Selling insurance in America before the First World War: problem solving by foreign companies[1]

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Aside from a few pioneers in the early nineteenth century, notably the Phoenix Fire Office of London, most foreign property insurers only began to try their luck in the United States after 1850.[2] At least eight British and one German company entered the US between 1851 and 1860. Entry almost ceased during the civil war, but then resumed in the immediate post war years, and took off during the 1870s (see figure 1). By 1890 over 100 foreign fire and marine insurance companies had attempted to write business directly in the US. Although many of them did not succeed and withdrew, sometimes after just a few years, the number of foreign insurers in most states increased over the period. In California, for instance, there were seven in 1868 and 70 by 1890. In some states, such as California, numbers tailed off during the 1890s and 1900s, when economic recession, low profit levels, high costs, and startling losses, not least from the San Francisco earthquake of 1906, discouraged new entrants or drove foreign insurers to pack up and leave. Elsewhere, however, the population of foreign companies continued to grow through to the First World War. There were, for instance, 11 such companies licensed to write fire insurance in Ohio in 1875, 19 in 1890 and 55 by 1915.[3]

I

From the outset, selling insurance in the United States posed major and often novel problems for foreign companies. First, insurers had to cope with the enormous distances to some markets and the huge differentials in population density across frontier, rural and urban America. Table 1 shows both the allure and the difficulty of the US for British companies, who comprised the great majority of multinational insurers operating there. In 1850 both countries had similar populations (20.6m GB, and 23.2m US), and domestic fire insurance

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[1] This paper draws on material collected for my forthcoming book, *Insuring America: Multinational Insurers in the United States, 1850-1920*.

[2] On the early efforts of the Phoenix and its sister life insurance office, the Pelican, to establish agencies in the US, see Clive Trebilcock, *Phoenix Assurance and the Development of British Insurance, volume 1, 1782-1870* (Cambridge: Cambridge University Press, 1985), pp.

[3] The reasons for these trends will be explored in my book (see note 1 above). California and Ohio data calculated from the respective state insurance department annual reports.

industries of similar size and levels of per capita premiums. However, as the geographical area of the continental US was so much larger than that of England, Scotland and Wales (7.75m km^2 versus 0.21m km^2), premium yield per km^2 was 37 times higher in Britain than in the US. By 1913 the US fire insurance market dwarfed that of Britain, and, helped by much higher average premium rates, per capita earnings for fire insurers were nearly three times what they were in Britain. The growth and diffusion of fire insurance across America also ensured that the geographical density differential narrowed, so that by 1913 premium yield per km^2 in Britain was just six times that of the US. In short, table 1 suggests that while rapid market growth and high premium volumes were great attractions for foreign insurers contemplating doing business in the US, these attractions also came with big logistical problems if they wished to sell their policies across a large number of states.

Second, in addition to the challenge of selling insurance across great distances, there was also the problem of underwriting simultaneously in widely varying markets with vastly different economic structures, levels of risk and rates of technological and demographic change. Just as Andrew Carnegie was setting up new Bessemer furnaces in his Pittsburgh mills to produce the steel frames that would revolutionise high-rise building in America, and Henry Parmalee was patenting his new automatic sprinkler that would help save those high-rise properties from fire damage, homesteaders in Custer County, Nebraska, were constructing their first farm houses, post offices and schools as sod dugouts in remote prairies far from major roads or rail.[4] In terms of land mass Nebraska was only slightly smaller than England, Wales and Scotland combined, but in 1870 it was occupied by fewer than one person per km^2. Over half of the state's 123,000 settlers were in families headed by foreign immigrants from Europe. Their corn suffered from attacks by grasshoppers, their peas were destroyed by gophers, and all crops failed when the rains stopped. Water was in short supply – digging a well cost money. Credit was difficult to get. Diseases like whooping cough killed children. Fire was relatively far down on the list of their concerns, and fire insurance was beyond the pockets of most.[5] It is perhaps unsurprising, therefore, that the insurance market there remained limited by US East coast or European standards. As late as 1914 fire

[4] See images on powerpoint, clockwise from top left: Family dug-out on South Loup River, Custer County, Nebraska, c.1876, photograph by Solomon Butcher; Manhattan tenements, 1890, photograph by Jacob Riis; Canal St, New Orleans, 1901; Steelworks near Pittsburgh, 1907, photograph by Lewis Hine.

[5] Geoffrey C Ward, *The West:An Illustrated History* (Boston: Little, Brown and Co, 1996), 267.

insurance in Nebraska generated less than \$5m of premiums, which represented a premium yield of just \$25 per km^2, well below the national average.[6]

Where insurance was sold, the number and scale of American fires meant persistently high losses. The annual number of recorded fires in Massachusetts, for instance, increased from less than 1,900 in the early 1880s to over 6,000 by 1909.[7] In New York City in 1850 there were just over 300 fires, or one per 2,182 residents. By 1888 the number of reported fires had increased ten-fold, much faster than the population, to one per 783 residents.[8] This level of destruction, together with the high expenditure on commissions and fees to agents, and the rate-cutting which accompanied each cycle of competition, meant that US profit margins were usually very low for most foreign insurers. Timber-built towns across much of the US, tinder-dry summers and winters cold enough to freeze the water inside fire hoses, were some of the hazards. Fire-fighting provision and water supplies were also poor in many places by comparison with Europe. The rising values of stores and machinery in the poorly-built and increasingly congested commercial districts of eastern cities such as New York was another concern. Towards the end of the century relatively new hazards such as petroleum, acetylene, chemical sulphates and electric wiring, India rubber and celluloid factories were added to urban risks. The National Board of Fire Underwriters (NBFU) calculated that during the 1890s over 3,000 fires causing \$33m of damage were due to electricity alone.[9] Large department stores, tall overcrowded tenements, lumber mills, chemical works, oil tanks and cotton depots were among the most dangerous hazards. The NBFU, established in 1866, worked hard to educate the public on fire risks, but progress was slow. In 1900 it was estimated that only 40 per cent of tall buildings (>150 feet) in New York City conformed to the fire regulation requiring them to have standpipes.[10] New hazards were simply ignored or

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[6] Combined net fire insurance premiums of stock and mutual companies and farm mutuals. The totals for the mutuals also include a small amount of tornado and hail insurance premiums.

[7] *28th Annual Report of the Insurance Commissioner of the Commonwealth of Massachusetts*, part 1 (Boston: Wright and Potter, 1883), p.1; *55th Annual Report of the Insurance Commissioner of the Commonwealth of Massachusett*s, part 1 (Boston: Wright and Potter, 1910), p.589.

