

History and Development of Marine Insurance

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Second installment—Part One appeared in issue of February 17th—
Marine Insurance of the Lombards—Lloyd's coffee house and
the Lloyd policy.

"It was inevitable that the occupation of the Lombards should lead them to engage in marine insurance, and this accordingly seems to have taken place at an early period of their settlement in England, though at what precise date is unknown. Probably, like the merchants of the Steelyard, who led the way for them, and for several centuries excelled them, in everything connected with foreign trade and shipping, the Italians, as they made money-lending their principal business, so began marine insurance by advancing sums on Bottomry loans. That they knew, and in all likelihood also embarked in, the practice of modern insurance, by means of premiums, in the course of the fifteenth century, if not earlier, is shown by still existing laws on the subject. The oldest of these laws bearing on marine insurance is contained in an ordinance of the year 1435, issued by the magistrates of Barcelona, a seat of commerce in intimate communication at the period with the trading cities of Northern and Central Italy. The ordinance provides that, 'in order to extirpate all manner of frauds that may take place in effecting insurances on ships, great and small, and on goods and merchandise,' it shall not be lawful for the future, first, to take out any insurances at Barcelona on vessels owned and freighted by foreigners; secondly, to take out insurances on foreign vessels freighted at Barcelona for more than one-half their value; and, thirdly, to take out insurances on vessels owned and freighted at home for more than three-fourths of their total value. It is further ordered that, 'in case of contravention, the insurances made shall not be payable, and the insurers shall not be liable to be sued for payment, but shall at the same time retain the premiums paid for such insurances.' Some of the other enactments of the Barcelona ordinance are of interest, seeing their age of nearly four centuries and a half. It is ordered that 'to prevent disputes between the parties, there shall be no priority of time or privilege on the part of the underwriters of the same insurance, even if subscribed on different days; the like obligation and the like contract binding on the first name holds all the others.' Further, it is ordered that 'to put a check upon the eagerness of many underwriters,' who subscribe several policies on one vessel for the same voyage, it shall not be lawful to do so any longer, unless it be at the desire and express consent of the insured. In case of contravention the insurers 'shall return the premiums which they have received to the insured, and shall nevertheless be bound by the terms at first contracted.'

The ordinance goes on to enact that 'the notaries and other persons' who write out policies of insurance shall be bound to see that they are properly drawn, 'clearly and distinctly, without confusing terms,' and that they are signed, in the first instance by the insured or his representative, 'who must declare on oath the particulars of insurance.' To prevent the issue of mere wager policies, the underwriters 'likewise must declare on oath that the insurances are real and not fictitious;' and for the same reason they are specially forbidden to use the words, 'value more or less, or done or not done' in the policy. It is moreover enacted that 'all those who take out insurances are bound to pay the stipulated premium, completely and absolutely, at the time the contract is signed, observing also that the fact of such payment is entered on the policy; and to have this done the contract shall have no force or value, either for the insured or for the insurers, but from the moment of payment being made and received.' Finally, it is ordered that the underwriters shall be obliged to pay for damages, or total loss, not later than four months after the same has been truly asserted, 'under penalty of prompt execution, as in the case of letters of exchange,' and that 'where no news has been received from an insured vessel, as it happens sometimes that ships go down without leaving a trace of their movements, the insurers must pay for the loss at the end of six months after the date of receipt of the last report.' There are a number of other enactments, and it is evident from the careful minuteness with which they are drawn up, and the wisdom they show, particularly as regards the prevention of frauds, that marine insurance must have been at the date of their publication in general use, not only on the Mediterranean, but among most of the seafaring nations of Europe."

In the same spirit were the insurance laws of the maritime Cities of Italy, the oldest known of these being a decree of the Grand Council of Venice, dated 1468. The following extract from the Preamble is interesting. It gives as the reason for its enactment that "owing to the perversity of human nature men are apt to quarrel about money matters, and that notably underwriters, persons who undertake to insure large and small vessels not infrequently get into the pernicious and detestable habit of disputing insurance claims upon frivolous causes." How different from the underwriters of the present day! Other decrees promulgated about the same time, deal with the carriage of deckloads, forms of policies,

fixing of rates, appointment of brokers, and other matters of essential importance to the carrying on of Marine Insurance.

