A History of UK Insurance
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Introduction

Beginnings of a modern insurance market

The UK is regarded by many to be the birthplace of modern insurance. It was in Britain that privately owned, technically advanced and international insurance companies first emerged, quickly dominating the world’s burgeoning insurance markets and remaining leaders for most of the 19th century.

The first fire, accident and life insurance companies were established in the UK during the 1700s, but how they developed was to become the blueprint for insurance companies around the world.

Shaped by the industrial revolution and Britain’s role in international commerce, UK insurers were to expand rapidly, both at home and overseas. The early success of British insurers also reflected the way in which they operated. Much like the international insurers of today, they were well funded by private capital, were profit-driven and used an actuarial approach to underwriting.

However, as national insurance markets matured, UK insurers began to lose ground. By the time of the First World War they had relinquished much of their earlier dominance. British insurers continued to expand in the post war economic and technology boom, but by the end of the 20th century they had largely retrenched to the domestic market and the growing single market of the European Union.

In the post-war period the London market became the world’s leading market for complex and high value risks. It continues to be a key hub in the global insurance industry, but a period of heavy losses and the opening of capital markets has diversified ownership and brought in foreign insurers and investors. The UK continues, however, to have more than one international insurer in the top ten global players.

The UK insurance market remains a key player on the international stage. And much like 300 years ago, the growth in global trade and the success of emerging economies are seen as both opportunities and challenges for British insurers’ technical expertise and legacy of international experience.
Marine insurance was first practised in the UK in the 1500s, but developments in the 1700s and 1800s were to see insurance become an integral part of commerce and everyday life.

Significantly, the UK was the first market to embrace the practice of insuring properties against fire. The first fire insurance companies were established in the 1700s, when several mutual and joint stock insurers were set up in London following the Great Fire of 1666.

While there had been previous attempts to provide financial relief after a major fire, the first commercial insurance schemes were started in the decades following the Great Fire.

These included the Fire Office, formed in 1696 by property developer Nicholas Barbon and other investors, which is generally thought to be the first joint-stock insurer ever established. Over the subsequent two decades other insurers were founded that would survive in name until modern times – including the Sun Fire Office, the Union Fire Office, the Royal Exchange Assurance and the London Assurance.

The first life insurance companies were also established in the UK during the 1700s, although the earliest life insurance policy is dated 1583 and covers the life of a certain William Gibbons. Life policies were typically taken out to cover loans and were subscribed to by individual underwriters.

The Society for Equitable Assurances on Lives and Survivorships, founded in 1762, is believed to be the first dedicated life insurance company to appoint an “actuary” and conduct life insurance in much the same way as is done today.
**A very British Revolution**

Britain in the 19th and 20th centuries was an attractive market to insurers, boasting the highest per capita income in Europe and some of the highest property values. Between 1871 and 1911 the population grew from 26 million to 40 million, with explosive growth in the country’s industrialised cities.

Urbanisation, rising incomes and property values helped drive demand for insurance from companies and increasingly from individuals.

Unlike many European countries that went the route of mutual insurers, the expansion of the UK insurance sector was privately funded, usually by local merchants and manufacturers. By the mid-1700s the majority of properties in London were insured and the practice of insuring against fire developed in other UK cities and overseas territories, reflecting the country’s economic and industrial expansion.

Non-life insurance expanded rapidly during the 1800s, with insurance product innovation driven by new technologies, such as steam power and then electricity, and by legislation that created new liabilities, like employers’ liability.

By 1880 there were 15 lines of accident insurance, rising to at least 50 by 1914. The first accident insurance policies were developed in the mid-1800s to cover railway accidents and steam boiler explosions – and by the end of the century the number of insurers writing various types of accident insurance had ballooned to 241 from just 23 in 1861.

During the late 1800s and early 1900s, British insurers adapted cover for new forms of transport, including the aeroplane and motor car. The first aviation liability policies in the UK were written before the First World War, and from 1919 the market expanded rapidly. Even today, London remains an international centre of aviation insurance expertise.

*Opposite top:* Friendly or benevolent societies, also called fraternal organisations, are a long-standing tradition in the UK. Before modern insurance such organisations would provide insurance, often for people with a similar working background. With the advent of modern insurance and the welfare state many of these mutual organisations went out of business. ©(2013) Fondazione Mansutti.

*Opposite bottom:* The Royal Exchange Assurance Corporation, founded in 1720, was one of the early joint stock insurance companies. It took its name from the location of its offices at the Royal Exchange.

*Below:* Trade card of James Roberts, shipping agent in Liverpool, offering insurance, ca. 1780.
The first motor policies in the UK were written around the time of the original London-to-Brighton car run, which took place on 14 November 1896 – The Scottish Employers Liability Company was known to be offering cover against personal accident, damage and third party motor risks at this time.

**Direct underwriting of fire insurance** required a heavy investment in marketing and sales, as British consumers were used to dealing with well-staffed regional branch offices. Patriotism also played a part, with consumers preferring to deal with native, and not foreign, insurers.

Few foreign companies entered the market, and those that did captured very little market share and often exited after suffering heavy losses.

**Foreign insurers fail to make inroads**

Up until the post-war period, the UK market was largely closed to foreign insurers that had little impact on the domestic insurance market.

US life insurance companies were able to overcome the considerable barriers to entry in the late 1800s, but no foreign fire insurers were able to achieve this in the UK until much later in the 20th century. In 1893, just three of the 61 fire insurers operating in London were American, and no mainland European insurers generated levels of business significant enough to have been recorded.

**Differing approaches to reinsurance**

As British insurers grew in the 1800s, they started to look to reinsurance as a way to lay off unwanted accumulation of risks and to expand into new markets. However, the UK market adopted a different approach to reinsurance to that taken in Continental Europe, and never came to dominate the reinsurance market in the same way as German and Swiss companies.
The Great Fire of 1666

The Great Fire that destroyed much of the City of London in 1666 gave rise to the development of fire insurance in the UK.

The fire that started at a bakery on Pudding Lane raged for five days, eventually laying waste to one-third of London. The fire raised awareness of the need for compensation for damage following fire, leading to the creation of The Fire Office and other insurers at the turn of the 18th century.

Early fire insurers ran the first fire brigades. Insured properties displayed plaques—known as fire marks— that identified buildings insured by the different insurers.
Paris-based La Nationale and Propriétaire Réunis signed the first known reinsurance contract in 1821, with German and British companies soon following their lead. The first UK reinsurance treaty on record was concluded in 1824 between La Nationale and the Imperial.

Little is known of the early history of reinsurance in Great Britain, but it is thought that the reinsurance volumes written by British insurance companies were very large in the 1800s. From the early 1800s British insurers began reinsuring other insurers, chiefly those in France, Belgium and Germany, through facultative, and later treaty, reinsurance. Such contracts were usually entered into with foreign insurers to avoid revealing commercially sensitive information to rival UK insurers. Reinsurance was also a convenient means of entering foreign markets indirectly and without the need to invest in branches and sales.

Life reinsurance in the UK can also be traced back to the 1800s, and by 1854 a group of UK life insurers had drawn up a list of regulations to govern business in life reinsurance, which was conducted on a largely facultative basis.

While there is evidence that UK insurers practised reinsurance widely, the domestic reinsurance market in the UK developed differently to that of Continental Europe in the mid-1800, where reinsurance was increasingly practised by specialist reinsurers.

Industrialisation and urbanisation in Europe and the US led to growing demand for reinsurance, giving rise to the first specialist dedicated reinsurers in Continental Europe during the mid-1800s. Swiss Re was one of the very first dedicated reinsurers to write an international portfolio of business, with reinsurance contracts in the UK, Germany, France, Italy, Austria, Belgium and Russia in its first few years of trading. And within two years of its incorporation, Swiss Re was active in the UK, providing treaty reinsurance to the Manchester-based Lancashire Insurance Company in 1865.

Although Swiss Re did not open an office in the UK until almost 100 years later, it continued to build close ties with the British insurance market. In 1906, future Managing Director Erwin Hürlimann spent time working at Phoenix to acquaint himself with British and international underwriting.

A dedicated reinsurance sector developed late in the UK because reinsurance was generally sold by insurance companies, brokers and Lloyd’s syndicates. Co-insurance, rather than reinsurance, also came to dominate marine insurance markets after some forms of reinsurance were banned from 1746 until 1864.

For much of the 1800s the UK was a difficult market for continental reinsurers. There was a large market for reinsurance, but it was rarely very profitable for pure reinsurers, even when they forged a direct relationship with a UK insurer. And with such an expansion of industrial risks, continental reinsurers struggled to assess them in the UK.

The slow development of treaty reinsurance and growing competition in European markets meant that UK insurers gradually lost ground to dedicated reinsurers in Continental Europe.

Given the preference for co-insurance in the UK at this time, the country did not develop a competitive international dedicated reinsurance sector to match those of Germany and Switzerland.

The first known specialist UK reinsurer was the Reinsurance Company Limited, established in 1867. Some 44 other reinsurers followed it in the subsequent three decades, although most failed within a few years of being established.

As a result, the UK became a major importer of reinsurance, with companies like the Phoenix reinsuring over 25% of its total premiums in 1870. By the end of the century the UK was importing more reinsurance than it exported, with the majority coming from German and Swiss reinsurers.