[8] Fires in 1850 from Richard Calhoun, ‘From Community to Metropolis: Fire Protection in New York City, 1790-1875’ (PhD thesis, Columbia University, 1973), , appendix A1; fires in 1888 from *Insurance Critic* 17 (1889), 19. New York City population from Brian R Mitchell ed. *International Historical Statistics: The Americas 1750-2000* (5th edition, Houndmills, Basingstoke; Palgrave Macmillan, 2003), table A4.

[9] *Spectator*, 17 May 1900.

[10] *Spectator*, 27 Sept. 1900.

not understood. At Christmas 1900, 80 buildings in San José, California, were found to be illegally obtaining an electricity supply by tapping into the city's trolley-car system.[11] Arson sometimes accounted for a high proportion of fires. In Philadelphia in 1869, for example, according to the city's fire marshall, 104 of 623 fires were incendiary.[12] In general before the First World War the number of major conflagrations in the USA and the level of fire damage remained high by comparison with Britain and Europe. In 1909 the National Fire Protection Association collected data which indicated that the annual rate of fires in major US cities was over five times that of European cities (over 40 per 10,000 population compared to eight).[13]

Finally the rapid growth of some property insurance markets in the US was accompanied by high levels of competition. By 1882, for instance, there were 177 fire insurance companies operating in Chicago and 153 in New York City, including 25 foreign insurers in each.[14] In 1857 just 12 fire and marine insurance companies were represented in San Francisco, including six British. By 1886 there were 163 companies, of which 68 were foreign, including 37 British.[15] On the eve of the First World War the corporate population had multiplied in the largest markets. There were 519 stock and mutual companies writing fire insurance in Pennsylvania, 236 in Ohio and 210 in New Jersey. In many southern and western states numbers were smaller. In 1915, only 39 companies were writing fire insurance in New Mexico, including 14 from abroad. In Arkansas the numbers were 61 and 14 respectively, in Arizona 71 and 21. Yet, as table 2 shows, even in these regions the scope for growth was considerable.

[11] *Spectator*, 20 Dec. 1900.
[12] *Post Magazine*, 28 Oct. 1871.
[13] *Post Magazine*, 19 June 1909. On fires, fire fighting and the public safety industry in the US, see Mark Tebeau, *Eating Smoke: Fire in Urban America, 1800-1950*. (Baltimore and London: John Hopkins University Press, 2003); Sara E. Wermiel, *The Fireproof Building: Technology and Public Safety in the Nineteenth-Century American City* (Baltimore: john Hopkins University Press, 2000); Arwen P. Mohun, *Risk: Negotiating Safety in American Society* (Baltimore: John Hopkins University Press, 2013).
[14] *Post Magazine*, 8 April 1882.
[15] Anon, *Insurance in California, 1849-88* (San Francisco: San Francisco Commercial Publishing Company, 1888), p.25.

II

The first English and Scottish companies to export insurance to the United States initially set up their American operations along the same lines as they did at home.[16] This involved one or more of the following elements: (i) appointing local agents directly employed on a part-time commission basis, sometimes also with a modest allowance to rent and equip an office; (ii) appointing inspectors to tour regional clusters of agencies, to recruit and recommend new or replacement agents, and to monitor agency performance and local risk assessment; (iii) appointing local committees of prominent policyholders or shareholders to provide a more permanent means of monitoring of big city agencies, or groups of agencies in particular districts; (iv) supplying written instructions for agents, including advice on assessing and classifying risks, sometimes in conjunction with agreed tariffs, adjusting losses and handling claims, registering policies and collecting and remitting premiums; (v) advertising by local agents using signboards, circulars and notices in newspapers. By the middle of the nineteenth century, the number of agencies operating within this organisational framework could be considerable. The London companies, Phoenix, Sun and Royal Exchange Assurance, for example, each managed between 500 and 800 agents by 1850.[17]

In short, most British insurers intending to expand their business to the US were familiar with the problems of monitoring and managing large networks of part-time agents of varying abilities and enthusiasm, and they had experience of dealing with the sensitivities of businessmen who formed local supervisory committees in key places. As a result the early movers attempted to export their sales model by establishing agencies on both seaboards of the US. The first foreign insurance office to establish agencies in the US since the withdrawal of the Phoenix in 1814 was the Liverpool and London Insurance Company (renamed Liverpool London and Globe in 1864, hereafter LL&G)), which appointed a local board of directors in New York in 1851, with oversight of all US business, as well as agents in Philadelphia, Charleston and New Orleans. Two years later, its Secretary (General Manager), Swinton Boult, while en route to Australia via the US, appointed further agents in Cleveland and San Francisco, the first British insurance agency on the west coast.

Most foreign insurers entering the US during the 1850s followed this lead, and all of them established agencies in San Francisco, possibly mindful of the overseas trading

[16] The following is based on Robin Pearson, *Insuring the Industrial Revolution* (Aldershot: Ashgate, 2004), pp.283-6.
[17] *Ibid*., table 7.1, p.265.

connections of merchants from their home ports, Liverpool, London and Hamburg. They were perhaps also conscious of the difficulties in writing insurance in the western territories in an era before the first transcontinental railroads, and in the south and south-west against a background of growing conflict between pro- and anti-slavery forces. The German insurer Hamburg-Bremen chose to operate only on the Pacific Coast from the opening of its office in San Francisco in 1859 until the great Chicago fire of 1871. After the fire, a wealthy German Chicago banker, Henry Greenebaum, urged the company to take advantage of the soaring demand for fire insurance as the city was being rebuilt. Greenebaum was initially appointed agent for Chicago, but shortly after he was made general agent for eight western states. Less than a year later, in aftermath of the Boston fire, the Hamburg-Bremen established in New York a general agency for the eastern states, with an office in the Manhattan building of the German-language newspaper, *Die Staatszeitung*.[18] Thus in just a few years the managerial focus of the company had shifted from the west coast to the mid-west, and then to the east and north of the United States.

Setting up regional agency and local sub-agency networks on the traditional British model was soon combined by some foreign companies with other, sometimes more immediately effective, methods of expanding their US operations. These methods included entering into reinsurances and coinsurance agreements with other companies, starting joint ventures with other foreign or native insurers, purchasing the business of a local insurer, and establishing subsidiary companies to operate as independent American entities in the US. The London & Lancashire Insurance Company illustrates the way that new foreign entrants often experimented with different forms of sales organisation for several years until sustainable scale and growth was achieved. Founded in 1861, the company established its first US agency in San Francisco in 1863. This failed within a few years. In 1864, while the Civil War was raging, the directors tried to ‘get the benefit of being early in the field’ by appointing agents in both Confederate Richmond and Charleston and Union-occupied New Orleans.[19] In 1873, after a hiatus of several years, a new general agent was appointed in San Francisco. He was replaced in 1876, and a third appointment was made in 1878. At this stage, the London & Lancashire continued to operate through general agents in the major cities, who reported

[18] *Spectator*, VIII (June 1872): 428; *Ibid*., X (March 1873); *Ibid*., XI (July 1873): 459a.

