America 1720-1820: war and organisation

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America's economy grew rapidly throughout the eighteenth century, with expanding settlement of the interior, growth in economic output, and a doubling of population approximately every 25 years. Overseas trade played a vital role. Furs, fish, ship masts, whale oil, tobacco, rice, and indigo were exported to Britain and Ireland in exchange for a wide range of manufactured goods and textiles. A negative trade balance with Britain was compensated for in part by the export of fish, grain, flour, salted meat, and livestock to the Caribbean islands in exchange for sugar, rum, and molasses, and by exports to southern Europe. The colonies, well-endowed with timber for shipbuilding, also earned a considerable amount from the sale of vessels and the provision of freight services.[1]

The key actors in this vigorous and expanding maritime trade were of course the merchants in the port towns and cities. The use of marine insurance to spread maritime risk was vital to their activities, particularly on large ventures and during periods of heightened risk. However, in the early eighteenth century the volume of capital available was not yet sufficient to sustain a local marine insurance industry, so American merchants obtained insurance mainly in Britain, if at all. By the early nineteenth century, however, a thriving American insurance sector had developed. This chapter traces its development during its formative first century, with a particular emphasis on how its organisational form evolved, and how it came ultimately to diverge significantly from that of Britain.

In a nutshell, the argument is as follows. The eighteenth century was punctuated by a series of wars that periodically exposed American merchant vessels and cargoes to heightened dangers of enemy capture, while also disrupting communications with Britain, and therefore access to her insurance market. Insurance premiums rose substantially and fluctuated rapidly during these wars, as rumours of military, naval, or political developments shifted perceptions of the risks to maritime commerce. Heightened wartime risks led to higher losses, increased premiums, and increased demand for insurance, placing strains on the risk-sharing capacity of American insurers. In this way, war created the impetus for institutional development and innovation, as American merchants sought to contain mercantile risks in order to exploit lucrative wartime trading opportunities.

Insuring in Britain

By the early eighteenth century, London was displacing Amsterdam as Europe's most active marine insurance marketplace. The growing concentration of brokers and underwriters in the city created a liquid and competitive marine insurance market, with well-capitalised and well-informed underwriters. The market drew orders for insurance from across Britain and Europe, and from the American and Caribbean colonies.[2] Throughout the eighteenth century, a substantial share of American insurance was obtained in London and other British ports.

For American merchants, however, insuring in Britain entailed a variety of inconveniences. First, they had to pay commissions to their London correspondents for effecting insurance on their behalf. Their letters constantly enjoined correspondents to exert every effort to ensure that their insurance would be secured for the lowest possible premium, and with the most reputable and financially secure underwriters, two goals which were frequently incongruent. The agents, naturally, reassured their principals that they had faithfully acted as though the business was their own, and at times found it necessary to defend their conduct. But information was at the best of times incomplete, and the time taken for information to cross the Atlantic – often several months – increased the potential for misunderstanding. London merchant Robert Plumsted frequently had to remind his correspondents that when ordering insurance, 'Its quite Necessary to be as plain as possible in thy directions, to prevent Mistakes which in these Cases, are not sometimes to be Rectify'd.'[3] The slow speed of communication and the difficulty of producing documentation to support a claim also meant that when losses occurred, insured merchants sometimes had to wait years for their money, particularly if a claim was disputed.

Another drawback to insuring in London was uncertainty about whether orders for insurance would arrive on time. Because plans about cargoes, routes, and dates of sailing were often highly fluid, insurance was generally not ordered until a vessel was almost ready to put to sea, or had already done so. When a vessel was soon expected to sail, the usual practice was to send orders for insurance by several other vessels, to ensure that the orders would arrive in good time. But the chance remained that these instructions would fail to arrive, or that London agents would fail to effect the insurance, before news was received of a vessel's loss, thereby leaving the merchant uninsured.

On the other hand, if a vessel made an unusually fast passage, tidings of its safe arrival might outpace the orders for insurance, thereby 'saving' the premium. Indeed, merchants sometimes tried their luck by instructing their agents to delay obtaining insurance in the hope that this might happen. In 1760, for example, Philadelphia merchants James & Drinker sent several copies of the following instructions

> We are now very closely engaged in loading the Friendship… [for London] … and hope she will be full and sail in 10 good working days, how many running days that may be, we can't say, indeed at this Season of the Year the Weather is very much unsettled. If she don't arrive in 3 Weeks after this reaches Thee please to procure Insured for our Account on our half said Ship £600 Sterling and £150 Sterling on our half Goods, valuing our half the Ship at £750 Sterling.[4]

The London underwriters were of course well aware of this practice, and compensated by charging higher premiums to vessels that were considered 'out of time'. One London merchant warned a correspondent that

> Attention will be paid to your instructions respecting Insurance but there is one circumstance which we presume did not occur to you which is that when a vessel is

> considered out of time the Underwriters demand an advance of Premium. They have regular information of the time of a ships sailing and if she has been out long enough to have reach'd her destin'd Ports. The same consideration which induces the merchants to insure directs the Underwriters to ask an equivalent Premium. We hope however you may save your insurance.[5]

All of these transatlantic principal-agent problems were greatly exacerbated during wartime, when the risks and rewards of maritime commerce increased, and normal patterns of trade and communication between London and America were disrupted by enemy activity.