Right: Technical progress such as the steam engine brought new risks which were difficult to insure and increased the need for professional reinsurers.
The modern day international insurance and reinsurance market at Lloyd’s can trace its roots to a coffee house owned by Edward Lloyd in the City of London, which was first mentioned in 1688 as the place to go for shipping news and insurance.

In its early years, Lloyd’s was just a gathering of marine brokers and underwriters – usually bankers and merchants – who collectively insured vessels and cargo, but over time the process became more formal, legally binding and partially mutualised.

Key to Lloyd’s success was the exchange of shipping news between the informal collection of brokers and underwriters that gathered at Edward Lloyd’s coffee house. Shipping news was published in Lloyd’s List, which first appeared in 1734. Still in circulation today, the newspaper is one of the oldest that remains in print.

In 1771 Lloyd’s formed a committee and became an association of members, attracting capital from outside investors to support the “subscription” market. The Lloyd’s Act 1871 created the Society of Lloyd’s as a legal entity, limiting the use of the name to Lloyd’s underwriters.

Lloyd’s was to profit hugely from the growth of British maritime trade and the expansion of the Empire in the 18th and 19th centuries. UK trade increased five-fold during the 18th century, accounting for nearly a quarter of shipping tonnage in Europe, much of which was insured at Lloyd’s.

Lloyd’s continued to specialise in marine insurance up until the late 1800s when increasing competition forced underwriters to diversify. During this period the legendary Lloyd’s underwriter Cuthbert Heath underwrote some of the first fire reinsurance policies at Lloyd’s, and developed new types of insurance cover such as burglary, jewellers block policies, all-risk insurance for earthquakes, loss of profits, workers compensation and trade credit cover.

Below:
Lloyd’s underwriters in 1789.
Marine insurance was developed first by Mediterranean traders, but as international trade and commerce shifted to Northern Europe in the 1700s, cities like London and Amsterdam became the leading markets for specialist marine and cargo insurance.

The success of marine insurers in London and ports like Liverpool was linked to the growth of the Empire and Britain’s position as the preeminent naval and trading power of its day. However, after the devastation of two world wars, Britain’s Empire crumbled.

The post-war revival in international trade and shipping saw the marine insurance market in London expand rapidly. But the shipping industry’s shift away from Britain in favour of Asia and the advent of cargo containerisation meant an eventual decline in the London market’s relative share of the marine and cargo insurance market. Lloyd’s, however, remains a major market for more complex and large marine risks.

Above right: “Loss of His Majesty’s Steam Packet, Meteor.” The Meteor struck the Church Hope Rocks at the Isle of Portland in February 1830. The crew members of the ship were not insured. Survivors raised money for them with the proceeds from the sale of these prints.

Right: “Destruction by fire of the Amazon West India mail steamer.” The Amazon sank in 1852 in the Bay of Biscay. Most of the 106 crew and 50 passengers drowned.
Reinsurance innovation
From the 1890s onwards, the reinsurance market in the UK was revolutionised by a small group of mostly German and continental reinsurers. These continental reinsurers began offering UK insurers quota share reinsurance treaties, rather than the traditional and more expensive facultative contracts.

Treaty reinsurance, in which the reinsurer takes an agreed percentage of an insurer’s business, lowered the cost of cover and lent itself to prompt settlement of claims. Such cover became popular with UK insurers, enabling continental reinsurers to capture a large proportion of the market in the early 20th century.

However, with the onset of the First World War, German domination of the UK reinsurance market ended. The UK treaty reinsurance market underwent significant changes during the First World War, with German reinsurers giving way to a new group of companies from neutral and allied countries like Switzerland. Swiss Re in particular was able to significantly expand its activities in the UK as German and other foreign reinsurers were forced to exit.

The demise of the German reinsurers in the UK also opened the way for British reinsurers, including the largest and most successful, Mercantile & General.

By the 1920s there were nine specialist British reinsurers, but few were ever as successful as the more technically experienced and internationally diverse continental players. British reinsurers failed to gain a significant market share and by the 1930s there were just six still in business.

Above:
Even though German insurers were banned from many foreign markets during World War I, German reinsurers still had foreign risks in their portfolios. When the British ocean liner RMS Lusitania, at the time world’s biggest ship, was sunk by a German U-Boat in 1915 a large part of the loss payments came from German reinsurers.
Mercantile & General (M&G) was established in Glasgow in 1907 and was to become one of the largest and most successful of the British dedicated reinsurers. The company had almost continual ties with Swiss Re and was eventually acquired by the Swiss Reinsurer in 1996.

Richard Guinness, a Dublin banker and member of the famous brewing family, acquired M&G in 1915 when it was a struggling workers’ compensation insurer on the brink of bankruptcy. At the time there was a ban on incorporating new companies, but Mr. Guinness, together with Swiss Re manager Erwin Hürlimann, saw an opportunity to underwrite business written by German companies before the war.

Swiss Re acquired a majority stake in M&G from Mr. Guinness in 1916, who was also Deputy Chairman of the London and Lancashire Life and General Insurance Company.

Collaborating closely with Swiss Re in Zurich, the two men turned M&G into a dedicated reinsurer. The company commenced underwriting non-life reinsurance in 1917 and life reinsurance in 1918. However, the reinsurer was established too late to derive much benefit from the demise of German reinsurers, much of which had already been gained by Mr. Hürlimann’s company, Swiss Re.

By 1919 the company had 16 treaties on its books and with technical support and introductions from Swiss Re, M&G rapidly grew its overseas fire business. However, the life book was slow to develop and in the early years much of this originated from Swiss Re. In the 1920s and 1930s the company gradually underwrote an increasing number of life reinsurance contracts in the UK, US and even in Peru and India.

After the Second World War, which severely disrupted contact between the two companies, M&G became the UK’s leading fire reinsurer with a growing book of life business. Mr. Guinness, still Chairman, died in 1949; Hürlimann remained a director of both M&G and Swiss Re.

In the 1960s the two companies were increasingly in competition with each other, prompting Swiss Re to sell its stake in M&G in 1968 to UK life insurer Prudential Assurance Company. The relationship between the two companies, however, continued to flourish.

Prudential gave M&G access to the US market and the company continued to expand, opening offices in Australia, Canada, South Africa, Mexico, Hong Kong, Japan, Indonesia, France and Scandinavia.

Premiums grew rapidly from £44 million in 1969 to £293 million in 1981, and in 1980 the reinsurer was the world’s fifth largest by premium volume, although still just a fifth of the size of Swiss Re.

Almost 30 years after selling its stake, Swiss Re reacquired M&G from Prudential in 1996, giving the Swiss Reinsurer direct access to the UK market, as well as providing transatlantic business in fire, accident and life.

At the time, M&G had some 1300 employees and 27 branches worldwide, and was well established in the North American life reinsurance market. The acquisition furthered Swiss Re’s strategic expansion in the life and health sector, forming the basis for the reinsurer’s combined business under a new London-headquartered unit, Swiss Re Life and Health.
Life insurance
Although life insurance was well established in the 1700s, the market was slower to develop than the non-life sector, and it remained a largely domestic affair.

There were just ten British life insurers operating in the early 1800s. Between them, premiums amounted to about £10 million, compared with over £200 million for fire and £150 million for marine. The business of the early life insurers was also confined largely to the very wealthy.

Only with the rapid growth of the middle classes in the 1800s did the life insurance sector really take off. Victorian society embraced the values of thrift and prudence and used life insurance as a form of savings and as security for business loans.

Life insurance demand rose most among the professional classes, with new insurers specialising in insuring doctors, lawyers, teachers, farmers and clergymen. By 1850 there were some 180 life insurers providing £150 million of life cover in the UK.

Above:
In 1774 Richard Price calculated profitability in life insurance for the Equitable Life Assurance Society based on current and expected mortality. This allowed the current state of operations to be assessed more precisely.

Right:
Playing cards, 1720. Insuring lives was for a long time seen as a form of gambling and interference with divine providence.
However, life insurers were often short lived — between 1843 and 1870, 170 of the 219 established life insurers disappeared. Concern regarding mismanagement, bankruptcy and fraud led to the first real regulation of the UK insurance industry, a role the government felt was best left to the markets. Despite numerous bankruptcies the life insurance market continued to grow rapidly in the second half of the 1800s — premiums trebled between 1870 and 1914, a growth rate that outstripped that of the UK national income, and by 1914 there were 94 life insurers insuring lives for a value of £870 million.

Growth was driven mostly by demand for investment products like endowment insurance, another UK insurance innovation that guarantees a payment at the end of a fixed term, or earlier if the insured dies. By 1913, endowments accounted for 62% of all life insurance policies.

Well into the 1900s life insurance premiums remained unaffordable for most British workers. However, in the mid-1800s a new type of life insurance emerged to serve the needs of the better-off working classes.

Industrial life insurance used a weekly or monthly door-to-door collection of small premiums to cover a lower sum insured — industrial insurance was intended to cover the cost of burial, rather than provide for dependents. The sector was to become dominated by Prudential Mutual Insurance Investment and Loan Association, later known as Prudential, which had issued 25 million policies by 1905.

By 1914 there were 39 million industrial assurance policies in the UK. However, the average amount insured under an industrial life insurance policy was just £10 compared with £345 under ordinary insurance policies in 1905.

