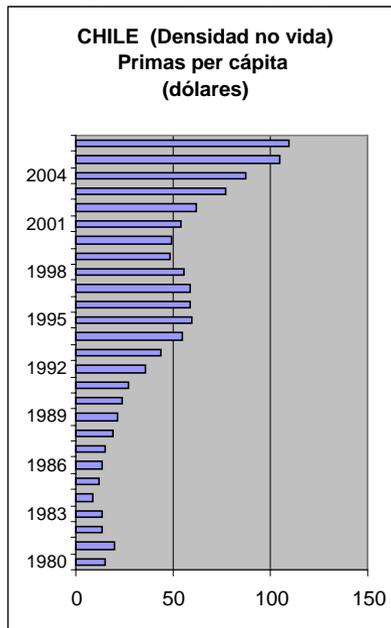
Densidad del seguro en la economía
(primas per cápita)



Penetración del seguro en la economía



Densidad del seguro en la economía (primas per cápita)



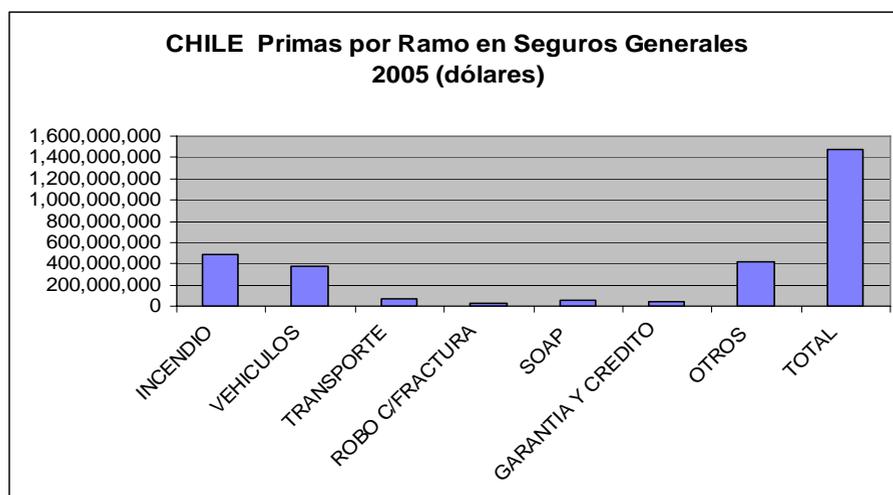
5.5 Siglo XXI

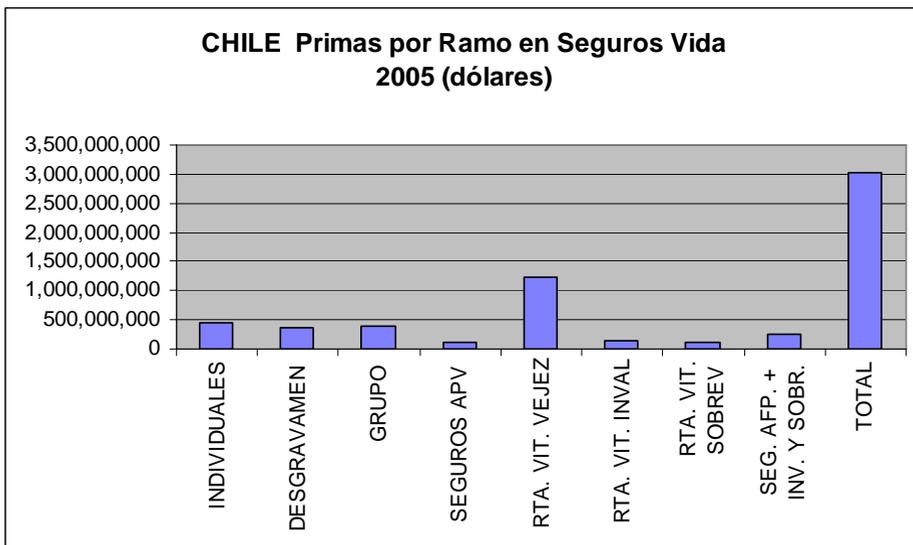
Los indicadores recientes de la economía chilena son de la mayor importancia porque este país ha estado a punto de ser considerado uno de los integrantes del club de las naciones desarrolladas del mundo dados el monto del PIB y los guarismos de ingreso personal.

Año	Producto Interno Bruto (PIB) (millones de dólares)	(PIB) per cápita (dólares)
2003	151.000	10.000
2004	154.700	9.900
2005	169.100	10.700
2006	189.900	11.900
2007	202.700	12.700

5.6 Primas por ramo de seguros generales y vida (año 2005)

La distribución de primas por ramo en el caso de Chile es muy diferente a la de otros países de la región por cuanto la participación del ramo Vida es mucho mayor que la de estos. Al respecto cabe advertir que dicho guarismo incluye las primas de rentas vitalicias después de veintiséis años de haberse iniciado el sistema de las AFPs.





6. VENEZUELA

6.1 Siglo XIX

La historia de los seguros en Venezuela registra el establecimiento de la Compañía Venezolana de Seguros, que se estableció en Caracas en 1893, cuando ya funcionaban agencias de compañías extranjeras. Sin embargo, en 1886 se había fundado -en el Estado Zulia- la primera aseguradora venezolana: "Seguros Marítimos". Luego siguieron "La Previsora" (1914), "Seguros Fénix" (1925) y "La Prudencia" (1932).

6.2 Siglo XX

El seguro mercantil se inicia en 1940. Sin embargo, en 1862 aparece el primer código de comercio que regula la actividad aseguradora. Las escasas compañías de seguros que operaban en el país estaban sujetas a dicho Código. El nuevo Código de Comercio es del año 1919.

En 1935 se promulgó la "Ley de Inspección de Vigilancia de las Empresas de Seguros" para regular la actividad aseguradora. Luego se estableció la Fiscalía de Empresas de Seguros que en 1958 pasó a denominarse Superintendencia de Seguros, adscrita al Ministerio de Fomento. En 1976 esta dependencia pasó al Ministerio de Hacienda, hoy Ministerio de Finanzas.

En 1938 se emitió un nuevo estatuto intitulado "Ley sobre Inspección y Vigilancia de las Empresas de Seguros", cuya norma dispositiva se emitió en

1948. Actualmente la actividad fiscalizadora del seguro la realiza el Ejecutivo Nacional por medio de la Superintendencia de Seguros.

A mediados del siglo (1952) había en Venezuela 31 entidades de seguros: siete compañías de capital nacional; cuatro de capital extranjero y veinte agencias de compañías extranjeras. El reaseguro se colocaba casi exclusivamente en el exterior con niveles de retención nacional muy bajos, exceptuando algunos ramos: los porcentajes de retención local podrían estar entonces en el 90% para Vida y el 70% para Automóviles e Incendio. El Seguro Social obligatorio era una actividad muy incipiente para esa época.

En 1977 las primas del seguro de vida alcanzaban al 22,50 % del total de la actividad, lo que contrasta con los guarismos del 2006 en los cuales dicho ramo sólo participa con el 3,3%:

Primas Vida y No Vida (en millones de dólares)

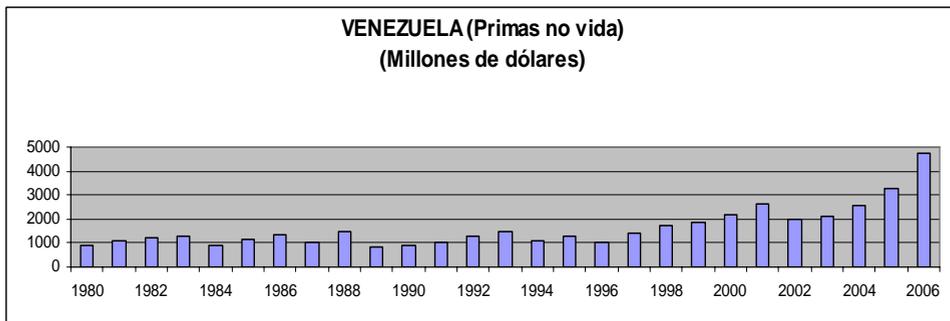
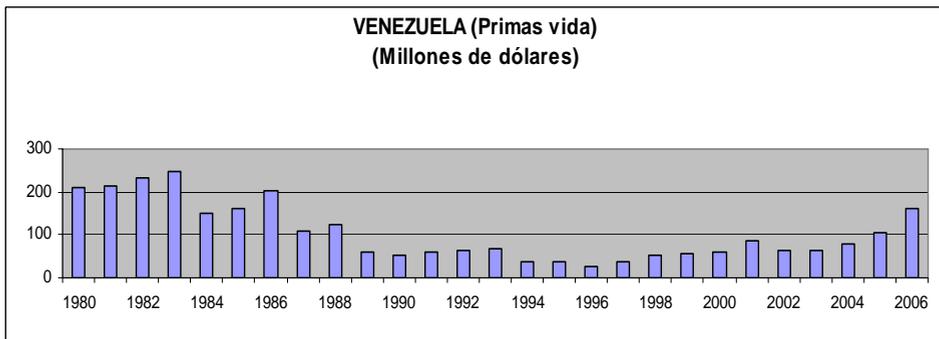
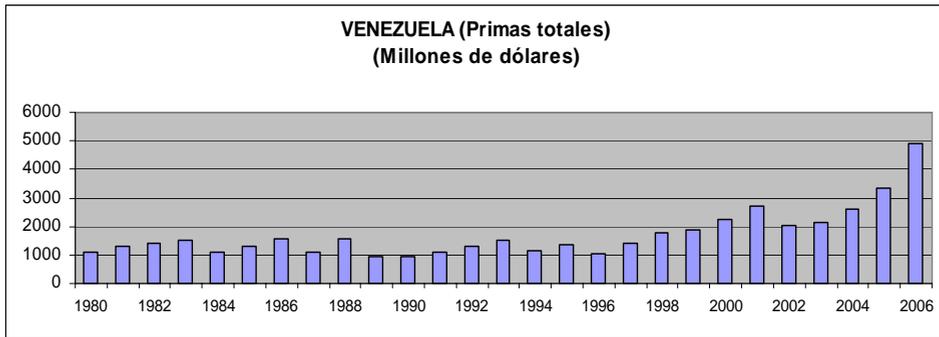
	Año 1977	Porcentaje (%)	Año 2006	Porcentaje (%)
Vida	147	22,5	162	3,3
No vida	507	77,5	4.724	96,7
Total	654	100,0	4.886	100,0

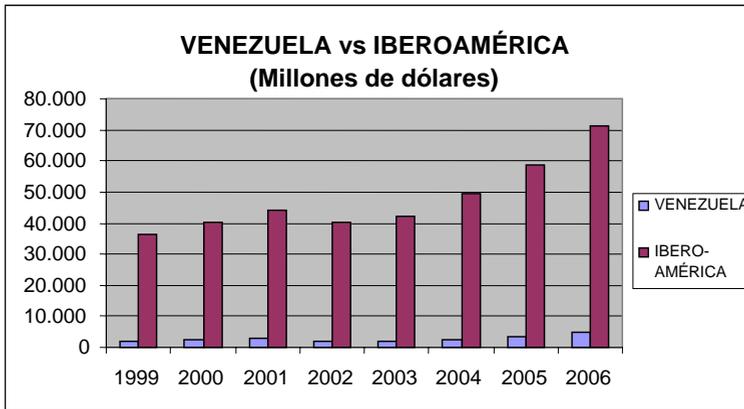
En los años cincuenta se dan cambios importantes ya que en 1.956 las compañías nacionales eran 25, ocho con capital mayoritariamente extranjero. Además, había 23 compañías de capital foráneo. En 1958 surgieron graves problemas económicos y muchas empresas nacionales se declararon en quiebra o en liquidación concertada al tiempo que varias compañías extranjeras se retiraron del mercado de seguro directo. En 1965 se promulgó la “Ley de Empresas de Seguros y Reaseguros”, que obligó a las empresas extranjeras a constituirse en el país y exigió que al menos el 51% del capital fuese de personas físicas o jurídicas venezolanas. Ya en 1980 había inscritas un total de 44 empresas de seguros, guarismo que en el año 2006 alcanzó a 49 entidades. En materia de Seguridad Social, Venezuela siguió el patrón de los otros países Iberoamericanos: monopolio del Estado de las coberturas de salud y riesgos profesionales y del sistema pensional, basado en el método de reparto simple. Aun cuando se han hecho proyectos y aprobado normas y hasta leyes al respecto, la situación está pendiente de una solución de fondo que parece iría en el sentido de permitir el ahorro individual en materia pensional pero manteniendo el monopolio estatal de la salud. Esta situación llevó a que la participación del sector asegurador en los seguros de salud se desarrollara proporcionalmente más que en otros mercados de la región.

6.3 Producción, penetración y densidad del seguro en la economía

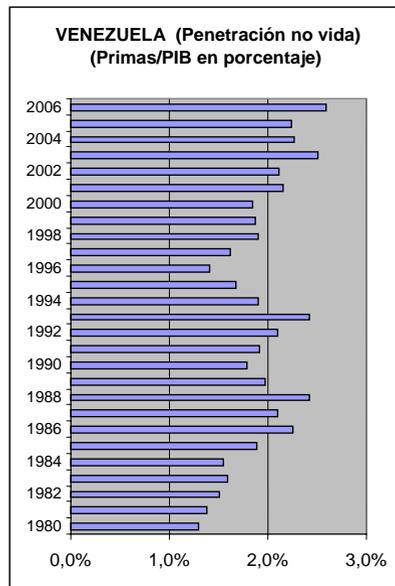
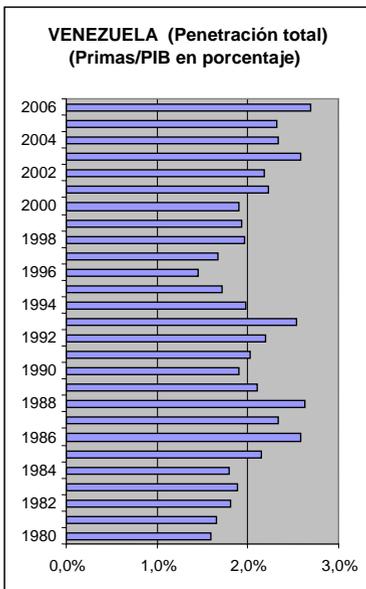
Los gráficos siguientes muestran el comportamiento de las primas y la evolución de la economía en ese período.

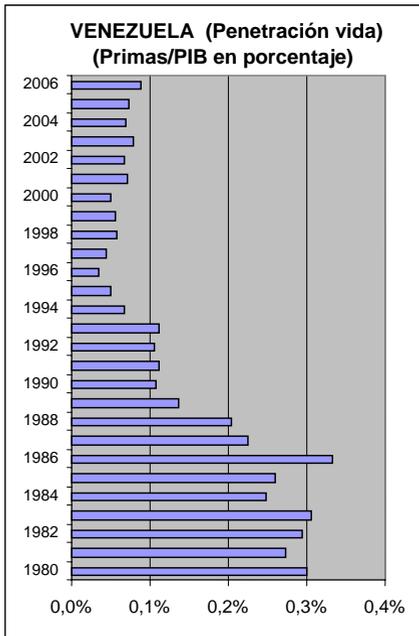
Primas totales, Vida y No Vida





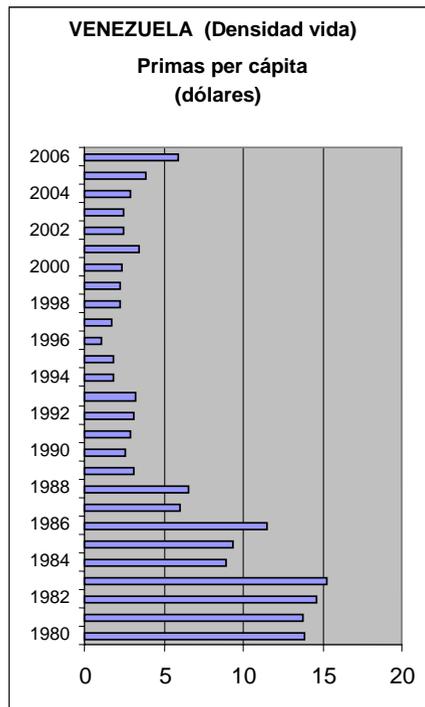
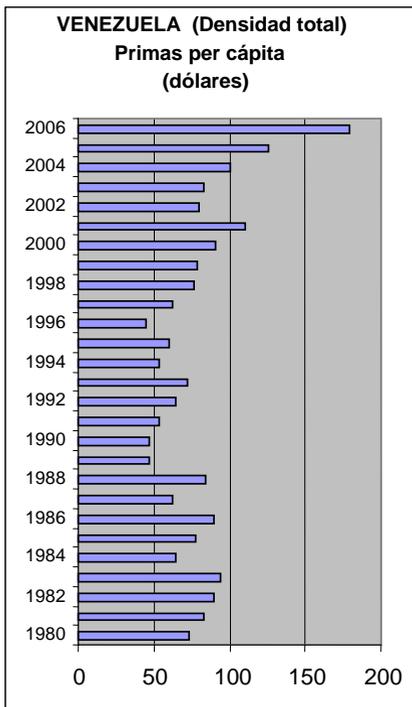
Penetración del seguro en la economía



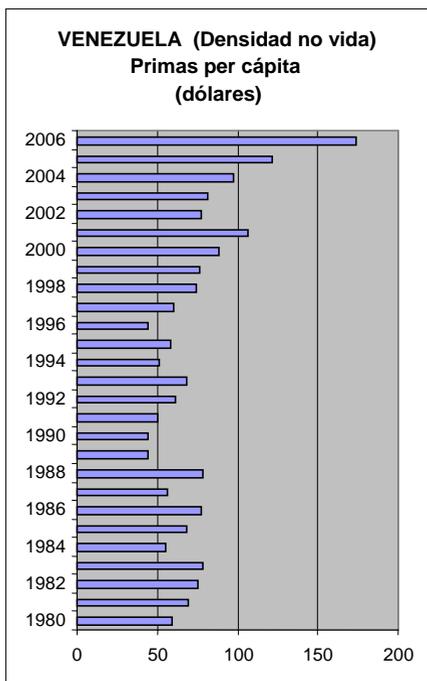


El indicador de primas per cápita registra un incremento sin antecedentes para el año 2006, hecho que merece observación porque todo indica que en primas No Vida el guarismo se dobló en sólo cuatro años al tiempo que el dato de Seguro Vida también se acelera.

Densidad del seguro en la economía (primas per cápita)

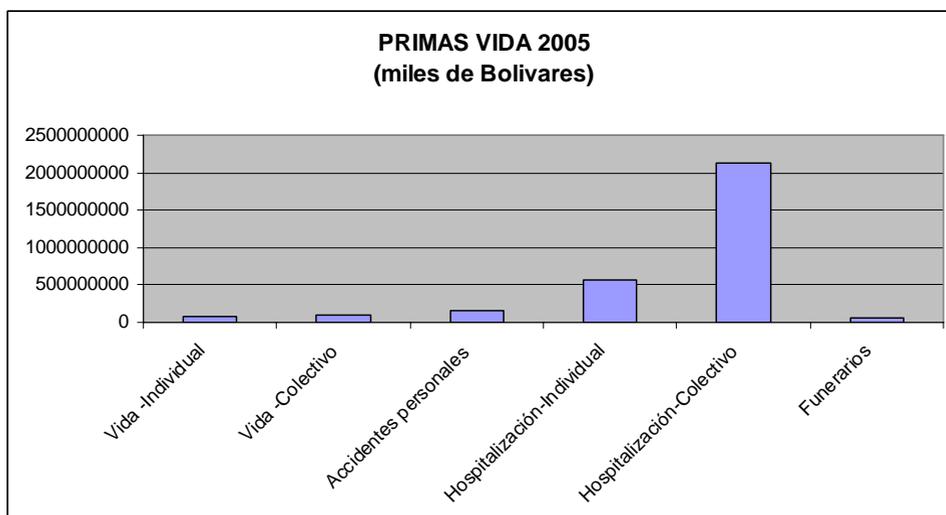


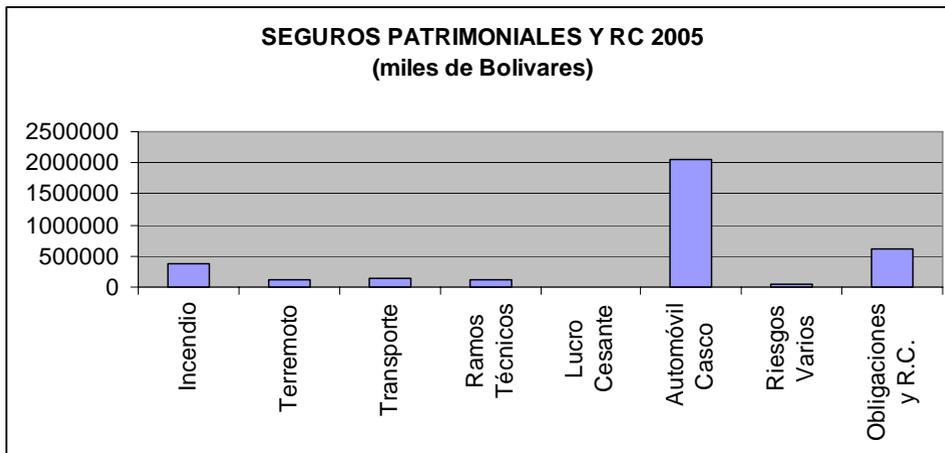
Densidad del seguro en la economía (primas per cápita)



6.4 Siglo XXI

En la presente centuria el seguro venezolano, después de la profunda crisis económica y monetaria sufrida por el país, resurge con cifras que se muestran a continuación:





7. COLOMBIA

7.1 Siglo XIX

A la altura de 1874, ante los riesgos que presentaba la navegación por el río Magdalena, se creó la Compañía Colombiana de Seguros. Los negocios de seguros se enfocaron a incendio y vida y al transporte de mercancías. En 1930 surgieron los seguros de automóviles y de renta vitalicia. Durante ese tiempo hubo agencias de empresas europeas que se convirtieron en empresas nacionales con capital extranjero.