[19] *Insurance Times* 12 (1879): 433; E.V. Francis, *London and Lancashire History: The History of the London and Lancashire Insurance Company Limited* (London: London and Lancashire Insurance Company Limited, 1962), pp.116-18. New Orleans was captured by a Union army in May 1862. Charleston surrendered after a long siege in February 1865. Richmond fell in April 1865.

directly to the board in Liverpool and issued policies under its authority. Some business in New York was also shared via co-insurance agreements with other insurers, such as that with LL&G on bonded stores and first class warehouses. It was not until 1879, however, that the American business took off. In that year the company acquired the business of the Safeguard Fire Insurance of New York, and made its former secretary, James Yearance, its first US resident manager. From 1879 to his retirement in 1887 Yearance was employed not only as 'special agent' and resident manager for the US, but also as manager for New York State and for the Metropolitan District of New York City. Spectacular growth followed. At the time the new US office was established, the American premiums of the London & Lancashire amounted to $434,000. Within three years these had risen to $1.2m and accounted for 43 per cent of its total insurance income, placing the London & Lancashire among the ten largest foreign insurers in the US.[20]

In contrast to the London & Lancashire, the North British & Mercantile Insurance Company (hereafter NBM), upon its entry to the US in 1866, initially employed a series of local boards in New York, Boston, New Orleans and San Francisco that reported directly to NBM's Foreign Committee in London. Any election of new members to the local boards, and any appointment of agents by the boards, had to be approved by the Foreign Committee. This set-up was accompanied by a comprehensive reinsurance arrangement with the Phoenix Assurance Company of London. As about one-third of all risks insured by NBM in the US were reinsured with the Phoenix, the latter greatly increased the underwriting capacity of NBM and therefore its competitiveness in an increasingly overheated market.[21]

Following heavy losses in California, however, the company embarked in 1870 on a rapid restructuring of its US operations. After difficult negotiations with the local board, the office in San Francisco was closed down and its business incorporated into the New York branch. The latter was re-constituted as the US head office with authority to appoint agents across the states and to collate and submit biannually to London a classification of the profits and losses of each US agency. Salaried general inspectors, reporting back to New York, were

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[20] US premiums from *Insurance Times* 16 (June 1883): 368. Total premiums from Francis, *London and Lancashire,* appendix II, p.162. In 1882 London and Lancashire was ranked sixth by gross US fire insurance premiums among US branches of foreign insurance companies. Calculated from *28th Annual Report of the Insurance Commissioner of the Commonwealth of Massachusetts*, part 1 (Boston: Wright and Potter, 1883).

[21] Clive Trebilcock, *Phoenix Assurance and the Development of British Insurance, vol.II: The Era of the Insurance Giants, 1870-1984* (Cambridge: Cambridge University Press, 1998), p.233.

appointed for the agencies in the Western states, Eastern states, and the South and South-West. The New York board appointed a Finance Committee to act as trustees in whose names all US investments were to be made, with authority to invest up to $100,000 (a limit soon breached). A new agency at San Francisco was established for the Pacific Coast on a co-insurance basis jointly with two large American companies, the Phoenix of Hartford and the Home Insurance Company of New York. Finally, a massive recruitment drive was initiated for agents across the continent. During 1870 109 agents were appointed, of whom only three were replacements for existing agencies. A further 204 (including 34 replacements) were made in 1871, 155 of which were made during the three months following the Chicago fire, indicating the boost given by that disaster to NBM's business. Another 100 new agents, plus 61 replacements, were appointed in 1872.[22]

Other foreign insurance companies followed suit and agencies multiplied. By the end of the 1870s it was proving increasingly difficult to manage such large numbers of sale outlets across vast distances via a central office in New York. Companies began to create semi-autonomous branch offices out of their agencies in major cities, with each branch controlling hundreds of agents across its region. By 1890, Samuel P. Blagden, NBM's US manager, in an open letter to his western agents, felt able to declare the branch and agency system a success.

> "For a number of years it has seemed wise, for the convenience of the business, to establish branch offices in a number of important centres, through which the business of a considerable area of the country could be more effectively conducted. Finding the system to work satisfactorily, as it was gradually introduced in the natural course of business; recognising the wonderful and rapid growth of the West, and looking to the future, which is of even greater promise, it seemed advisable to have several departments with centres in large and prosperous cities, thus bringing this office more directly in contact with our representatives, the public and the business, and establishing a local home for the convenience and advantage of all."[23]

[22] Agency numbers calculated from Aviva plc Corporate Archive, Norwich, TD446/5/19, North British & Mercantile Insurance Company, Foreign Committee Minutes, 1870-2.
[23] *Insurance Critic* 18 (1890): 436.

III

By the 1880s most British and European fire insurers entering the US invariably first obtained a license to operate in the state of New York, and then set up a regional branch, departmental or divisional model of sales organisation, albeit of widely varying forms (see Figure 2). Yet the British branch and agency system did not translate smoothly into the US context, where the delivery of insurance was in the hands of a wide range of intermediaries including local agents, general agents, special agents and brokers, each with their own particular forms of remuneration and, increasingly, with their own collaborative and professional organisations. Together, arguably, these intermediaries formed a centrifugal force in American markets, defying the efforts of foreign insurance companies to rationalise and centralise their business. Between the 1880s and the First World War many companies were endlessly engaged in reorganising and subdividing their US operations in response to fluctuations in underwriting performance, rising costs, and the growing power of local and national agents' and brokers' associations and general agency firms, and in an attempt to establish sharper lines of communication and authority. As we have seen, some companies grouped states into territorial divisions, each with a chief manager reporting directly to the home office in the UK or Europe. Others retrenched their operations, and centralised all but Pacific Coast operations in New York, closing down divisional offices or reducing their status so that they reported to New York and not directly to London, Liverpool or Hamburg.

It is difficult to discern clear organisational trends across the growing population of foreign insurers in this period, but centralization appears to have been largely a feature of the 1880s, whereas during the 1890s, possibly as a result of the increasing size and complexity of markets in the western states, many companies appear to have decentralised in order to establish autonomous regional departments. Examples of centralisation include the North German Fire Insurance Company of Hamburg, which closed its Chicago general agency in 1880 in order to transact all western business out of its New York branch.[24] In 1885, following its take-over of a local insurer, the Sun Insurance of London wound up its 'district departments' and required all its US agents to report direct to its US branch office at

[24] *Insurance Times* 13 (1880): 143.