Beginnings of Marine Insurance in America

As one Philadelphia merchant explained

> 'Tis a Custom in all places where Insurances are made, that Offices for that purpose are set up. The Persons who keep those offices are stiled Brokers, & are middle Persons to keep records, & conduct matters regularly between the Insurer and Insured[6]

Although attempts had been made – probably short-lived – to establish marine insurance brokerages as early as 1721 in Philadelphia and 1724 in Boston, the earliest clear record of an active brokerage in America is that established by Benjamin Pollard in Boston in 1739,[7] at the outset of the War of Jenkins' Ear (1739-48). A record of insurance rates from Pollard's office during the war reflects the risk of seizure by Spanish privateers in the Caribbean. In 1744, for example, voyages to or from Caribbean islands were commonly insured at 14% to 16%, several times the typical peacetime rates of 2% to 3%.[8] Joseph Dowse took over Pollard's brokerage business in 1745, and Richard Jennys opened a second Boston brokerage in 1747.[9]

In Philadelphia, Buckridge Sims had opened a brokerage by 1743,[10] but Philadelphia merchant William Till informed a London correspondent that

> we have an Insurance Office here… but for my Part I have always looked on the Thing as a Novelty, and what they would be soon tired of. In this I am not mistaken. Some late Losses seems to Damp their Spirits and most of them begin to stagger. However I always resolved never to have anything to do with the affair, or be any ways concerned, but shall constantly write to London for Common and honest Insurances.[11]

Sims' venture appears to have been short-lived, but by 1748 Joseph Saunders had successfully opened a brokerage in Philadelphia, and a second brokerage was opened by Thomas Wharton in 1752. Wharton's decision to enter into the marine insurance business may have been to some extent a result of a fortuitous circumstance: Saunders had recently relocated his business, and Wharton had moved into the space that Saunders had recently vacated, enabling him to advertise that 'the insurance office is there kept as formerly'.[12] Saunders at first ignored his competitor, but later advertisements in the *Pennsylvania Gazette* note that 'The Insurance-Office for

Shipping is kept by him as usual', even as Wharton continued to advertise that the insurance office remained open at his location 'as formerly'.[13]

The mode of business in America's early insurance brokerages largely mirrored that which had been used for centuries by private underwriters in Europe. Brokerages were generally located near a coffee house or other meeting place, and brokers maintained accounts with regular underwriters to whom they offered their risks. The broker acted as an intermediary between the merchant and underwriters in negotiations over the premium and other policy details, and wrote and recorded the policy, to which the underwriters subscribed their names, together with the amounts they chose to cover.

Broking policies could be a profitable sideline for merchants. Setting up a brokerage involved little more than having some blank policies printed, and many enterprising American merchants attempted to establish brokerages at various times. Some of these, however, appear to have done little business, or to have been relatively short-lived.[14] Building up a successful brokerage required both cultivating relationships with a group of knowledgeable and financially secure underwriters, and attracting business from a sufficient number of merchants to make underwriting worthwhile. Records are fragmentary, but suggest that each major port city supported no more than a handful of active, established brokerages at any time.

The French and Indian War

By the advent of the French and Indian War (1754-63), several brokerages were active in the major American ports. In most cases, the lack of surviving records makes it impossible to know what volume of business they did, but the records of Thomas Wharton's Philadelphia brokerage show a clear expansion of his business during the early years of the war, in terms of the number of policies underwritten, their size, and the number of active underwriters (Table X.1).

Table X.1: Transactions in Thomas Wharton's Philadelphia brokerage

	26 May 1755- 4 Dec 1755	*12 Nov 1756- 17 Sept 1757*	*13 Feb 1759- 15 Oct 1759*
Number of policies	187	677	611
Underwriting transactions per day	2.10	5.37	9.27
Average Sum Assured	£277	£240	£440
Total no. of underwriters	17	30	36
of whom ≥ 1 transaction/week	7	13	24
Average no. underwriters per policy	2.16	2.46	3.70

Notes: Summary Statistics from Thomas Wharton's insurance ledgers, 1755-9, Leonard T. Beale collection, HSP Ms. (PHi) 1735. Figures are rounded to the nearest pound. Premiums on time policies (there are few) are estimated assuming risks lasted 3 months.

In part, the impressive expansion of Wharton's business during the war was brought about by the increased demand for insurance caused by heightened war risks. Although the Seven Years' War was not officially declared in Europe until 1756, its opening shots were fired in Ohio in May 1754, igniting a brutal struggle between the French, the British, and their Indian allies for control of the North American interior.[15] The looming threat of war caused insurance rates to rise during 1755, particularly on European voyages. Generally the perceived risk of war was factored into the premium, although some policies were insured against sea risk only, at lower rates. One could also build in *ex post* premium adjustments, as merchant Samuel Howell did in November 1755, when he visited Wharton's brokerage to insure £200 on goods on the *Nancy* from Philadelphia to London at a premium of 15%, of which 11% was to be returned if a war with France had not been declared by the time the vessel arrived.

