Mutuality Tested: The Rise and Fall of Mutual Fire Insurance Offices in Eighteenth-Century London

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The current wave of demutualisation in financial services, particularly of building societies and insurance companies, has created a huge public interest in this process, not least because of the millions of people involved in potential windfall payments. Frequently, demutualisation has been closely followed by an acquisition by a stock company, so that this process has formed part of the accelerating global trend towards consolidation in financial services. Consequently the market share of mutual life insurers is shrinking rapidly. There has been much speculation about the factors behind this trend, with the favourite variables emerging as deregulation, together with falling interest rates forcing downward revisions of payouts to endowment policyholders and upward revisions of the capital requirements of some life offices. Blame has also been attached to managers, who have been accused of ‘complacency’, ‘arrogance’ and even ‘miserliness’ towards their members, ultimately subjecting capital-rich mutuals to attacks by carpetbaggers, most notably in the recent battle of Standard Life against the Monaco-based financier Fred Woollard. In the latest case of a venerable mutual in crisis, that of Equitable Life, an alternative charge of mismanagement has been levied, namely that overly generous terminal bonus guarantees, attached to annuity policies since 1957 in a drive for growth, have sown the seeds of the company’s destruction.

This is not the first period in history in which the very survival of the mutual form of organisation in insurance has been questioned. Mutual societies played a prominent role in early fire and life insurance in Britain. For most of the eighteenth century, three London mutuals – the Hand-in-Hand, founded in 1696, the Union, founded in 1714, and the Westminster, founded in 1717 – stood alongside the two chartered corporations (Royal Exchange Assurance and London Assurance), and one private stock company (Sun), as the dominant fire insurers in the kingdom. Recent estimates suggest that the three mutual offices together accounted for over half of all receipts from fire underwriting in the capital for the first two-
thirds of the century, a period when London accounted for over 70 per cent of all property insured in Britain against fire. Yet by 1800 all three mutuals had experienced difficulties, which, for two of the offices, developed into crises that nearly destroyed them. Survival was only achieved through structural reforms, through product and marketing innovations, and also, in the case of the Union Fire Office in 1805, demutualisation, probably the earliest example of this in British economic history.

This story at the centre of this article can claim significance in its own right as a neglected piece of insurance history. However, when placed within the context of modern empirical and theoretical work on mutuality, it has broader things to say about the viability of mutual formations in business over time, whilst also revealing something of the workings of corporate governance and policyholder democracy in these early financial institutions. Consequently, section II below reviews the current academic debate about the comparative advantages of mutual and stock organisational forms. This debate is mostly taking place in management, economics and law journals, and, hitherto, the voice of historians has been muted. Sections III and IV provide an analysis of the rise, fall and survival of the mutual fire offices in Georgian London. Section V offers some concluding remarks about the historical evidence in the light of current models of organisational efficiency.

II

Modern literature embraces two competing models offering, respectively, agency and uncertainty explanations for the existence of mutual business organisations. The focus has usually been on insurance companies, but it has also been extended to banks and other lending and credit institutions. According to the agency model, mutual insurance arises in order to internalise conflicts between owners and customers, by doing away with the division between the two groups. It is commonly held, for instance, that the introduction of the conflicting claims of shareholders into a mutual company would reduce the investment returns to its policyholders by around ten per cent. It has also been recognised in some sectors, particularly utilities, that going mutual and substituting debt for equity financing helps prioritise consumer interests and removes the gaming problem with the regulator. This argument for mutuality has also been made by insurance and building societies, though less prominently in the wake of the recent pensions mis-selling scandal and the predictions of endowment mortgage shortfalls. In particular, it has been claimed, with some empirical and theoretical justification, that mutual organisations are best suited for industries such as life insurance, where long-term
commitment and trust are important. Within both general and life insurance, mutuals are said to compete best in lines requiring less ‘managerial discretion’ in risk selection, where the need for individualised underwriting on a risk by risk basis is low, and/or where long time horizons in the insurance contract are involved. Such types of insurance include some forms of liability cover, whole-life insurance where the benefits are paid to the policyholder upon death, and standardised personal forms of insurance such as car insurance. This ‘managerial discretion’ hypothesis, therefore, predicts that where the opportunity for managerial intervention is limited, the elimination of the owner-policyholder conflict will give mutuals a comparative advantage over stock companies. Recent regression analysis of data from over 400 US insurance companies, covering the period 1981–90, supports the contention that mutuals have cost and technical advantages over stock insurers in underwriting long-tail personal lines. Thus it is argued that market segmentation occurs through the effect of the comparative advantage of company form, with mutuals prospering in lines with a longer time horizon. This is sometimes also known as the ‘maturity’ hypothesis.