Watertown, New York. Two years later it moved its US headquarters to New York City.[25] In 1891 the Caledonian Insurance Company of Edinburgh moved the operations of its western department from Chicago to its US head office in Philadelphia.[26] Examples of decentralisation away from New York, include the Sun, the Guardian, the Northern and the Royal, all of which between 1891 and 1895 established new ‘central’ departments at Chicago with responsibility for agencies across the west and north-west, and, in Sun’s case, as far south as Arkansas.[27]

US agencies, branches and departments also came under continual monitoring in attempts to keep down costs. In the 1890s head office executives made more frequent trips across the Atlantic, and there were also more frequent trips to their companies’ New York offices by regional managers from New Orleans, Chicago, Atlanta and other insurance centres. One of the companies’ biggest concerns was the cost involved in these sales organisations. A principal cause of high management expenses lay with the American general agency which ran most foreign insurers’ branch and divisional offices. The US general agency was actually an independent firm, usually a partnership, which sold insurance and held powers of attorney on behalf of a number of firms. They had no close parallel in Europe except perhaps in the large multinational reinsurance brokerages which emerged there during the 1870s. Most of the general agents remained confined to their states, but several of the most successful became huge regional concerns, underwriting millions of dollars of property, and employing hundreds of staff and agents. They charged heavily for their services but the best also delivered excellent underwriting, and they usually provided the surest path for newcomers from Europe to a profitable stream of American business. In Cincinnati in 1887, the agency firm of Frederick Rauh occupied ‘handsome’ offices in the Masonic temple on 32 West Third Street, where Rauh, who was also President of the city’s Germania Fire & Marine Insurance Company, represented 15 different insurance companies, including five from the UK, Canada and Germany.[28] Such firms became an entrenched feature of the US insurance scene. The five largest general agency firms in Cincinnati in 1884, for instance, together received in fire insurance premiums two and a half times the amount earned by the five

[25] *Insurance Critic* 13 (1885): 254; P.G.M. Dickson, *The Sun Insurance Office, 1710-1960* (London: Oxford University Press, 1960), pp.
[26] *Insurance Critic* 19 (1891): 387.
[27] *Insurance Critic* 19 (1891): 395; *ibid*., 21 (1893): 184; *ibid*., 23 (1895): 346; *Insurance Times* 26 (1893): 68.
[28] *Insurance Times* 20 (1887): 232.

largest insurance companies operating there.[29] In 1891the New York agency firm of C.M.Peck, far from the largest in the city, represented 10 insurance companies, including three British. Its annual receipts had increased five-fold in the previous ten years to over $800,000.[30]

There were major disadvantages of using general agents. First, their position as intermediaries reduced the direct influence that companies could exert over local agents, particularly in terms of monitoring the quality of risks insured and the level of premium rates charged. Some British companies, such as the Standard Fire and the Commercial Union, occasionally tried to break with the general agency system and establish only local agencies with whom they could do business directly, but in the face of logistical problems this proved difficult for all but the smallest companies.[31] Second, in the event of sudden changes in circumstances or disputes with head office it was relatively easy for general agents to switch allegiances and transfer business to rival companies. For example, in 1890 the merger of two large Liverpool companies, the Royal and the Queen, caused consternation at the firm of Law & Gansel of Cincinnati. The firm had represented the Queen for several years and were now worried about the consequences of the merger for their business. Negotiations were quickly opened up with the Cincinnati agency of two other British companies, the Scottish Union & National and the Lion.

> "Law & Gansel began to work night and day, and in a remarkably short space of time, every policy of the Queen was transferred to the Scottish Union and National and the Lion. They 'hustled' around among their customers, taking up the Queen policies by exchanging them for the Scottish Union and National and the Lion policies, and are now prepared to let the Queen go wheresoever it inclines. The supposition is that the Queen's affairs in Cincinnati will be taken charge of by Messrs John H. Law & Bro., but the Cincinnati business the Company has been placing on its books for years is all gone, and it will have to begin all over again as far as Cincinnati is concerned".[32]

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[29] Calculated from *Indicator* 3 (1884-5): 45.
[30] *Insurance Critic* 19 (1891): 433.
[31] *Insurance and Commercial Magazine* 14 (1883): 334.
[32] *Insurance Critic* 18 (1890): 438, citing a report in the *Insurance Herald* of Louisville.

As this and similar episodes demonstrate, major managerial and organisational changes by foreign companies back in the UK or Europe could seriously disturb the often sensitive relations with US agents, with damaging effects on their US business. This problem was particularly exacerbated by the merger and acquisition wave in the insurance industry during the 1890s and 1900s.

Another intermediary that created problems and raised costs for foreign companies in the US property insurance market was the broker. Insurance brokers had been a familiar part of marine insurance for centuries, but their role in fire insurance, on both sides of the Atlantic, remained relatively limited until the middle of the nineteenth century. Their rise appears to have been linked, at least in part, to the growth in the number of companies in the various national fire insurance markets and to the emergence of cartel-like tariff organisations among the major companies. As competition between tariff and non-tariff companies increased, brokers began to appear in increasing numbers placing their clients insurances with the non-tariff offices.[33] In New York City the number of insurance brokers soared from 'two or three dozen' in 1854 to around 200 by 1858. The high premium rates charged by the members of the City's tariff association allowed new companies to enter the market by discounting the existing tariff rates and paying commissions to brokers to obtain business. The result was the first of a series of conflicts that ebbed and flowed over the following decades between the tariff companies, including some of the larger foreign fire insurers, and the brokers. The brokerage system was regarded as not only facilitating uncontrolled competition while raising the cost of insurance, but also bringing with it adverse selection problems for companies and policyholders alike. Those companies paying the highest commissions were best placed to get brokers' business. The oldest and most conservative companies were those least likely to pay brokers a commission of 10 or 15 per cent for poor quality urban risks, so that policyholders were also disadvantaged by having their insurance effected by brokers in weaker and less reliable at high rates of premium to cover the brokers' fees. When local tariff agreements broke down, as they frequently did, companies would discount premium rates to attract business and brokers found they could charge higher commissions for their services. As long as their rate agreements held, tariff associations would try to set a cap on the commissions that their members could pay brokers, most commonly 15 per cent. The Metropolitan Association of New York City tried this in 1886,

[33] The following is based on the account in *United States Insurance Gazette* 7 (1858): 245-9, 287-93.

for instance, before it collapsed the following year, as did the South-eastern Tariff Association, the Fire Underwriters' Association of the Northwest, and the Fire Underwriters' Associations of Philadelphia and Boston in 1888, and the New York Board of Fire Underwriters in 1890.[34] These cycles of conflict over brokerage continued to the end of the century. By the 1880s brokers had become so numerous and powerful in US fire insurance markets that they also attracted the condemnation of state insurance commissioners for driving up the cost of insurance to consumers.[35]