En los comienzos del siglo se produjo la legislación comercial y se aprobó el Código de Comercio Marítimo, normativas que fueron revisadas y compendiadas en el Código de Comercio de 1971, que ha tenido reformas posteriores.

7.2 Siglo XX

La Misión Kemmerer (en los años veinte del siglo pasado), encabezada por el profesor Edwin Kemmerer, de la Universidad de Harvard, sentó las bases para el sistema bancario y financiero colombiano. En la ley 45 de 1923 se reglamentaron las entidades financieras y de seguros que serían vigiladas por la Superintendencia Bancaria y en la Ley 45/23 se establecieron las normas de vigilancia y control para las compañías de seguros por parte de la susodicha Superintendencia.

En el siglo pasado la industria aseguradora fue un actor relevante en la economía nacional. Al tiempo que en 1980 el índice de penetración fue de 1,20 % en 1980 éste subió a 2,35% en el 2006.

La industria aseguradora ha seguido las tendencias internacionales reflejadas en los cambios regulatorios locales al pasar de un esquema de precios regulados a otro de libre mercado; además participa directa e indirectamente en el Sistema de Seguridad Social.

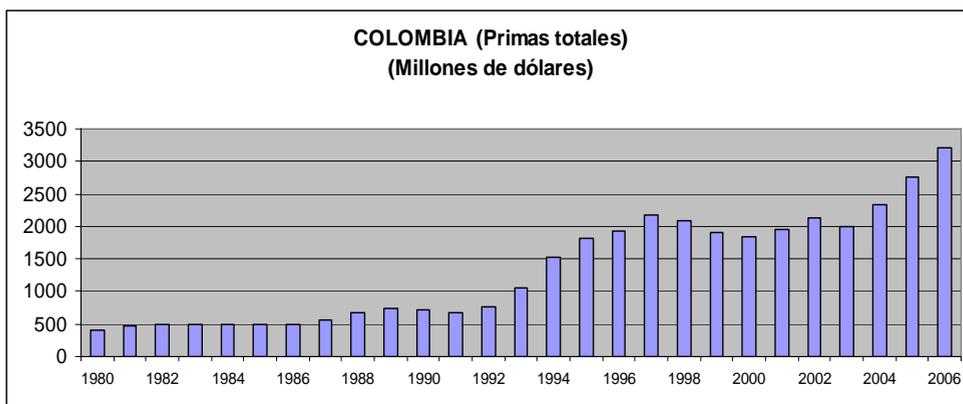
En 1982 hubo una crisis financiera que desencadenó quiebras e intervenciones por parte del Gobierno Nacional y en los 90s otra que fue solventada con recursos oficiales. El Estado intervino entidades privadas, nacionalizando algunas de ellas e, incluso, liquidando bancos pero no hubo casos de cierre de compañías de seguros.

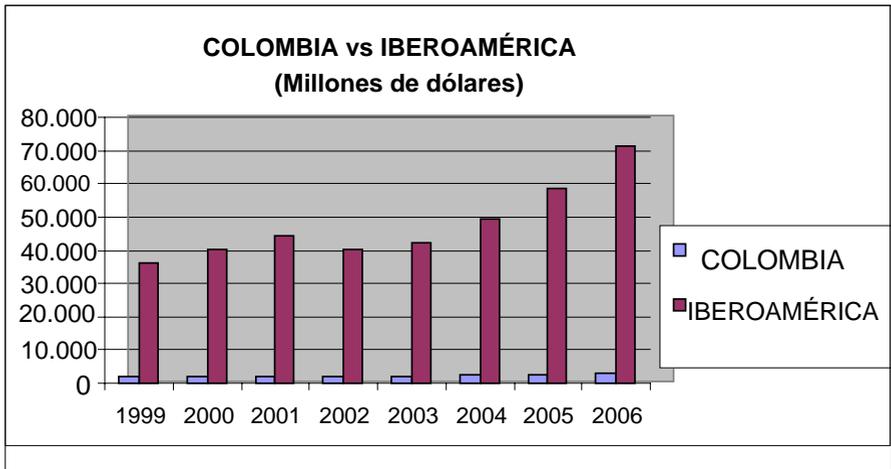
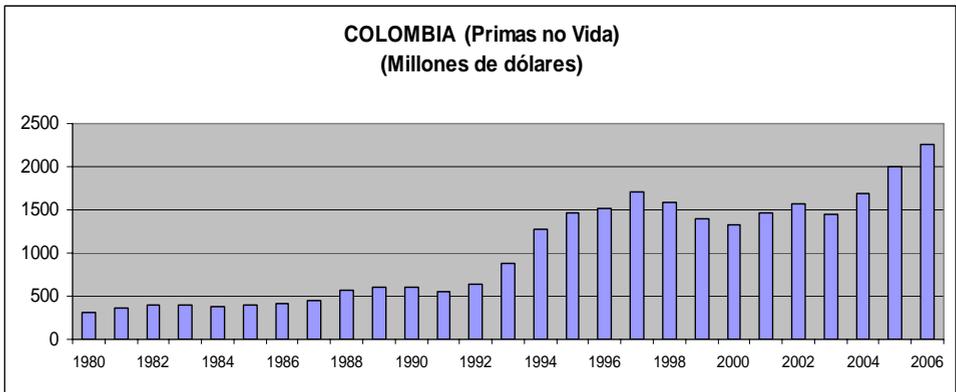
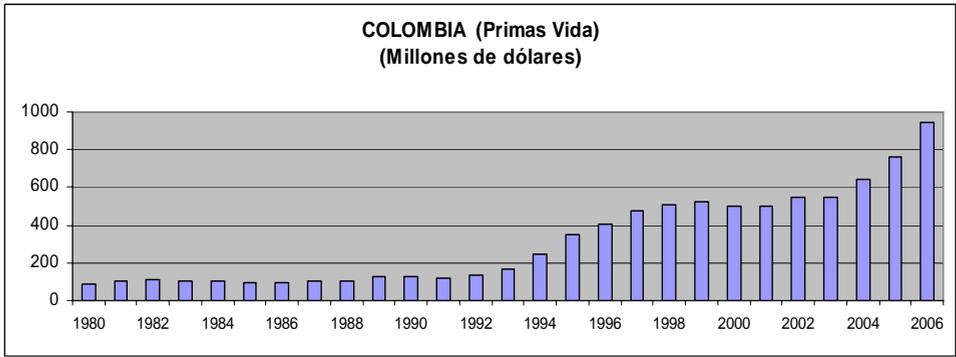
La ley 45 de 1990 generó un cambio estructural que liberalizó el sector asegurador, tanto en productos como en tarifas; modificó el régimen patrimonial al exigir capitales mínimos, patrimonio por ramos, márgenes de solvencia, fondos de garantía, ampliación del régimen de inversiones y prohibición de inversiones forzosas, entre otros aspectos; modificó el contrato de seguro al permitir la expedición de pólizas en moneda extranjera; impuso la terminación automática por mora en el pago de la prima y estableció el plazo para el pago de la misma y de las indemnizaciones.

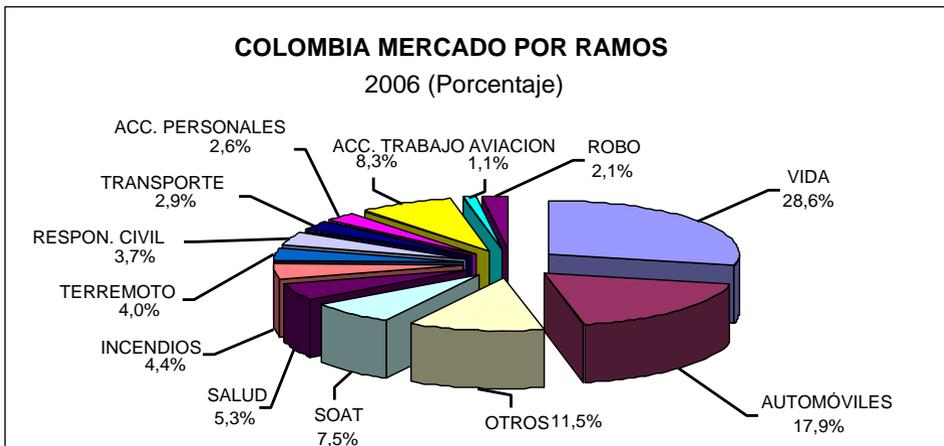
7.3 Producción, penetración y densidad del seguro en la economía

La tasa de cambio fue creciente desde los años 60. En febrero del 2003 comenzó un proceso de apreciación de la moneda similar al de otros países de Iberoamérica. Las crisis de 1982 y 1998 trajeron un aplanamiento de las primas por varios años y la de 2002 (caída del crecimiento, del PIB, recesión, a -4,5%), a más de la revalorización del peso frente al dólar, comportaron una bajada de las mismas. Los gráficos siguientes muestran este comportamiento:

Primas totales, Vida y No Vida



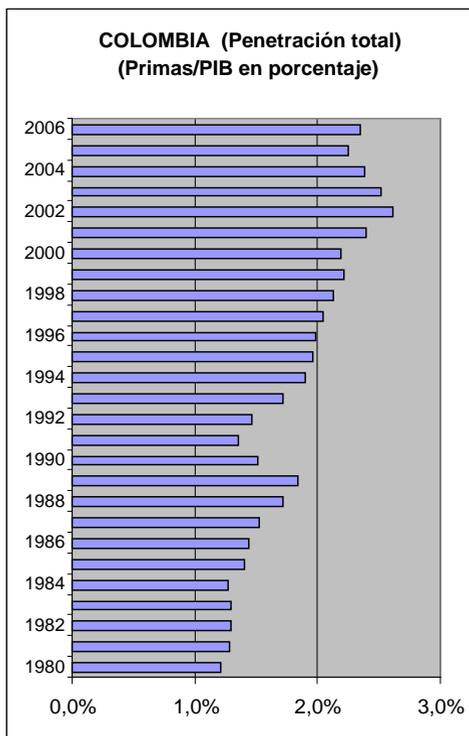




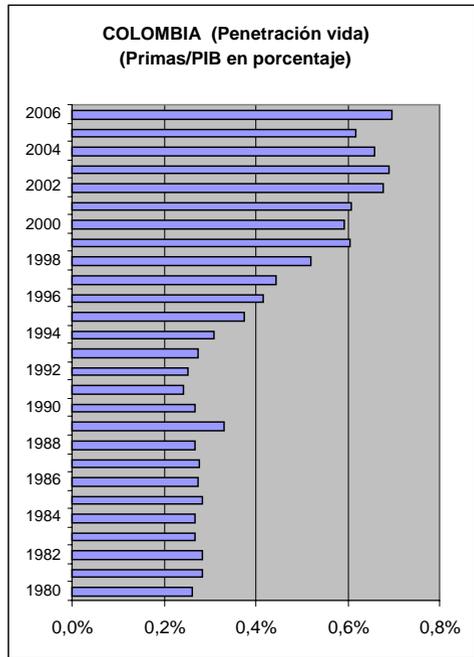
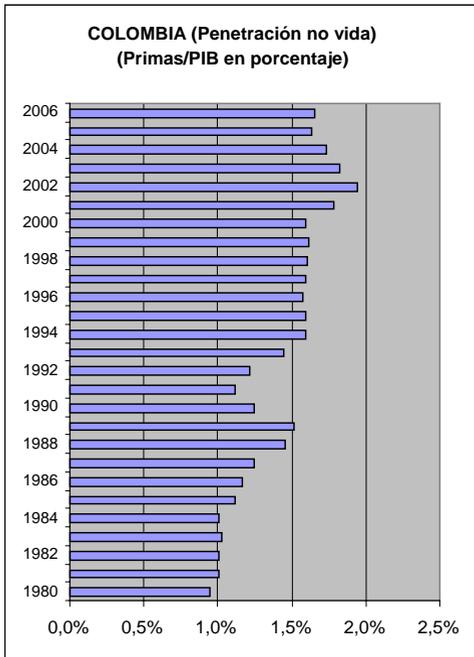
Penetración del seguro en la economía

Durante el período 1985-1989 se registró una expansión económica que impulsó el desarrollo de productos de seguros. No obstante, en algunos casos se registró decrecimiento. En 1999 el PIB disminuyó mientras que la actividad aseguradora creció.

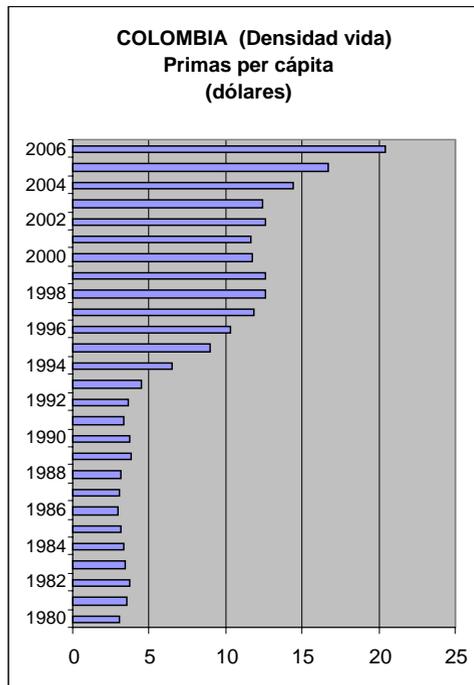
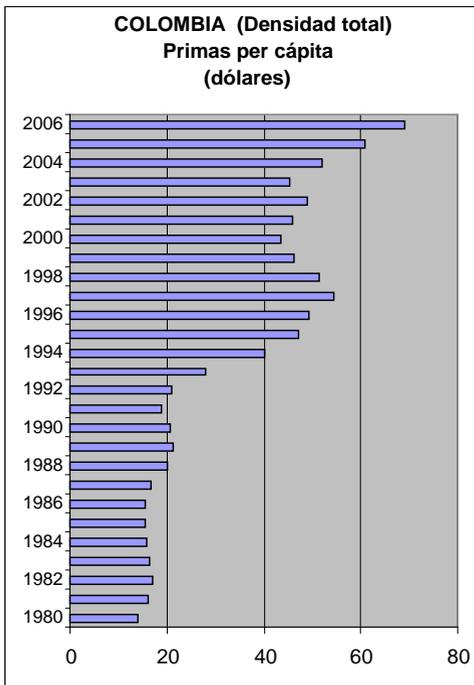
El comportamiento durante el periodo se aprecia en los siguientes gráficos:



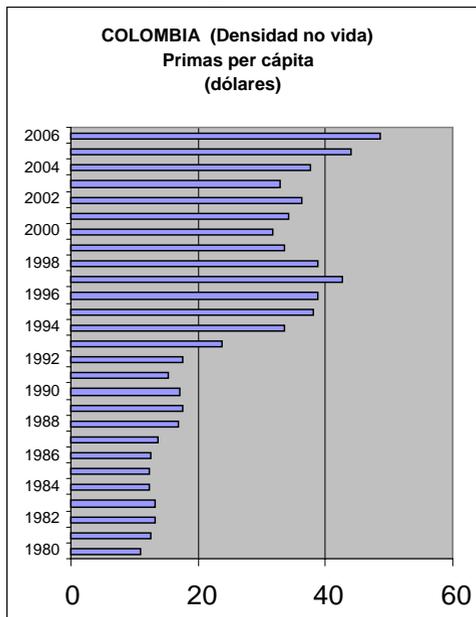
Penetración del seguro en la economía



Densidad del seguro en la economía (primas per cápita)



Densidad del seguro en la economía (primas per cápita)



7.4 Siglo XXI

▪ Seguridad Social

La Seguridad Social, reformada por la Ley 100 de 1993, se impartía mediante el sistema monopólico de reparto del Instituto de los Seguros Sociales, ISS, y por más de un millar de cajas estatales de Previsión Social, las cuales eran deficitarias en servicios de salud y en pensiones porque no hacían las reservas necesarias.

Esta Ley 100 de 1993 fue modificada por la Ley 1122/2006.

▪ Salud

La Salud y los Riesgos Profesionales se atendían por los entes públicos citados, como se anotó arriba. Luego la ley 100/93 creó las Empresas prestadoras de Salud, EPS, y las Administradoras de Riesgos Profesionales, ARP. Los trabajadores contribuyen a ese subsistema de salud con base en su remuneración (un porcentaje) y se les asigna un POS (Plan Obligatorio de Salud) igual para todos los afiliados de acuerdo con su ocupación, edad, región y otras variables. Los usuarios tienen libertad para escoger la EPS en la cual desean estar inscritos.

La prestación de salud pública para personas de bajos recursos se reemplazó por un mecanismo de subsidio directo a los demandantes, práctica que busca convertirlos en actores contributivos e hizo que la red hospitalaria fuese forzada a ser eficiente: su existencia depende de la elección que libremente hacen los usuarios de la entidad escogida para recibir los beneficios del sistema subsidiado (SISBEN), que tiene un Plan de Prestaciones denominado el POS's que se presta por las ARS (Administradoras del Régimen Subsidiado). Recientemente ambos planes de salud (POS Y POS's) fueron unificados por medio de sentencia de la Corte Constitucional. La misma Ley 100/93 estableció los Fondos Privados de Ahorro Individual (AFP) para pensiones que pueden escogerse a voluntad de los interesados pero mantuvo el sistema de reparto en el ISS. El sector asegurador participó de este desarrollo de manera directa e indirecta ya que creó instituciones paralelas (AFPs y EPS) e intervino mediante

los seguros previsionales (invalidez y sobrevivientes), los riesgos profesionales (ARPs) y las rentas vitalicias pensionales.

- *Los seguros tradicionales*

En materia de seguros de daños, patrimoniales y de responsabilidad se formulan las siguientes anotaciones puntuales:

- 1) En Colombia las firmas corredoras de seguros de mayor envergadura están, en su mayoría, en cabeza de inversionistas extranjeros;
- 2) Buena parte de la legislación se orientó a los seguros obligatorios como el SOAT (Seguro Obligatorio de Accidentes de Tránsito), cuyas primas junto con otras coberturas de forzada adquisición representan más de un 10% del sistema;
- 3) En el país no ha existido monopolio de reaseguros y la colocación se hace en los mercados extranjeros;
- 4) Durante los últimos años se han introducido modificaciones legales que han contribuido a un cambio significativo del sector.

La participación del capital extranjero y del capital local en el año 2006, en porcentajes, se muestra en el siguiente cuadro:

TIPO DE EMPRESAS O ENTIDADES	% PRIMAS	% CAPITAL
PRIVADAS (Nacionales)	47,0	
COOPERATIVAS	4,0	
TOTAL CAPITAL NACIONAL PRIVADO	51,0	44,0
ESTATAL	6,0	
TOTAL CAPITAL NACIONAL ESTATAL	6,0	15,0
CAPITAL AMERICANO	14,0	
CAPITAL EUROPEO	25,0	
OTROS	4,0	
TOTAL CAPITAL EXTRANJERO	43,0	41,0
GRAN TOTAL	100,0	100,0

8. PERÚ

8.1 Siglo XIX

Los seguros mas importantes en el Perú durante el siglo XIX fueron el marítimo y el de incendio aun cuando también se ofrecían los seguros de vida. En 1895 había quince agencias extranjeras. En 1897 el control de las compañías se encargó al Inspector Fiscal.

8.2 Siglo XX

Entre 1918 y 1934 hubo liquidaciones, fusiones y creación de compañías y se gestó la entidad gremial APESEG. En 1928 se obligó a las compañías a invertir en el país el total de las reservas técnicas. En 1937 la Superintendencia de Bancos asumió la Inspección Fiscal de las Compañías de Seguros y de Capitalización. En 1966 las compañías de seguros constituyeron la Reaseguradora Peruana S.A., la cual -en 1971- debió actuar a través del Banco de la Nación. En 1991 se terminó el monopolio de reaseguros con el extranjero y las aseguradoras acudieron al mercado internacional. También en 1991 hubo un cambio radical en la actividad aseguradora: se permitió a las personas naturales o jurídicas asegurarse en empresas extranjeras, se terminó el monopolio de contratación de seguros para bienes del Estado y se dio libertad a las compañías para establecer las pólizas, condicionados y tarifas de seguros.