With rising life expectancy, concern with inflation, tax incentives and increasing purchasing power of salaried workers, the life market grew further between the two World Wars, with a doubling of industrial life premiums between 1920 and 1939.

Around this time demand for company pension schemes increased, and this trend was given a boost when US life insurer Metropolitan Life began selling group pension schemes to the British subsidiaries of US companies, like Kodak and General Motors. Selling the policies as a way to quell rising industrial tensions, British insurers Legal & General and Prudential soon followed suit.

With hundreds of employees on one contract, group pensions benefited from lower transaction costs and cheaper rates than traditional life insurance, offering life insurers an effective way of increasing premium income with little outlay.

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Right: When visiting Germany in 1908, David Lloyd George was inspired by the compulsory national insurance against sickness which had been introduced there in 1884. In 1911, Britain passed the National Insurance Act. It met with fierce opposition from some sections of the Conservative party but also from trade unions which feared that friendly societies would run out of business.
Growth of the composite

Another feature of the UK domestic market replicated by insurers as time moved on was the so-called composite structure. British insurers in the 1800s specialised in a single line of business, but by the end of the century some were beginning to offer a much broader product range, even combining coverage — such as fire with burglary to create home insurance.

As demand for insurance grew, large insurers were keen to offer their customers a wider range of cover beyond their core fire and life insurance products, including insurance for burglary, vehicles, workmen’s compensation, fidelity guarantee, boiler and personal accident. The quickest way of obtaining expertise in these new lines was to acquire companies that specialised in them.

A wave of mergers and acquisitions in the early 1900s was to see British insurers become bigger and more diverse, writing an increasing number of lines of business in the new form of composite insurance.

In 1899, just a handful of UK insurers underwrote more than two lines of insurance, but over the following two decades the landscape changed completely.

The number of pure fire insurers fell dramatically, as did the number of life insurers. Many were to fall victim to the growing composite insurers, or become the foundation for composites themselves. One of the largest composites, Commercial Union, absorbed 21 companies between 1900 and 1939.

Two thirds of the 29 largest life insurers in 1899 were part of larger groups by 1933, while fifteen of the top 35 fire offices had suffered the same fate by 1925.

Above:
The 1942 Beveridge Report was the basis for the post-war reforms which included the expansion of National Insurance and the creation of the National Health Service.
While London dominated the UK insurance industry in the 1700s, other UK cities were to become equally as important in the 1800s. Industrialisation and trade with the Empire saw ports and industrial cities like Liverpool, Glasgow, Edinburgh and Manchester expand at unprecedented rates.

Marine and fire insurers were established by West India merchants in Bristol and London, by tobacco merchants in Glasgow, slave traders in Liverpool, and by textile merchants in Leeds and Manchester. These insurers were able to use their mercantile roots and connections to quickly expand overseas and regional companies became important players in international markets.

From the 1860s Liverpool became a centre for fire and marine insurance on equal footing with London — by 1914, only two of the UK’s large fire insurance companies were based in the City of London.

Liverpool, London & Globe (LL&G), established in 1836 by local banker and cotton broker George Holt and Liverpool ship owner Swinton Boult, became the largest fire insurer in the world through a series of acquisitions at home and abroad. Like other British insurers of the time, the company’s expansion followed its founders’ trading links, with agents in New York, Newfoundland and Hamburg.

The company later became the first European insurer to appoint an agent in San Francisco, and would earn 45% of its premiums from the US by 1871. LL&G suffered a string of calamitous losses in that year, including the great Chicago and Boston fires. Like other UK insurers it met all its claims in full, enhancing its reputation.
Internationalisation of the British insurance industry

British insurers were among the first to see insurance as a potential export industry, and much like insurers today, they expanded overseas, accompanying British companies abroad with the development of international trade. From the 1700s British fire insurers began expanding into foreign markets. By the early 1800s companies based in London and rapidly growing cities like Liverpool and Manchester were insuring risks across the British Empire, as well as expanding into the US and Europe. Their experience and their techniques and products developed for the rapidly changing UK domestic market could be applied to foreign markets, enabling UK insurance companies to gain market-leading positions in many countries in the 18th century. With the help of reinsurance contracts, British insurers created a safety net that spanned Europe, the US and much of the Empire. Their economic success and technical superiority led to their risk management methods being replicated worldwide.

Left: Trade stand of General Accident Insurance in Kolkata in 1921.

Political and financial revolution at the end of the 17th century laid the foundations for the economic power of the British Empire, which was to help the country become a centre for international finance, commerce and insurance in the centuries to come.

Like a small number of other European countries in the late 1600s, Britain was putting in place the cornerstones of modern finance, including a central bank, exchanges for stocks, and traded debt. Within a short time, London was to overtake Amsterdam as the world’s financial capital.

It was also at the end of the 1600s that an international insurance market found its feet. A marine insurance market was forming in the City of London around Edward Lloyd’s coffee house, which would later become the Lloyd’s insurance market.

In the late 1600s marine insurance was transacted in important trading centres like London, Rotterdam and Amsterdam. However, as the wealth of British traders grew, the UK marine insurance industry matured as well – moving from a peripheral service offered by traders to become a product sold by dedicated marine insurance companies.
With their unrivalled access to shipping information and networks of agents, UK marine insurers in London, and later in Liverpool, were to dominate the market for marine insurance throughout the 1800s and well into the 1900s.

**First fire insurers**
Perhaps more significantly, the UK was also a pioneer in the insurance of buildings against fire, a business that first began in London following the Great Fire of 1666, but spread quickly to the regions and then overseas.

From the 1800s fire insurance took on an international dimension as well-capitalised British insurers started founding offices in mainland Europe, the Caribbean and then the US.

Several fire insurance companies established at the end of the 1700s and early 1800s had international aspirations from their very beginnings, reflected in names such as Globe, Imperial and Atlas. These companies followed in the footsteps of one of the very first fire insurance companies to underwrite foreign business, Phoenix Fire Office, which was formed in London by sugar refiners in 1782.

Unlike its European counterparts, the British government had no role in the development of the sector. The capital for new fire insurance companies was privately sourced, usually from local networks of manufacturers and merchants, the same business communities that already insured their ships and cargo in overseas trade.

Insurers like Phoenix exploited the trading connections of their founders to establish international sales forces. By the early 1800s Phoenix had 42 agents in Europe, North America, the West Indies, Argentina and South Africa, and by the middle of the century overseas insurance accounted for half of the insurer’s premium income.

Above right: In 1782, 84 sugar refinery owners in London founded a joint-stock insurance company, the Phoenix. They were the first ones to specialise in insuring large industrial risks and, on the trail of sugar, to deliberately export this modern form of insurance.

Right: The Old Sugar House in Hull collapsed in 1868 killing eight men and boys. Sugar had become an important catalyst for industrial growth in England. In the second half of the 18th century, fires at sugar refineries accounted for a large proportion of all bankruptcies in England. Only two of the fire insurance companies at the time also insured sugar refineries, albeit at inflated rates and with meagre policy limits.

Opposite top: “The brigades of the Phoenix Fire Office, County Fire Office and the Westminster Fire Office shown racing to the scene of a fire in London.” Print dated 1 September 1808.

Opposite bottom: “The Destruction of the Royal Exchange by a Fire on Janr 10th. 1838.” The Royal Exchange was an important facilitator for modern insurance. Running insurances as joint stock companies was to prove a decisive business advantage as shareholding allowed raising operating capital.
**Technical leadership and diversification**

Phoenix enjoyed a competitive edge in overseas markets from superior technical expertise, decades of claims statistics and the experience gained from insuring industrial risks at home.

The leadership of insurers like Phoenix reflected the strength of the UK domestic market. The country’s insurers were able to draw on some 100 years of experience of technological development at home and in the colonies, having insured sugar refineries, giant warehouses, steam boilers, textile mills, steamships, railways and engineering plants.

Industrial risks were both challenging and fast changing in the 18th and 19th centuries, making British underwriters international leaders in risk assessment. Well into the 19th century US and European insurers followed British underwriting practices and models of risk classification.

In short, British insurers in the early 1800s were often better informed, employed more actuarial skills and benefited from a greater spread of risk internationally than the nationally focussed, fledgling insurers in many overseas markets.

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**Above:**
The Atlas Assurance Company was established in 1808 and transacted life and fire insurance business.

**Right:**
The Chicago Fire was broadly covered by the Illustrated London News edition of 11 October, 1871. Many British insurers suffered substantial losses.
International expansion

British fire insurers initially used agents and brokers to expand overseas, but from the 1820s they were also able to grow through co-insurance and early forms of reinsurance. This was achieved through bilateral treaties with German, French, Belgian and Russian insurers to reinsure property in the UK, Europe and later the US.

Like modern day reinsurance, the practice of exchanging risks enabled British insurers to use their technical superiority to grow their businesses and spread their risks geographically. By providing reinsurance to foreign insurers, and through agents and brokers, UK insurers were able to underwrite around the world.

After their early expansion into Europe and the US East Coast, British insurers moved into India, China and the Malay Peninsula during the 1830s and 1840s, before entering the markets of Australia, New Zealand, South Africa, Asia, Latin America and the Middle East in the 1850s.