In response to the rising tide of opposition, brokers also began to organise. In 1887 the brokers of New York formed their own stock company, the Alliance Fire Insurance Association as a counter-weight to the market power of the local tariff companies. Its business consisted mainly placing in surplus lines with reinsurers. By 1888 the Alliance claimed, probably with much exaggeration, that they control 90 per cent of fire insurance in New York City.[36] In 1894 brokers in San Francisco combined in 'The City Agents' Brokers' and Insurance Solicitors' Mutual Protective Association', with the aim of securing higher commission rates than those allowed by the regional tariff organisation, the Pacific Insurance Union.[37] However, like the companies, brokers could not avoid repeatedly breaking their compacts, competing amongst themselves and consequently driving down rates.[38] The Alliance Association, for instance, folded just five years after it had been launched and its business was sold to a British fire insurance company.[39]

Brokers, general agents and rapidly expanding sales networks together helped drive up the cost of selling property insurance in the US, particularly as American insurers felt no compunction about competing on commissions as well as premium rates. In Britain the standard commission paid to agents by fire insurance companies was 10 per cent of the annual premiums they earned, although during peak periods of competition this could be

[34] *Insurance Times* 20 (1887): 219; *ibid.*, 21 (1888): 371, 467-70, 565; *ibid.*, 23 (1890): 15; *Insurance Critic* 16 (1888): 223; *ibid.*, 17 (1889): 15.

[35] 29th *Annual Report of the Insurance Commissioner of the Commonwealth of Massachusetts*, part 1 (Boston: Wright and Potter, 1884), pp. xxvi-xxviii; *19th Annual Report of the Insurance Commissioner of California* (Sacramento, 1887), p.7. In 1885 there were 894 officially licensed insurance brokers in Massachusetts alone. *Insurance Critic* 13 (1885): 249.

[36] *Insurance Times* 21 (1888): 65.

[37] *Insurance Critic* 22 (1894): 409.

[38] *Insurance Times* 21 (1888): 131.

[39] *Insurance Critic* 23 (1895): 52.

exceeded.[40] By the late 1870s in the US the average agents' commission was 15 per cent of annual premiums, but invariably added to this was also a percentage, up to 10 per cent, of the annual profits made on the insurance procured by the agent.[41] For their part, brokers charged non-tariff companies up to 30 per cent of premiums on the insurance that they obtained.[42] In addition there was the expenditure, also relatively high compared to the UK and Europe, on salaries and fees for managers, inspectors and clerical staff, on fitting out offices, and on paying for stationery, signboards and newspaper advertisements for agents.

The standard benchmark above which the combined expenditure on fees, commissions and branch and agency administration was deemed unacceptable became a huge 35 per cent of premium income, but in some years the ratio soared to 40 or even 50 per cent.[43] In 1900 the directors of the LL&G, the largest foreign fire insurer in the United States, explained to their shareholders that 'we had to fight for our business and the way to do that is to allow larger commissions'.[44] As with the long struggle over brokers' commissions, tariff companies, supported by state insurance commissioners, conducted repeated campaigns from the 1870s to have agency commissions capped first at 10 per cent, later 15 per cent, but they met with stiff resistance from local agents' associations.[45]

IV

This paper has described, and, to a degree, tried to quantify the organisational and logistical challenges facing foreign companies selling property insurance in the US in the 60 years before the First World War. There are several other important aspects of selling insurance, however, which are not fully explored and can only be touched upon in this final section of the paper. The single key to any successful insurance operation, particularly for insurers from

[40] Pearson, *Insuring the Industrial Revolution*, pp. 284-5.
[41] *Insurance Times* 15 (1882): 701.
[42] *Insurance Times* 20 (1887): 440.
[43] *Insurance Critic* 14 (1886): 114; *Insurance and Commercial Magazine* 10 (1880-81): 41-4. The average expense ratio on the fire, marine and inland insurance of US and foreign stock companies1881-92 was 35 per cent, calculated from data in *Insurance Times* 26 (1893): 137.
[44] *Post Magazine*, 9 May, 17 October 1900.
[45] *Spectator* X (1873): 25; *Insurance Times* 17 (1884): 425; *Insurance Critic* 14 (1886): 317-9; *ibid.* 15 (1887) 110; *ibid.*16 (1888): 390; *ibid.* 23 (1895): 186; *ibid.* 25 (1897): 403.

overseas who entered the US without well-established connections, was to create goodwill, and to sustain it for long enough to build up a viable volume of business. All the organisational shuffles in US agencies and branch management were in the end pointless without trust, goodwill and a stock of reputational capital among US employees, officers, agents, brokers, customers, politicians, regulators, co-insurance and reinsurance partners, and the American public at large.

Agents in the field were monitored, first by their regional branch or division manager, supplemented, in some places, by local boards, but as transatlantic steamship travel became easier they were also increasingly subject to personal visits by executives from the home office. Managers from most of the British and European insurance companies operating in the US made regular tours of their American offices from the 1880s. As well as inspecting the books, overseeing the appointment of new staff and gathering market information, these tours also served to align, or attempted to align, the interests of US managers and agents with those of the company, to educate American staff about current strategy and to reassure them about the home board's intentions. As insurance agents became organised in local and national associations, they developed collective opinions about commissions, premiums rates and risk classification that companies could not easily ignore. The National Association of Local Fire Insurance Agents, founded in Chicago in 1896, aimed to represent, via a network of auxiliary and affiliated district and state associations, the 65,000 fire insurance agents then working in the US and Canada, and to encourage 'better practice in the forms and principles of underwriting and the promotion of mutual protection and social intercourse among its members'.[46]

The views and feelings of US trustees, resident managers and general agents had also to be considered carefully. These officials were often prominent members of their local business community who wielded considerable political as well as economic power. When the Manchester Fire Insurance Company appointed its first board of trustees in Chicago in 1890, the trustees all belonged to the city's Republican political and business elite. Lyman J. Gage, for example, was 'the city's leading banker', a member of Chicago's committee to secure the World Fair, first President of the Chicago Civic Federation, and later US Treasury Secretary. Samuel W. Allerton was a 'lacklustre millionaire stockyards magnate and pork trader from an old eastern family', who ran for the Republicans against Harrison in the 1893

[46] *Insurance Critic* 25 (1897): 149, 405.

Chicago mayoral elections on a (somewhat contradictory) platform of civil service reform, better municipal services and lower taxes.[47] These types of men expected to be courted assiduously by foreign insurance companies desiring their services. Thus when company chairmen, directors and senior managers crossed the Atlantic, their first call was to the most important patrons, managers and general agents of their US operations.