8.3 Seguridad Social

▪ *Pensiones y Salud*

En 1935 se inició el proceso de Seguridad Social con la Caja Nacional del Seguro Social Obrero cuya reforma se hizo luego (1992) mediante la Ley de Modernización de la Seguridad Social y la ley General de Salud por las cuales “toda persona tiene el derecho al libre acceso a prestaciones de salud y a elegir el sistema previsional de su preferencia”.

Esta legislación dispone un régimen dual que prescribe dos sistemas paralelos: el Régimen Estatal para la población de escasos recursos, financiado por el Tesoro Público -a cargo del Ministerio de Salud- y el Régimen Contributivo de la Seguridad Social, constituido por el Seguro Social de Salud (ESSALUD) y las Entidades Prestadoras de Salud (EPS) que busca la descongestión de los servicios estatales, la inversión privada y mejoras en la eficiencia y la competitividad. Cuando se compara este sistema con otros de Iberoamérica se le formulan críticas, al igual que en Chile, por la falta de equidad, solidaridad y libertad de elección por razones de ingreso. Esto contrasta con el modelo colombiano en el cual los afiliados al sistema contributivo reciben la misma atención, con independencia de cuanto contribuyan.

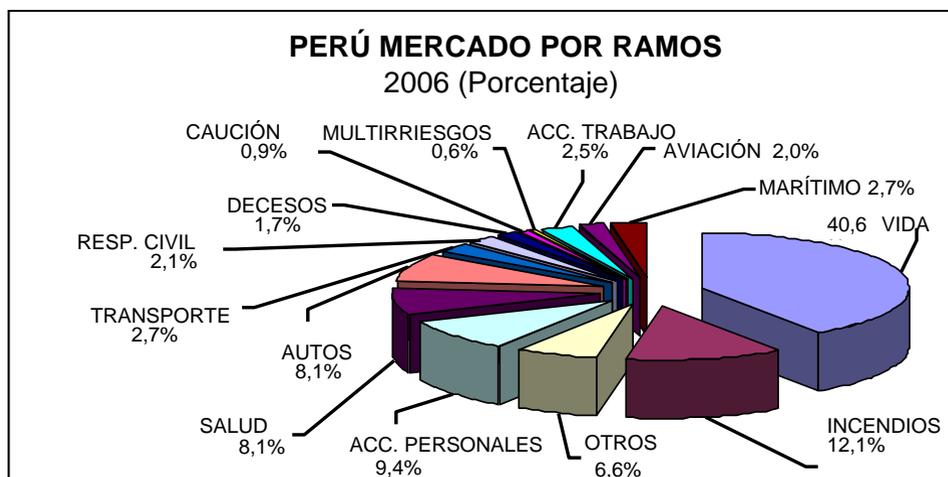
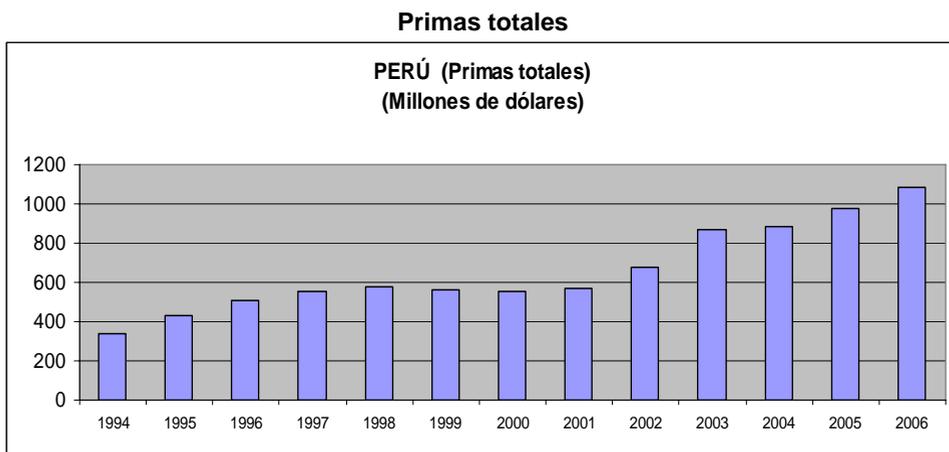
El esquema previsional está constituido por tres regímenes: el Sistema Nacional de Pensiones, SNP; el de Cédula Viva y el Sistema Privado de Pensiones (SPP) que es un régimen de capitalización individual. Los dos primeros son estatales mientras que el tercero, las Administradoras Privadas de Fondos de Pensiones (AFP), es privado, creado en 1992 como parte del Sistema Privado de Pensiones (SPP).

El Sistema Público de Pensiones se encuentra desfinanciado y requiere importantes transferencias del Tesoro Público. Las opciones para recibir la

pensión son diversas y en ellas interviene el sector asegurador con productos como Renta Temporal con Renta Vitalicia Diferida, Renta Vitalicia Familiar y Retiro Programado.

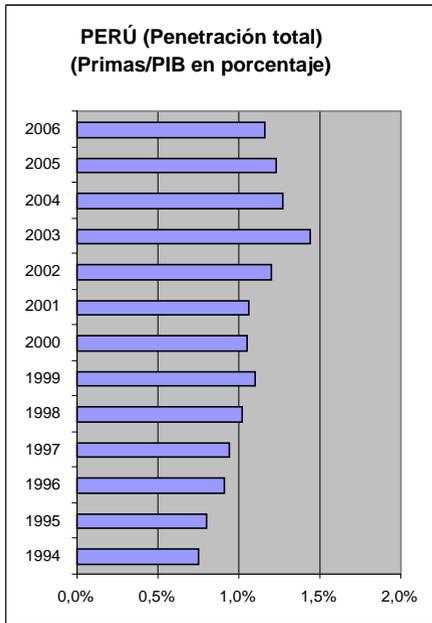
8.4 Siglo XXI

Gracias a la liberalización del mercado de seguros, la apertura a inversionistas extranjeros, el incremento de los seguros de vida por las rentas vitalicias del Sistema Privado de Pensiones y los seguros obligatorios como el de Accidentes de Tránsito (SOAT), el mercado de seguros creció considerablemente. Asimismo se concentró al pasar de 21 compañías en 1991 a trece en la actualidad. El crecimiento de las primas mantiene un ritmo sostenido ya que las rentas vitalicias fortalecen ese primaje, como lo muestra el indicador de primas anuales/ PIB:

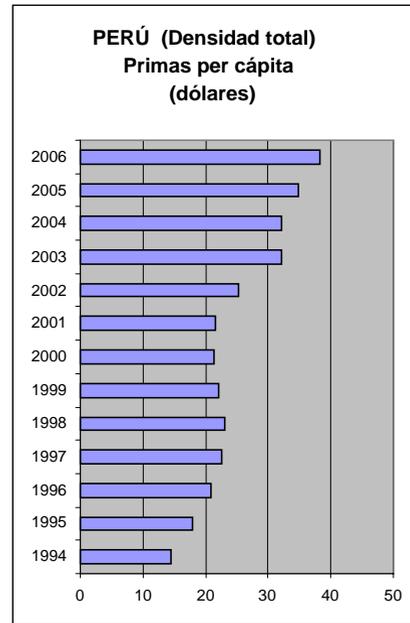


Análisis del sector asegurador

Penetración del seguro en la economía



Densidad del seguro en la economía (primas per cápita)



9. ECUADOR

La historia financiera del Ecuador se inicia en 1869 con la Ley de Bancos Hipotecarios, que estuvo vigente por más de cincuenta años. En 1914 se creó el cargo de Comisario Fiscal de Bancos. Entre 1925 y 1927 la Misión Kemmerer, presidida por el doctor Edwin Walter Kemmerer, transformó el ramo bancario y financiero al expedirse diversas leyes orgánicas para el Banco Hipotecario y el Banco Central, así como otras leyes que regularon el manejo de la Hacienda Pública. Desde entonces, 1927, se estableció la supervisión de la Superintendencia de Bancos.

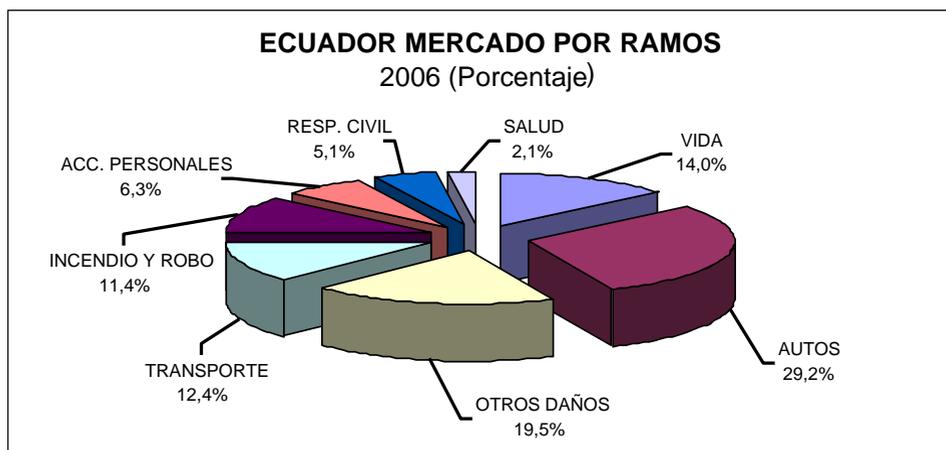
9.1 Seguridad Social

Al comienzo del siglo XX se expidieron leyes orientadas al amparo de empleados públicos y judiciales. En 1928 se creó la Caja de Pensiones para el sector laboral público y privado. En 1936 se incorporaron las coberturas de salud y en 1964 se establecieron el Seguro de Riesgos del Trabajo y otras coberturas. Entre 1970 y 1986 se establecieron el Instituto Ecuatoriano de Seguridad Social, IESS, y el Seguro Obligatorio del Trabajador Agrícola, el

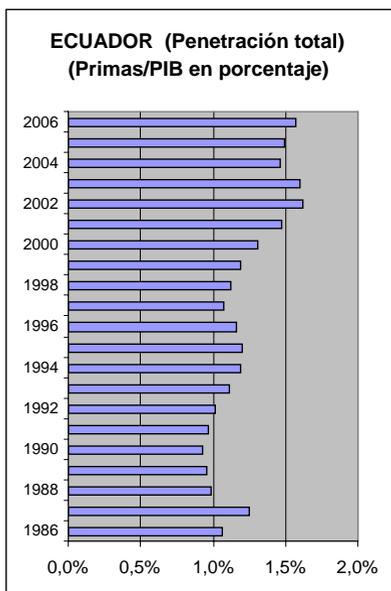
Seguro Voluntario y el Fondo de Seguridad Social Marginal a favor de la población con ingresos inferiores al salario mínimo vital.

En los noventa se propuso la separación de los seguros de salud y de pensiones y el manejo privado de estos fondos pero una Consulta Popular negó la iniciativa. En 1998 la Asamblea Nacional consagró la permanencia del IESS, cuyas coberturas presentan los inconvenientes de los monopolios públicos en Iberoamérica. Está pues en la agenda un cambio de fondo en esas materias.

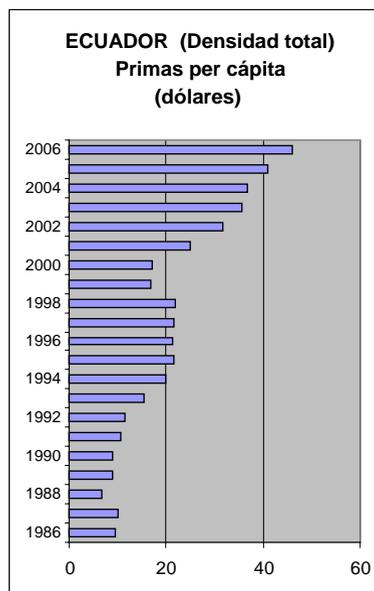
Primas totales



Penetración del seguro en la economía



Densidad del seguro en la economía (primas per cápita)



Año	Producto Interno Bruto (PIB) (millones de dólares)	PIB per cápita (dólares)
2003	41.700	3.100
2004	45.650	3.300
2005	49.510	3.700
2006	57.230	4.300
2007	61.520	4.500

10. BOLIVIA

El mercado boliviano es pequeño: En el 2006 no alcanzó a los doscientos millones de dólares.

10.1 Siglo XIX

A pesar de la importante actividad minera (Estaño, Oro, Plata), la actividad aseguradora del país no muestra registros en el siglo XIX al tiempo que en el Código Mercantil de 1834 se establecen la normatividad y las definiciones básicas del contrato de seguros.

10.2 Siglo XX

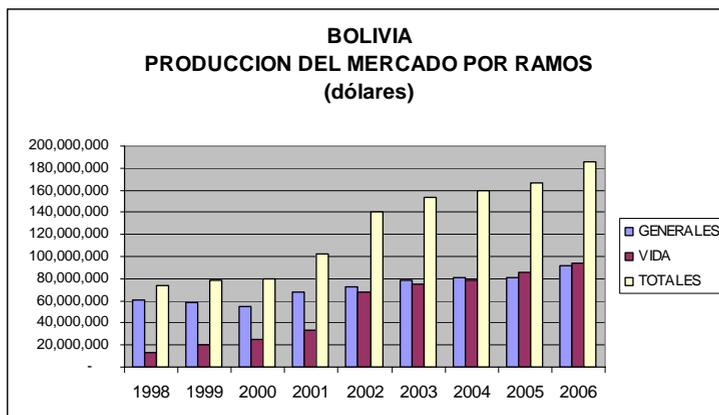
La primera mitad del siglo XX marca las pautas para el resto de la centuria. Durante ese período las empresas de seguros provenían de Argentina, Perú, Inglaterra y Estados Unidos. La seguridad social, monopolio estatal, se inició en este período con cobertura muy limitada de la Caja de Seguro y Ahorro Obrero que se transformó en el Instituto Boliviano de Seguridad Social (IBSS). La supervisión estuvo a cargo de la Superintendencia de Bancos. El reaseguro se colocó en el mercado internacional. La Superintendencia Nacional de Seguros y Reaseguros empezó a operar en 1975.

Los principales sucesos del siglo XX se pueden señalar puntualmente así:

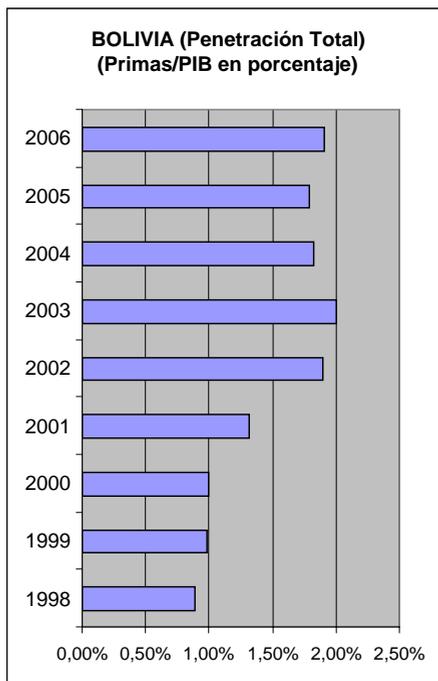
- La revolución de 1952, que modificó el sistema feudal colonial e incorporó a la economía grandes sectores de la población.
- A partir de 1946 se aumentó el número de empresas de seguros y agencias de compañías extranjeras que en 1965 eran veintinueve y se creó la Asociación Boliviana de Aseguradores (ABA).
- El monopolio de la Seguridad Social se mantuvo hasta 1996, cuando se introdujeron las AFPs, Administradoras de Fondos de Pensiones, con ahorro individual. La salud se atiende con el 10% del salario que paga el patrono. Existen las Cajas de Salud, para adultos mayores.
- El SOAT, iniciado en el 2.001, produjo el 10% de las primas en el 2006.

10.3 Siglo XXI

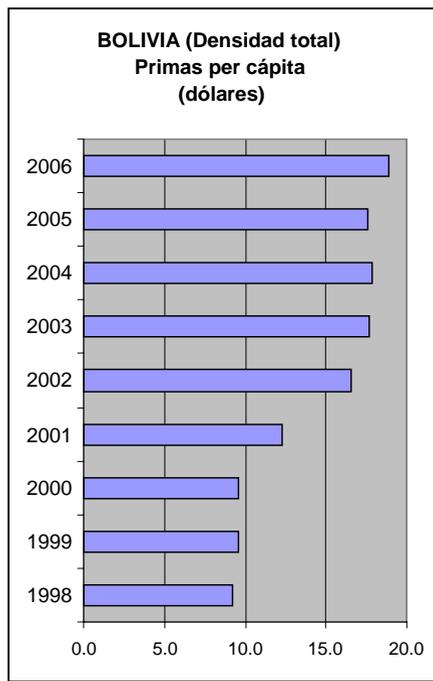
En los últimos años (2000-2006) se disparó el primaje con la creación del Seguro Obligatorio de Accidentes de Tránsito, SOAT, y los seguros previsionales de la reforma de pensiones, además del seguro de incendio. Las cifras hablan por sí solas:



Penetración del seguro en la economía



Densidad del seguro en la economía (primas per cápita)



11. URUGUAY

En el siglo XIX el seguro uruguayo se desarrolla con el apoyo de Gran Bretaña y establece regulaciones legales para las compañías locales y para las agencias de compañías extranjeras. En el siglo XX (1911) se crea el Banco de Seguros de Uruguay, monopolio del Estado, que mas adelante se extendió a todos los riesgos derivados del contrato de seguros y prohíbe el establecimiento de nuevas compañías, situación esta que se prolongó hasta finales de la centuria cuando, como consecuencia de los cambios producidos en el mundo y, especialmente en la región del Mercosur, se promulgó en 1995 la Ley 16.426 por la cual se procedió a la desmonopolización de la mayoría de los seguros, iniciándose un proceso de desregulación y de mercado abierto al acceso de empresas extranjeras.

El Banco de Seguros del Estado continúa manteniendo algún liderazgo, ahora con la presencia de ejecutivos jóvenes que tienen una nueva concepción de la liberación del mercado financiero, bancario y de seguros.

A partir de 1996 se introdujo un nuevo sistema de pensiones que tiene dos pilares: uno de reparto con prestaciones definidas, común a todos los afiliados,

y otro de capitalización individual, en el cual el Estado mantiene un rol destacado ya que compete con las administradoras privadas de dichos recursos.

El servicio de salud responde a una compleja red de organismos prestadores de la atención, que interactúa con el sector privado y mantiene generosas prestaciones que significan una pesada carga para el fisco.

12. PARAGUAY

En el siglo XIX las operaciones de seguros las hacían compañías europeas y argentinas y sólo en 1905 se funda la Compañía Nacional de Seguros “La Paraguaya”. En 1947 se organizó la supervigilancia del Estado que reguló las actividades de las compañías extranjeras no autorizadas y que ayudó al desarrollo del seguro. A la altura de 1960 había ocho compañías nacionales y tres extranjeras. En 1947 se estableció la Superintendencia de Bancos y Seguros, dependiente del Banco Central.

En los últimos años ha habido un proceso de actualización de la legislación de seguros para adecuarse a nuevas condiciones de integración y de normativas contables y estándares internacionales, en buena parte por exigencias del Mercosur. Cabe anotar que el mercado se halla atomizado en compañías de poca producción, que en la actualidad son alrededor de treinta.

BOLIVIA, URUGUAY Y PARAGUAY CUOTAS DE MERCADO POR RAMOS, 2006

Países	Vida	Salud	Accidentes personales	Accidentes trabajo	Autos	Incendio	Transporte
BOLIVIA	12,9	8,5	15,7	13,5	15	2,9	6,3
PARAGUAY	7,3	-	2,3	-	51,6	11,3	4,3
URUGUAY	17,5	-	-	22,4	33,1	7	4,7

PAISES	Caución	Responsabilidad Civil	Otros	Riesgos técnicos	Robo
BOLIVIA	2,8	4,7	3,5	4	-
PARAGUAY	3,6	3,6	11,4	-	4,6
URUGUAY	1,2	2,6	7,3	-	4,3

13. CENTROAMÉRICA

Los países centroamericanos -Guatemala, Costa Rica, El Salvador, Honduras y Nicaragua- forman un conglomerado de pequeños mercados en Iberoamérica

que mantienen nexos entre sí para fortalecer su posición como conjunto. Al respecto cabe anotar que en materia de seguros han tenido un desarrollo legal similar al del resto de los países del continente con excepción de Costa Rica que instauró un monopolio (ver escrito aparte sobre ese país).