A third phase of expansion saw British insurers like Liverpool, London & Globe in Liverpool use the mercantile connections of their founders to expand to the Pacific coast of North America and the Far East.

From the 1870s through to the First World War, UK insurers increasingly grew overseas through the direct acquisition of foreign companies and UK companies with overseas operations.

Geographical shift

While British insurers had dominated some European markets in the early days, they were experiencing fierce competition in Europe by the end of the 1800s.

Gradually the market share of British insurers in Europe declined. As European sources of premiums fell, other regions of the world grew in importance, including the former colonies of the US, Canada and Australia.

Despite anti-British feelings following the American War of Independence (1775–1783), the US was to become an important market for British insurers. By the time of the US Civil War (1861–1865) several London and Liverpool-based insurers had used their contacts in the cotton and other trades to enter the United States using independent agents and agreements with US companies.

For example, Phoenix, which was already deriving some 30% of its premium income from the US market in 1850, was the first non-US insurer to create an extensive network of agents, scattered through the south and many northern port cities.

Above right:
An insurance broker in 1886 in Sargent, Nebraska, promoting the North British & Mercantile insurance company.

Right:
Office of Sun Fire Insurance in King William’s Town, South Africa, around 1920.
Internationalisation of the British insurance industry

British companies’ handling of the Chicago and Boston fires in the 1870s earned them praise for their reliability and did a lot to counter anti-British sentiment. By the 1900s British insurers were investing in US branches and subsidiaries, and were the leading foreign insurers in the American market.

Some estimates suggest that the US market accounted for 40% of British premium revenues between 1870 and 1914, with several British insurers featuring among America’s leading insurers. By 1900, more than ten major UK insurers wrote more than USD 1 million a year in US premiums and by the outbreak of the First World War in 1914, 42 of the 89 foreign companies in the US were British.

The San Francisco earthquake of 1906, one of the largest insured catastrophes of the 20th century, illustrated just how important British insurers and continental reinsurers were to the US insurance market.

Losses from the quake were unprecedented with the earthquake damage amounting to USD 20 million and fire damage USD 400 million – in current dollars, around USD 10 billion in total damages. Differences in insurance policies created confusion over whether policies should pay out for fire damage caused in the aftermath of the quake.

Nevertheless, 43 companies paid out USD 235 million (USD 4.9 billion in current dollars), an amount equal to the entire US insurance market’s prior 47 years of profit. Many UK companies had to draw on home country resources to pay claims, but UK insurers like Lloyd’s ultimately benefited from their agreement to pay claims.

The earthquake, which demonstrated the value and growing relevance of reinsurance as a tool to spread risk internationally, also brought Swiss Re and the UK market closer together. The reinsurer provided prompt and unquestioning support to British insurers, Northern and London Insurance Company.
When the unfinished Titanic was insured in 1911, there was no room for any pessimists. Full of confidence in the technology, the owners insured the Titanic for only half its value and at the unprecedentedly low rate of three-quarters of one per cent.

On 14 April 1912, on its maiden voyage, this masterpiece of engineering then collided with an iceberg in the North Atlantic and sank within two and a half hours. And even though the Titanic transmitted the newly adopted SOS distress signal (being the first to do so in the history of navigation), it still carried more than 1500 people to their deaths. It was mainly British insurers that were affected by the disaster, as companies from other countries had taken a very cautious stance on account of the exceptionally low premiums. Part of the Titanic cover had been reinsured with Swiss Re. As some of the richest men in the US perished on board, many American life insurers had to pay out several million dollars. Many insurers also became realists again. When, not long afterwards, the Titanic’s sister ship the Olympic set off on an Atlantic crossing, it could only find cover at a premium of two per cent.

As European premiums declined, British insurers also looked to the underdeveloped regions within the sphere of British influence, such as those of Africa and the Caribbean. For example, all four of the fire offices in Sierra Leone in 1905 were British, while 25 of the 31 fire offices in Jamaica were from the UK.

With the expansion of British insurers overseas, the domestic market was of declining importance, and by the First World War the UK accounted for just one third of the total premiums earned by British fire insurers.

Life insurers fail to make it overseas

British life insurers were also early exporters, but they would never make the same in roads into overseas markets as fire and accident companies.

The Pelican Life Insurance Company, founded in 1797 as a sister company to the Phoenix Fire Office, insured the lives of British and foreign nationals living overseas as well as military personnel stationed abroad.

The Napoleonic wars and expanding empire increased demand for life insurance overseas, but risks associated with war, climate and disease were difficult to price. Despite high surcharges in parts of the world, such as Africa and the West Indies, overseas life insurance was not profitable, and business was mostly written from London.

Even as life insurance markets developed around the world in the 1800s, UK life insurers would not achieve the leading positions enjoyed by British fire insurers in overseas markets.

National life insurance markets developed later than fire and European middle-class incomes remained relatively low compared with Britain. Even in the British colonies, patriotic consumer attitudes and regulatory issues made it difficult for the British to sell life insurance.

Content with good growth at home, British insurers focused on the domestic market, with its expanding middle class and higher levels of average income. By 1914, just 10% of life insurance premiums earned by British life insurers came from overseas, compared with 67% for fire insurance premiums.
Swiss Re History

The evolution of a global risk expert

Swiss Re’s rise to become the rank of a global expert in taking and managing risks mirrors the dramatic social, economic and political development of the last 150 years. Swiss Re was established in 1863 to meet demand for an independent reinsurer that would spread risk in a rapidly changing world. The following 150 years, a period of unprecedented change driven by a revolution in science and technology, have seen Swiss Re become a leading international provider of reinsurance capital and risk expertise.

Rising from the ashes
Rapid industrialisation and urbanisation throughout the 1800s were creating concentrations of risk, requiring insurers to diversify their exposures. A clear role was emerging for independent reinsurers that could shoulder and spread insurers’ risks, develop expertise and provide capital when it was critically needed.

The world’s first dedicated and independent reinsurer, Cologne Re, was established in the aftermath of the Hamburg fire of 1842. Swiss Re was to be the first such company outside of Germany.

Swiss Re’s beginnings are often associated with the devastating fire that destroyed the thriving Swiss town of Glarus in May 1861. The fire, which hit some local insurers with claims five times their reserves, highlighted the threat of major catastrophes to the Swiss insurance industry and demonstrated the need for reinsurance to provide protection for events with a low frequency but a yet unknown severity. Immediately after the fire, the insurance industry discussed setting up a cantonal reinsurance pool but the plans never materialised.

Instead, the St. Gallen-based insurer Helvetia set up a new fire insurance company and shortly after its director Moritz Ignaz Grossmann proposed that a Swiss reinsurer should be founded in Zurich. The main reason for doing so, Grossmann wrote, was to keep reinsurance premiums in Switzerland rather than reinsuring with French and English insurers. The Swiss Reinsurance Company first opened its doors in Zurich on 19 December, 1863, with CHF 6 million of share capital raised from a diverse group of investors, including two Swiss banks.

Below:
Swiss Re’s offices in 1983.
**Fundamentals of success**

Swiss Re's early leaders established the sound principles of reinsurance that have been followed by successive generations of Swiss Re managers ever since. From the very start, Swiss Re was to be an international reinsurance company that spread its risks geographically, built strong client relationships and developed access to a diverse capital base.

The early years were difficult for Swiss Re – reinsurance was a new concept that lacked the sophisticated risk management tools of more recent times. The primary insurance market was far from transparent. As a consequence, client relationships had to be rooted in trust and "utmost good faith" rather than knowledge and facts.

In these first challenging years, Grossmann turned to Giuseppe Besso, a member of the famous Besso family associated with the Italian insurer Asscuriazioni Generali. Besso accelerated Swiss Re's international diversification and continued to build the company as a financially robust and independent reinsurer.

**Clockwise from top left:**

Giuseppe (Josef) Besso (1839–1901), brother of Marco Besso from Trieste, director of Generali Insurance. Giuseppe Besso was general manager of Swiss Re from 1865 to 1879.

Charles Simon (1862–1942), general manager of Swiss Re from 1900 to 1919 and later chairman of the board of directors.

Erwin Hürlimann (1880–1942), the first Swiss general manager of Swiss Re from 1919 to 1930. Later chairman of the board and honorary chairman.

Moritz Ignaz Grossmann (1830–1910), director of Helvetia Insurance and founder of Swiss Re.
Swiss Re history

Diversified from the start
Right from the start Swiss Re had an international outlook, with only two of its 18 early contracts written with Swiss insurers.

By the turn of the 20th century Swiss Re was already reinsuring risks in Europe, the US, Latin America, Russia and Asia. It was also beginning to establish a global network, opening an overseas office and looking to underwrite directly in key international markets.

The reinsurer also looked to spread risk across an increasing number of lines of business, writing its first contracts in marine reinsurance in 1864, in life reinsurance in 1865, in accident and health reinsurance in 1881, and in motor reinsurance in 1901.

The form of reinsurance contracts also evolved – in 1890 Swiss Re underwrote its first excess of loss contract, a type of reinsurance that pays claims above an agreed level of losses, rather than a proportion of all an insurer’s losses.

This change in approach would enable reinsurers to focus on the less frequent catastrophic risks. In a sense, the modern age of reinsurance had begun.