It is widely accepted, however, that mutual organisations give rise to other agency problems or incentive conflicts, most notably those between policyholders and managers. The cost of managerial opportunism, of managers preferring their own expenses rather than maximising policyholder returns, is said to be higher in mutuals than in stock companies. This has been dubbed the ‘expense preference’ thesis. It is said that mutual companies have frequently been characterised by unaccountable managers, whose compensation has been less responsive to company performance than that of their stock counterparts, and sometimes also by a ‘bumbling, consensus paternalism’ and condescending attitudes towards their members. This argument now has a substantial lineage, stretching back before the first of the great modern battles over demutualisation in the UK, that of the Abbey National Building Society in 1989. Stock companies, on the other hand, are said to have better control mechanisms, such as proxy fights, hostile takeovers and executive share options, which help reduce opportunistic behaviour by managers. Earlier cross-sectional studies were dominated by this argument, namely that managerial gain makes mutuals less efficient than stock companies. This view is still widely accepted. The analysis of US stock and mutual insurers, noted above, for example, found that mutuals were inferior in terms of cost minimisation, within all size categories of firm, while large mutuals were more likely to suffer from agency problems than smaller mutuals. In other words, the superiority of the stock company’s control mechanism over those of mutuals was greater in larger organisations than in smaller firms. Despite
this, most recent research has emphasised the survival of both types of organisation as proof of their efficiency, with their co-existence being viewed as the result of a trade-off between the respective costs and benefits of each. Thus while mutual insurers have a comparative advantage in long-tail, standardised forms of underwriting, notwithstanding the higher costs associated with ‘expense preference’ and weaker controls over management, stock companies perform best in lines requiring a higher level of managerial discretion, for instance in commercial, international and short-tail property and casualty lines.15

The second model which attempts to explain mutual business organisations relates to uncertainty and adverse selection. Here, it is argued that informational asymmetries explain the kind of contracts offered by financial mutuals, such as participating or with-profits insurance policies.16 This model, or ‘informational hypothesis’, holds that mutual insurance organisations are most likely to be formed in states of relatively high uncertainty about loss probabilities, for example, where catastrophic events such as natural disasters occur, or where frequent but unpredictable hazards lead to high losses (for example, piracy and war in early marine insurance); where reliable data on which to base probability calculations are absent (for example, accurate mortality tables in eighteenth-century England, or systematic data on fire events); and where unpredictable legal decisions can suddenly change liability levels (for example, in modern medical malpractice or commercial liability judgments). In such circumstances, insurance mutuals are established, primarily, it is argued, because their participating policies provide the most effective means of reducing moral hazard, which is commonly perceived as increasing in times of high losses and economic uncertainty. This is especially the case where an insurance organisation is focused upon a particular trade or profession, with managers possessing an ‘inside’ knowledge of the trade concerned.17 Mutuals are thus seen as a risk-averse response in the face of uncertainty and asymmetrical knowledge. Recent studies suggest that mutuals do indeed tend to be more concentrated in lines and geographical areas of lower risk than their stock counterparts.18