Premiums to the West Indies rose throughout 1756. Philadelphia merchants James & Drinker paid 6% on shipments to Jamaica in May, 8% in August, and hoped to do it at 10% in October, by which time a London merchant was advising his correspondents that 'Insurance is Upon the Advance having several Ships Lately taken & privateers increase in our Channel'.[16] American coastal risks were less affected, as 'We have not yet had any French privateers on our coast nor do we think there will be any until early next Spring'.[17] By February 1757 the premium on West Indies risks was from 10% to 12.5%, 'and will rise we fear, as we daily hear of Captures'.[18] In August 1757 James & Drinker paid 18% on a voyage to St. Kitts, noting that 'Premiums are already high and if the French should continue as successful as they have been in taking English Vessels about the Leeward Islands they will still more discourage our Underwriters, and of Consequence Premiums will rise higher'.[19] The increasing rates can also be traced in the Wharton ledgers for individual ships, such as the *Muggy*, William Allison master, insured from Antigua to Philadelphia in November 1756 for 9%, from Philadelphia to Antigua in January 1757 for 9% and 10%, from Antigua to Philadelphia in April for 12.5%, and in June from Philadelphia back to Antigua at 15%.

In such precarious times, few merchants could afford to risk foregoing insurance on any sizeable venture, but an additional and important explanation for the growth of Wharton's business is undoubtedly American merchants' increasing propensity to insure locally, rather than in Britain. Sending orders for insurance to London, always somewhat unreliable, became more so in wartime. Uncertainty about whether orders for insurance would reach London in a timely fashion sometimes led anxious merchants to purchase insurance locally, with the provision that policies would be void if insurance had already been obtained in London.[20] In November 1756, James & Drinker informed their London correspondents that

> As the Packets from New York have of late sail'd so very irregular… we thought it imprudent to depend upon them to carry a Letter for Insurance as that would have left us at a great Uncertainty whether it would be timely made in England or not, [which] determin'd Us upon getting all that we could done here.[21]

Losses became more frequent, but also more difficult to settle because of the difficulty of getting and sending proper documentation to support a claim. London merchant Robert Plumsted frequently complained that 'its very tedious Getting proofs of Interest from No[rth] America',[22] but insisted that in settling a loss

> proofs are Requir'd, especially as you have taken to make Insurances among yourselves, as between both, more than the Value may sometimes be Cover'd. I know thou would scorn to do any such thing, but It may be a Just pretence to delay settling a loss here, therefore please to be explicit in this respect.[23]

Accordingly, Plumsted advised his cousin William in Philadelphia that

> As proofs of Interest in time of War are very difficult to be Got, I should be Glad in future to know the shares of Ships, Cargoes & Freights thou Insures upon… that I may value the policys Accordingly, as it often prevents Great delays In Settling Losses, though in particular Cases, the Insurers have a Right to Require proofs.[24]

The war also made it much harder for American merchants to exert any control over the rates of premium paid by their London agents. They might set limits, but this too was risky, as it might mean forgoing insurance altogether, just when things became most dangerous. As Plumsted noted in 1756, 'from the Great Uncertainty of the times the price [of insurance] Varys almost daily'.[25] When Robert Plumsted procured £600 insurance for William on the *Molly*, from Jamaica to the Bay of Honduras and back to Philadelphia at a rate of 21%, he considered it 'very Moderate Considering the Risque',[26] but William complained that he could have gotten a better deal in Philadelphia, to which Robert replied

> At thy Request I Show'd the Underwriters upon the *Molly* what thou says upon the premium Given for that Voyage (though I expected they would Laugh at me for so doing)… They pay no Regard to what is done with you, As they say you are not Acquainted with the Circumstances of these Voyages, so well as wee are, who are almost every day Furnish'd with Intelligence whereby to Form a proper Judgment of the Risque – therefore to Expect any Return of premium is quite out of the Question.[27]

Robert assured William that 'thou may allways depend on having what Insurances thou Commits to my Care done upon as Moderate Terms as anything Can be here with Good Men, which has been my Constant Study', but the following summer, William insured several West Indies ventures locally through Wharton's brokerage.[28]

The establishment of marine insurance in America added a further layer of uncertainty, by making it more difficult for correspondents in London to guess whether or not they should obtain insurance for their Philadelphia correspondents without specific orders. In 1757, uncertain as to whether William had insured in Philadelphia, Robert Plumsted obtained partial coverage on some voyages in London, but complained:

> if thou has made no Insurance upon the Vessel & Freight with you I think I shall hardly be justify'd as this Sum is not sufficient fully to cover thy interest. I wish thou would always say whether any Insurance is made with you upon any Vessel thou orders to be done here.[29]