En la publicación de diciembre de 2007, del Instituto de Ciencias del Seguro de la Fundación Mapfre, se recogen (expresadas en euros) las cifras correspondientes al estado de dichos mercados, las cuales presentamos a continuación:

PAISES	PIB (millones de euros)	INFLACIÓN (%)	DENSIDAD (euros)	PENETRACIÓN (%)	PRIMAS TOTALES (millones de euros)
GUATEMALA	24.072	4,9	20	1,1	265
COSTA RICA	17.600	7,9	73	1,8	321
EL SALVADOR	14.721	4,2	42	2,0	294
PANAMÁ	13.582	8,1	120	2,9	394
HONDURAS	7.375	6,0	22	2,2	159
NICARAGUA	4.237	3,7	13	1,6	70

PAISES	Vida	Salud	Accidentes personales	Accidentes trabajo	Autos	Incendio	Transporte
Cifras en porcentaje							
GUATEMALA	17,2	17,9	1,4	-	31,3	7,4	6,9
COSTA RICA	4,4	-	10,3	24	37,3	15,1	-
EL SALVADOR	30,5	-	12,7	-	15,7	22,1	-
PANAMÁ	32,7	16,3	1,6	-	16,4	8,6	5,8
HONDURAS	24,3	-	17,0	-	-	-	-
NICARAGUA	14,0	6,7	-	-	30,6	19,8	-

Países	Caución	Responsabilidad civil	Otros	Riesgos técnicos	Multirriesgos	Terremoto
Cifras en porcentaje						
GUATEMALA	-	1,9	3,4	3,9	-	8,5
COSTA RICA	-	-	8,9	-	-	-
EL SALVADOR	2,2	-	16,8	-	-	-
PANAMÁ	4,3	3,5	7,2	1,4	0,6	-
HONDURAS	1,5	-	57,2	-	-	-
NICARAGUA	2,1	2,2	23,7	-	-	-

14. PANAMÁ

La historia de los seguros en Panamá sólo arranca con la separación de este territorio de Colombia, a comienzos del siglo XX. Por otra parte, la Seguridad Social opera por medio de un sistema de reparto que ahonda el pasivo pensional. El Sistema Institucional de Salud para enfrentar Emergencias y Desastres, SISED, atiende esta obligación. Se han hecho intentos de reformar dicho esquema pero aún se mantiene un mecanismo que, como tantos otros, cada día profundiza sus deficiencias y desequilibrios económicos.

En 1916 se reguló por primera vez el seguro en el Código de Comercio y en 1956 se reglamentaron el negocio de seguros y capitalización y las actividades de aseguramiento y corretaje. En el año 1984 se creó la Superintendencia de Seguros y Reaseguros, mediante ley que reglamenta el negocio de seguros y capitalización, el corretaje y las operaciones de reaseguros. La Ley 59 de 1996, que deroga la ley 55 de 1984, establece normas de supervisión y vigilancia del sector seguros.

15. NICARAGUA

Entre 1940 y 1963 se fundaron tres compañías de seguros, con sede en Managua, después de que la actividad había sido atendida por representantes ocasionales de compañías extranjeras, entre ellas El Sol de Canadá, Pan American Life y la Home Insurance Company. En 1956 la Superintendencia de Bancos se encargó de la supervisión del sector. Posteriormente se nacionalizó la actividad aseguradora en 1979, en cabeza del Instituto Nicaragüense de Seguros y Reaseguros (INISER), como entidad estatal, figura ésta que luego se reversó mediante la privatización de la actividad.

16. EL SALVADOR

En 1996 se aprobó la Ley de Sociedades de Seguros que tiene por objeto regular la constitución y el funcionamiento de las sociedades de seguros y la participación de los intermediarios de seguros, con lo cual se busca modernizar y actualizar la actividad.

Dentro de esa tendencia, al igual que en otros países del área, el Lavado de Activos ha sido preocupación del Estado. En ese sentido se aprobó el Decreto 498, que busca prevenir, detectar, sancionar y erradicar el delito de lavado de dinero y de activos, así como su encubrimiento.

Dentro del proceso de modernización y adaptación de la economía del país se introdujo en 1998 la reforma del sistema pensional que se concibió dentro del modelo chileno de ahorro individual. Posteriormente se hicieron reformas al sistema de salud. Sin embargo, al compararlo con otros países de la región, los analistas son críticos severos de la cobertura de ambos mecanismos.

17. GUATEMALA

La primera compañía de seguros del país, de origen estatal, se estableció en 1935, aun cuando desde finales del siglo diecinueve había regulaciones al respecto en el Código de Comercio y agencias extranjeras, autorizadas para operar. En 1948 se creó la Compañía Nacional de Seguros GRANAI y TOWNSON, S.A.

El sistema de salud es tripartito (Estado, Patronos y Trabajadores) por contribuciones al Instituto Guatemalteco de Seguridad Social, IGSS, aun cuando el primero de ellos no ha cumplido con sus obligaciones. La cobertura es muy baja y la participación de los seguros privados muy pequeña. El déficit del sistema pensional es alto como en los otros países.

18. HONDURAS

La primera compañía nacional de seguros El Ahorro Hondureño se fundó en 1917, y solo hasta 1937 se introdujo la supervigilancia del Estado por medio del Ministerio de Hacienda, mediante legislación que fue modificada en 1963. En 1950 se expidió el Código de Comercio. El incipiente desarrollo de los sistemas de pensiones y de salud aportan muy poco al primaje de los aseguradores, lo cual se refleja en las cifras totales y en los índices de penetración (2.2%) y de densidad (30 dólares per cápita).

19. COSTA RICA

19.1 Siglo XIX y XX

Los antecedentes del seguro se remontan a 1841 aun cuando la primera ley de seguros es de 1896. En la Ley 11 de 1922 se fijó el ejercicio y desempeño del Superintendente de Seguros, estatuto que fue derogado en 1940. El monopolio estatal de seguros fue instaurado en 1924 a cargo del Banco Nacional de Seguros que se convirtió en 1948 en el INSTITUTO NACIONAL DE SEGUROS, INS, institución autónoma. La Seguridad Social (Salud y Pensiones) se presta a través de la Caja Costarricense de Seguro Social (CCSS). El seguro social obligatorio comprende los riesgos de enfermedad, maternidad, invalidez, vejez y desempleo involuntario, además de maternidad, familia, viudedad, orfandad y entierro. El aseguramiento directo es aún escaso y poco contributivo. Los sectores medios y altos tienden a utilizar servicios privados de salud y si ahorran para una pensión lo hacen en forma individual.

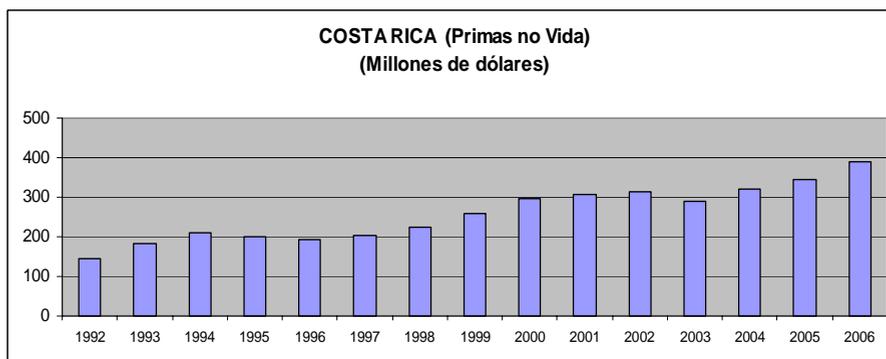
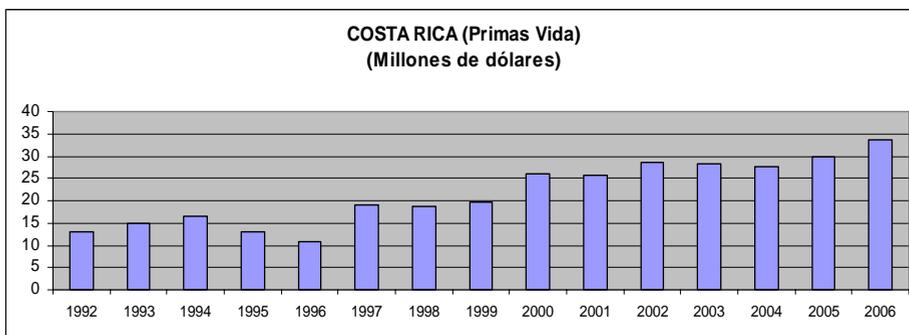
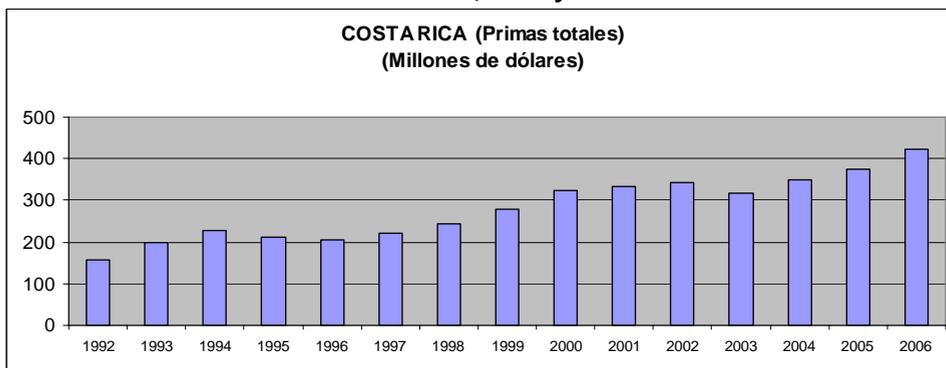
En cuanto a los seguros Vida y No Vida que ofrece el INS cabe precisar que éstos cubren –para empresas– los riesgos de: *Fianzas de contrato; incendio comercial e industrial; seguros de carga y en general los seguros de daños y patrimoniales.* Para personas cubren los riesgos de: *Hogar, INS medical, incendio, robo, accidentes, gastos médicos y una gama extensa de productos.*

La intermediación la hacen agencias comercializadoras aun cuando no existe un “mercado de corredores” como tal. Ante la modalidad de un solo asegurador, el INS, no existe la competencia que se encuentra en los otros mercados.

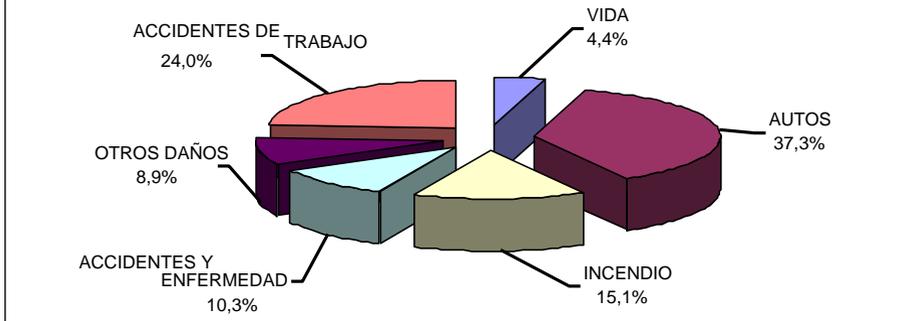
19.2 Producción, penetración y densidad del seguro en la economía

El comportamiento del mercado se aprecia en los siguientes gráficos:

Primas totales, Vida y No Vida

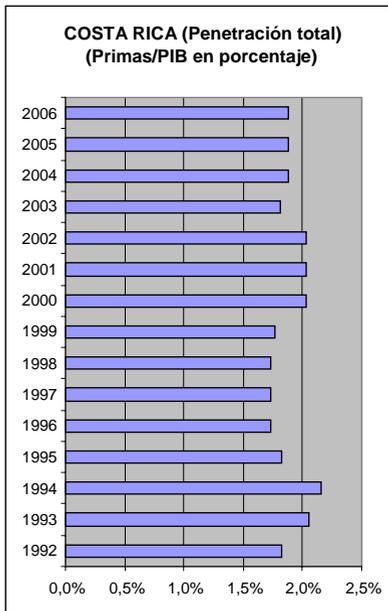


COSTA RICA MERCADO POR RAMOS 2006 (Porcentaje)

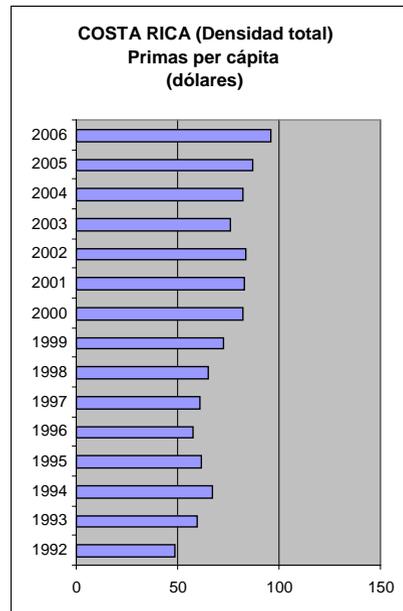


A diferencia de otros mercados, las fluctuaciones en la producción son menos pronunciadas en lo que se refiere a su monto y a su penetración en la economía, como se ve a continuación:

Penetración del seguro en la economía



Densidad del seguro en la economía (primas per cápita)



19.3 Siglo XXI

La entrada del país al CAFTA, el tratado de libre comercio con los Estados Unidos, exige la terminación del monopolio en cabeza del INS, en desarrollo de lo cual, mediante reforma constitucional, se estableció que el mercado de seguros se abriría a operadores nacionales e internacionales.

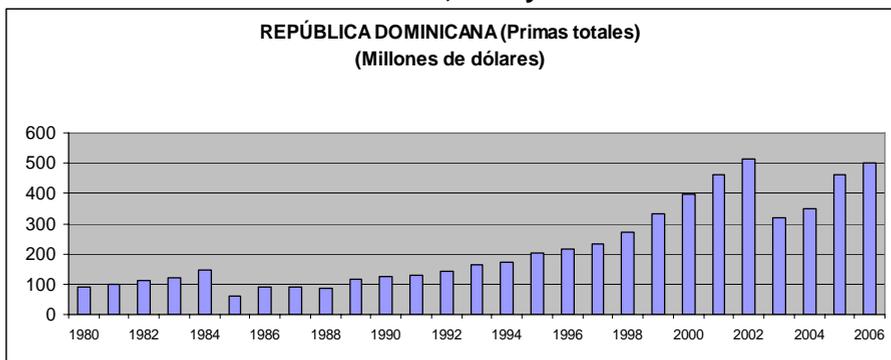
Está en curso una ley Reguladora del Mercado de Seguros y Reaseguros y del INS que contempla, además, la creación de la Superintendencia General de Seguros. Con dicho proyecto también se pretende modernizar al INS que durante ochenta años ha mantenido relaciones con las compañías aseguradoras y reaseguradoras del orbe. El proyecto de ley aún no ha sido aprobado.

20. REPÚBLICA DOMINICANA

Los antecedentes del seguro en República Dominicana indican que sólo hasta las primeras décadas del siglo XX se inició un ritmo progresivo que alcanzó a más de quinientos millones de dólares de primas en el año 2002.

Este proceso se inició con la promulgación de la Ley 68 de 1931. Dispuesto por normas de los años cincuenta, se introdujeron las coberturas básicas de la Seguridad Social, con base en los modelos de entonces. En el presente siglo, mediante diversas leyes, se reformó este esquema y se instauró un régimen pensional con base en el modelo chileno al tiempo que se encomendó a las Administradoras de Riesgos de Salud dicha función. El efecto de estas medidas en el mercado se aprecia en el crecimiento del mismo:

20.1 Producción, penetración y densidad del seguro en la economía Primas totales, Vida y No Vida



A D E N D A

HITOS DE LAS CRISIS FINANCIERAS (Diciembre de 2008)

1. SIGLO XIX

El Banco Overend & Guerney, que captaba ahorros en Londres y era un proveedor de fondos a bancos comerciales, entró en quiebra en 1860 y arrasó consigo a muchos bancos pequeños. Allí comenzó el debate sobre el papel de los bancos centrales frente a las coyunturas de falencia financiera.

El colapso financiero argentino y uruguayo de finales del siglo XIX trajo consigo grandes pérdidas para el Banco Barings, que cobraba comisiones altísimas, lo que originó la creación de un fondo de rescate, que fue la semilla para asignarles la función de proveedores de fondos a los bancos centrales.

Esto produjo la llamada Crisis del Banco Barings que condujo a la restricción de créditos para la Argentina y Uruguay por más de una década.

2. SIGLO XX

La Gran Depresión, que empezó en el año 29 y sólo terminó muchos años después, causó estragos a nivel global y, obviamente, iberoamericano:

- Uno de cada tres trabajadores quedó desempleado.
- Las acciones llegaron a perder hasta el 90% de su valor.
- El precio de las materias primas (y los *commodities*) se vino al suelo.
- La economía de los Estados Unidos bajó a la mitad.
- Tomó 25 años para que el índice Dow Jones recuperase el nivel de 1929.

Los países iberoamericanos sufrieron las consecuencias económicas y sociales de la crisis y, en cuanto a seguros, muchos de ellos crearon monopolios de seguro directo y reaseguradoras del Estado para canalizar la actividad del reaseguro tanto pública como privada.

El Acuerdo de Basilea que busca (¿o buscaba?) cambiar y uniformar a nivel global las reglas de control y supervisión financiera, lo firmaron inicialmente trece países y luego alrededor de noventa más. Sus tres principios esenciales son: 1.Requisitos mínimos de capital; 2.Supervisión de la Gestión de Fondos Propios y 3. Disciplina de Mercados.

La Desregulación, inspirada en los principios de Basilea, se fundamentó en la *Autorregulación* y sentó bases que contribuirían en buena parte al ejercicio desmedido que vendría después.

La Globalización Financiera se materializó luego de los avances técnicos de la computación y de haber alcanzado la compatibilización universal de los buscadores en Internet; en consecuencia las bolsas del mundo se convirtieron en una sola durante las 24 horas del día.

Los Bancos de Ahorro y Préstamo (Savings and Loan) en Estados Unidos colapsaron en 1985 y el seguro oficial de depósitos debió responder, quedando un gran déficit en ese rubro presupuestal del Estado norteamericano.

Los Fondos de Inversión (Hedge Funds), cual *castillos de naipes*, se construyeron a base de teorías posibles en los modelos de famosas universidades que especularon con rendimientos irreales, desconociendo realidades de mercado advertidas antes por famosos economistas.

El Crash de octubre de 1987 llevó a que las bolsas financieras de Estados Unidos bajaran hasta un 22% y arrastraran en esa declinación a las bolsas europeas y asiáticas, sobre todo a la japonesa.

Las tasas de interés en el gobierno de Bill Clinton, a finales del siglo XX, bajaron a niveles increíbles cuando las autoridades monetarias de los Estados Unidos redujeron el guarismo de referencia de 6% a 1% anual. Los bancos buscaron clientes más riesgosos que pagaran mejores tasas de interés: los compradores de vivienda mediante créditos hipotecarios sin atender a su capacidad de pago; valga decir, *los subprime*.

La Crisis Asiática (1997-1998), causada por el abundante flujo de capitales hacia algunos países de ese continente –en especial los llamados tigres asiáticos– trajo consigo el colapso de *LTCM*, un gran fondo de inversiones americano que se vio afectado por la suspensión de pagos de los bonos de Rusia y otros países del área.

3. SIGLO XXI

El derrumbe de las dot.com (año 2000) fue un primer anuncio de lo que podía suceder: las acciones bajaron un 70% y muchas personas vieron derrumbarse su patrimonio. Pero la especulación basada en los mencionados modelos matemáticos y la presión de los negociadores de los fondos hizo que los ahorradores continuaran entregándoles sus caudales y dándoles la autorización para jugar con ellos: había que *aprovechar las oportunidades* en las *mesas de dinero*, aconsejaban los jóvenes magos de la matemática financiera.

El efecto de las hipotecas Subprime fue advertido desde antes por personas conocedoras y del alto prestigio pero fue soslayado por quienes podían haber disminuido el ritmo que traía envuelto la demencia financiera. En el 2007 se sintieron síntomas de desaceleración, desempleo y agravamiento de la cartera.

La crisis del 2008 es de todos conocida y no amerita comentarios en esta nota. Ahora, ¿qué efecto ha tenido esa hecatombe en las empresas aseguradoras y reaseguradoras? Por lo menos anotemos los que parecen más importantes:

- Pérdidas por siniestros ocurridos como consecuencia del aseguramiento de futuros y de riesgos ligados con la especulación financiera que acabamos de mencionar. El caso de AIG en los Estados Unidos es el más relevante pero no el único.
- Pérdidas patrimoniales por la desvalorización de papeles que respaldan el patrimonio de las entidades y las reservas técnicas invertidas en títulos que han resultado afectados.
- El aumento de las tarifas de reaseguro para compensar por la vía de las primas tanto la siniestralidad como el deterioro patrimonial y financiero sufrido como consecuencia de este proceso.

En otro orden de cosas, suenan vientos de proteccionismo y anhelos de nacionalización de actividades cercanas al sistema asegurador.

Las preguntas serían: ¿aparecerá de nuevo el fantasma del proteccionismo de los años veinte y luego de la Gran Depresión? ¿Hay riesgo de que volvamos a las empresas estatales de seguros alimentadas mediante el monopolio de las pólizas oficiales? ¿Regresaremos a los monopolios de reaseguro?