In situations of high uncertainty, it has also probably been easier to form mutuals with relatively low capital requirements, which were protected from predatory takeovers and from the volatility of share values to which stock companies are subject. Staying mutual as a defence against predators has been a precept of the managers of several large mutuals in recent times.19 Disadvantages, however, have become apparent when supernormal growth needs to be financed. At this point, access to the equity market usually becomes more attractive and demutualisation more tempting, although it has been argued, on the basis of building society data, that mutual asset
growth and diversification can be achieved through other means, such as agency agreements with other financial institutions.20

III

To what extent do these models help us understand the rise and fall of mutual fire insurance societies in eighteenth-century London? Equally, what does the experience of these organisations say about the long-run historical viability of the models? All three mutual offices enjoyed early success, with the support of the City trades, and ‘workmen and those concerned in Building’, and in the case of the Westminster Fire Office, the architects, builders, gentry and shopkeepers of the West End.21 Each confined their business to the capital, but their territories were gradually extended to a radius of 30 miles around London and Westminster. The Hand-in-Hand and Westminster offices insured only buildings, while the Union insured only goods and stock. The Hand-in-Hand already had 13,000 policyholders by 1708, and this total rose to 57,000, insuring over £11m, by 1730, at which point the office was probably the largest fire insurer in the kingdom. The number of policyholders fell back to 42,000 by the late 1740s, but with average policy values rising, the total sum insured was maintained. Until the 1760s, the Hand-in-Hand probably remained (by income) the largest fire insurer in London. Although the number of its policies levelled off during the 1750s and 1760s, the sums insured rose steadily to a peak of £16.5m in 1771. The share of the other mutuals in the London market also rose in this period – the Union from five to 14 per cent, and the Westminster from three to seven per cent of all underwriting income.22

With minor variations, the deposit and call system was used by all three mutuals, with all policyholders designated as members and entitled to participate in profits. In the case of the Hand-in-Hand, each policy covered one house only and was for a term of seven years. Initially, members paid 2s 6d for the policy, a deposit of 5s per £100 insured (5s%) on a brick-built house (double was charged for timber buildings), and an annual premium of 1s%, which was chiefly intended to meet administrative costs.23 Each member was liable to contribute towards the cost of claims faced by the office up to a maximum of 10s% per policy during the term of their insurance. In turn each member was to receive an annual dividend derived from profits made by investing the deposit money in the public funds. The founders of the Hand-in-Hand estimated in their first prospectus that the dividends from interest income and the profits on underwriting would cover the premiums and contributions towards losses paid by members, and ensure that 10s% was returned to each member upon the expiry of their policy, so that the cost of insuring a brick house for seven years would be just 2s%.
The supreme body in all three mutual offices was the general court or meeting of members. The Hand-in-Hand’s original deed stipulated that general meetings were to be held twice yearly, in May and November. A board of 20 directors was to be elected by ballot at the first November meeting. Each director was to be elected for one year, and could be removed by a majority vote. No more than ten directors of the old board might be re-elected for a second term in any one year. Ostensibly, these clauses gave considerable power to the members, although, with around 100 founding members, their interests largely overlapped with those of the first directors. The Hand-in-Hand’s deed, however, did not specify a quorum for the general meetings, and it also empowered the directors to elect six trustees in whose names all assets would be held in turn, and to carry on all the business of the office, without much further reference to the members. There were no specifications, for instance, about the form of reporting to the general meetings, as later became common in the constitutions of joint stock companies, and the appointment and removal of trustees and officers was solely in the hands of the directors. Some effort was made to rectify these flaws in policyholder democracy by amendments made to the deed in 1722, which introduced a quorum of 48 for general meetings, increased board membership to 24, ‘being such who do not serve the Contributionship in their way of Profession or Trade, or are not indebted thereto’ (article 6), and stipulated that the board was not to appoint ‘any clerk or superior officers ... nor give any Stipend of Gratuity to any of the Directors, without the consent of a General meeting’ (article 32). Concerns about a lack of transparency and accountability, however, re-emerged in sharper focus at the end of the decade.