An additional concern for London underwriters was that, particularly on the important West Indies routes, American merchants and underwriters were more familiar with the vessels and captains involved, and had more up-to-date information about local conditions, and that they might insure the 'best' risks among themselves, while writing to London for insurance on those vessels they considered more doubtful. These fears were probably justified. In March 1757, for example, James & Drinker informed a correspondent in Barbados that they would 'duly observe thy Orders respecting Insurance on the *Batchelor* & Cargo to Barbados, and if not to be done here, as our Underwriters have but a poor Opinion of her sailing, shall write to London or Liverpool to effect the same'. They shipped some of their own goods in the vessel in an effort to 'obviate the Prejudice against her', but were ultimately forced to write to Liverpool for the insurance, neglecting to mention the local underwriters' misgivings, and instead assuring their correspondents that the vessel was 'well Sheath'd here, and well fitted, an Able and Experienced Master', and that she planned to travel under convoy of a privateer.[30]

This stopped short of outright fraud, but it would certainly have been a concern for the British underwriters. Philadelphia merchant William Till worried as early as 1743 that this perception that 'the most dangerous Policys may fall to their share' would make London underwriters reluctant to insure his risks.[31] Robert Plumsted constantly had to defend the insurances he had made in London against charges of excessive premiums. He told his cousin William that

> while you Continue doing Insurance amongst yourselves, at premiums very unequal to the Risques, you will think our price high, but a few losses, some of which have already happened may perhaps advance your prices, for they are not Calculated to hold long.[32]

and tersely informed another correspondent that

> as to thy saving money by doing this Busyness with you, I believe your Underwriters will soon have enough, for give me leave to say, they don't know what they are about.[33]

To the extent that the London underwriters' caution was reflected in higher premiums, this reinforced American merchants' incentives to insure at home, particularly on West Indies and coastal risks, for which the London underwriters' disadvantage was particularly acute. Merchant Thomas Clifford, for example, continued to instruct correspondents sending him goods from England to obtain insurance there, but arranged insurance in Philadelphia on his ventures to the West Indies.[34]

Overall, therefore, it seems that by disrupting channels of communication with Britain, the Seven Years' War gave a substantial impetus to the development of the nascent American marine insurance industry. By 1759 three insurance brokerages were operating in Philadelphia, four in New York, and perhaps four in Boston.[35] Merchants in smaller ports also insured each other's risks locally, while writing to the larger American ports and to Britain for insurance on larger risks. Obadiah Brown of Providence, Rhode Island, for example, underwrote 161 risks between 1753 and 1762, while also purchasing insurance in Philadelphia.[36] There was also active cooperation and competition between underwriting centres. Merchants in Philadelphia, for example, occasionally wrote to New York for insurance on large risks, or when they felt the terms there might be more favourable than in Philadelphia.

Although the capacity of the American market was still very modest in comparison with London, which had about 40 marine insurance brokers in 1759,[37] the American brokerages increasingly attracted orders for insurance from throughout North America and the West Indies. A substantial and growing fraction of the policies insured through Thomas Wharton's Philadelphia brokerage were ordered by local merchants on behalf of correspondents elsewhere. This was simply one aspect of the agency system that was the universal basis for trade in the eighteenth century. Merchants acted as agents in the sale, purchase and handling of each others' goods, with customary rates of commission for each service agreed between the parties, as well as a constant flow of information about prices, political developments, the reputation of other merchants, accounts of vessels lost, and so on. Access to a reputable insurance market provided local merchants with an opportunity to earn commissions, usually 5% of the amount of the premium, or 0.5% of the sum insured.[38] James & Drinker embraced this opportunity, assuring a correspondent that

> Our Underwriters we think are in general men of fortune, & we believe pay their losses with great Punctuality, for which they have the Preference of any on the continent.[39]

When making insurance, as in all other aspects of trade, merchants constantly reassured their correspondents that they would handle the business as if it were their own. This meant having policies underwritten at low premiums by secure and reputable underwriters, keeping correspondents informed about local customs regarding required documentation and policy conditions, and handling payment of premiums and collection of losses. Sometimes it entailed taking part of the risk themselves. For example, James & Drinker informed one correspondent that they had found it difficult to find underwriters to cover a voyage to Hamburg, but

> as we had a good Opinion of the Vessels (Especially of the Sloop) and the Masters we ordered the Policies out and a Friend of Ours with Ourselves began them which Led others to follow till they were Completed.[40]

In what was a highly competitive and unregulated market, underwriters made some efforts at collective action to exert control over the conduct of business and the actions of brokers. In March 1761 a group of fourteen Boston underwriters associated with Boston's two main brokerages made an agreement regulating various matters such as the use of 'notes of hand' in lieu of cash for payment of premiums, mandating quarterly settlement of accounts between brokers and underwriters, and agreeing to exclude anyone who failed to accept the agreement from underwriting in either office. They also attempted to institute price controls, agreeing not to charge premiums below periodically adjusted, mutually agreed rates.[41] A similar agreement made among eighteen Philadelphia underwriters in 1766 appears to have foundered, as most of the signatures were subsequently crossed off.[42]