Catastrophe losses
The first few decades of the 20th century were marked by growth in both international exposures and single large risks – demonstrated by the Spanish Flu epidemic in 1918, which led to a CHF 1 million loss for Swiss Re, and by the sinking of the Titanic in 1912, also insured by Swiss Re.

Below left:
Swiss Re signed its first reinsurance contract with Helvetia, one of its founding companies, in 1863.

Below right:
The company’s articles of association were approved on 19 December 1863 and signed by the famous Swiss author Gottfried Keller as a clerk of the Canton of Zurich government.
However, it was the catastrophic 1906 San Francisco Earthquake that was to be the insurance and reinsurance industry’s wake-up call. The earthquake and subsequent fire that swept through San Francisco was a market-changing event. The extent of the damage made insurers rethink the potential size of losses, as well as the importance of seeking well-capitalised counterparties.

Within three years of the quake, San Francisco had been largely rebuilt thanks to payments made by the insurance and reinsurance industry. The majority of claims were paid by foreign companies, demonstrating just how globalised the industry had already become.

For Swiss Re, the earthquake generated the biggest single loss as a percentage of net premiums in the company’s history, but reinforced Swiss Re’s reputation as a financially secure and reliable counterparty in the US and the UK where the reinsurer honoured its contracts to cedants.

**Global market access**

Above all else, the San Francisco earthquake highlighted the need for further geographical and product diversification, leading Swiss Re to make a number of acquisitions.

Acquisitions were to feature early on in Swiss Re’s history, and continue well into modern times. In addition to helping spread risk internationally, acquisitions give access to new business, particularly where strong relationships between local insurers and reinsurers make it difficult to grow.

Early acquisitions saw Swiss Re gain footholds in the all-important UK and German markets through stakes in Mercantile and General Insurance Company (M&G) in 1915 and Bayerische Rückversicherung of Munich in 1924.

**Financial crisis**

The 1929 stock market crash in the US and subsequent Great Depression showed insurers and reinsurers for the first time that they were exposed to significant risks on the asset side of the balance sheet.

The crash led to write-downs of assets at Swiss Re amounting to almost CHF 26 million, although the company was saved by its accumulation of special reserves – some CHF 30 million were taken from these reserves in 1931 to cover record losses. However, Swiss Re learnt valuable lessons, and the crisis marked the birth of a more prudent asset liability management at Swiss Re, an important risk management tool that continues to be used by insurers today.

**Redrawing the map**

While German and Russian reinsurers were expelled from international business around the time of the two world wars, Swiss Re was able to capture a market-leading position in the US. However, the radically different world that would emerge after the Second World War constrained reinsurers’ ability to spread risk.

A number of markets were now off-limits – with those in Central and Eastern Europe slipping behind the Iron Curtain. Others, such as Brazil and India, became state-owned. At the same time, other markets were enjoying a boom in consumer spending, leading to higher concentrations of risk in markets like the US and Europe.

Swiss Re continued to seek geographical and product diversification, developing a leading presence in new markets, including Canada, Australia, South Africa and then Asia.

**Post-war boom**

The technology boom and growing concentration of risk in mature markets after the Second World War led to growing demand for risk management, and for greater expertise from insurers and their reinsurers. In response, Swiss Re looked to share its risk expertise through training and communication, a key part of the reinsurer’s business culture and brand ever since.

It opened the Swiss Insurance Training Centre (SITC) in 1960 to provide technical training, particularly to insurers in emerging markets. Swiss Re’s sigma unit began publishing its trademark economic research in 1968, and the unit continues to generate some of the most valued data and analysis available on the insurance market.

**Focus on core business**

In response to the growth in risk management and the trend towards greater self-retention in the 1980s, Swiss Re began expanding its range of services, acquiring insurance service companies, as well as increasing its participation in the primary insurance market.

However, although dependent upon each other, Swiss Re discovered that the actual management of a primary and a reinsurance company had little in common.

In 1994 a new management team refocussed the company’s operations back on reinsurance, reinvesting the proceeds from the sale of its primary insurance businesses in achieving its strategic goal of becoming the world’s largest reinsurer. Growing catastrophe exposures and an increasingly complex and globalised risk landscape were beginning to drive demand for large, highly rated managers of capital and risk.
Swiss Re sought to grow its life reinsurance business, headquartered in London, and develop its insurance-linked securities offering. It also developed its direct corporate insurance unit and further globalised its non-life reinsurance operations.

In the 1970s Swiss Re had been one of the first reinsurers to recognise the importance of emerging markets. Later it began opening offices in key markets, seeking to build strong relationships and expertise through a local presence – Swiss Re obtained licences in Korea in 2002, China in 2003 and Japan and Taiwan in 2004.

During the 1990s, Swiss Re took on much of its current corporate form – it adopted a single brand operating from one global capital base, providing the highest levels of financial strength, expertise and tools to clients whilst remaining attractive to a wide range of capital providers.

**New risk frontiers**

Following Hurricane Andrew in 1992, which was the largest insurance industry loss at that time, Swiss Re began working with Swiss bank Credit Suisse to develop alternative financial and risk transfer solutions.

Developments in actuarial modelling and a growing interest in hedging risk in the 1980s led Swiss Re to explore developments in capital markets and bring new financial products to existing and new clients. The growth in Swiss Re’s financial products business helped forge lasting relationships between reinsurers and capital markets that had not really existed before.

A new era was beginning, and capital markets had been opened up as a source of additional and complementary capacity. Innovative products were also being developed, including some of the first insurance-linked securities and public-private partnerships.
Top:
Mythenquai 60 in Zurich, Swiss Re’s first purpose-built offices, opened in 1913.

Above:
Swiss Re’s new office building at Mythenquai 50 in Zurich, planned for 2017.
Market consolidation and expansion
With strategy firmly fixed on its core reinsurance operations, Swiss Re strengthened its position by buying competitors in a number of markets during the 1990s and 2000s.

The company made a series of acquisitions in the life reinsurance market between 1995 and 2001, mostly in the US but also reacquiring M&G. These acquisitions formed the basis of Swiss Re Life & Health, the company’s global life reinsurance business centred in London, which includes AdminRe®, an operation specialising in the acquisition and administration of run-off business.

Swiss Re’s largest acquisition was the USD 7.6 billion deal in 2006 for GE Insurance Solutions, the fifth largest reinsurer at that time. The transaction reinforced the reinsurer’s leading position in the US reinsurance market, but also in other markets such as the UK or Germany.

Challenging times
The opening decade of the 21st century was challenging for global insurers and reinsurers, including Swiss Re.

The terrorist attack on the World Trade Center in 2001 not only cost three thousand lives and billions of dollars in property damage, it also changed insurers’ thinking about the possible size of losses and the interconnectivity and accumulation of seemingly unrelated risks.

Swiss Re in London underwrote half of the USD 3.5 billion coverage for the WTC, and insurance claims from the attack contributed to Swiss Re’s first net loss since 1868. It took five years before a New York jury ruled in favour of Swiss Re and other insurers in the largest insurance litigation process ever, confirming the attack was one event and not two, as the owner of the WTC had claimed.

The first decade of the 21st century put into question the insurability of some large risks. Hurricane Katrina, which produced the highest damages of any natural disaster in history, cost Swiss Re USD 1.2 billion. Although it demonstrated the ability of the industry to absorb devastating losses, within six years the toll of the 2005 hurricane season was equalled by a string of natural catastrophe events in the Pacific region. It started with floods in Australia, which were followed by a sequence of earthquakes first in New Zealand and later in Japan, followed by a tsunami, and the year finished with yet another flood in Thailand.

The financial crisis of 2008 was also tough on Swiss Re. The company made a loss of CHF 864 million in 2008, mainly the result of investment losses and the performance of two credit default swaps.

By de-risking its asset portfolio and concentrating on its core reinsurance business, the company emerged from the crisis as a leading participant in the reinsurance market.

Preparing for the future
In 2011 Swiss Re implemented a new legal structure to support its strategic priorities and refine its business model. It created three separate business units, namely Swiss Re’s existing reinsurance business, along with two new entities for Corporate Solutions and Admin Re®.

The company also continues to invest in the future. In 2003 Swiss Re opened its award-winning St Mary Axe building, affectionately known as the Gherkin, while work began on a new building at Swiss Re’s headquarters in Zurich in 2012.

By staying true to the fundamentals of reinsurance championed by Swiss Re’s early leaders – the importance of diversification and long-lasting client relationships – Swiss Re has weathered many storms in its 150-year history, continuing to provide its clients with a secure partner in risk.

The history of the company shows the pivotal role reinsurance has played in the management of risk. And with Swiss Re at the forefront, it remains well-positioned to carry on doing so.
Above: 30 St Mary Axe, London, was opened in 2004.
Up until 1914, British and European insurers had dominated the international insurance and reinsurance market, but the First World War would rupture the links that had been established over the course of a century. Previously outward-looking European markets became largely closed national markets for the following three decades.

Insurers immediately felt the effects of the war when governments in London and Paris annulled all insurance contracts with policyholders from enemy countries. German and Austrian shipowners and industrialists lost their cover from London market insurers, although the biggest consequences were for German reinsurers. When the US entered the war, German reinsurers lost market share in the UK, France and the US, a gap filled mostly by Swiss Reinsurers.