Courtesy, respect, politeness, acknowledgment of the social standing of both parties, and a requisite degree of Gilded Age elite hospitality, were important in these encounters, but they sometimes were not enough to diffuse tensions or dispel uncertainties. One New York insurance newspaper commented in 1888 on a recent transformation in the attitudes of British companies towards their US managers. Before the 1870s the post of a US manager was regarded as a lifetime appointment with the prospect of retirement on a reasonable company pension. From the 1870s, however, with the increasing competition between offices, there was a push to reduce management costs and to focus on short-term performance and the bottom line.

> "This is the pith of the whole matter. The American looks at the results in gross, the Englishman carefully separates the business, year by year, looking only as profit upon such risks as terminate over losses and expenses, and making each year stand by itself, black-listing those that are unprofitable…"[48]

Such an approach could lead to simmering discontent among American insurance officers, which might then explode into open conflict in the event of a crisis or unwelcome change. When Thomas Walton Thomson, the sub-manager of the Queen Insurance Company of Liverpool arrived in New York in October 1880 to reorganise US operations with the aim of 'forcing an increase of business in the West', he unwittingly stepped into a hornet's nest. Thomson was tasked with sub-dividing the US agency into regional divisions, but he took as his 'bosom counsellor' a rival of the existing manager William H. Ross, whom he quickly alienated. Within months of Thompson's arrival, Ross had resigned, soon followed by the Queen's entire US board of directors, comprised of New York's 'merchant princes' such as

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[47] *Insurance Critic* 18 (1890): 446; Donald L. Miller, *City of the Century: the Epic of Chicago and the Making of America* (New York: Simon & Schuster, 1996), pp.379, 481, 484-6, 538.

[48] *Insurance Times* 21 (1888): 135-7.

Samuel D. Babcock, Henry F. Spaulding and Josiah M. Fiske.[49] In a campaign against him conducted loudly through the press, Thomson was accused of failing to be aware of the 'weight and importance' of these gentlemen, of disrespecting the board by ignoring it, and of treating it in an 'arbitrary manner'. One board member described Thomson to the *New York Tribune* as a 'consummate fool' who had 'disgusted the whole local board'. 'We couldn't endure him and therefore we got out. That is all there is to it'. Another board member called him 'an opinionated Englishman [who] wanted to ride rough-shod over the board of Directors'.[50] After over a year in New York Thomson returned to Liverpool leaving behind a new US manager and board and a business that was in rapid decline. Ross's replacement, James Macdonald, appears to have been tainted in the eyes of New York's insurance community, not least by being Thomson's appointee. While he presided over rising losses and expenses and falling profits, Macdonald was described as supercilious and arrogant, with an 'impudent disregard of those courtesies that usually obtain among gentlemen, and that make business life endurable'. 'It may be...that from his connection with the Queen, young Mr Macdonald fancies himself John Brown…The management of the Queen had better abdicate, or change its administration, at least so far as its American business is concerned'.[51]

As well as demonstrating the importance of preserving good relations with elite businessmen working as directors, trustees, managers or general agents, the debacle of the Queen's attempt to reform its American organisation also illustrates another dimension of goodwill, namely the importance of maintaining friendly relations with the American press, both the general dailies as well as the specialist insurance papers. While newspapers benefitted directly from the dollars spent by insurance companies on advertising, the companies also relied greatly on journalists writing them up in a positive light. New foreign companies entering the market particularly were assessed on the way their US managers engaged with and supported the trade press. For example, in contrast with the many insults levied at the Queen's manager, the resident US manager of the Phoenix of London, A.D.

[49] Babcock (1822-1902) was a partner or director in numerous railroad, insurance, banking, broker and trust companies as well as President of the International Bell Telephone Company. He left an estate of nearly $4m at his death. Spaulding (1817-93), was a New York dry goods merchant, director of several banks and insurance companies and first president of the Central Trust Company. Fiske (1821-92) was a Boston flour merchant, stockbroker, director of banks, insurance companies, the New York Guaranty & Indemnity Company and the Central Trust Company.
[50] *Insurance Times* 14 (1881): 269, 828.
[51] *Insurance Critic* 11 (1883): 173. See also *ibid.*, 12 (1884): 108.

Irving was applauded, not just for the performance of his agency, but for his deportment and his conduct towards reporters and others in the New York business community. Irving's

> "courteous yet dignified bearing, in the exercise of his official relations with those who have business with his office, and which always characterizes a scholar and gentlemen, is not only reflected to his further credit and that of the company he represents by his subordinates and the attachés of his office, but after a call at the US branch office…67 Wall Street, New York City, one is refreshingly reminded of the difference between the courtesies observed there, and the supercilious arrogance and dudish attempt at effecting the disgusting role of snobbery, which is characteristic in certain branch offices of comparatively insignificant foreign companies located near, as also some American insurance companies whose officials are similarly oblivious to or unmindful of the requirements of business courtesy".[52]

A good impression could also be made by establishing offices in grand and imposing buildings in key locations. Pine Street, which runs parallel to Wall Street one block north, and William Street, which crosses Pine and Wall two blocks east of Broadway, attracted the greatest concentration of foreign insurance companies in Lower Manhattan from the 1870s onwards. Commercial Union, for instance, bought a site on the north-east corner of Pine and William to build its US agency office in 1883.[53] The general agency that managed the business of the Standard Fire, Imperial Insurance and Lion Fire was at 33 Pine Street.[54] The US offices of the Northern Insurance were housed in a 'fine fireproof building' at 38 Pine Street, and those of the Lancashire insurance Company were next door at numbers 40-42.[55] LL&G's US office was located at 45 William Street.[56] Large sums were spent on constructing and extending offices or buying purpose-built ones, doubtless often with rising real estate values in mind. The LL&G, for example, bought the 'handsome building' of the Newark Savings Institution at Newark, New Jersey, for $110,000 in 1884.[57] The Royal constructed its new home in Chicago in 1885 for $700,000 as 'one of the most magnificent

[52] *Insurance Critic* 12 (1884): 10.
[53] *Insurance Times* 16 (1883): 7.
[54] *Insurance Critic* 12 (1884): 264.
[55] *Insurance Critic* 15 (1887): 88, 104.
[56] *Insurance Times* 15 (1882): 50.
[57] *Insurance Times* 17 (1884): 412; *Insurance Critic* 12 (1884): 264.