The Revolutionary War

The end of the French and Indian War reduced premiums to near peacetime rates, and renewed ease of access to the British insurance market, but the American brokerages and underwriting networks established during the war survived. Ezekiel Price's brokerage in Boston, which had opened in 1759, lasted until 1781. Joseph Saunders' Philadelphia brokerage endured until 1775, while Thomas Wharton's eventually passed into the hands of his younger brother Isaac, who carried it on until 1803, when it was reconstituted as a joint-stock corporation.[43]

Following the war, the British government attempted to increase the regulation and taxation of colonial trade. The colonists responded with boycotts of English goods in the late 1760s: 'no taxation without representation'. These boycotts briefly collapsed in 1770 – the year of the Boston Massacre – but the Tea Act of 1773, and the Boston Tea Party in December of that year, followed by Britain's so-called 'Intolerable Acts' of 1774, paved the way to the meeting of the First Continental Congress later that year, as the colonies edged towards revolution. The Congress's major achievement was an agreement against importation or consumption of British goods, to which the British retaliated with 'Restraining Acts' forbidding the American colonies to trade with non-British ports.

At the outset of the American Revolution, naturally, trade with Britain and British colonies collapsed, and trade with France and her colonies was also severely disrupted as the British Navy used its overwhelming superiority to blockade American ports and capture American merchantmen at sea. British, loyalist, revolutionary and (after 1778) French privateers were all active. American merchants adapted by making use of smaller, faster, and more heavily armed trading vessels.[44] During the French and Indian War, the colonies had traded actively with the enemy through the neutral Dutch entrepôt of St. Eustatius, and later, the Spanish port of Monte Cristo. During the revolution, St. Eustatius again emerged as a busy hub for American shipping, until the British declared war on Holland and took the island early in 1781.[45]

The risks for those vessels that did sail were truly frightening. A book of insurance policies from New York in 1779 (when the city was held by the British) shows premiums of anywhere between 12% and 30% on voyages between to the Caribbean islands, and 25% on risks between New York and European ports, compared to peacetime (1773) rates of 2.5% to 3%.[46] In rebel-held Boston rates were even higher (with, as always, substantial variations depending on the particular vessel and the timing of the voyage). Merchants insuring through Ezekiel Price's brokerage commonly paid 35% to 50% on single voyages from Boston to the West Indies, and 60% to 70%, even occasionally 80%, on round-trip voyages in 1777-79, before rates fell slightly during 1780-81.[47] Only an immensely profitable trade could have borne such astronomical risks.

Faced with these risks, and cut off from their usual sources of insurance, merchants in smaller ports banded together to insure each other. In Newburyport, Massachusetts, Joseph Ingersoll established a brokerage in 1778. The first risk underwritten, on the Brigantine *Sally* from Newburyport to Martinique or Guadeloupe and back, was covered by nine underwriters, including Ingersoll himself, at 70%. In 1779, one-way voyages between Newburyport and the West Indies were commonly being covered in Ingersoll's office at 45% to 50%, while return voyages were covered at 65% to 70%, falling to 30% to 40% by late 1780. Curiously, perhaps reflecting the uncertain value of currency as the continental currency depreciated rapidly during 1777-80, in some cases both the value of the sum assured and the premium on these policies was payable in gallons of molasses, or gold 'or the value thereof in paper money'. Ingersoll's copartnership was dissolved in September 1781.[48] In Salem, a similar office for private underwriting operated for a few months during the winter of 1779-80, issuing 78 policies beginning with the *John and Sally* from Guadeloupe to Marblehead at 30% in November 1779, and ending with the *Two Brothers*, insured from Salem to the West Indies and back at 50%, in February 1780.[49]

The Early Republic

American Independence in 1783 afforded new opportunities for trade with continental Europe and the non-British West Indies,[50] but it also restricted American merchants' access to the British West Indies. Further restrictions on transatlantic trade, and a British Order in Council (1783) forbidding the purchase of American-built vessels, created a depression in the American shipping industry in the 1780s. Insurance rates fell to peacetime levels with, as always, some idiosyncratic variation.[51] Once again, American merchants purchased some of their insurance in London, particularly on transatlantic risks, but they were now also purchasing much of their insurance from American insurance brokerages, several of which were well-established in each of the major ports.

Although the traditional method of private underwriting provided a competitive, flexible means of spreading risk, it also had some drawbacks, in particular, the transactions costs of finding a new group of underwriters for each policy. A natural solution was to form a stable syndicate of underwriters, and indeed syndicates had earlier emerged in Venice, France, and Holland.[52] The details varied, particularly in whether the syndicates allowed for joint or several liability, and whether they raised a capital fund as security for the payment of losses, but the essential cost-saving innovation was the delegation of the underwriting function. The broker, or some subset of the underwriters, could subscribe policies on behalf of other members of the syndicate, obviating the need for each underwriter individually to evaluate each policy proposal.