**Resumen de las cifras de Iberoamérica en el año 2007
sobre producción de primas e indicadores
de penetración y densidad**

Primas Vida y No vida (2007)					
Países de Iberoamérica	VOLUMEN DE PRIMAS Millones de dólares				P I B (millones de US\$)
	2006 TOTAL	2007 TOTAL	2007 VIDA	2007 NO VIDA	2007
Brasil	30,365	38.786	18.285	20.501	1.314
México	15,178	17.416	7.653	9.763	889
Argentina	5,643	6.315	1.844	4.471	256
Chile	4,704	6.169	3.792	2.377	174
Venezuela	4,890	5.785	192	5.593	215
Colombia	3,200	4.103	1.150	2.953	175
Perú	1,083	1.187	511	676	108
Ecuador	616	678	107	572	45
Panamá	496	607	182	424	20
República Dominicana	525	601	98	503	41
Costa Rica	416	483	44	439	26
	67.116	82.130	33.858	48.272	3.263

Densidad y Penetración (2007)						
Países de Iberoamérica	DENSIDAD Primas per cápita en US\$			PENETRACIÓN Porcentaje Primas/PIB		
	TOTAL	VIDA	NO VIDA	TOTAL	VIDA	NO VIDA
Brasil	202,2	95,3	106,9	3,0	1,4	1,6
México	163,4	71,8	91,6	2,0	0,9	1,1
Argentina	159,7	46,6	113,1	2,4	0,7	1,7
Chile	370,9	228,0	142,9	3,6	2,2	1,4
Venezuela	209,2	7,0	202,2	2,7	0,1	2,6
Colombia	88,9	24,9	64,0	2,4	0,7	1,7
Perú	42,5	18,3	24,2	1,1	0,5	0,6
Ecuador	50,9	8,0	42,9	1,5	0,2	1,3
Panamá	181,5	54,5	127,0	3,1	0,9	2,2
República Dominicana	61,6	10,1	51,5	1,4	0,2	1,2
Costa Rica	108,0	9,7	98,3	1,9	0,2	1,7

Fuente: SwissRe - Sigma - Revista N° 3 de 2008

4. LEY 26425 DE NOVIEMBRE 20 DE 2008 POR LA CUAL SE APRUEBA LA INTEGRACIÓN DE LOS SERVICIOS PREVISIONALES EN ARGENTINA

LEY 26.425

Sancionada: 20-11-08

Título I. Sistema integrado previsional argentino

Capítulo I. Unificación

Artículo 1. Dispónese la unificación del Sistema integrado de jubilaciones y pensiones en un único régimen previsional público que se denominará Sistema Integrado Previsional Argentino (SIPA), financiado a través de un sistema solidario de reparto, garantizando a los afiliados y beneficiarios del régimen de capitalización vigente hasta la fecha idéntica cobertura y tratamiento que la brindada por el régimen previsional público, en cumplimiento del mandato previsto por el artículo 14 bis de la Constitución nacional.

En consecuencia, eliminase el actual régimen de capitalización, que será absorbido y sustituido por el régimen de reparto, en las condiciones de la presente ley.

Artículo 2. El Estado nacional garantiza a los afiliados y beneficiarios del régimen de capitalización la percepción de iguales o mejores prestaciones y

beneficios que los que gozan a la fecha de la entrada en vigencia de la presente ley.

Capítulo II. Afiliados y beneficiarios

Artículo 3. Los servicios prestados bajo relación de dependencia o en calidad de trabajador autónomo correspondientes a los períodos en que el trabajador se encontraba afiliado al régimen de capitalización serán considerados a los efectos de la liquidación de los beneficios establecidos en el artículo 17 de la ley 24.241 y sus modificatorias como si hubiesen sido prestados al régimen previsional público.

Artículo 4. Los beneficios de jubilación ordinaria, retiro por invalidez y pensión por fallecimiento que, a la fecha de vigencia de la presente, sean liquidados por las administradoras de fondos de jubilaciones y pensiones bajo las modalidades de retiro programado o retiro fraccionario serán pagados por el régimen previsional público. El importe de las prestaciones de los actuales beneficiarios de las prestaciones por invalidez, pensión y jubilación ordinaria del régimen de capitalización será valorizado conforme el valor cuota más alto vigente entre el 1° de enero de 2008 y el 30 de septiembre de 2008. Estas prestaciones en lo sucesivo tendrán la movilidad prevista en el artículo 32 de la ley 24.241 y sus modificatorias.

Artículo 5. Los beneficios del régimen de capitalización previstos en la ley 24.241 y sus modificatorias que, a la fecha de vigencia de la presente, se liquiden bajo la modalidad de renta vitalicia previsional continuarán abonándose a través de la correspondiente compañía de seguros de retiro.

Artículo 6. Los afiliados al régimen de capitalización que hubieran ingresado importes en sus cuentas de capitalización individual bajo la figura de "imposiciones voluntarias" y/o "depósitos convenidos" y que aún no hubieran obtenido un beneficio previsional, podrán transferirlos a la Administración Nacional de la Seguridad Social para mejorar su haber previsional conforme lo determine la reglamentación o a una administradora de fondos de jubilaciones y pensiones, la que deberá reconvertirse, modificando su objeto social para tal finalidad.

El Poder Ejecutivo nacional dictará las normas pertinentes a esos fines.

Título II. De los recursos del sistema

Artículo 7. Transfiéranse en especie a la Administración Nacional de la Seguridad Social los recursos que integran las cuentas de capitalización individual de los afiliados y beneficiarios al régimen de capitalización del Sistema integrado de jubilaciones y pensiones previsto en la ley 24.241 y sus modificatorias, con las limitaciones que surjan de lo dispuesto por el artículo 6°

de la presente ley. Dichos activos pasarán a integrar el Fondo de garantía de sustentabilidad del Régimen previsional público de reparto creado por el decreto 897/07.

Artículo 8. La totalidad de los recursos únicamente podrán ser utilizados para pagos de los beneficios del Sistema integrado previsional argentino.

En los términos del artículo 15 de la ley 26.222 el activo del fondo se invertirá de acuerdo a criterios de seguridad y rentabilidad adecuados, contribuyendo al desarrollo sustentable de la economía real a efectos de garantizar el círculo virtuoso entre crecimiento económico y el incremento de los recursos de la seguridad social.

En razón de sus actuales posiciones, las inversiones permitidas serán las previstas en el artículo 74 de la ley 24.241, rigiendo las prohibiciones del artículo 75 de la citada ley y las limitaciones de su artículo 76.

Queda prohibida la inversión de los fondos en el exterior.

Artículo 9. La Administración Nacional de la Seguridad Social no percibirá por la administración de los fondos comisión alguna de los aportantes al sistema.

Artículo 10. La totalidad de los aportes correspondientes a los trabajadores autónomos financiará las prestaciones del régimen previsional público, modificándose, en tal sentido, el artículo 18, inciso c), de la ley 24.241 y sus modificatorias.

Título III. De la supervisión de los recursos

Artículo 11. La Administración Nacional de la Seguridad Social, entidad actuante en la órbita del Ministerio de Trabajo, Empleo y Seguridad Social, gozará de autonomía financiera y económica, estando sujeta a la supervisión de la Comisión bicameral de control de los fondos de la Seguridad Social creada en el ámbito del honorable Congreso de la Nación.

Dicha comisión estará integrada por SEIS (6) senadores y SEIS (6) diputados, quienes serán elegidos por sus respectivos cuerpos, la que establecerá su estructura interna, teniendo como misión constituir y ejercer la coordinación entre el Congreso Nacional y el Poder Ejecutivo nacional, a los efectos del cumplimiento de la presente ley y sus resultados, debiendo informar a los respectivos cuerpos legislativos sobre todo el proceso que se lleve adelante conforme a las disposiciones de esta ley.

Para cumplir su cometido, la citada comisión deberá ser informada permanentemente y/o a su requerimiento de toda circunstancia que se produzca en el desenvolvimiento de los temas relativos a la presente ley, remitiéndosele con la información la documentación correspondiente.

Podrá requerir información, formular las observaciones, propuestas y recomendaciones que estime pertinentes y emitir dictamen en los asuntos a su cargo. A estos efectos la Comisión bicameral queda facultada a dictarse su propio reglamento de funcionamiento.

Artículo 12. Créase en el ámbito de la Administración Nacional de la Seguridad Social el Consejo del Fondo de Garantía de Sustentabilidad del Sistema integrado previsional argentino, cuyo objeto será el monitoreo de los recursos del sistema y estará integrado por:

- a) Un representante de la ANSES;
- b) Un representante de la Jefatura de Gabinete de Ministros;
- c) Dos integrantes del Órgano consultivo de jubilados y pensionados que funciona en el ámbito de la ANSES;
- d) Tres representantes de las organizaciones de los trabajadores más representativas;
- e) Dos representantes de las organizaciones empresariales más representativas;
- f) Dos representantes de las entidades bancarias más representativas;
- g) Dos representantes del Congreso de la Nación, uno por cada Cámara.

Los miembros integrantes de este consejo ejercerán su función con carácter ad honórem y serán designados por el Poder Ejecutivo nacional a propuesta de las entidades y organismos respectivos.

Título IV. Administradoras de Fondos de Jubilación y Pensiones

Artículo 13. En ningún, caso las compensaciones que pudieran corresponder a las administradoras de fondos de jubilaciones y pensiones podrán superar el valor máximo equivalente al capital social de las administradoras liquidadas de acuerdo a las condiciones que establezca la reglamentación de la presente ley. A esos fines, el Estado nacional, de corresponder, entregará a los accionistas de dichas entidades, títulos públicos emitidos o a emitirse por la República Argentina, teniéndose en cuenta un cronograma mínimo de enajenación de dichos títulos para evitar afectaciones a la cotización de los mismos, permitiendo, asimismo, que la Administración Nacional de la Seguridad Social tenga derecho prioritario de recompra sobre dichos títulos.

Artículo 14. A través de las áreas competentes, en los supuestos de extinción de la relación laboral por despido directo dispuesto por la administradora de fondos de jubilaciones y pensiones, se realizarán todos los actos necesarios para garantizar el empleo de los dependientes no jerárquicos de las administradoras de fondos de jubilaciones y pensiones que opten por incorporarse al Estado nacional en cualquiera de sus dependencias que éste fije a tal fin, con reconocimiento de la antigüedad a los efectos del goce de las licencias legales o convencionales.

La incorporación al Estado se efectuará en los términos del artículo 230 de la ley de Contrato de Trabajo.

Artículo 15. El personal médico, técnico, auxiliar y administrativo que se desempeñe ante las comisiones médicas y la Comisión Médica Central creadas por el artículo 51 de la ley 24.241 y sus modificatorias será transferido a la Superintendencia de Riesgos del Trabajo, en la proporción y oportunidad que sea necesario para su funcionamiento, conforme lo determine el Ministerio de Trabajo, Empleo y Seguridad Social.

A los efectos relativos a la antigüedad en el empleo del personal que sea transferido, se considerará como tiempo de servicio el efectivamente trabajado desde el comienzo de la vinculación con el organismo cedente. Asimismo, deberán transferirse los bienes inmuebles, muebles y equipamiento técnico necesarios para el adecuado funcionamiento de las comisiones médicas.

Los gastos que demanden las comisiones médicas y la Comisión Médica Central serán financiados por la Administración Nacional de la Seguridad Social y las aseguradoras de riesgos del trabajo, en la forma y proporciones establecidas en la reglamentación.

Título V. Régimen general

Artículo 16. Los afiliados del Sistema integrado previsional argentino tendrán derecho a la percepción de una prestación adicional por permanencia que se adicionará a las prestaciones establecidas en los incisos a) y b) del artículo 17 de la ley 24.241.

El haber mensual de esta prestación se determinará computando el UNO Y MEDIO POR CIENTO (1,5%) por cada año de servicios con aportes realizados al Sistema integrado previsional argentino en igual forma y metodología que la establecida para la prestación compensatoria. Para acceder a esta prestación los afiliados deberán acreditar los requisitos establecidos en los incisos a) y c) del artículo 23 de la citada ley.

A los efectos de aspectos tales como movilidad, prestación anual complementaria y otros inherentes a la prestación adicional por permanencia, ésta es asimilable a las disposiciones que a tal efecto se establecen para la prestación compensatoria.

Artículo 17. Deróganse el inciso e) del artículo 81 de la ley de Impuesto a las Ganancias, texto ordenado en 1997 y sus modificaciones, y el artículo 113 de la ley 24.241 y sus modificatorias.

Artículo 18. La Administración Nacional de la Seguridad Social se subroga en las obligaciones y derechos que la ley 24.241 y sus modificatorias les hubiera asignado a las administradoras de fondos de jubilaciones y pensiones.

Título VI. Disposiciones transitorias

Artículo 19. La Administración Nacional de la Seguridad Social deberá adoptar las medidas necesarias para hacer operativa la presente ley en lo relativo a la recepción de los aportes y el pago de los beneficios por jubilación ordinaria, retiro por invalidez y pensión por fallecimiento en el plazo de SESENTA (60) días a partir de la fecha de entrada en vigencia de la presente ley.

Artículo 20. La presente ley es de orden público, quedando derogada toda disposición legal que se le oponga.

Artículo 21. La presente ley entrará en vigencia a partir de la fecha de su publicación en el Boletín Oficial.

Artículo 22. Comuníquese al Poder Ejecutivo.

REFERENCIAS BIBLIOGRÁFICAS

Los Mercados de Seguros en el Mundo (1964) y Revista Sigma de la Suiza de Reaseguros

Instituto de Ciencias del Seguro, Fundación MAPFRE

Múltiples páginas de Internet

Revista Mercado Asegurador

Revista FASECOLDA

Elementos de Estructura Aseguradora e Historia del Seguro Argentino (Gotardo Pedemonte)

Memoria ABA año 2006-2007; *Cien años de Historia del Seguro en Bolivia*, ABA, José Roberto Arze

FENASEG: *Atividade Seguradora No Brasil; Historia do Seguro Privado no Brasil*; Informe Fenaseg 2005-2006; publicaciones de otras instituciones brasileras; resumen del ensayo de Therezinha Vollú da Silva Filha, de la Fundación Getúlio Vargas, hecho por encargo de la Fundación Mapfre.

La Historia del Seguro en Chile: Asociación de Aseguradores de Chile A.G.

FASECOLDA (Documentos varios); Colseguros: *Cien Años de Historia y Un Camino Hacia el Futuro*.

Ley de Seguros en Costa Rica: Banco Interamericano de Desarrollo.

La Historia del Seguro en Cuba (Lic. Noemí Benítez Rojas, Superintendente de Seguros)

Historia del Seguro en México (1980-1988) –AMIS–; Crónicas de dos siglos del seguro en México, Antonio Minzoni, CNSF de México.

100 Años en la Historia del Seguro, APESEG.

12

FROM MUTUAL TO MULTINATIONAL: THE HISTORY OF MAPFRE, 1933-2008³⁴⁷

Gabriel Tortella
Universidad de Alcalá (Spain)

Mapfre started out as a mutual insurance company: that is where the initial M comes from. It was the mutual insurance society of a farmers association: its acronym means, literally, Mutual of the Association of Farm Owners of Spain (Mutua de la Asociación de Propietarios de Fincas Rústicas de España). In this paper we shall study the circumstances in which it was established and how in three quarters of a century it grew and evolved from a simple mutual association devoted to insuring farm laborers against accidents into a multinational insurance and reinsurance company covering practically all fields of the business.

This paper is organized chronologically. It is worth mentioning here that the main stages of the history of Mapfre follow quite clearly the contours of Spanish economic history: when Mapfre was born Spain was a predominantly agrarian country; Mapfre's great spurt of growth coincides with the intense development period of the Spanish economy in the late 1950's and 1960's; the internationalization of Mapfre is also coincident with the opening of the Spanish economy to international markets in the 1980's after the transition to democracy in the 1970's, the symbolic date being 1986, when the country became full member of what today is the European Union; the maturing of the nation's economy in the 1990's to the present also coincides with Mapfre's transformation into a world-class company and also with its profound re-organization.

1. THE SECOND REPUBLIC AND THE BIRTH OF MAPFRE, 1931-1936

On April 14, 1931 the king of Spain relinquished the throne and the Republic was proclaimed. One of the first political moves the provisional republican

³⁴⁷ This paper summarizes the book *De mutua a multinacional. Mapfre 1933-2008* written by Gabriel Tortella, Leonardo Caruana and José Luis García Ruiz, and largely based upon research in the Mapfre Archives and Library, with a few modifications and additions, which make the responsibility for errors and opinions exclusively mine. A complete list of references can be found there. I take the occasion to thank my co-authors and the directors and officials of Mapfre who have helped and supported our research.

government would make was to announce its intention to undertake a land reform. At the time almost one half of Spain's population was occupied in agriculture and other primary activities, so that a land reform was bound to affect a high proportion of workers. Since the Republican government was clearly to the left of its Monarchical predecessors, many farmers and landowners felt the need to organize in order to forestall or mitigate what they feared was going to be "a radical transformation of the real constitution of Spain", as expressed by an Economic-Agrarian Assembly meeting in April 1932. Among the new agrarian associations organized in those years, the Association of Farm Owners of Spain (Apfre) was established in August 1931.

The approval of the Law of Agrarian Reform by the Cortes (Spanish parliament) took some time, because it underwent a long period of discussion and amendment. It was finally passed in September 1932. Meanwhile a series of social measures had been taken with the purpose of improving the social conditions of workers, especially farm workers, who at the time were deprived of almost any sort of social protection. Among these measures there were some decrees and laws (issued in 1931 and 1932) declaring compulsory for employers to provide accident insurance for their employees. The republican legislation favored mutuels rather than regular joint-stock corporations on the grounds that the first had a benevolent, non-profit character, whereas corporations were capitalistic; this legislative preference was the main reason that moved the directives of Apfre to found a mutual to provide insurance to agricultural laborers. The plans were under way in the spring of 1933 thanks to the initiative of Isidro de Gregorio, one of the board members of Apfre, who would become General Director (CEO) of Mapfre. At that time de Gregorio wrote an article explaining the advantages of adopting the mutual form: these were, on the one hand, the possibility of charging lower prices since there was no need to reward shareholders; and, on the other, better quality service, since the employees would either be chosen by the customers or among the customers (or both). The application for a government permit was filed that spring and the new insurance mutual obtained it on May 9, 1933, by a decree of the new Labor and Social Insurance Ministry (Ministerio de Trabajo y Previsión). Three years and two months later the Spanish civil war broke out (18 July 1936) and Mapfre's early development was abruptly interrupted.

There is not much therefore that can be said about Mapfre's initial trajectory, except that it was promising. By the end of 1933 it had 938 offices, of which 7 were regional, 23 provincial, 35 county (*comarca*), and the remainder (873) local. A year later the number of offices was 1,565, revealing a remarkable rate of growth of the budding company. Mapfre's offices were mostly located in central-southern Spain, plus the coastal provinces of Andalucía and Valencia. These were mostly *latifundio* (large estate) areas, where Apfre was most solidly established.

The type of insurance Mapfre provided from the start was Accident insurance, but it soon extended its field to Fire and Hailstorm, two typical agricultural lines of business. When the war started Mapfre was on its way to expanding into the

rest of the country and to widen its business scope; it created (mostly through leasing) a network of clinics and extended its fields of insurance to include Theft and Farm Animals.

2. MAPFRE IN THE SPANISH CIVIL WAR, 1936-1939

The outbreak of the war cut short this expansion. As happened with most nationwide businesses in Spain, Mapfre was divided into two as Spain itself was, due to the war. Mapfre's leaders were predominantly conservative, much readier to fraternize with the rebels, whose capital was located in Salamanca (later in Burgos), than with the republican government, whose capital was Madrid. As a consequence, those who were in Madrid at the start of the war fled or took refuge in foreign embassies. A good number of them were away from Madrid at the time of the rising due to the middle class habit of spending the summers away from large cities. The central office in Madrid was soon taken over by union committees with low professional qualifications. After the available cash was exhausted, business activity of the Madrid office ceased.

As is well known, the section of Spain that remained in government's hands was commercial and industrial: most of the large cities and coastal areas; in contrast, the rebels held the agricultural areas of central Spain. In a war situation this favored the rebels who were well supplied with food and managed to import weapons mostly from Germany and Italy. For Mapfre this was an additional reason to establish itself in the rebel zone: ideological and professional motives coincided. Isidro de Gregorio arrived at the rebel zone in September (two months after the breakout of the war) and had interviews with some of the economic authorities of the military government (Franco would become officially "head of state" on October 1) who authorized him to reorganize the company. He started out working with his own money, but soon obtained credit from Banco Español de Crédito and Banco Hispano Americano, which also had just been established in the rebel zone.

For obvious reasons it was easier for Mapfre to restore contact with its customers in Franco's Spain, since the rebel area coincided much more with Mapfre's original territory. Therefore activity slowly recovered, although hampered not only by the communication and transportation problems typical of times of war, but by another, and grimmer, war problem: manpower shortage, due to recruitment, dislocation, and mortality. In spite of this, the number of policies slowly and partially recovered during the war, especially since the territory in Franco's power expanded during the hostilities.

3. THE POSTWAR PERIOD: THE PERILS OF HEALTH INSURANCE, 1939-1955

The end of the war permitted the recovery of Mapfre and of many other badly split and impoverished companies. Furthermore, as said before, the founders

and managers of Mapfre were conservative and more in tune with the policies and philosophy of Franco's government than with those of the Republic. Nevertheless the long postwar was not a time of unmixed blessings for our mutual society. There were two main problems in Franco's Spain for any ordinary firm: first, inflation; and, second, government interventionism.