office structures in the world'.[58] The opening of such buildings was invariably accompanied by fanfare. The Imperial celebrated the opening of its new office in Pine Street on New Year's Eve 1878 with a dinner, catered by 'the celebrated caterer Thomas Cable', for 700 guests, including 'all the underwriters of mark in the City, and… many of our leading merchants, bankers and citizens', as well as large numbers of officers, employees and agents of American fire insurance companies. The building, bought by Imperial at a knock down price from a bankrupt US insurer, was enlarged and improved to render it 'certainly one of the most commodious, convenient and elegant insurance buildings in the metropolis'. Heated by steam, it had an Otis elevator and was 'fitted up throughout with admirable taste'. The Imperial rented out some of the floors to 'first class tenants', whose payments returned the company ten per cent on its investment.[59]

Imposing offices that exhuded permanence, respectability and financial strength were a form of advertising and a means of creating reputational capital. It is difficult know, however, how much impact they had on a foreign company's ability to penetrate rural and frontier markets far from the big cities. Here the profile and energy of the local agent were important, and also the extent to which the market was dominated by native insurance companies, including small farm mutuals and cooperatives. It would seem that in some states foreign insurance companies had to work hard to overcome local loyalties and identities. Between 1875 and 1915, for instance, the largest fire insurer in Ohio was the mutual Ohio Farmers of Leroy. Its business consistently exceeded that of all the large East Coast and British insurers operating in the state.[60] By contrast, in other states the business of local mutuals was dwarfed by stock companies from other US states or abroad. In Oregon, for example, local mutuals only accounted for eight per cent of net fire insurance premiums in 1915. In New Hampshire the figure was just five per cent. [61] Without further research it remains impossible to explain such regional differences in market structures, or, indeed, the effect that advertising and sales techniques had on changing customer loyalties and local patterns of demand.

[58] *Insurance Critic* 13 (1885): 281.
[59] *Insurance Times* 12 (1879): 4.
[60] Calculated from the *Annual Reports of the Superintendent of Insurance for the State of Ohio* (Columbus, Cincinnati and Springfield, 1876-1916).
[61] Calculated from *8th Annual Report of the Insurance Commissioner of the State of Oregon* (Salem, 1916), pp.12-13, 20, 22-3; *65th Annual Report of the Insurance Commissioner of the State of New Hampshire, for 1915* (Concord, 1916).

Figure 1: Chronology of Entry - Foreign Insurers in the US 1850-89

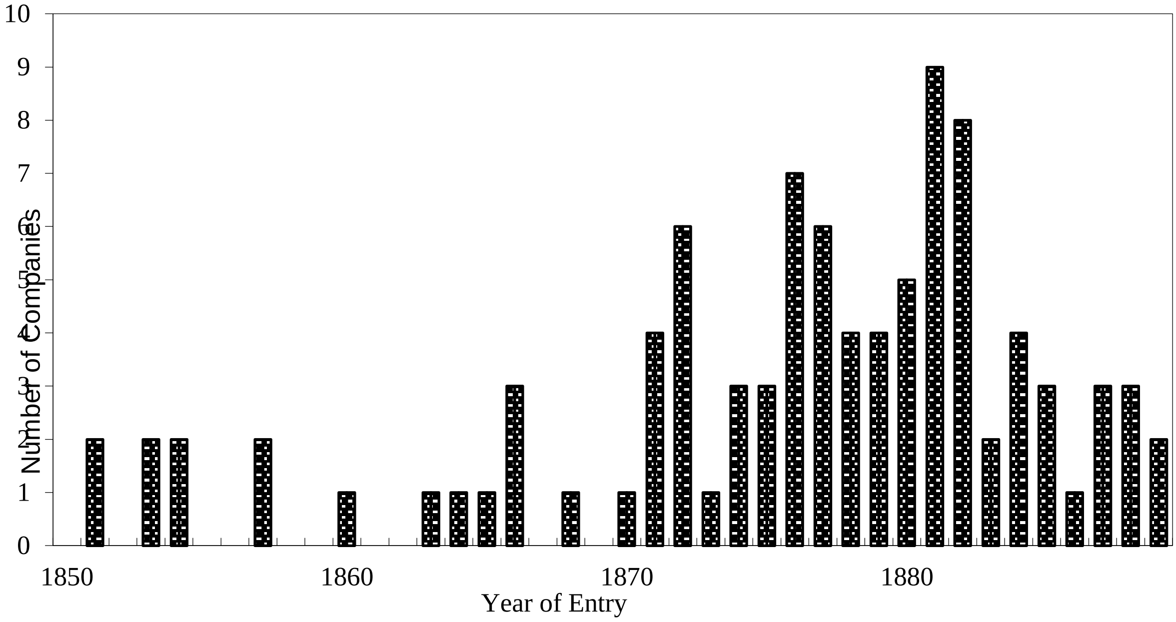

Figure 2: The Regional Divisions of Foreign Fire Insurance Companies in the US, 1879-1887

London and Lancashire Insurance Company, 1879

James R. Yearance, Special Agent for USA & Manager of New York Metropolitan District and New York State, 173 Broadway, NYC

Divisions

Charles H Case, Manager, North West

Foster & Scull, Managers, New England

Barbee & Castleman, Managers, South-West

Proud & Campbell, Managers, South-East

George Wood, Manager, Eastern Middle States

John H Law, Manager, Western Middle States

General Agency

Balfour, Guthrie & Co, San Francisco, General Agents, Pacific Coast

Sources: *Insurance Times* 12 (1879): 433; E.V. Francis, *London and Lancashire History: The History of the London and Lancashire Insurance Company Limited* (London: London and Lancashire Insurance Company Limited, 1962), pp.116-18.