During the French and Indian War, six merchants led by Thomas Willing had formed such a syndicate in Philadelphia, each agreeing to underwrite one-sixth of the risks underwritten by Willing on policies offered by private brokers. The agreement did not entail joint liability, and did not raise a capital fund, but may nevertheless have violated Britain's 'Bubble Act' of 1720, which forbade underwriting by any firm or partnership except the two London corporations chartered by the Act. In any case, Willing's insurance 'company' lasted only a short time.

Independence, however, freed American underwriters from the Bubble Act's restrictions, and they began to experiment with new organisational forms. In Newport, Rhode Island, Samuel Sanford opened an insurance office in 1784, with sixteen underwriters who were named in the printed policy, each of whom accepted several, but not joint, liability for one-sixteenth of any risk underwritten by any three of their number (or by two underwriters and the 'office-keeper', Sanford). The rates were generally peacetime rates, and included some policies on slave vessels such as the *Betsey*, insured in December 1784 at 11% from Newport to Africa and thence to her point of sale in the West Indies and back. The underwriters generally accepted the risk of losses due an insurrection of slaves only if losses exceeded 10% of the cargo, but slave voyages were still unusually risky, and commanded high premiums (in contrast, for example, a whaling voyage to Africa, the West Indies and back was insured at 7%).[53] Alongside this syndicate, Sanford also broked policies using the usual method of finding individual underwriters for each policy.[54] In 1793 a Boston broker organised an association of thirteen underwriters, each of whom agreed to take £100 lines on the risks presented to the broker in turn, with each risk starting with the next underwriter in alphabetical rotation.[55]

The Napoleonic Era

With the advent of the European war in 1793, the prospects for American trade brightened considerably. Britain's naval superiority effectively closed off direct communications between France and its colonies, so at the outbreak of the war the French opened their colonies to trade with American vessels, and began to rely heavily on neutral vessels to carry their produce. Britain, however, asserted its 'Rule of 1756', whereby neutral vessels could not in wartime enter into a trade which had been closed to them in peacetime (which, in the American case, meant refusing to recognise the neutrality of American vessels trading directly between France and her colonies). However, American vessels *were* allowed to import large quantities of produce from French, Spanish, and Dutch colonies to the United States, whence they were re-exported to Europe, while manufactured goods flowed, indirectly, in the opposite direction. Britain also loosened its mercantilist restrictions on trade with her West Indian colonies. As a result of these new opportunities, and of protective tariffs and regulations that had been introduced by Congress in 1789, American trade boomed.

At the same time there was always a risk that America would be dragged into the war (as it eventually was in 1812) while the belligerents each attempted to curtail Americans' trade with their adversary. In 1793-4, war with Britain for a time seemed imminent as a result of a British Order in Council issued on 6 November 1793 amounting to a total blockade of the French West Indies (to coincide with a military campaign to conquer French colonies). By the time news of the order reached the US, the British had already captured hundreds of American merchantmen in the Caribbean. War was forestalled, however, by Jay's Treaty of 1795, which put an end to British captures, and normalised trade relations between the United States and Britain. However, the treaty also made several concessions to Britain that were unfavourable to France. In particular, it adopted a broad definition of contraband (goods which neutrals could not legally trade with belligerents), accepted the British right to seize non-contraband goods as long as they were paid for, and accepted the 'Rule of 1756'. These concessions angered the French, who had hoped to circumvent Britain's naval superiority by employing the Americans as neutral carriers.

The explosion of trade volumes, together with the increased risks to American shipping, created the conditions for rapid expansion of the American marine insurance industry. However, while the existing system of private underwriting through brokers provided a flexible, market-based mechanism for risk-sharing that had many advantages, it was also clear that in the event of a war, the private underwriters might be hard-pressed to cope satisfactorily with the increased demand for insurance. American merchants were perfectly familiar with the two marine insurance corporations that had existed in London since 1720, and would also have been aware of similar corporations in France, Holland, and elsewhere.[56] The corporate form increased the security of the policy by raising a large capital fund as a bulwark against losses, and enabled a much wider spreading of risk by enabling those with no knowledge of mercantile affairs to participate by buying shares, while entrusting their underwriting decisions to experts.

In the 1790s, freed from the constraint of Britain's Bubble Act, American merchants began to petition their state governments to grant corporate charters for marine insurance. The first such company, the Insurance Company of North America, was formed in 1792 in Philadelphia, and chartered in 1794. The innovation spread rapidly, and over the ensuing two decades numerous corporations were chartered in ports throughout the eastern United States.[57]

Once again, therefore, it was the increased risks during wartime that spurred institutional innovation. The new corporations came onto the scene at a highly turbulent time. The French retaliated for the passage of Jay's Treaty by issuing a series of increasingly restrictive decrees during 1796-7 that led to the capture by French privateers of hundreds of American vessels in the Caribbean.[58] This marked the beginning of a period of naval conflict between America and France that became known as the 'Quasi-War', because the war was limited to naval actions, and was never formally declared. However, it led to a prolonged period of heightened risk for American merchants, just at the moment when corporations had entered the market. Premiums for insuring one-way voyages to the West Indies rose from a range of 3% to 6% in the autumn of 1796 to as much as 15% to 20% in the summer of 1797, and reached 25% in 1798, before American naval victories in 1799 and 1800 brought rates back down.