Prices went up in Franco's Spain at an average yearly rate of approximately 10 per 100 during the sixteen years after the end of the civil war (1939-1955); estimates vary depending of which index we use, but the general trend is unmistakable: if we use the Reher-Ballesteros cost-of-living index the average rate would be 8.7 per 100; if the more traditional and official Alcaide index, 10.6 per 100; according to Prados de la Escosura's GNP deflator, the rate would be 10.9 per 100 [See these indices in Carreras and Tafunell (2005), Vol. 3]. We do not need to go into statistical niceties here: we just want to show that this was a period of high and sustained inflation. For some firms inflation was welcome: typically those that were indebted when the war started, or when it ended, or those that were able to increase their sale prices, or whose cost prices were effectively contained by government intervention. Many were in these cases, but other companies whose assets at the end of the war were liquid, or whose sale prices were fixed by decree were in a difficult position. As we shall see, Mapfre imprudently put itself in the second situation: increasing costs, frozen sale prices.

Admittedly, the period between the Great Depression and the 1960's witnessed a general, universal move towards government intervention in the economy. We need not go into the causes of this, which are well known and generally agreed upon. Suffice it to say that Spain is a country where economic intervention by the state has a long tradition (let us remember that for Adam Smith Spanish mercantilism was a classic example); under Franco Spain reached an apex of interventionism. Not only was this in keeping with tradition and with the general world trend: Franco as a military man believed in a barracks (or command) economy; and in so far as he had an ideology, his sources of inspiration were his allies in Rome and Berlin. "Totalitarian economics" was an expression frequently used by Spanish economists and bureaucrats in the early 1940's. The upshot of this was not only that the government used price controls frequently and pervasively, but that it nationalized sectors and firms, and created public and semipublic corporations in many sectors of the economy.

Mapfre was threatened at several moments by this interventionist propensity on the part of the authorities. Thus, during the civil war Mapfre narrowly escaped being merged with other mutuals of other farmers' associations to form a single company of agricultural insurance under control of the Franco state. Although this plan was never realized, it loomed large during the postwar era.

An episode narrated by Feldman (2003) shows this graphically. After the war there were many claims for riot or public commotion (*motín* or *tumulto popular*) insurance policies. Insurance and reinsurance companies that had accepted such policies (La Unión y el Fénix, Plus Ultra -owned by the German Allianz-

Munich Re) faced very high and numerous claims for compensation. In their favor was the very common clause excluding cases of “civil war”, which everybody agreed was just what had taken place. Nevertheless, riots and disorders could have taken place before or even during the war itself and delimitation was problematic. It soon became obvious that the “new state” (as it was frequently called, *el Nuevo Estado*) was ready to intervene: in fact it transpired that its condition not to demand that all life insurance policies be reimbursed (even when the premiums were not up-to-date) was that the companies make an extraordinary contribution to the government for “Spain’s reconstruction”. The “new state” had very serious problems of budget deficit, foreign and domestic debt, and stalling reconstruction after the civil war [Tortella and García-Ruiz (2004), esp. pp. 107-115], and this explains its covetousness and its incitation to a sort of bribery or blackmail. As Feldman put it [(2003), p. 180], “Franco needed and wanted as much money as he could get”. His government reinforced its demands with the veiled threat that in case of discrepancy it could nationalize private insurance. In the end, an agreement was reached in 1941 whereby the companies paid the then enormous sum of 100 million pesetas.

The possibility that the “new state” would nationalize either agrarian or accident insurance, or both was always present; this suggested to Mapfre’s leaders the convenience of diversifying into other fields and also of adopting the corporate form, for fear that mutuels might be taken over by the state. There were serious disagreements within the leadership about this and in the end it provoked the resignation of the president, Andrés Rebuelta. In February 1943 a corporation called Campo was established by several directors of Mapfre. Campo was a general insurance company, i.e., was supposed to cover practically all fields of insurance, such as Life, Fire, Accidents, even Re-insurance. Campo started out sharing headquarters and most personnel with Mapfre, and this caused grave problems. Finally it had to be sold to Plus Ultra (i.e., Allianz) in 1954; the new owner first changed its name to Reunión but in the end dissolved it. Although getting rid of Campo ended the quarrels and brought Rebuelta back to the presidency of Mapfre, the idea of creating an entrepreneurial group comprising corporations remained. Another well known advantage of the corporate form was that it could gather capital in a faster and simpler way than a mutual society.

Health social insurance was mandated by the Republican Cortes in 1932 after one decade and a half of public discussion; the Instituto Nacional de Previsión (National Social Insurance Institute, INP) had been established in 1919 with health insurance as one of its main aims. The staggering cost of such a program, however, prevented its actual implementation. In fact the mandate of 1932 was just for the formulation of a project. Three years after the civil war, in 1942 the new government issued a Law of Compulsory Health Insurance covering more than eight million people including workers and their families. A fraction of the wages of those covered was deducted to pay for the staggering cost of creating the hospital network needed. However even thus the state was unable to put the law into practice, largely due to its budgetary problems. The

decision was made in 1944 to enlist the help of private insurance companies, which already had at least part of the infrastructures necessary. The advantages for these “collaborating agents” (entidades colaboradoras) presumably would be to make fuller use of their health networks and be in good terms with the almost omnipotent “new state”. Mapfre enthusiastically became a “collaborating agent” in September 1944, no doubt on the strength of these considerations and on the perspective of enlarging the scale and the scope of its activity. Things were as expected in the immediately following years. Gradually Mapfre abandoned its almost total specialization in the accident insurance of agrarian workers and expanded into other fields, most notably industrial accidents, in addition to health insurance.

It soon became evident, however, that compulsory health insurance was fraught with problems. The worse of these, however, did not derive from the business *per se*, but from the effects of public policies. In order to combat the very high inflation of the period the government had recourse to a partial freezing of those prices and wages which it directly or indirectly controlled. Wages in particular lagged behind prices during the 1940's, especially agricultural wages. Now, the rates paid by workers for their compulsory health insurance were a fixed fraction of their wages. This means that in real per customer terms, receipts hardly increased during those years, while costs, especially the price of medical drugs, increased constantly. Mapfre therefore found itself caught in an impossible situation of mounting average costs and fixed average receipts.

The situation was made worse because agrarian wages were lower and increased less in nominal terms; in spite of Mapfre's efforts to expand among industrial and city workers, change was slow and farm laborers remained the majority of its customers. Furthermore, the government, in its attempt to contribute to a solution only made things worse when in 1949 it allowed customers to make their payments tri-monthly instead of monthly. The upshot was that the number of delinquents increased, as neither employers nor workers saved money for payment and when the time came they were unable to find cash to disburse three monthly premiums at once. After 1948 profits turned into losses and the deficit increased yearly. Soon Mapfre was unable to pay drug companies for the medicines it purchased and found itself facing suits from its suppliers. The company asked the government for rebates in medical products or for compensatory government support but it was only temporarily successful.

Then Mapfre sued the government but the courts rejected its claims. In turn, the INP sued Mapfre for arrears in paying for supplies. Among the company's numerous problems there was a political one: most of its directors were monarchists at a time when the tension between Franco and the monarchist groups was acute. In 1949 Isidro de Gregorio, a prominent founder of Mapfre and a fervent monarchist, resigned his position in the hope that this would improve relations with the government, but this gesture did not bring about a perceptible improvement of the company's standing with the authorities.

Andrés Rebuelta, also a monarchist, announced his resignation of the presidency in 1954, when the situation of the company was almost desperate. Early that year, ten years after it had assumed its role as “collaborating agent” in health insurance, Mapfre announced that it was not renewing its commitment. Accumulated losses had forced it to ask the government’s permission to lay off workers. As usual in difficult circumstances, there were overt hostilities and rivalries among the directors. In the spring of 1955 there took place an extraordinary members’ meeting where a new president was appointed: this was Dionisio Martín Sanz, not a monarchist but a falangist, with far more clout in government circles than de Gregorio or Rebuelta. After a few months Martín Sanz proposed the appointment of an outsider, Ignacio Hernando de Larramendi Montiano, as director general. Mapfre was about to start a new period in its history.

4. THE ERA OF FAST ECONOMIC DEVELOPMENT, 1955-1975

Larramendi (everybody called him thus, although his father’s family name was Hernando de Larramendi; Montiano was his mother’s family name) was also a monarchist, but of a different kind: he was a *carlista*. Carlists, also called traditionalists, are followers of a collateral dynasty which for almost two centuries has been challenging the rights of the ruling family. Distinguished by their strict Catholicism, their traditional, conservative views, and by their insurrectionary tactics in the nineteenth century, they are a political rarity today. It is possible that the strict, uncompromising attitudes of Carlism may have helped Larramendi in carrying out the daunting task he assumed in the late summer of 1955. In his memoirs (p. 139) he states that his “family Carlist heritage” made him consider Mapfre as an “institution” rather than a mere “enterprise”. Be it as it may, he was very well qualified for his new job. His family had devoted a lot of attention to his elementary education, and then he attended one of the more prestigious religious schools in Madrid. He fought on Franco’s side during the civil war as a very young recruit. He studied law in Madrid and then qualified in competitive exams to become a state “insurance inspector”. He also made several stays in London studying insurance and also took a leave of absence of several years to work for the Madrid agency of the British Royal Insurance Co. When he learned that Martín Sanz was looking for a director for Mapfre he volunteered.

By the time he took over, Mapfre had an accumulated deficit of nearly 27 million pesetas; the leadership was new and untested, and the company was involved in serious litigation with the government and some powerful creditors. Many people at the time thought of liquidating the company or merging it with some other, healthier-looking institution. Larramendi himself admitted in his memoirs that even he often thought of it. By 1960, however, Mapfre had made an impressive turnaround and was on its way to becoming the most important insurance company in Spain, something it achieved before the end of the century, in fact less than thirty years later.

There were probably five key elements in this remarkable transformation: bank credit; cancellation of debt; team renewal; expansion into new fields; and reorganization. A sixth, totally exogenous, element could be added: the fast rate of economic development the Spanish economy enjoyed during the 1955-1973 period. The first five elements were all closely interdependent: in order to reorganize the company and to expand into new fields means were necessary and in the prostrate and indebted condition of Mapfre this would have been impossible without bank credit. Mapfre renewed and enlarged credits with Banco de Vizcaya and Banco Hispano Americano. Then in August 1958 a very fortunate event took place: a ministerial order cancelled the debts of those “collaborating agents” whose deficits were due to low premiums (i.e., agents whose average premiums were below the mean of the whole group). A joint INP-Mapfre Liquidating Committee had previously established that low premiums due to the causes we have described above were at the root of Mapfre’s deficits. The cancellation of debt was a boost for a company which was already improving its position; thanks to it Mapfre could repay some bank credits and other debts, and devote more resources to reform and expansion. The year 1955 marked a watershed in Mapfre’s history, as we have seen: the company acquired a new president and a new director general; several original directors resigned or went into retirement and with the new leaders a new group of executives or future leaders were hired by the company, some already seniors lured from the competition, others very junior, just out of the university or looking for their first job. Suffice it to say that most of the present leaders of the company were hired in the years 1955-1960.

This personnel renewal went hand in hand with a profound reorganization of the company. One aspect of this was an effort to increase productivity; the 86 officials staffing central headquarters in 1955 were reduced to 39 in 1958. At the same time the number of provincial and local offices was increased in an attempt to expand geographically and in scope. This of course required serious outlays because even the decrease in personnel often implied severance pay which meant future savings but present expenditure. Salaries and rewards were restructured. They were more linked to productivity than before, while in general pay differentials were reduced. Larramendi made an eloquent example when in the first days of his mandate he cut his own salary by 40 percent.

Mapfre strived to transfer the bulk of its business from rural areas and agriculture-related activities to urban areas and more diversified types of insurance. The problems with health insurance had shown the dangers of excessive concentration in areas of primary sector activities. Mapfre’s leaders were aware of the changes in the economy and noticed that urban areas were growing at the expense of the traditional agricultural ones. They consequently made efforts to expand into regions such as Catalonia, where Mapfre’s presence had not been felt until then and which was leading in industrial and commercial activities, and had a long historical experience in those fields. Catalonia was also leader in the field of insurance and Barcelona, the largest city in Catalonia and second in Spain (after Madrid), was to be Mapfre’s bridgehead in the region.

The new field of concentration was to be automobile insurance. Again, in this Mapfre's directors showed correct foresight since with economic development the demand for automobiles was going to grow exponentially, while on the side of supply, the automobile industry was to become the spearhead of Spain's economic spurt. In addition, Barcelona was the leader in automobile production since the first modern factory that of Seat (Fiat's Spanish franchise) was located there. In Madrid Mapfre had a serious competitor in a very specialized mutual, the Mutua Madrileña Automovilista (MMA), whose name already indicates how specialized sectorally and geographically it was. MMA was unbeatable in prices because it benefited from a virtuous circle: its premiums were so low that customers flocked to its offices so it needed no agents to peddle policies; and because it had no agents, its costs were low and so were its premiums. This was possible due to MMA's concentration; Mapfre could not imitate MMA's methods: Mapfre was and wanted to be much wider in scope; it could not dispense with agents. It had to use other methods, namely, offering a nationwide network of offices and auto-shops, teaming up with foreign insurers to offer protection abroad (popularizing the international green automobile insurance card), a high level of efficiency, the possibility of offering combined multiple insurance packages, and competing in prices through economies of scale and high productivity rather than minimal costs. Thus Mapfre made the successful transition from insuring tractors to insuring vans and tourist cars.

Another new field for Mapfre was life insurance. In a backward agrarian society life insurance has no great possibilities, and such was the case of Spain, where even the statistical bases were missing: the survival tables used by Spanish insurers were French. As the country modernized, however, the demand for this kind of insurance developed, albeit not at a very high pace. Mapfre's attempt to tap the emigrant market, for instance, failed miserably. Emigrants saved to send remittances home to sustain their families and to purchase an abode; life insurance seemed an extravagance to them. Expansion within Spain proceeded nonetheless and Mapfre had recourse to combining life insurance and savings plans.

The expansion of Mapfre during the 1960's was made possible by several additional means: one of them was agreements with other companies, mostly mutuals and cooperatives in far away places, such as the Canary Islands (Mutua Guanarteme, of Las Palmas de Gran Canaria), and in strategic areas such as Catalonia (Mutua Reddis, of Reus, Tarragona); another, and most important means, was advertising. Mapfre had always advertised, but in relatively constrained and inexpensive ways when it was purely agricultural. At that time it had hired some excellent artists and popularized images of peasant men and women smiling while working in the fields. Now Mapfre started aiming at the urban masses and what better place for this than soccer stadiums. Mapfre sponsored a system of multiple scoreboard, now totally obsolete but at the time an innovation, which riveted the glances of all soccer lovers. It was the time when Mapfre's more popular symbol, the crimson shamrock, was introduced. Today its rival symbol is the also red "bridge towards retirement", advertising the company's pension funds.

Another innovation was the company's first foray into credit, which also brought about the kernel of Mapfre's holding group. The initial idea was enter the field of installment credit for the purchase of automobiles, with the idea that this would add to the company's penetration in the automobile field. For this purpose a company of uncertain activity, Central de Obras y Créditos (the company's title, meaning Works and Credits Central, COC, was also rather vague) was acquired. At the time its main asset was real estate; probably its owner's intention was to turn it into a building society. Mapfre bought it, changed its name to Central de Inversión y Crédito (Investment and Credit Central, CIC) and devoted it to automobile finance.

A distinctive trait of Mapfre was its good relations with its employees, although always insisting on remuneration based on merit rather than seniority or category level. Relating to this, the company stimulated education and training in its employees, adhering to the strict rules of meritocracy as much as possible. It not only favored university graduates among its directors, but also induced them to learn languages (especially English) and to undertake field trips and supplementary courses. It also provided courses for technical training in fields such as actuarial studies, and separate fields of insurance (automobile, life, etc.)

With economic development the Spanish state expanded the scope of social security. In 1963 a law established that work accidents and sickness were included in the risks that would be covered by the state public security system. For a few years, however, things remained as they were, but in 1966 a new regulation established that this type of coverage would be provided by the state or by mutuels solely devoted to that service. This posed a serious challenge for Mapfre since it would have to abandon either being a multiservice company or accident and sickness insurance altogether. Fortunately, since 1963 Mapfre had foreseen this contingency and had been attracting as many accident and sickness insurance policies as possible. When the moment of crisis came the company decided to segregate its work accident and sickness branch from the rest of the company and create with it a new mutual whose name would be Fremap. The volume of business accumulated by Mapfre guaranteed the viability of Fremap. Since then, although under different management, Mapfre and Fremap have acted as twin companies, with their main headquarters separated but located on the same compound in Majadahonda near Madrid.

Finally, an episode took place at the end of 1972 which was decisive to define Mapfre's future. Martín Sanz, the company's president, was a well-known political boss in Franco's Spain, with solid links to agrarian unions and lobbies, and was growing unhappy with Mapfre's increasing interest in urban fields. Matters came to a head when he insisted that the one of the company's subsidiaries specialized in supplying computer systems to municipal governments be used to build up a political clientele. Larramendi opposed this idea and after some tense interviews the question was posed at a hastily summoned directors' council, where Larramendi won by just one vote. Martín Sanz resigned the presidency and was replaced by José Antonio Rebuelta, son

of the first president. Larramendi's power increased and Mapfre's political independence was reaffirmed.

5. TRANSITION TO DEMOCRACY, DEPRESSION AND RECOVERY, 1975-1986

The 1970's were a difficult period for the international economy due to the problems posed by wars (Vietnam, Middle East). Many of those problems were economic. Inflation was one of the consequences of wars, not only because of the way they were paid for but also because increases in the price of petrol were one of the main weapons of retaliation by the Arab states after the Israeli victory in the War of Yom Kippur in September 1973. Unemployment was another serious economic problem due to the slowdown and to the inability of fiscal policies to combat stagnation: "stagflation" was the most repeated word by economists.

For Spain the crisis was aggravated by political uncertainty. Franco died in November 1975; his health had been deteriorating for some time and everybody in the country had been preparing for some sort of transition, so the last years of the dictatorship saw a considerable amount of hesitation and uncertainty. Nobody knew when that transition would take place and in what would direction it would go. When the dictator died and change accelerated there still were doubts as to what would be the resulting political and economic system. A considerable amount of violence was in the air (Luis Carrero Blanco, Franco's right hand man and prime minister was assassinated in 1973, and several political murders of different signs took place during the transition); the possibility of a military coup was also real, as an attempt in 1981 proved. So there was a good chance of a regression towards dictatorship; but the possibility was also real of a swing towards the left: socialists and communists reappeared in the political arena, and nobody knew how radical their policies would be if and when they came to power.

As a result of this change and this uncertainty the Spanish economy declined: inflation shot up and unemployment became menacing. In Spain stagflation was aggravated by the return of former emigrants from European countries and by government inaction. The slow reaction of government to economic problems was due to the uncertainties and hesitations just mentioned. Solving political problems seemed more urgent than taking painful economic measures. Uncertainties and hesitations were shared by the private sector: investment plummeted and the stock exchange fell precipitously. Many banks were in trouble and so were industries and financial institutions.

This situation posed problems for insurance companies. Business volume went down, suspensions abounded, stock prices fell, and company portfolios were badly hit. In spite of all this, Mapfre not only survived, but it escalated the ranking of Spanish insurance companies by policy volume: in 1955 Mapfre was 36th in that ranking; in 1970 it was 11th; in 1977 it was second; by 1983 it

headed the rank, and has stayed ahead from then on. Let us see if we can explain this remarkable performance.

One factor that explains a great deal is Mapfre's independence. Some of the top-ranked companies up to the early 1980's were heavily dependent on banks; this was the case of numbers one and two in 1970: La Unión y el Fénix and La Estrella, belonging to Banesto and Banco Hispano Americano respectively. There lay their strength and their weakness. Both banks were hit by the crisis of the late 1970's and early 1980's and their support of the companies waned. They lost vigor and ended up being taken over. Meanwhile Mapfre depended only on itself and played its cards wisely.

First, Mapfre reorganized after being forced to shed its work accident insurance business, one of its traditional fields, in 1966. In 1970 the decision was made to divide the company into three semi-independent units; one, Mapfre Mutualidad, would remain a mutual and have automobile insurance as its main business, although it would also insure against individual accident risk, homes, small businesses and also kept its traditional field: agriculture. The other two units would be joint-stock corporations. One of them would be Mapfre Industrial and would insure big businesses, transportation (maritime, air, rail), and would also do re-insurance. The third unit would be Mapfre Vida and, as its name says, it would specialize in life insurance. The reason for this separation is obvious: while the fields worked by Mapfre Mutualidad admitted, and even made attractive, the mutual system, large policies and customers as those worked by Mapfre Industrial demanded the corporate form and the same was the case for life insurance, a very specialized sector. The three units would have large functional autonomy, but would not become separate entities. Mapfre Mutualidad would own a large majority of the capital of both corporations and would keep the reins of the group, drawing consolidated accounts and marking the main policy guidelines. Symbols, advertising, trademarks, would remain unified, and so would decisions as to investments, and information; even shareholder's and members' meetings would be held jointly. By putting the large majority of the capital of the corporations in the hands of the mutual the Mapfre group protected itself from takeovers.

Geographical and functional branches were also profoundly reformed, better trained personnel recruited, and more demanding requirements and better incentives established. The trend was towards increased decentralization, the only way to effectively and efficiently cover the whole territory. A Mapfre adage says that "a fool on the scene makes better decisions than a genius three hundred miles away".