Lancashire Insurance Company, 1879

Henry Robertson, US Manager, 187 Broadway, NYC

Charles M Peck, Agent for NYC and Brooklyn

Special Agents

W.G. Ferguson, Chicago

A.N. Currier, Worcester, MA

J.B. Kelsey, Philadelphia

M.A.Steams, Rochester, NY

Hatson Lee, Charleston, SC

S.O. Cotton, Houston

H.K. Lindsey, Cincinnati

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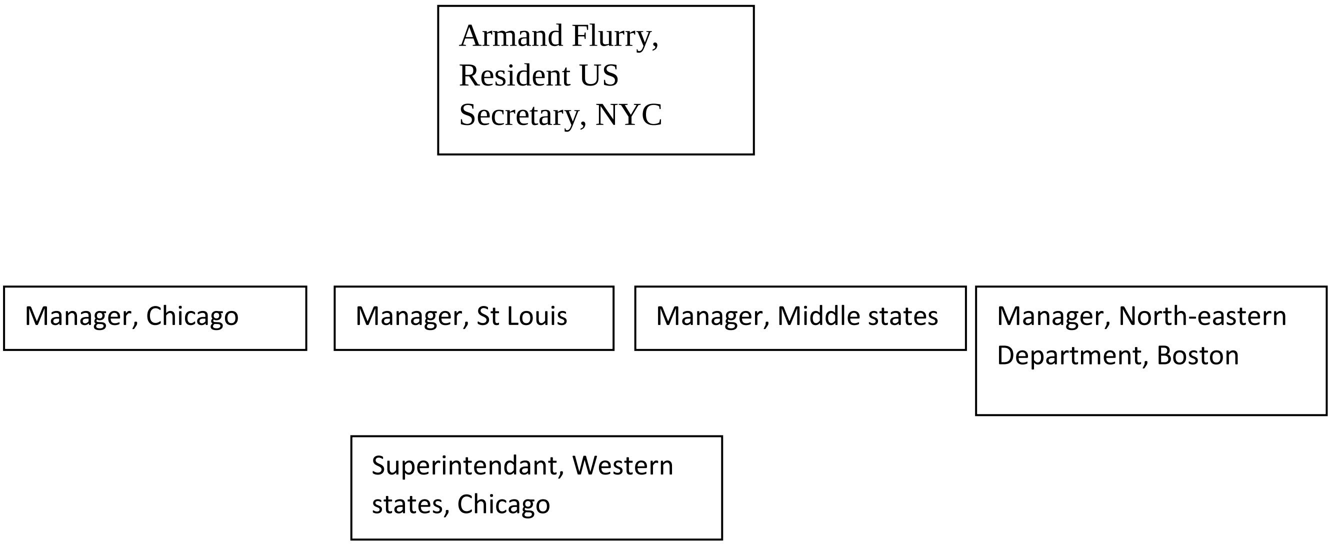
200 sub-agents

Source: *Insurance Times* 12 (1879): 63, 637.

La Caisse Générale, 1880



Source: *Insurance Times* 13 (1880): 2c.

Royal Insurance, 1882

E.F.Beddall, 43 Wall St, NYC, US Manager, Manager, NY Metropolitan District; Assistant Manager, William W Henshaw.

Charles R Knowles, Albany, Manager, NY state (excl. Metro-politan District)

Foster & Scull, Boston, Managers for MA, CT, RI, NH, ME, VT.

George Wood, 26 Walnut St, Philadelphia, Manager for PA, NJ, DE

John S Law & Son, Cincinnati, Manager for OH, IN, WV

Proud & Campbell, Baltimore, Managers for MD, VA, NC, DC

Barbee & Castleman, Louisville, Managers for KY, TN, GA, AL, SC, FL, TX

Charles H Case, Chicago, Manager for IL, KS, MI, MO, WI, IA, MN, CO, NE

Sources: *Insurance Times* 15 (1882): 42; *ibid*. 12 (1879): 580.

Liverpool, London & Globe Insurance, 1882

J.E. Pulsford, 45 William St NYC, Resident US Manager, and Manager for NY, New England, OH, MD, PA, NJ, IN, DE, DC, VA, WV, NC, TN, SC, KY, AR; Deputy Manager; Assistant Deputy Manager

General agents in Albany, Boston, Charleston, Cincinnati, Philadelphia, Richmond

Henry V. Ogden, Resident Secretary, New Orleans Office, Manager for LA, MS, AL, GA, FL, TX; Assistant Secretary

William Warren, Resident Secretary, Chicago Office, Manager for IL, MI, IA, WI, MN, MO, KS, NE, CO, DA, MT, UT, WY, ID, NM

George Mel, Resident Secretary, San Francisco Office, Manager for CA, NV, OR, AZ, WA

Source: *Insurance Times* 15 (1882): 50.

Table 1: Fire insurance in Great Britain and the United States by density and penetration, 1850-1913

	Great Britain			USA		
	Premiums $	Premiums $ per km^2	Premiums $ per capita	Premiums $	Premiums $ per km^2	Premiums $ per capita
1848/50	6,113,730	29.2	0.30	6, 021,256	0.8	0.26
1900/2	34,041,300	162.6	0.93	185,531,694	23.7	2.34
1913	47,469,512	226.8	1.15	325,906,710	41.6	3.35

Sources: Great Britain: Premiums, 1850: Robin Pearson, *Insuring the Industrial Revolution* (Aldershot: Ashgate, 2004), appendix B (value for 1848); 1900: Oliver Westall ed. *The Historian and the Business of Insurance* (Manchester: Manchester University Press, 1984), p.152n; 1913: Barry Supple, *Royal Exchange Assurance* (Cambridge: Cambridge University Press, 1970), table 10.1, domestic premiums estimated as one-third of total, following Supple in Westall, 1984, p.6. Intercensal population estimates: B.R. Mitchell, *British Historical Statistics* (Cambridge: Cambridge University Press, 1988), p.11. $/£ conversion using Lawrence H. Officer, 'Dollar-Pound Exchange Rate From 1791,' MeasuringWorth, 2012. in EH.Net, accessed 29 Jan 2014. USA: Premiums 1850, Donald Armstrong, ‘A History of the Property Insurance Business in the United States prior to 1890’ (D.Phil. thesis, New York University, 1971), pp.72-4; Premiums 1902, 1913, *Spectator*, 15 March 1917; Population 1850 and gross area of Continental USA: US Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1957* (Washington, DC, 1960), series A 17-21; Intercensal population estimates 1902, 1913: US Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* (Washington, DC, 1975), table I8.

Notes: Great Britain premiums are domestic fire insurance premiums in US $ earned by British insurance offices, net of reinsurance and excluding premiums received on overseas business. Fire insurance premiums earned by foreign insurers in GB were negligible. US premiums are fire insurance premiums earned in the United States by all offices, net of reinsurance.

Table 2: $m written on fire insurance in 15 US states 1870-1915

Alabama		**Arkansas**		**Colorado**		**Connecticut**	
1897	1910	1885	1910	1882	1915	1873	1907
71.8	241.5	19.9	139.2	32.8	272.1	162.6	497.4
Maine		**Michigan**		**Minnesota**		**New Hampshire**	
1870	1915	1870	1890	1872	1892	1870	1915
56.8	269.7	131.6	286.3	41.5	297.4	36.2	200.6
New Mexico		**North Dakota**		**Ohio**		**Rhode Island**	
1882	1915	1889	1915	1875	1915	1879	1915
4.0	46.4	7.4	158.8	360.0	1,600.0	160.0	458.8
South Carolina		**Tennessee**		**Texas**			
1900	1915	1885	1905	1870	1901		
67.3	221.3	80.0	220.4	5.5	442.8		

Source: State insurance department reports.

Notes: All $ written, except Connecticut, are net of reinsurance. Arkansas and Michigan figures include marine and inland insurance, Texas figures include marine and tornado insurance.