The sojourn of the Lombards in London came to an end about the same time as the merchants of the Steelyard. Whilst they were not actually expelled their activities grew less and less until the reign of Queen Elizabeth when they finally disappeared from England altogether.

About the year 1652 coffee appears to have been introduced for the first time into England. At first sight it is not altogether clear what coffee has to do with Marine Insurance, but it appears to have had a very considerable bearing on it in an indirect way. The introduction of coffee was soon followed by the institution known as the coffee house, where merchants used to gather and discuss their business. These coffee houses were also in many cases the centre of political intrigues, and owing to this fact many edicts were directed against them, efforts being made at one time to close them altogether.

The most famous of these coffee houses, so far as Marine Insurance is concerned, was one kept by a certain Edward Lloyd, mention of it being made for the first time in the "London Gazette" of February, 1688. This coffee house was a special haunt of captains and ship owners, and it was also apparently a very favorite centre for holding auction sales of various descriptions, and to have been a sort of reception place for lost property, as appears by the following advertisement, "A Negro Maid aged about 16 years, named Bess, having a stript stuff Wastcoat and Peticoat, is much pick't with the Small Pox, and hath lost a piece of her Left Ear, speaks English well, ran away from her Master, Captain Benj. Quelch, on Tuesday, the 8th of December. If any persons secure the said Negro, and delivereth her to Mr. Lloyd, at his Coffee House in Lombard Street, shall receive a Guinea reward and reasonable charge."

There is little doubt that this coffee house was the scene from which sprang the great insurance corporation known as Lloyds, and that Edward Lloyd was, so to speak, the godfather of Marine Insurance in England. He was also responsible for the publication known as "Lloyd's News," which has been issued regularly with one break of thirty years, from 1690 to 1720, until the present time, and is today probably the leading marine newspaper.

In 1720 the two first Marine Insurance Companies were incorporated by Royal Charter, viz., The Royal Exchange Assurance Corporation, and the London Assurance Corporation, being granted a monopoly of Marine Insurance, which was of the most exclusive kind excluding all but private Underwriters from becoming insurers in the future. Whilst at the outset the private underwriters who were doing business at Lloyd's looked with great disfavor on the monopoly conferred on these companies, it was soon realised that in its nature it acted as a protection of the private underwriting interest against the possible competition of a host of New Marine Insurance companies. The act indeed proved one of the foundation stones of the greatness of Lloyd's and remained in force until its repeal in 1824.

It is unnecessary to trace the gradual development of Lloyd's from a private concern into a corporation established by act of Parliament, but the most important change in its constitution probably occurred about the year 1769 when in order to put a stop to the illegitimate and nefarious transactions which occasionally took place within their circle the principal merchants and underwriters frequenting the coffee house formed themselves into a society under fixed rules.

In 1779 the members of Lloyds took common action to obviate the inconvenience which had arisen from the diversity in the forms of policy in use, and on the recommendation of the committee it was agreed to adopt for exclusive use a definite form thenceforward, known as Lloyd's policy. The only alteration which has been made in its wording from the above date to the present time consists in the substitution of the words "Be it known that," instead of "In the name of God, Amen," this was adopted in 1850.

Having thus endeavored, although in a very superficial manner to trace the history of marine insurance, it now remains to consider its principles and practice as in use at the present day. The policies issued by the various companies although for the most part based upon Lloyd's form, differ from this form and from each other in many particulars. "Our judges have on occasions been uncompromising towards this venerable instrument. It has been designated 'absurd and incoherent,' 'a very strange instrument,' 'drawn with much laxity,' and it has been described as 'hardly intelligible.' The words of the antiquated policy-form have been likened to hat-pegs waiting to be capped by legal decisions, a process which in course of time has provided us with very many caps upon the pegs. These legal caps are not to be lightly cast aside, and in considering the advisability of abolishing or amending the venerable form of policy it must not be forgotten that its phraseology and terms have been