The Russian revolution of 1917 also removed another significant player from the international insurance market, as Russia’s new rulers rejected reinsurance as “bourgeois”. And in the period following the First World War, the collapse in world trade and the isolation of the US triggered increased competition in national markets for internationally minded British insurers.
The UK economy weathered the financial crisis of the 1930s better than many of its competitors, but the period between the Great Wars was still a tough time for UK insurers, as demand from overseas markets tightened and as British trade growth slowed to just 1% a year on average.

The Depression of the 1930s saw premiums stagnate and claims rise as fewer people were in work and factories lay idle.

British insurers faced their greatest problems overseas. The Depression meant declining premiums and higher claims for British insurers in many countries. Losses were especially high in the US. Economic stagnation, unstable currencies, political instability and increasing levels of regulation abroad were all major challenges in this period.

After the Second World War, growth in the UK domestic market was slow, although business was profitable. However, from the late 1950s technological change accelerated, bringing new hazards with the growth of industries like petrochemicals, plastics and electronics.

New technologies led to increasing losses for insurers, with annual claims in the UK rising from £24 million in 1958 to £100 million a decade later. Foreign markets were also generating losses – most UK insurers sustained losses in the US every year between 1956 and 1969, only remaining in America because of high investment returns earned on premiums.
Global retrenchment

British insurers faced even bigger problems overseas. The British Empire was unraveling, and as markets matured, domestic players challenged the dominance of UK insurers, particularly in Europe and the US.

The post war redrawing of the political map also impacted UK insurer’s overseas earning potential. Russia and China had effectively killed off their insurance markets while other countries like India, Brazil and Argentina had nationalised all or part of their insurance markets.

Anti-imperial sentiment also caused UK insurers to lose out in former African and Asian colonies.

The Norwich Union, for example, reported that it was forced out of 22 countries in the 1960s alone.

Slightly offsetting the loss of overseas markets, British insurers were able to focus efforts on OECD countries and the emerging European trade zone that would become the European Union. But the trend was undeniable: between 1900 and 1970, international premiums accounted for a steady 60–65% of British insurers’ business, but in the subsequent two decades this trend was reversed so that by 1990 just 39% of premium income was from overseas markets, decreasing to just 22% in 2006.

Much of the decline was attributable to the experience of UK companies in the US where growing competition, asbestos claims, litigation costs and catastrophe claims led to poor results and the eventual withdrawal of British insurers from the US market. By 2006, the US accounted for just 1% of British insurers’ business, compared with 33% in the mid-1970s.

Right:

Swiss Re started collecting both written and visual information and on accidents and disasters in the 1950s to improve its risk engineering. The above example is from a London Bus accident in 1951. Busses No 12 and No 68 going to South Croydon and Chalk Farm collided at North Croydon in the night of 29 August. 35 were injured and one bus driver killed. The picture below shows the SS Oronsay, launched in 1949 in Barrow-in-Furness. During the fitting out a fire started and burned for three days. Despite the accident, the delivery was only delayed by eight weeks.
Post-war opportunity and challenge

Regulation

For much of the past 150 years the UK has deliberately avoided direct regulation of the insurance sector, preferring to leave the supervision of the industry to shareholders and policyholders.

Even when fraud and bankruptcies in the life insurance sector led to the Life Insurance Companies Act of 1870 (the Act) – the first major piece of parliamentary regulation of the UK insurance industry – the laissez faire principles were scarcely challenged. The Act only required life insurers to submit their accounts and pay a nominal deposit.

Up until the second half of the 20th century, regulation in the UK market continued to be based on the Victorian principle of “freedom with publicity,” leaving the companies to regulate themselves through the various tariff organisations.

Despite fierce competition between UK insurers, there was also a tradition of cooperation, which acted as a form of self-regulation. This was to be most evident in the powerful tariff organisation, the Fire Offices Committee (FOC), established in 1868.

The FOC set tariffs for a range of hazardous domestic risks and worked towards standardising contracts and improving loss prevention. As new lines of business emerged other tariff bodies were also established, including the Accident Offices Association (AOA) that agreed tariffs for workmen’s compensation, motor and engineering insurance.

The tariff system lasted until the 1970s, when the members of the FOC still accounted for 63% of the domestic market. Concerned with rising rates, the government referred the fire insurance industry to the UK Monopolies Commission, which in 1972 recommended an end to rate fixing.

Right: Results in motor insurance started declining in the post war era, eventually turning negative. Some companies were able to offset losses with investment gains or through reinsurance. The collapse of the Vehicle & General in 1971 prompted the Insurance Companies Act 1974.

The government was still reluctant to intervene in the market, but the FOC was eventually wound up in 1985.

However, problems in the motor market came to a head in the 1960s and 1970s, a time which would prove to be a watershed for British insurance regulation with state supervision of insurance companies finally being ushered in.

A growing number of cars were on Britain’s roads and accidents were increasing, but motor insurance premiums were falling as more insurers entered the market. But some of the new entrants proved to be poorly financed and many failed.

The collapse of Vehicle & General in 1971 – which left 800,000 motorists without insurance – prompted legislation in the form of the Insurance Companies Act 1974. It empowered the Department of Trade and Industry to oversee insurers and created the Policyholders Protection Act 1975, which guaranteed policyholders 90% of the benefits promised under their non-life policies.

Mis-selling scandals in the 1990s and again in the 2000s would see life insurance also come under greater scrutiny, as the first decade of the new millennium saw financial services regulation undergo wholesale modernisation.

The regulation of life and non-life insurance, banking and intermediaries were all consolidated under one supervisory body, The Financial Services Authority (FSA), established in 1997 and given greater powers under the Financial Services and Markets Act of 2000. Under the new Act, the FSA also introduced a more risk-based approach to solvency regulation that was, at the time, among the most advanced in the world.

However, insurance regulation was increasingly becoming an international concern. A number of EU Directives were shaping UK regulation, and the financial crisis resulted in greater cooperation between regulators.

The crisis also led to the end of the FSA, which had failed to identify the problems that culminated in the 2007 banking crisis. In 2012 the regulator was split into two new supervisory bodies, one focusing on prudential supervision, the Prudential Regulation Authority (PRA), and the other on market conduct, the Financial Conduct Authority (FCA).
**Consolidation**

Another response to the challenging new world order was expansion through mergers and acquisitions. At the height of the M&A trend in 1968, the 12 largest composite insurers accounted for 87% of UK global fire and accident insurance premiums.

The end of the tariff system in the early 1970s sparked a round of mergers and acquisitions, which included Sun Alliance’s 1984 acquisition of Phoenix, the last of the old fire insurers. Over the next few years, the market consolidated further, with many of the old brands disappearing into large corporate organisations.

Today’s two market leaders – RSA and Aviva – were created in this period, absorbing many of the great names in early British insurance company history. The Royal merged with Sun Alliance in 1996 to form RSA, while The Norwich Union was acquired by the recently merged Commercial Union and General Accident – that combination formed the basis for today’s Aviva.

At the end of the 20th century the UK non-life market was unrecognisable from that of 100 years before. It was now dominated by just a handful of insurers that were almost exclusively focussed on the UK and parts of Europe.

**Life growth and consolidation**

An end to austerity, near-full employment and rising earnings encouraged a new attitude towards saving for the long term after the Second World War, signalling a growth period for pensions and life insurers.

With increasing longevity and the falling cost of life insurance, premiums grew at twice the rate of the inter-war years and faster than the growth in personal incomes for the two decades after the war.


Stock market volatility in the 1990s and 2000s also affected pension schemes operated by UK companies, which carried large investments in equities. Exposure to under-performing stock markets and life expectancy beyond expectations caused substantial shortfalls in funding for final salary pensions, leading to the closure of many such schemes to new entrants.

Company pension funds have since also taken steps to hedge certain risks and reduce volatility, and a number have been able to transfer longevity risk to reinsurers. In 2009, Swiss Re provided protection for £1.7 billion of liabilities associated with the UK’s Royal County of Berkshire Pension Fund, the first public-private longevity transaction.

**Right:**
The post-war boom made insurance attractive to the growing middle classes.
欧洲影响

英国保险公司曾在欧洲保险市场的早期发展中扮演重要角色，但1957年欧洲经济共同体的成立，英国于1973年加入，为两个伟大历史保险市场的进一步整合铺平了道路。

英国加入欧洲经济共同体在1973年使欧洲市场对英国保险公司更具吸引力，但过了几年才开始取得进展。在法国、荷兰、爱尔兰和丹麦等市场的成功提高了欧洲业务的份额，到2006年，欧洲联盟占海外保费的71%，而30年前仅为18%。

欧洲影响不仅是单向的。大约这个时候，欧洲保险公司开始在英国国内保险市场扮演更重要的角色，德国保险公司安联、法国AXA和瑞士苏黎世保险集团收购了几家知名英国保险公司。

共同市场的形成也使保险监管朝着有利于欧洲的方向发展。包括1973年非人寿保险指令、1976年保险中介规定、第三非人寿保险指令和《欧洲经济共同体保险规定》，最终形成了欧洲统一的保险市场，使保险公司和经纪人在遵守国内监管规定的前提下，可以在整个地区自由经营。

在1973年，欧共体发布了第一项关于保险行业的指令，其目的是调整包括英国在内的欧盟国家的保险规定。该指令规定，保险公司应当符合欧盟的最低监管要求，以避免在不同国家的监管差异。
The UK, while not exposed to storms and earthquakes on the scale of the US, does have some significant catastrophe exposures, in particular storm and flood.