Comparing archival records from a private underwriter and a corporation during the Quasi-War reveals that the conflict provided a crucial impetus that hastened the growth and spread of corporate underwriting in America around the turn of the century.[59] During the war the potential for large numbers of simultaneous captures made it more difficult for private underwriters to diversify their risks, while also threatening their financial security, and thereby highlighting one of the companies' major advantages. Prudent private underwriters raised their rates, and business gravitated to corporations.

The nature of the information required to assess risks also changed. What mattered most for assessing the risks of particular voyages in peacetime was idiosyncratic, voyage-specific information, such as the experience of the captain and crew, and the condition and sailing qualities of the vessel. Private underwriters were, for the most part, merchants intimately familiar with the various branches of trade and with each other, and therefore were well placed to gather and interpret this kind of information. To assess risks in wartime, however, what mattered most was information about systematic risks, such as the activities of enemy privateers, the disposition of the prize courts, and other political and military developments that could increase the risks to all ships simultaneously. Thus, the advantages of corporations were heightened by the temporary increase in risks caused by French privateering in the Caribbean during this period, catalysing a shift from private to corporate underwriters.

The Nineteenth Century

Although corporations rapidly took over a large share of the American marine insurance business, records of private underwriting persist well into the early nineteenth century. In New York, Benjamin Mumford ran a very active brokerage that insured hundreds of policies during 1800-05. A January 1803 agreement between Mumford and his underwriters was signed by seventy underwriters.[60] In August 1804, in an effort to drum up business, Mumford proposed a reciprocal arrangement with brokers Charles Ghequire and H. Kunckel of Baltimore, whereby each would send the other orders for insurance, with a promise that 'We are both to endeavour to undertake business for none but fair characters'. Ghequire and Kunckel accepted the proposal, but noted that 'As we have 5 Insurance Compys here, We fear it will be Seldom we shall be able to procure any Orders from here, but we will use our best Endeavours.'[61] Mumford also corresponded with Robert Hobart of Philadelphia, who insured vessels using both private and corporate underwriters. In 1805, French, British, and Spanish captures led to premium increases, and uncertainty persisted in the run-up to the Embargo Act of 1807. In these challenging circumstances, Mumford found it increasingly difficult to place risks, and ultimately ceased broking policies, preferring to write to New York and Baltimore for insurance.[62] Hobart was still procuring insurance on Mumford's behalf from both private and corporate underwriters in 1804-6, but faced increasing difficulty due to the growing crisis.

In one substantial record of several hundred policies insured in Philadelphia from 1803 to 1815, most of the policies are underwritten by corporations, but several private brokerage firms appear, the most prominent being that of Nalbro Frazier. Privately underwritten policies become progressively less common, and none appear following Frazier's death in 1811.[63] But in Salem, Massachusetts, Archalaus Rea operated a busy brokerage for private underwriting in 1817-18, and Peter Lander ran an active office in the early 1820s.[64] Overall, while it is not possible to measure relative market share with any precision, it seems safe to assert that corporations displaced private underwriting relatively rapidly, and had come to dominate the American marine insurance industry well before the end of the Napoleonic wars.

Beyond their important role in protecting against calamity and spreading risk, corporate insurers were crucial financial intermediaries through their investments, and became tightly woven into the political fabric of the new republic.[65] Corporations held a large capital stock as a bulwark against losses, and this stock was held in the form of shares, private and government bonds, mortgages, property, and other assets, funnelling funds from savers (their shareholders) to borrowers. Wright and Kingston present data on the number and capitalisations of corporate insurers in antebellum America.[66] During the mid-nineteenth century, an increasing proportion of insurance companies were organised as mutuals, rather than joint-stock corporations. This was particularly so in fire and life insurance, but included some marine companies, and some that wrote both marine and other risks.

War: the engine of institutional change

The eighteenth century was punctuated by a series of wars that disrupted the American marine insurance industry, raising premiums, exacerbating agency problems, and spurring innovation. The French and Indian War boosted the fledgling industry by disrupting channels of communication with London. Following independence, it became possible for corporations to enter the market, and just as these companies were finding their feet, the Quasi-War highlighted their advantages, accelerating a transition from the traditional system of private individual underwriting to a market dominated by chartered corporations.

The eventual dominance of corporations in the American marine insurance industry was not necessarily inevitable, however. As Guinnane *et al* emphasise,[67] the advantages of the corporate form are in many circumstances offset by a variety of internal and external agency problems. In Britain, although marine insurance corporations were present, and although the Napoleonic wars battered the informal institutions for private underwriting at Lloyd's just as they did in America, private underwriting survived and indeed thrived. Sheltered by the Bubble Act, and stimulated by the challenges of wartime underwriting, Lloyd's was driven to strengthen its mechanisms for information-gathering and self-regulation, and to develop further its formal governance and membership structures. The flexible and sophisticated market for private underwriting and the formal structure developed at Lloyd's during the Revolutionary and Napoleonic wars provided the framework for further reforms and institutional development in later years, and conferred on Lloyd's a resilience that enabled it to survive even after it was exposed to competition from new waves of corporations by the subsequent repeal of the Bubble Act.