In 1981 there were further rearrangements; growth entailed reform. Mapfre Reaseguro was separated from Mapfre Industrial after a series of mergers and absorptions which made Mapfre Re too large. Then in 1985 Corporación Mapfre absorbed both Mapfre Re and Mafre Industrial. Corporación Mapfre was created almost as an afterthought. The problems with the stock exchange convinced Mapfre's leaders that its main financial company, CIC, should be

sold. A buyer appeared in 1981: the American giant Citibank was ready to acquire it, attracted by its relatively low price. This was a period of financial distress in Spain and numerous banks and companies were being offered at good prices. An obstacle appeared, however: the Bank of Spain issued a warning to foreign banks to beware of Spanish non-bank financial firms. This was interpreted as a way to prevent excessive foreign presence in the Spanish financial sector. Be it as it may, Citibank reconsidered and the deal was off. Mapfre then decided to sell most equity shares in the CIC portfolio, invest in public bonds, transfer its real estate to Mapfre Mutualidad, and turn CIC into a holding company that would have as its main stars two flagships of the group: Mapfre Re and Mapfre Industrial.

Mapfre had a solid tradition of good personnel relations. Written guidelines were published periodically and they were clearly ahead of the industry's practices. The treatment of female employees was clearly ahead of the times since the Franco period. At that time women employees who married, for instance, did not automatically lose their position as was the general practice then, but were given the choice between staying and taking an extended leave of absence with compensation. All personnel had right to a whole month of holiday, which was unusual in the 1960's. In difficult times, when salaries had to be moderated, Larramendi again gave example by freezing his salary in 1975. All in all, Mapfre was able to offer better pay than the industry average, by 21 percent according to what was said at the members' meeting of 1977. Furthermore the company offered many fringe benefits such as free health insurance, summer camps and residences, support for study of employees and their children, housing loans, etc. Mapfre's principle was that a contented workforce was more productive and resourceful, something especially necessary in a service activity like insurance. The two main sectors of business grew considerably during this period. Life insurance expanded with economic well being as was expected. In the late 1960's and early 1970's it grew by leaps and bounds; by 1976 all life insurance policies totaled 1.3 billion pesetas and by 1980 the figure had more than doubled (2.8 billion). Even if we allow for inflation, this is a remarkable rate of growth in a period of recession and stagflation. One factor was favorable legislation: a law in 1967 allowed the deduction of life insurance premiums from income tax; this permitted the issuance of policies which were more akin to certificates of deposit than to real life insurance (they had a fixed term of reimbursement), but this was allowed by the courts and became a powerful boost to the sector. But Mapfre's advertising (insisting on the "life" rather than "death" aspect of this type of insurance) and the tireless team work of its agents also had to do with this growth. Survival tables were improved, but the French remained in use until 1982, when the first Spanish tables were made public.

Automobile insurance also benefited from innovations such as the PPR (Rapid Adjustment and Payment) system which relied on efficient inspection and favored everybody concerned: not only customers, but also shops and inspectors. Traditionally it was believed that slow adjustment had more advantages for the company: more careful inspection and slower disbursement. It turned out however, that PPR attracted customers in such proportion as to be

much more advantageous. Polling customers made this obvious. They were also happy with the system of rebates for safe drivers (*bonus-malus* system) and by the travel assistance network. By 1975 Mapfre was already third in the sector's ranking (it is first today). It was also distinguished by the scientific approach to automobile insurance. In 1983 a Center for Experimentation and Road Security (Cesvimap) was founded that would carry out research and also train inspectors. There was also collaboration with the Fire Laboratory of Mapfre Industrial. In spite of the efficiency of the unit, automobile insurance was barely profitable in the purely technical realm: competition was keen and several rivals probably operated at a loss in the hope of attracting away customers. Profits were derived from the financial side of the business.

But what probably has attracted most attention of Mapfre in recent decades has been its spectacular expansion abroad, especially in Latin America. In this again Mapfre was following the general trend of the Spanish economy, which after cautious liberalization (including a preferential agreement with the European Common Market) in the 1960's, started in earnest opening its economy *pari passu* with the transition towards democracy. This was symbolically achieved with Spain's accession to full membership of the European Union in 1986. It is at around this time that a series of big Spanish firms, mostly banks and telecommunication companies, started expanding abroad. So did Mapfre. But it should be said at this point that for the company expansion abroad and specifically to Latin America was a long-standing design, having already been mentioned as a long term objective in a directors' council meeting in 1969. It was said at the time that Latin America, because of its cultural and linguistic ties should be a preferential target, while it was recognized at the time that Mapfre did not have enough size and resources to undertake this endeavor yet. In the early 1980's more immediate plans were made. It was reiterated at the council that common culture and language made penetration easier, but the growth potential of Latin America was also considered a plus. Penetration was gradual and helped by the recovery of the Spanish stock market after 1984: Mapfre's technical publications were circulated through the region, re-insurance was cautiously attempted, investments were made, and services offered. Mapfre's leaders knew that while Latin America had great growth potential, it also was riskier than Europe. This is why they tried to be cautious and to diversify in countries and in fields of business. Finally, in August 1984 a controlling interest in an insurance company, Seguros Caribe, was purchased in Colombia. Next year three-quarters of the Argentinian Seguros Aconcagua was acquired. It innovated by offering pension funds. In Brasil, where reinsurance was a state monopoly, Mapfre made itself known in the market through a publishing house, Edicoes Técnicas, soon re-baptized Edicoes Mapfre do Brazil. In Mexico, Mapfre's responsible and efficient performance as re-insurer after the 1985 earthquake gave it visibility and prestige. In Chile it purchased almost one half of Seguros Generales Euroamérica. In general, Mapfre's investments in Latin America paid handsomely. The moment of entry was very well chosen: while the Spanish economy recovered after 1984, this was the so-called "lost decade" for Latin America: local markets were down, prices very low. As the Latin American

economy recovered slowly by the end of the decade, the stocks Mapfre had purchased were worth much more than what the company had paid a few years before.

But it was not Latin America alone. A subsidiary was open in Florida as a bridgehead into the United States. A similar operation was carried out in Manila as a stepping stone into the Philippines (again, there was the idea of capitalizing on cultural affinities) and East Asia. In Europe, probably also looking for affinities, an office was open in Lisbon, and in Italy in Milan. In Belgium Mapfre had cooperated since 1972 with Assubel and with de consortium CIAR (Compagnie Internationale d'Assurances et Reassurances).

The ten years from the end of the dictatorship to the accession of Spain to the EU, a period of depression and recovery for the Spanish economy, were really a prodigious decade for Mapfre.

6. MAPFRE IN THE ERA OF GLOBALIZATION, 1986-2000

After thirty years at the helm, Larramendi gradually relinquished his power in Mapfre. He resigned as CEO in 1985 and was replaced by Julio Castelo, a director of long standing and one of the men closest to Larramendi. Larramendi himself stayed in several non-executive posts, such as president of the Fundación Mapfre, a cultural institution created in 1976. His definitive good-bye arrived in 1990. Although he was never an autocrat and was always ready to admit his errors, he had exercised a quite personal leadership. His successors acted more like a team. An important change, however, was effected at this time. It was decided that the president, a rather symbolic post until then would become the top executive post. This really became effective when J. A. Rebuelta retired in 1991 and Castelo replaced him in the presidency.

Mapfre adapted smoothly to the era of globalization, which for Spain was of continued growth and progressive integration into the European economy with the interruption of the 1992 monetary crisis of the Union which in Spain was followed by several years of recession.

Mapfre's expansion abroad proceeded apace. Mapfre Re (formally established in 1988 although it existed before as part of Mapfre Corporación) became the foremost Spanish re-insurer, replacing La Unión y el Fénix which was its only real predecessor. Mapfre Re opened offices in Caracas and in Milan. After years of cooperation it acquired a majority in CIAR and in Caja Reaseguradora de Chile. In Colombia it bought Reaseguradora Hemisférica, which was merged to Seguros Caribe to form Mapfre Seguros Generales de Colombia.

In Mexico a general insurer, Tepeyac, was purchased in 1991. In Brazil the Vera Cruz group (Seguradora and Previdência) were acquired in 1992. In Puerto Rico Praico (Puerto Rican-American Insurance Co.), the main insurance firm in the island was bought from its U.S. owner, Continental. By 2000 Mapfre

was present in practically all Latin American countries with at least one office or one full subsidiary, most commonly several. Of continental Latin America, only five Central American republics were missing from Mapfre's roster. The total number of employees was 6,344 (including 153 in the U.S. and 515 in Puerto Rico). The subsidiaries in the largest countries Mexico, Brazil, Venezuela, Argentina, and Colombia naturally, employed the majority (three quarters of the total). The results were positive but unequal: financial income compensated for frequent technical losses, but this also depended on the ups and downs of the stock markets.

In Europe growth was deliberately more gradual, although Mapfre's presence in Portugal was almost as dense as in Spain. In Italy the situation was less promising. The Sicilian Progresso was plagued with losses due to the high loss ratio in the perilous roads. It was finally sold to the *Cattolica di Assicurazioni*. In the U.S. Mapfre Corporation of Florida received additional funds and an agreement was made with State Farm for travel assistance. In 1999 the re-insurer Chatham Re was acquired and turned into Mapfre Reinsurance Corporation of the U. S. By 2000 Mapfre's insurance business was distributed as follows (in percentages): Spain, 32; rest of Europe, 21; Latin America, 34; U. S. A., 9; Other, 4.

In Automobile Insurance Mapfre had come on top in Spain thanks to its insistence in quality service, rapid adjustment and payment, and scientific prevention. Cevimap laboratories were developed further; a new one was created for industrial vans and pickups, and others were established abroad, especially in Latin America: Argentina, Brazil, Colombia and Mexico. In Spain competition for the automobile insurance market is very keen and has been for decades. A recent study shows [Holgado (2008)] that in real terms, automobile insurance prices went down in 2006 due to competition. Mapfre remains on top with 19 percent of the Spanish market.

The experience of the other big branch, Life insurance, still shows that in Spain, in spite of the fact that higher incomes, longer life expectancies, and lower inflation all have enhanced demand, there still is a certain resistance to pure life insurance; it is better to offer this kind of product in a mix with savings and retirement elements, something that has been helped by rather permissive, although occasionally erratic, legislation. All in all, this branch was also robustly profitable. In 1994 Mapfre Vida made a public offer of shares, which were eagerly taken up both in the tranche destined to shareholders and bondholders and in the tranche destined to the general public. In turn this tranche was divided between domestic and foreign buyers: both groups exceeded their allotments.

An interesting innovation in *bancassurance* was achieved with an agreement with Cajamadrid, the Madrid savings bank, in 1997. Mapfre had tried to combine insurance with banking and with that end it created Banco Mapfre in 1990. The experiment was less successful than expected, probably because some subsidiaries lacked experience. The critical year 1992 witnessed considerable

losses and, although there were profits in the following periods, these were not large enough to compensate. Then an offer came from Cajamadrid in 1997 to combine and obtain synergies. Cajamadrid apparently had also been struggling with a plan to offer insurance. Conversations ensued and an agreement was signed early in 1998. In effect the agreement entailed that each would do what they knew best while offering each other mutual support. Cajamadrid gradually took over Banca Mapfre while Mapfre absorbed the insurance subsidiaries and agencies of the bank. Mapfre used Cajamadrid's banking services while through Mapfre Cajamadrid entered the Latin American market and both partook in profits according to their respective shares in their joint businesses. Mapfre also acquired Quavita, a supplier of services to older people formerly managed by Cajamadrid. In exchange, if Mapfre offered its customers their bridge towards retirement, it offered a bridge towards Latin America for the bank. The agreement has been an excellent deal for both partners.

7. MAPFRE ADAPTS TO THE FUTURE, 2000-2008

Recent trends are more difficult to fathom. The world economy and the Spanish have had ups and downs in the first years of the new century. There was the *dotcom* crisis in the very first years, then a period of solid growth which came to an end in the summer of 2007 with a new crisis: that of the *subprime mortgages*.

Mapfre has a way of taking depressions in stride. There has been another orderly renewal at the top when Castelo announced his retirement and his successor was chosen according to the procedure recently established in a recently approved guidelines book (*Código de Buen Gobierno*). Accordingly, the main directors and other bodies were consulted and there was a general agreement that José Manuel Martínez, an economist who had worked in Mapfre since 1972 and who had distinguished himself especially in the branch of re-insurance and had closely cooperated with the former president, should become president of the Mapfre group.

Probably the most remarkable and innovative initiative by Mapfre in these last years has been "de-mutualization" or, in other words, abandoning the mutual form and becoming exclusively a joint-stock corporation. The process had been initiated in 1970 when the Grupo Mapfre was created in which only one of the units, Mapfre Mutualidad remained a mutual, although it retained the key to the whole group. The intention of Mapfre is to go on growing and to enter fully in the UE market where the resources and size required are several times larger than those needed for the Latin American market. The opinion prevailed in the top councils of the company that the mutual form had outgrown its advantages and had rather become a drag. The mutual was dissolved and its members were offered the possibility of becoming shareholders. The new corporation was called Mapfre S. A., a holding company owning controlling interests in the other Mapfre corporations including Mapfre Internacional, a pre-existing corporation whose original aim was to operate in Portugal and the Philippines but which

now was expected to operate in the big markets of the world: the UE, the USA, and Asia.

The linchpin of this conglomerate of corporations constituting the Grupo Mapfre now is the renewed Fundación Mapfre, which in addition to being a cultural, science, and research institution, now is a holding company which controls the majority stock of Mapfre S.A. Being a cultural foundation, it is also protected from takeovers.

8. CONCLUSION

It is difficult to conclude about a company which has a long history but also a prospectively long future. Some concluding reflections come to mind, however, after writing a synthesis of Mapfre's long history. My listeners and readers may possibly offer their own, which will be welcome and appreciated. I find some particular traits in Mapfre as a firm which may contribute to explain its success in growing from a simple insurance mutual into a multi-product multinational.

- 1) Independence. Mapfre is a curious case of independence and I think we have seen that for it independence has been an asset rather than a liability. I say it is a curious case because Mapfre was born as a very conservative institution politically and so it remained for a long time. However, its conservatism did not make it too close to Franco's government and it never tried to use politics for entrepreneurial or business purposes. We also saw that when there was an attempt to politicize the firm (by Martín Sanz in 1972) the initiative was turned down. Mapfre was also independent of economic groups and banks. While this self-reliance may have deprived it of some help at given moments, in the long run it has paid-off, as was clearly shown in the 1980's when other leading companies went down with their respective banks.
- 2) Culture. Mapfre was born as a group of landowners who knew each other and who worked for Mapfre not so much for profit as to comply with a new law and to provide insurance for their own workers. I conjecture that this, plus the mutual character of the enterprise, made for an institutional spirit that would be lacking in the ordinary corporation. This spirit was purposely maintained by Hernando de Larramendi who says so in his memoirs and, as we saw, attributes it to his "Carlist" political convictions. All this has contributed to the "Mapfre culture", which Larramendi defines as a quality a firm has "when its members feel united by something more than a simple contract". He felt he did a great deal to maintain this spirit of doing things well without pretensions and excessive rivalries. Curiously he thinks he contributed to this with his policy of searching for talent but not for MBA's because these would have behaved as a caste and broken the prevailing spirit of unaffected camaraderie, a spirit one still perceives when dealing with its directors.

- 3) Decentralization. Mapfre went through several stages: from a small agricultural company to a gigantic multinational it has been managed by a group of executives and has also been through a stage when Larramendi was clearly its visible head. But a constant in its style of governance has been the willingness to decentralize and to let local decisions to the people *in situ* rather than to the bosses in Madrid. This seems to have been another of its bridges to success: they followed their remarkable axiom: "a fool on the scene makes better decisions than a genius three hundred miles away".
- 4) Self control. It has been a repeated practice of Mapfre to carefully and continuously submit its units to internal and external inspections and audits, something nobody seems to have found intrusive or censorious. Related to this, nepotism appears to be firmly rejected in the sense of hiring a person for its family relations rather than for his/her talent and hard work. The Rebuelta father and son who were presidents appear to have been appointed for their contributions to the firm rather than for their parentage.
- 5) Sheer luck. In the decisive moment, when the destiny of Mapfre was on the balance, when the Martín Sanz position favoring political involvement with the Franco dictatorship was opposed by Larramendi, who defended independence, the latter position won by one vote thanks to the fact that one of the supporters of Martín Sanz had just turned seventy and was thereby disqualified to vote, something that the Larramendi side realized at the last minute. Had the vote been taken a few weeks before the decision might have gone the other way and the history of Mapfre been totally different, most probably for the worse. Napoleon considered luck a most important quality for a soldier. Perhaps it should be also considered among the essential attributes of a company.

REFERENCES

Cabrera, Mercedes. 1976. *Organizaciones patronales y cuestión agraria en España (1931-36)*. ed. José Luis García Delgado.

Carreras, Albert, and Xavier Tafunell, Coords. 2005. *Estadística históricas de España, siglos XIX-XX, 3 vols.* 2a. ed. Prólogo Josep Fontana. Bilbao: Fundación BBVA.

Castelo Matrán, Julio, and Antonio Guardiola Lozano. 1992. *Diccionario Mapfre de Seguros*. 30 ed. ed. Madrid: Editorial Mapfre.

Feldman, Gerald. 2003. Civil commotion and riot insurance in fascist Europe, 1922-1941. *Financial History Review* 10: 165-84.

Green, Edwin, John Lampe, and Franjo Stiblar, Eds. 2004. *Crisis and Renewal in Twentieth Century Banking. Exploring the history and archives of banking at times of political and social stress*. Aldershot, Hants, England: Ashgate.

Gregorio Villota, I. de .1933. Nuestra mutualidad y el seguro obligatorio. *Boletín de la Agrupación de Propietarios de Fincas Rústicas de España* (16 April).

Hernando de Larramendi, Ignacio. 2000. *Así se hizo MAPFRE. Mi tiempo*. Madrid: Actas.

Holgado, Jorge. 2008. El precio del seguro del automóvil bajó el pasado año en España en torno a un 2%. *ABC*. 24 March.

Malefakis, Edward. 1971. *Reforma agraria y revolución campesina en la España del siglo XX*. Barcelona: Ariel.

Mapfre. 1983. *Cincuenta años. Mapfre hacia el futuro*. Madrid: Editorial Mapfre.

Prados de la Escosura, Leandro. 2003. *El progreso económico de España (1850-200)*. Bilbao: Fundación BBVA.

Reher, David-Sven, and Esmeralda Ballesteros. 1993. Precios y salarios en Castilla la Nueva. La construcción de un índice de salarios reales, 1501-1991. *Revista de Historia Económica* 11, no. 1, pp. 101-51.

Tortella, Gabriel, and José Luis García Ruiz. 2004. Spanish Banking After the Civil War: A Halting Reconstruction Under Fascism 1939-1951, in Green, Lampe, and Stiblar, eds. Pp. 104-128.

Tortella, G., Caruana Leonardo and García Ruiz, J.L. 2007. *De mutua a multinacional. Mapfre, 1933-2008*. Madrid, Ed. Mapfre.