One of the most disastrous floods in living memory was the 1953 North Sea storm surge that led to 330 fatalities and destruction of 24,000 buildings in the Thames estuary.

The 1953 flood and storm surge was the catalyst behind the construction of the Thames Barrier, which became operational in 1982 and is one of the largest movable flood defences in the world. The surge caused some £40–50 million of damage, although estimates put the potential cost of a storm surge today at USD 10–15 billion, considerably more if the Thames Barrier were to fail.

Like much of Northern Europe, the UK is also exposed to violent winter storms, a number of which are among the most costly catastrophe events of the past forty years. Large storms have included the USD 6 billion 1987 Great Storm, as well as winter storm Daria in 1990, Lothar and Anatol in 1999 and Kyrill in 2007.

Acts of terrorism have exposed the UK to some of the most devastating insured property losses, notably when the bitter territorial conflict in Northern Ireland spilled over onto the UK mainland.

Following a series of terrorism incidents in the early 1990s, terrorism cover for commercial property became very limited as insurers and reinsurers struggled to reliably assess potential losses.

The solution was Pool Reinsurance Company Limited. Formed in 1993, Pool Re was a joint UK insurance industry and government solution under which insurers offer terrorism cover as part of property insurance. Member insurers, including Swiss Re, pay a premium and retain a certain level of risk, although Pool Re and the UK government act as reinsurer and backstop.

The pool has paid claims for a number of terrorist attacks in the UK between 1993 and 2001, as well as the Islamic terrorist bomb in London on 7 July 2005. In total it has paid out over £600 million in claims, including those associated with the 1993 City of London bombing and the London Docklands and Manchester City Centre bombings in 1996.

The 11 September 2001 losses in the US, while not covered by Pool Re, were of such a magnitude that they had significant implications for terrorism coverage worldwide. In response to the reduction of available cover immediately after 11 September, Pool Re extended its cover on an all-risk basis and removed exclusions relating to chemical, biological, radiological or nuclear attack.
Post-war opportunity and challenge

London market
The post-war rapid growth in Western industrial economies proved a boon to London. As Liverpool and Manchester faded as insurance centres in their own right, the City of London became the international focus for specialist insurance—such as energy and aviation—and attracted large amounts of reinsurance business.

What was to become known as the London market emerged as both British and foreign insurance and reinsurance companies, together with Lloyd’s, underwrote high value, high hazard industrial risks, as well as hard to place specialist lines of business.

Underwriting expertise and knowledge, a large, powerful force of brokers, and specialist supporting sectors like actuaries, loss adjusters, classification societies, law firms, accountants and consultants, were all packed into a square mile of London’s financial centre.

In the 1960s through to the 1980s, London became the world’s largest market for reinsurance, with Lloyd’s syndicates, UK composite insurers, and both domestic and foreign dedicated reinsurance companies.

Foreign reinsurers and reinsurance subsidiaries of overseas insurers were attracted to London in large numbers, keen to tap the international reinsurance and insurance business brought to London by hundreds of broking firms. They joined a number of UK domestic insurers that still formed an important part of the London market.

By 1967 there were already 220 foreign companies represented in London, four times the number in 1924. Companies came from far and wide, including Ethiopia, Tunisia, Bolivia and Columbia, and many were managed by a small number of agencies run by established reinsurance brokers.

In 1977 there were 22 professional reinsurers authorised in the UK, of which four were from the US, two from Switzerland, and just one from each of Germany, Bermuda and France.

Throughout this period the London market continued to grow, becoming a significant source of premium income for the UK insurance industry. In 1992 the London insurance market underwrote gross premiums of £18 billion, compared with £23 billion written by the domestic market.

London market reinsurance premiums rose on average by 4.8% per year from 1985 until 1992, reaching £11 billion in that year. Lloyd’s wrote just under half with the remainder underwritten by reinsurers, insurers and P&I Clubs.

The majority of reinsurance written in London—some 70%—was foreign in origin, predominantly from the US and Europe.

Right:
Hurricane Betsy was the first large storm to cause damages in excess of USD 1 billion. It was also to have an effect on the global reinsurance market. Underwriting syndicates in London had issued many excess contracts to US insurers and Betsy led to the first reinsurance spiral in the London market.
Offshore domiciles and the rise of Bermuda

The losses in the 1980s in the London market opened the door to competition from alternative insurance markets, most notably the British Overseas Territory of Bermuda.

The Atlantic island was already well established as the leading offshore captive domicile from the 1960s. US investors opted for Bermuda when looking to establish new insurers and reinsurers in the liability crisis of the 1980s and following Hurricane Andrew in 1992, and again when terrorists attacked the US in September 2001.

Bermuda quickly rose to be a major competitor to London, writing mainly US property catastrophe insurance. However, in recent years the two markets have become more complementary with many Lloyd’s insurers domiciled on the island or establishing subsidiaries, and with many Bermudian insurers acquiring Lloyd’s managing agents as part of their international expansion.

The UK also has three major offshore domiciles within its Crown Dependencies of Guernsey, Jersey and the Isle of Man. All three have specific insurance legislation, attracting insurers, captives and special purpose vehicles.

Guernsey is the most successful in terms of financial services, and is the world’s fourth largest captive domicile and the largest in Europe. The insurance industry in Guernsey dates back to the 18th century and captives have been incorporated on the island since 1922.

At the end of 2011, Guernsey had 343 captives, which although a long way short of Bermuda’s 862 was still over 100 more than its nearest rival Luxembourg and comfortably more than the Isle of Man’s 132.

Swiss Re has always been at the forefront of capital markets and insurance industry convergence, pioneering many innovative solutions, including both property/casualty and life insurance-linked securities, weather derivatives and public-private partnership transactions.

Swiss Re has been building its alternative insurance and capital markets capabilities in London, New York and Zurich since the 1980s. An important step in its strategy was the acquisition of London-based investment bank Fox-Pitt, Kelton in 1999. Although the subsidiary was sold in 2006, the business significantly contributed to the development of Swiss Re’s expertise in insurance-linked securities (ILS).

Today, Swiss Re Capital Markets is the largest issuer of ILS, leveraging its insurance and capital markets experience. Swiss Re also broke new ground with the securitisation of extreme mortality and longevity risks to capital market investors. In 2003 the reinsurer was the first company to transfer extreme mortality risks through its Vita Capital Programme. In total Swiss Re has obtained USD 2.25 billion of extreme mortality risk protection through a series of Vita transactions, which have increased in size and breadth of coverage.

In December 2010, Swiss Re successfully transferred longevity risk to capital market investors through Kortis Capital, an innovative USD 50 million life insurance-linked securitisation. The transaction, the first of its kind, provided Swiss Re with protection against the risk of divergence in mortality improvements between two reference populations and was an important step in the development of capital market solutions for longevity risk.

Capital markets and ILS
Swiss Re grows in London
Swiss Re has been active in the UK insurance market since writing its first treaty in 1865, and its ties and connections have continued to flourish.

During the first 100 years Swiss Re serviced the domestic and international exposures of British insurance companies through Zurich and other channels – including its majority holding in UK reinsurer Mercantile and General (M&G), which it acquired in 1917.

Then, from the late 1960s, Swiss Re in the UK underwent a massive change, increasing its UK presence and becoming a leading player in both the domestic and London markets, as well as basing its life and health business in London.

In a major strategic shift, Swiss Re sold its stake in M&G and established Swiss Reinsurance Company (UK) Ltd on 5 May 1969 in Cannon Street, London. The new wholly owned subsidiary assumed the business of Swiss Re’s London Contact Office, which had opened just five years previously.

Over the next twenty years Swiss Re consolidated its position, developing its business in two distinctly different markets – as a provider of traditional life and non-life reinsurance to UK domestic insurers and as an underwriter of international risks in the London market.

The two markets were, and remain, completely different in culture, requiring very different approaches. The London market of the post war period was largely reinsurance focussed, dominated by brokers and with a heavy reliance on external services.

Reflecting a long history in the UK of co-insurance and insurers writing reinsurance, risks were commonly traded between companies in the market – so in all, it was very different from the traditional approach to underwriting of Swiss Re and other continental reinsurers.

For example, in Switzerland, Swiss Re’s home market, professional reinsurers controlled over 70% of reinsurance premiums. In the UK, professional reinsurers accounted for less than 30% of the business written in the London market. The balance was written by direct insurers with reinsurance operations and Lloyd’s syndicates.

In contrast to London, the domestic UK market was more akin to that of Europe, and Swiss Re focussed on the needs of a smaller number of insurers, using in-house services with a much reduced role for brokers.

In the last three decades of the 20th century Swiss Re expanded its operations in the UK, particularly in the areas of international risks and global life and health reinsurance.

In 1975 Swiss Re acquired a dormant insurer, Palatine Insurance Company Ltd, from Commercial Union to write direct facultative business in the London market. But the big move came when it reacquired M&G in 1996, this time buying the London-headquartered reinsurer outright and integrating the business with its existing business units.