Thus, although the merchants and underwriters in Britain and America employed similar technology, and were very familiar with the modes of doing business in the others, by the early nineteenth century two distinctly different institutional structures had developed. Either structure, once established, could persist as a stable equilibrium.[68] In Britain, the mechanisms that the network of merchants and underwriters at Lloyd's developed to share and interpret constantly-changing flows of information ultimately created a 'lemons' problem for London's marine insurance corporations. Because of their inferior access to information, the corporations were at a disadvantage in evaluating risks, and their resulting wariness led them to charge higher premiums and to confine themselves whenever possible to the 'best' risks (good ships, about which there was little doubt, and therefore little asymmetric information), frequently turning down business out of a concern that insurances were not being 'tendered fairly'.[69] In America, although private underwriting had become well-established during the eighteenth century, it never reached the level of sophistication achieved at Lloyd's, and corporations therefore suffered no such disadvantage.

Marine insurance was vital to the vigorous overseas trade that played such a central role in America's early economic and political history. Rooted in European mercantile tradition, but shaped to local needs by American merchants and brokers as they navigated the turbulent and formative eighteenth century, by the early nineteenth century the industry had developed a mature and robust set of institutions with a distinctively American character.

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[6] Thomas Clifford to J. Rockett, July 1766, quoted by Larsen, G.H.: *Profile of a colonial merchant: Thomas Clifford of pre-revolutionary Philadelphia*, unpublished PhD Thesis, Columbia University, 1955, pp. 193-4.

[7] Hardy, E.R.: *Reports of 1888–1900, with an account of the early insurance offices in Massachusetts, from 1724 to 1801*, Boston: Insurance Library Association of Boston, 1901.

[8] BA Mss L49, Index to marine insurance policies written in the office of BP of Boston/marine insurance policies, 1743-5.

[9] Hardy, *Reports of 1888–1900*, p. 33.

[10] A digital photograph of one of Sims' policies from a private collection is in the author's possession. I am aware of no other records of this brokerage.

[11] HSP Ms 660, William Till Letters 1735-1745, William Till to Lawrence Williams, 5 Aug. 1743.
[12] See Saunders' advertisements in the *Pennsylvania Gazette* no. 1212 (3 Mar. 1752) and no. 1213 (10 Mar. 1752); Wharton's advertisement in no. 1221 (7 May 1752) and subsequent issues.
[13] See, for example, Wharton's and Saunders' advertisements, *Pennsylvania Gazette* no. 1320, 11 Apr. 1754.
[14] Gillingham found records of 22 insurance brokerages that operated in Philadelphia at various times during the eighteenth century (not including Buckridge Sims). Gillingham, H.E.: *Marine insurance in Philadelphia 1721–1800*, Philadelphia: Patterson and White Co., 1933, p. 52.
[15] For a general history of the war, see Anderson, F.: *Crucible of war: the Seven Years' War and the fate of empire in British North America, 1754-1766*, New York: Alfred A. Knopf, 2000.
[16] HSP MS (PHi) 176, James & Drinker letterbook, letters to R. Field, 19 May, 18 Aug., 29 Oct. 1756. Robert Plumsted letterbook, Plumsted to ?, 15 Oct. 1756.
[17] James & Drinker letterbook, 28 Oct. 1756.
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[19] James & Drinker letterbook, 11 Aug. and 26 Aug. 1757 to J. Parkinson.
[20] See, for example, policies on the *Swanzey* (3 Nov. 1755) and the *Schemer* (21 Jan. 1757), Wharton ledgers.
[21] James & Drinker letterbook, 6 Nov. 1756, James & Drinker to Neate & Neave.
[22] Plumsted letterbook, 11 May 1757, R. Plumsted to W. & J. Ogle.
[23] Ibid., R. Plumsted to William Blair, 12 Nov. 1757.
[24] Ibid., R. Plumsted to W. Plumsted, 12 Feb. 1757.
[25] Ibid., R. Plumsted to J. Foulke, 12 Mar. 1756.
[26] Ibid., R. Plumsted to W. Plumsted, 12 Mar. 1756.
[27] Ibid., R. Plumsted to W. Plumsted, 3 Aug. 1756.
[28] Ibid., R. Plumsted to W. Plumsted, 25 Sep. 1756; Wharton ledgers, entries for the *Good Intent*, *Prince William*, and *St. Andrew* (20 Jun. 1757), the *Elizabeth* (11 Jul. 1757), and *Molly* (19 Aug. 1757).
[29] Plumsted letterbook, R. Plumsted to W. Plumsted, 6 Dec. 1757.
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[38] See, eg., Thomas Wharton to John Waddell, 17 Feb. 1756, HSP Ms 708A, series 3 vol. 24, Wharton letterbook.
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