APPENDICES

Appendix 1

Distribution of Mapfre's premiums by sector, 1933-2000 (million pesetas)

Year	Total	Work Accident	Automobile	Life	Others
1933	2	2			0
1934	4	3			1
1935	5	4			1
1936	5	4			1
1937	3	2			1
1938	2	2			0
1939	5	4			1
1940	6	5			1
1941	8	7			1
1942	11	10			2
1943	13	11			2
1944	13	11			2
1945	14	11			2
1946	16	12			5
1947	18	15			4
1948	18	15			4
1949	19	16			3
1950	21	17			4
1951	24	18			6
1952	29	22	0		7
1953	30	22	1		7
1954	32	23	1		7
1955	33	25	2		7
1956	40	29	2		8
1957	52	39	3		9
1958	65	45	8	0	12
1959	72	47	11	1	14
1960	79	47	16	1	16
1961	93	49	25	1	18
1962	124	57	42	2	23
1963	188	93	60	4	32
1964	236	100	83	7	46
1965	326	110	150	13	53
1966	492	222	193	19	58

Appendix 1 (cont.)
Distribution of Mapfre's premiums by sector, 1933-2000 (million pesetas)

Year	Total	Automobile	Life	Others
1967	363	230	22	112
1968	490	343	36	111
1969	658	471	54	133
1970	733	555	74	104
1971	977	663	111	203
1972	1,271	827	224	219
1973	1,673	936	449	288
1974	2,149	1,104	686	359
1975	2,957	1,538	947	472
1976	3,922	1,898	1,352	672
1977	5,235	2,657	1,723	855
1978	7,006	3,774	2,061	1,171
1979	8,928	4,872	2,402	1,654
1980	11,198	6,134	2,772	2,292
1981	14,192	7,413	3,623	3,156
1982	16,030	8,604	3,718	3,708
1983	20,190	10,376	4,282	5,532
1984	25,138	12,567	5,518	7,053
1985	31,437	15,371	7,947	8,119
1986	50,232	28,080	17,280	4,873
1987	65,042	33,302	16,651	15,090
1988	87,621	34,552	26,549	26,520
1989	103,260	53,385	31,185	18,690
1990	126,789	65,550	36,388	24,851
1991	154,348	79,335	45,841	29,172
1992	193,528	99,086	51,866	42,576
1993	228,825	125,625	47,596	55,604
1994	262,038	144,121	62,103	55,814
1995	285,689	159,414	70,851	55,424
1996	303,963	161,404	78,422	64,136
1997	314,009	160,459	79,444	74,106
1998	339,424	164,621	93,342	81,462
1999	386,302	193,537	105,074	87,691
2000	634,943	246,358	274,930	113,655

Note: Since 1967, Work Accident Insurance was a social insurance.
Source: Tortella, Caruana, and García Ruiz (2009)

Appendix 2
Employees of the Mapfre System, 1986-2000

Year	Spain Direct insurance	Spain Other Operations	Spain Total	Employees Abroad	Mapfre System Total
1986	2,023	300	2,323	500	2,823
1987	2,510	407	2,917	n.a.	n.a.
1988	2,867	523	3,390	n.a.	n.a.
1989	3,077	792	3,869	1,500	5,369
1990	3,308	1,055	4,363	2,485	6,848
1991	3,551	1,386	4,937	2,926	7,863
1992	3,759	1,769	5,528	4,004	9,532
1993	4,110	1,651	5,761	3,976	9,737
1994	4,541	1,653	6,194	4,040	10,234
1995	5,031	n.a.	n.a.	n.a.	11,292
1996	5,335	n.a.	n.a.	n.a.	14,000
1997	5,436	n.a.	n.a.	n.a.	15,171
1998	5,727	n.a.	n.a.	n.a.	15,219
1999	5,948	n.a.	n.a.	n.a.	14,856
2000	6,376	1,754	8,130	7,482	15,612

Note: The Mapfre System was created in 1984, but there are no data of this kind before 1986. Source: Tortella, Caruana, and García Ruiz (2009)

Appendix 3
Financial investments of Mapfre Group/System, 1971-2000
(million pesetas and percentages for its distribución into securities,
real estate, and cash)

Year	Total	% Securities	% Real estate	% Cash
1971	845	69	14	17
1972	1,134	65	16	19
1973	1,923	69	15	16
1974	2,691	59	16	25
1975	4,128	54	26	19
1976	5,343	45	29	26
1977	6,812	52	29	18
1978	9,170	57	30	13
1979	12,712	47	39	14
1980	16,525	44	38	17
1981	21,216	46	37	17
1982	27,020	50	37	13
1988	150,069	49	31	21
1989	197,836	52	30	18
1990	243,593	55	33	12
1991	315,487	59	31	10
1992	392,938	58	30	12
1993	480,837	59	27	13
1994	560,861	60	24	16
1995	677,029	73	21	6
1996	792,897	72	20	8
1997	931,023	73	18	8
1998	978,006	71	16	13
1999	1,097,615	73	15	13
2000	1,723,426	66	10	24

Note: The Mapfre Group was created in 1970 and the Mapfre System in 1984.
Source: Tortella, Caruana, and García Ruiz (2009)

Appendix 4
Key ratios in the profitability of the Mapfre Group/System,
1971-2000 (percentages)

Year	Equity / Premiums	Operating Expenses / Premiums	Return on Financial Investments
1971	15.4	34.6	2.4
1972	16.3	36.7	3.5
1973	24.6	35.4	1.8
1974	22.5	34.9	2.0
1975	25.7	33.9	2.7
1976	20.6	35.9	5.4
1977	19.3	33.5	4.6
1978	23.1	34.1	5.9
1979	26.0	34.0	5.2
1980	25.9	33.6	6.1
1981	31.7	31.7	7.4
1982	35.8	33.4	7.6
1983	46.3	33.3	8.6
1984	43.8	33.2	9.2
1985	59.2	33.5	9.9
1986	39.7	28.9	12.4
1987	33.0	29.8	12.7
1988	33.0	27.5	13.2
1989	42.9	27.6	14.3
1990	41.9	27.2	11.8
1991	38.7	32.5	9.3
1992	36.1	35.2	6.8
1993	38.2	36.8	6.9
1994	36.1	38.0	6.2
1995	41.9	25.6	7.5
1996	52.8	25.4	7.0
1997	62.2	31.6	6.8
1998	64.0	26.5	6.1
1999	61.9	26.2	6.8
2000	53.5	17.3	5.0

Note: The Mapfre Group was created in 1970 and the Mapfre System in 1984. In 1986 there was a huge growth in the collection of premiums due to the launching of the successful Single Premiums (*Primas Únicas*); this explains the severe fall in the ratio in that year. Source: Tortella, Caruana, and García Ruiz (2009).

Appendix 5
Ranking of direct insurance in Spain, 1970-2006
(million pesetas in 1970 and 1985 and million euros in 2006)

1970 (Premiums)		1985 (Premiums)		2006 (Premiums)	
La Unión y El Fénix Español	2,440.1	Mapfre	32,142	Mapfre	7,091.0
La Estrella	1,551.2	La Unión y El Fénix Corp, Gral, Aseguradora	25,408	Axa-Winterthur	3,507.0
Plus Ultra	1,067.0	Vitalicio	23,053	Allianz	2,632.5
Banco Vitalicio de España	1,052.8	Mutua Madrileña Automovilista	18,783	Generali	2.606,6
Santa Lucía	789.3	Zurich	15,785	Santander Seguros	2,557.4
El Ocaso	711.2	Santa Lucía	13,415	Zurich	1,935.3
Mutua Madrileña Automovilista	692.0	Aegon	12,126	Aviva	1,908.0
La Catalana	681.7	Winterthur	11,118	Caser	1,889.0
Mapfre Mutualidad	658.4	Allianz-Ras	10,962	Caifor	1,717.2
Musini	647.2		10,894	Ibercaja	1,590.3

Note: In 1970 the ranking includes only individual companies; in 1985 and 2006, they are groups. The Mapfre Group reached the top of the ranking in 1983. In 2006 Mapfre Mutualidad was leader in Non Life and Mapfre Vida in Life. Corporación General Aseguradora was an attempt (early failed) by the Banco de Bilbao of creating a new insurance company merging Aurora and Catalana. Allianz took over La Unión y El Fénix and Generali acquired Vitalicio. Source: Tortella, Caruana, and García Ruiz (2009).

Appendix 6
Network of Mapfre System and Caja Madrid in 2006

	Mapfre System	Caja Madrid
Andalucía	542	140
Aragón	85	23
Asturias	75	19
Baleares	49	25
Comunidad Valenciana	348	111
Canarias	132	25
Cantabria	52	24
Castilla y León	203	70
Castilla-La Mancha	229	138
Cataluña	370	221
Ceuta	2	6
Extremadura	112	22
Galicia	210	42
La Rioja	20	7
Madrid	206	1,026
Melilla	2	0
Murcia	82	20
Navarra	52	7
País Vasco	139	27
TOTAL	2,910	1,953

Source: Tortella, Caruana, and García Ruiz (2009)

Appendix 7
Ranking of European insurance groups in Non Life,
2006 (premiums in million euros)

Group	Country	Premiums
1 Allianz	Germany	43,674
2 Zurich	Switzerland	27,088
3 Axa	France	23,509
4 Generali	Italy	18,190
5 Aviva	United Kingdom	16,760
6 Talanx	Germany	12,457
7 Eureka	The Netherlands	9,838
8 Ergo	Germany	9,426
9 Groupama	France	9,415
10 Royal & SunAlliance	United Kingdom	9,188
11 Mapfre	Spain	8,452
12 RBS Insurance	United Kingdom	8,379
13 Fondiaria-SAI	Italy	7,305
14 ING	The Netherlands	6,333
15 Fortis	Belgium/The Netherlands	5,033

Source: Tortella, Caruana, and García Ruiz (2009)

COLECCIÓN “CUADERNOS DE LA FUNDACIÓN”

Instituto de Ciencias del Seguro

Para cualquier información o para adquirir nuestras publicaciones puede encontrarnos en:

FUNDACIÓN MAPFRE

Publicaciones

Paseo de Recoletos 23 – 28004 Madrid – (España)

Tel.: +34 915 818 768 Fax: +34 915 818 409

www.fundacionmapfre.com/cienciasdelseguro

156. Encuentro Internacional sobre la Historia del Seguro. 2010
155. Los sistemas de salud en Latinoamérica y el papel del seguro privado. 2010
154. El Seguro de Crédito en Chile. 2010
153. El análisis financiero dinámico como herramienta para el desarrollo de modelos internos en el marco de Solvencia II. 2010
152. Características sociodemográficas de las personas con doble cobertura sanitaria. Un estudio empírico. 2010
151. Solidaridad impropia y seguro de Responsabilidad Civil. 2010
150. La prevención del blanqueo de capitales en las entidades aseguradoras, las gestoras y los corredores de seguros 2010
149. Fondos de aseguramiento agropecuario y rural: la experiencia mexicana en el mutualismo agropecuario y sus organizaciones superiores. 2010
148. Avaliação das Provisões de Sinistro sob o Enfoque das Novas Regras de Solvência do Brasil. 2010
147. El principio de igualdad sexual en el Seguro de Salud: análisis actuarial de su impacto y alcance. 2010
146. Investigaciones históricas sobre el Seguro español. 2010
145. Perspectivas y análisis económico de la futura reforma del sistema español de valoración del daño corporal. 2009
144. Contabilidad y Análisis de Cuentas Anuales de Entidades Aseguradoras (Plan contable 24 de julio de 2008). 2009

143. Mudanças Climáticas e Análise de Risco da Indústria de Petróleo no Litoral Brasileiro. 2009
142. Bases técnicas dinámicas del Seguro de Dependencia en España. Una aproximación en campo discreto. 2009
141. Transferencia Alternativa de Riesgos en el Seguro de Vida: Titulización de Riesgos Aseguradores. 2009
140. Riesgo de negocio ante asegurados con múltiples contratos. 2009
139. Optimización económica del Reaseguro cedido: modelos de decisión. 2009
138. Inversiones en el Seguro de Vida en la actualidad y perspectivas de futuro. 2009
137. El Seguro de Vida en España. Factores que influyen en su progreso. 2009
136. Investigaciones en Seguros y Gestión de Riesgos. RIESGO 2009.
135. Análisis e interpretación de la gestión del fondo de maniobra en entidades aseguradoras de incendio y lucro cesante en grandes riesgos industriales. 2009
134. Gestión integral de Riesgos Corporativos como fuente de ventaja competitiva: cultura positiva del riesgo y reorganización estructural. 2009
133. La designación de la pareja de hecho como beneficiaria en los seguros de vida. 2009
132. Aproximación a la Responsabilidad Social de la empresa: reflexiones y propuesta de un modelo. 2009
131. La cobertura pública en el seguro de crédito a la exportación en España: cuestiones prácticas-jurídicas. 2009
130. La mediación en seguros privados: análisis de un complejo proceso de cambio legislativo. 2009
129. Temas relevantes del Derecho de Seguros contemporáneo. 2009
128. Cuestiones sobre la cláusula cut through. Transferencia y reconstrucción. 2008

127. La responsabilidad derivada de la utilización de organismos genéticamente modificados y la redistribución del riesgo a través del seguro. 2008
126. Ponencias de las Jornadas Internacionales sobre Catástrofes Naturales. 2008
125. La seguridad jurídica de las tecnologías de la información en el sector asegurador. 2008
124. Predicción de tablas de mortalidad dinámicas mediante un procedimiento bootstrap. 2008
123. Las compañías aseguradoras en los procesos penal y contencioso-administrativo. 2008
122. Factores de riesgo y cálculo de primas mediante técnicas de aprendizaje. 2008
121. La solicitud de seguro en la Ley 50/1980, de 8 de octubre, de Contrato de Seguro. 2008
120. Propuestas para un sistema de cobertura de enfermedades catastróficas en Argentina. 2008
119. Análisis del riesgo en seguros en el marco de Solvencia II: Técnicas estadísticas avanzadas Monte Carlo y Bootstrapping. 2008
118. Los planes de pensiones y los planes de previsión asegurados: su inclusión en el caudal hereditario. 2007
117. Evolução de resultados técnicos e financeiros no mercado segurador iberoamericano. 2007
116. Análisis de la Ley 26/2006 de Mediación de Seguros y Reaseguros Privados. 2007
115. Sistemas de cofinanciación de la dependencia: seguro privado frente a hipoteca inversa. 2007
114. El sector asegurador ante el cambio climático: riesgos y oportunidades. 2007
113. Responsabilidade social empresarial no mercado de seguros brasileiro influências culturais e implicações relacionais. 2007
112. Contabilidad y análisis de cuentas anuales de entidades aseguradoras. 2007

111. Fundamentos actuariales de primas y reservas de fianzas. 2007
110. El Fair Value de las provisiones técnicas de los seguros de Vida. 2007
109. El Seguro como instrumento de gestión de los M.E.R. (Materiales Especificados de Riesgo). 2006
108. Mercados de absorción de riesgos. 2006
107. La exteriorización de los compromisos por pensiones en la negociación colectiva. 2006
106. La utilización de datos médicos y genéticos en el ámbito de las compañías aseguradoras. 2006
105. Los seguros contra incendios forestales y su aplicación en Galicia. 2006
104. Fiscalidad del seguro en América Latina. 2006
103. Las NIC y su relación con el Plan Contable de Entidades Aseguradoras. 2006
102. Naturaleza jurídica del Seguro de Asistencia en Viaje. 2006
101. El Seguro de Automóviles en Iberoamérica. 2006
100. El nuevo perfil productivo y los seguros agropecuarios en Argentina. 2006
99. Modelos alternativos de transferencia y financiación de riesgos "ART": situación actual y perspectivas futuras. 2005
98. Disciplina de mercado en la industria de seguros en América Latina. 2005
97. Aplicación de métodos de inteligencia artificial para el análisis de la solvencia en entidades aseguradoras. 2005
96. El Sistema ABC-ABM: su aplicación en las entidades aseguradoras. 2005
95. Papel del docente universitario: ¿enseñar o ayudar a aprender?. 2005
94. La renovación del Pacto de Toledo y la reforma del sistema de pensiones: ¿es suficiente el pacto político?. 2005

92. Medición de la esperanza de vida residual según niveles de dependencia en España y costes de cuidados de larga duración. 2005
91. Problemática de la reforma de la Ley de Contrato de Seguro. 2005
90. Centros de atención telefónica del sector asegurador. 2005
89. Mercados aseguradores en el área mediterránea y cooperación para su desarrollo. 2005
88. Análisis multivariante aplicado a la selección de factores de riesgo en la tarificación. 2004
87. Dependencia en el modelo individual, aplicación al riesgo de crédito. 2004
86. El margen de solvencia de las entidades aseguradoras en Iberoamérica. 2004
85. La matriz valor-fidelidad en el análisis de los asegurados en el ramo del automóvil. 2004
84. Estudio de la estructura de una cartera de pólizas y de la eficacia de un Bonus-Malus. 2004
83. La teoría del valor extremo: fundamentos y aplicación al seguro, ramo de responsabilidad civil autos. 2004
81. El Seguro de Dependencia: una visión general. 2004
80. Los planes y fondos de pensiones en el contexto europeo: la necesidad de una armonización. 2004
79. La actividad de las compañías aseguradoras de vida en el marco de la gestión integral de activos y pasivos. 2003
78. Nuevas perspectivas de la educación universitaria a distancia. 2003
77. El coste de los riesgos en la empresa española: 2001.
76. La incorporación de los sistemas privados de pensiones en las pequeñas y medianas empresas. 2003
75. Incidencia de la nueva Ley de Enjuiciamiento Civil en los procesos de responsabilidad civil derivada del uso de vehículos a motor. 2002
74. Estructuras de propiedad, organización y canales de distribución de las empresas aseguradoras en el mercado español. 2002

73. Financiación del capital-riesgo mediante el seguro. 2002
72. Análisis del proceso de exteriorización de los compromisos por pensiones. 2002
71. Gestión de activos y pasivos en la cartera de un fondo de pensiones. 2002
70. El cuadro de mando integral para las entidades aseguradoras. 2002
69. Provisiones para prestaciones a la luz del Reglamento de Ordenación y Supervisión de los Seguros Privados; métodos estadísticos de cálculo. 2002
68. Los seguros de crédito y de caución en Iberoamérica. 2001
67. Gestión directiva en la internacionalización de la empresa. 2001
65. Ética empresarial y globalización. 2001
64. Fundamentos técnicos de la regulación del margen de solvencia. 2001
63. Análisis de la repercusión fiscal del seguro de vida y los planes de pensiones. Instrumentos de previsión social individual y empresarial. 2001
62. Seguridad Social: temas generales y régimen de clases pasivas del Estado. 2001
61. Sistemas Bonus-Malus generalizados con inclusión de los costes de los siniestros. 2001
60. Análisis técnico y económico del conjunto de las empresas aseguradoras de la Unión Europea. 2001
59. Estudio sobre el euro y el seguro. 2000
58. Problemática contable de las operaciones de reaseguro. 2000
56. Análisis económico y estadístico de los factores determinantes de la demanda de los seguros privados en España. 2000
54. El corredor de reaseguros y su legislación específica en América y Europa. 2000
53. Habilidades directivas: estudio de sesgo de género en instrumentos de evaluación. 2000

52. La estructura financiera de las entidades de seguros, S.A. 2000
51. Seguridades y riesgos del joven en los grupos de edad. 2000
50. Mixturas de distribuciones: aplicación a las variables más relevantes que modelan la siniestralidad en la empresa aseguradora. 1999
49. Solvencia y estabilidad financiera en la empresa de seguros: metodología y evaluación empírica mediante análisis multivariante. 1999
48. Matemática Actuarial no vida con MapleV. 1999
47. El fraude en el Seguro de Automóvil: cómo detectarlo. 1999
46. Evolución y predicción de las tablas de mortalidad dinámicas para la población española. 1999
45. Los Impuestos en una economía global. 1999
42. La Responsabilidad Civil por contaminación del entorno y su aseguramiento. 1998
41. De Maastricht a Amsterdam: un paso más en la integración europea. 1998

Nº Especial Informe sobre el Mercado Español de Seguros 1997
Fundación MAPFRE Estudios

39. Perspectiva histórica de los documentos estadístico-contables del órgano de control: aspectos jurídicos, formalización y explotación. 1997
38. Legislación y estadísticas del mercado de seguros en la comunidad iberoamericana. 1997
37. La responsabilidad civil por accidente de circulación. Puntual comparación de los derechos francés y español. 1997
36. Cláusulas limitativas de los derechos de los asegurados y cláusulas delimitadoras del riesgo cubierto: las cláusulas de limitación temporal de la cobertura en el Seguro de Responsabilidad Civil. 1997
35. El control de riesgos en fraudes informáticos. 1997
34. El coste de los riesgos en la empresa española: 1995
33. La función del derecho en la economía. 1997

Nº Especial Informe sobre el Mercado Español de Seguros 1996
Fundación MAPFRE Estudios

32. Decisiones racionales en reaseguro. 1996
31. Tipos estratégicos, orientación al mercado y resultados económicos: análisis empírico del sector asegurador español. 1996
30. El tiempo del directivo. 1996
29. Ruina y Seguro de Responsabilidad Civil Decenal. 1996

Nº Especial Informe sobre el Mercado Español de Seguros 1995
Fundación MAPFRE Estudios

28. La naturaleza jurídica del Seguro de Responsabilidad Civil. 1995
27. La calidad total como factor para elevar la cuota de mercado en empresas de seguros. 1995
26. El coste de los riesgos en la empresa española: 1993
25. El reaseguro financiero. 1995
24. El seguro: expresión de solidaridad desde la perspectiva del derecho. 1995
23. Análisis de la demanda del seguro sanitario privado. 1993

Nº Especial Informe sobre el Mercado Español de Seguros 1994
Fundación MAPFRE Estudios

22. Rentabilidad y productividad de entidades aseguradoras. 1994
21. La nueva regulación de las provisiones técnicas en la Directiva de Cuentas de la C.E.E. 1994
20. El Reaseguro en los procesos de integración económica. 1994
19. Una teoría de la educación. 1994
18. El Seguro de Crédito a la exportación en los países de la OCDE (evaluación de los resultados de los aseguradores públicos). 1994

Nº Especial Informe sobre el mercado español de seguros 1993
FUNDACION MAPFRE ESTUDIOS

16. La legislación española de seguros y su adaptación a la normativa comunitaria. 1993
15. El coste de los riesgos en la empresa española: 1991
14. El Reaseguro de exceso de pérdidas 1993
12. Los seguros de salud y la sanidad privada. 1993
10. Desarrollo directivo: una inversión estratégica. 1992
9. Técnicas de trabajo intelectual. 1992
8. La implantación de un sistema de controlling estratégico en la empresa. 1992
7. Los seguros de responsabilidad civil y su obligatoriedad de aseguramiento. 1992
6. Elementos de dirección estratégica de la empresa. 1992
5. La distribución comercial del seguro: sus estrategias y riesgos. 1991
4. Los seguros en una Europa cambiante: 1990-95. 1991
2. Resultados de la encuesta sobre la formación superior para los profesionales de entidades aseguradoras (A.P.S.). 1991
1. Filosofía empresarial: selección de artículos y ejemplos prácticos. 1991