In its first year of operations, Swiss Re UK reported premiums of £3 million, but this had risen to £226 million in 1997, the first year to include premiums from the reacquired M&G. Staff numbers had increased from just 12 in 1969 to 100 in 1977, doubling to over 200 by 1987.

By the mid-1980s Swiss Re had outgrown its offices in Cannon Street and in 1988 it moved to Swiss Re House, a purpose-built office at the heart of the London market on the corner of Leadenhall Street and Mitre Street.

By the end of the 1990s Swiss Re had transformed its operations in London. It was now a significant player in the London market, underwriting international risks placed by brokers in London and participating in the subscription market by writing large complex risks on a facultative basis. London was also home to Swiss Re’s growing global life and health operations and an important centre for the reinsurer’s capital markets unit, Swiss Re Capital Partners.
Reflecting Swiss Re’s significant presence in the UK market, the company commissioned the construction of a new London headquarters on the site of the old Baltic Exchange building.

Designed by leading British architect Norman Foster, the 41-storey building was one of the first ecological skyscrapers, setting the benchmark for the latest generation of tall buildings.

The site at St Mary Axe had been derelict since a terrorist bomb destroyed the Baltic Exchange building in 1992. The building had housed one of the world’s leading shipping and cargo exchanges since 1903. Although beyond restoration, much of the building was salvaged, including the beautiful stained glass memorial which was restored by the National Maritime Museum with the support of Swiss Re.

The Swiss Re Building, since renamed 30 St Mary Axe, was an immediate success when it was opened in 2004 by John Coomber, the first British CEO of Swiss Re. Affectionately known as the Gherkin – reflecting its bullet like shape – the iconic building broke new ground and became a popular addition to the London skyline.

The design of 30 St Mary Axe adopted a radical approach, both technically and architecturally. The energy-saving design means that the building consumes around half the power of a similar conventional tower.

In 2004 the building was awarded the prestigious Royal Institute of British Architects Stirling Prize, and was voted the most admired new building by BD World Architecture.

Above: Entrance.

Above right: The 40th floor.

Right: Lobby area.
Swiss Re

Turbulent end to the millennium

The rapid growth of the London market in the 1970s and 1980s was also felt in the number and size of Lloyd’s syndicates. These increased substantially, reaching over 5,000 by the end of the 1960s and 11,000 by 1977. But the size of the market also created problems, which eventually gave rise to large losses, company failures and a period of fundamental change in the 1990s. Many of the reinsurers operating in the London market were caught up in the large property losses and rising cost of US casualty claims caused by asbestos and pollution exposures.

As a global reinsurer, Swiss Re was also exposed to many of these losses, however it had focussed its London business on areas where it had most control. This included the more straightforward reinsurance and excess primary facultative and subscription business, as well as class-specific reinsurance for Lloyd’s syndicates.

Lloyd’s also suffered substantially from significant losses in the late 1980s. A new reinsurance vehicle – known as Equitas – was established to reinsurance and run off Lloyd’s underwriting years up to and including 1992, allowing Lloyd’s to move on and put its past problems behind it.

Large losses

With its reputation dented, the London market lost out to the rising star of Bermuda, especially for US property catastrophe risks. But, despite the problems of the 1990s, the London market survived, and eventually thrived again.

Like other markets, London was caught out by soft market conditions and further losses in the late 1990s, mainly related to the ongoing US liability crisis. US asbestos claims continued to pour in, and were accompanied by losses starting to emerge from US directors and officers and professional liability.

11 September 2001, however, proved to be a watershed moment for the London market.

The market’s insurers weathered the storm and were well positioned to benefit from the surge in prices after the attack. The event, the largest man-made insurance loss in history, provided some tough lessons for insurers, leading to improvements in risk management and underwriting at many insurers, especially Lloyd’s.

The lessons learnt by UK and London insurers from financial market volatility and big losses led to all-round improvements in risk management and governance. As a result, the market was well positioned when a series of hurricanes hit the US in the mid-2000s, including Hurricane Katrina in 2005, the most expensive insured loss of all time.

The crisis demonstrated how insurers are not exposed to the same liquidity issues as banks. Confidence in the insurance business model was reinforced. All the same, there were lessons for the sector – namely in regulation, risk management and investment. Government bonds, for example, for decades a preferred low risk investment, could turn toxic very quickly.

The insurance industry also fared relatively well during the financial crisis of 2008. With a business model and regulation that is different from that of banks, insurers weathered the financial storm unleashed by the subprime mortgage crisis and failure of Lehman Brothers in 2008.

The insurance industry also fared relatively well during the financial crisis of 2008. With a business model and regulation that is different from that of banks, insurers weathered the financial storm unleashed by the subprime mortgage crisis and failure of Lehman Brothers in 2008.
Stock markets in the post-war period were rising and life insurers began investing heavily in equities in the 1970s, a move that would have important repercussions at the end of the century.

Financial market volatility in the 1990s and 2000s led to solvency concerns for many life insurers – with-profit funds were typically 70% to 90% invested in equities and were hit hard by falling stock markets.

Stock market volatility combined with un-hedged investment guarantees offered to policyholders led to the failure of The Equitable Life Assurance Society, the first and oldest mutual life assurance company in the UK, established in 1762.

The insurer, which at its peak had over 1.5 million policies in force, had expanded rapidly in the bull market of the 1990s, selling guaranteed annuity and with-profit pensions. However, it failed to accurately predict and adequately reserve against the life expectancy of policyholders and the level of long-term interest rates. The Equitable closed to new business in 2000 after it was unable to meet guaranteed returns promised to policyholders.

An over-dependence on equities led to a crisis in life insurance and caused some insurers to close or seek acquisition. Via consolidation, foreign insurers and banks increased their share of the UK life market, while mutual insurers floated on the stock exchange or were acquired in order to gain access to capital market funding.

Between 1996 and 2006 the market share of mutual life insurers fell from 30% to less than 10%.

Above:
The London International Financial Futures Exchange, 28 October 1997, during the so-called mini-crash caused by the economic crisis in Asia.
Conclusion

British insurers were the first to combine the fundamentals that make up the modern insurance industry. Privately funded, technically driven and internationally diversified, they were key to the growth of the UK economy and the spread of insurance beyond London to the regions, Europe and further afield.

British insurers were well established in fire, life and marine by the middle of the 1800s, when the domestic markets in the US and Europe were still in their infancy. Outside life insurance, UK insurers were able to use their experience of insuring industrial property and new technologies, together with an actuarial-based approach to underwriting, to gain a competitive advantage in the emerging insurance markets of the 1800s.

Britain’s dynamic industrial and urbanised society drove rapidly increasing demand for marine, fire and life insurance at home and underpinned the expansion of British insurers abroad, as did the trading connections and overseas property associated with the British Empire. The UK insurance industry was the most international of any nation throughout the 19th century, while exposure to overseas risks immeasurably improved the skills of British underwriters.

While the insurance sector enjoyed explosive growth in the post-war period, the competitive advantages enjoyed in the 19th century by British insurers were gradually eroded. National players came to dominate domestic insurance markets around the globe and by the 1980s UK insurers were facing major changes.

British composite insurers, the first to embrace the concept of multi-lined underwriting, withdrew from markets like the US, where they had suffered big losses and were facing increased competition.

For much of the industry’s history, UK insurers had used acquisitions to grow and diversify. By the turn of the 21st century two British-owned insurers dominated the sector, while a number of foreign insurers had gained a significant presence through acquisitions.

The London market also underwent significant change after the turmoil of the 1980s. The market has staged a remarkable comeback, restoring its reputation as an international market for large and complex risks. After a period of consolidation, acquisition by foreign insurers and an influx of international capital, the London market is now more global and on a seemingly much sounder footing.
Today, insurance is an integral part of our lives. Building a house, marketing a product or driving a vehicle, all would be unthinkable without taking appropriate insurance cover.

By contrast, reinsurance remains virtually unknown by the general public, even though it plays a key role in taking on risk and enabling economic growth and progress.

Reinsurance is “insurance for insurers”. It puts into practice one of the fundamental principles of insurance, namely that risks need to be spread as widely as possible. The more broadly they are shared, the more cost effective it becomes to cover them.

From the very beginning the reinsurance business has been international, helping its clients offset their risks across the globe. Similarly, its breadth of activity across lines of life and non-life business let specialised insurers diversify their risks over a wider range. And through its long-standing client relationships, some dating back to the 19th century, a third dimension has opened up of distributing risk over extended periods of time.

Reinsurers accept risks of virtually every kind, from natural catastrophes to higher mortality and motor insurance to aviation liability. These risks are transferred to them by the primary insurers, who then need to keep less risk capital tied up and can write more business as a result.

As the premiums paid for reinsurance are invested via the financial markets, both primary insurers and reinsurers contribute significantly to the economy, which helps drive growth and benefits society in general.

Reinsurance naturally researches risks and the nature of risk more than any other part of the financial services industry. Knowledge accumulated over centuries is today harnessed in statistics and state-of-the art models to better understand the risks of the 21st century. This effort directly benefits clients and society as a whole.

And reinsurers are also an active voice in the public discussion on risk. For addressing the big issues of our time, coping with natural perils or epidemics, insuring large-scale projects and consumer products, and, ultimately, insuring our everyday lives, reinsurance has become indispensable.