In all the mutuals, the full boards met weekly or fortnightly. The Hand-in-Hand and the Union, however, also had a sub-‘board’ or committee of five directors meeting twice weekly with powers to make ‘by-laws’, which would later be submitted for ratification by a majority of the full board. This body may have doubled up as a committee for hazardous insurances, which, as far as one can tell from surviving records, appears to have been the only type of standing committee which the mutuals created in the eighteenth century, although this was hardly surprising given their narrower scope of business – no marine, life or country agency business to manage. Other formal committees created by mutuals were usually temporary and specific, though all insurers, stock and mutual, made considerable use of them, to examine ‘the state of the office’, to explore schemes for reorganisation, to regulate the duties and conduct of staff, to devise new accounting methods, to draw up new rates, to investigate manufacturing processes in hazardous categories of insurance, or to draft amendments to company constitutions.

Thus, in general, mutual offices had a relatively flat management structure, in which directors were actively involved in viewing risks
proposed for insurance and adjusting claims on damaged property in the normal course of their duties. There was a high level of managerial discretion in underwriting, arguably higher than in their stock counterparts, which, according to modern theory, should have worked to the comparative disadvantage of the mutuals. Less decision-making was devolved to senior salaried staff than was the case in the stock companies. In particular, there was no equivalent position to that held by the secretary in the Sun, the Royal Exchange and the London Assurance. The Sun’s secretary occupied a salaried post, which nominally required attending and taking the minutes of each of the sub-committees, and acting as an ex officio member of the committee of management. In practice, he operated as a managing director, with considerable autonomy and scope for innovation. The post was a less powerful one in the two corporations, but still rewarding. The secretary of the Royal Exchange Assurance, by the 1780s at the latest, was combining his own duties with that of ‘sitting director’, making many of the routine decisions about underwriting, although the court kept a tight rein on his actions.26 By contrast, the chief official in the mutuals was the head or principal clerk. This post transmuted into that of a secretary during the early nineteenth century, but before that it remained rather limited in scope. At the Westminster, for instance, the head clerk did not have access to the office chest – the keys were kept by the treasurers – and the starting salary, at £30, was only based on a part-time appointment.27 An ambitious head clerk, however, could create some space for his own initiatives, and gain further rewards. The Hand-in-Hand’s John Mann received £42 in 1737 for ‘devising a new accounts method’ in response to the increased volume of office business, and two years later he was awarded 80 guineas for drafting a new abstract of the deed of settlement, ‘as an encouragement to others to follow his example’. He also drafted reports on hazardous insurances such as sugar houses, without, apparently, ever acquiring the fuller executive powers of a secretary in a stock office.28 The weaker position of the senior officer in the mutuals may, in part, be explained by the smaller number of staff they had to supervise, especially during the early eighteenth century. All three mutual offices began business with just three part-time office staff – a clerk, a surveyor and a messenger – compared with the London Assurance, which had 15 staff by the end of 1721. Numbers grew as business expanded, and the proportion of part-time and temporary staff fell in all insurance offices. The Sun had a total staff of over 30 by 1782 and the Royal Exchange employed about 20, while the head office staff at the London Assurance remained fairly constant at about 15. All mutuals were smaller, although at times the Hand-in-Hand did employ up to 14 during the last two decades of the century.29
The business practices of the London fire offices varied, but in a limited way. There were plenty of opportunities for one office to copy another, an imitation effect which helped reduce set-up costs and limited competition, at least in the early years. The Union and the Westminster closely followed the Hand-in-Hand in many respects, modelling their constitutions on the older office, following movements in its rates and in its ceilings on sums insured in one policy, rejecting proposals from districts or categories of risks which the Hand-in-Hand had rejected. As the geography of their business expanded, the offices also began to adopt differential rating, by area as well as by timber or brick construction. From 1722, for instance, the Hand-in-Hand charged a 2s% premium on brick buildings within the Bills of Mortality, but double that rate for properties insured elsewhere. Adjusting rates and monitoring staff were ongoing tasks confronting all London insurance offices, but they gave rise to problems for two of the mutuals during the 1720s.

Early in 1722 it was discovered that the directors of the Union had neglected to fix rates for members’ contributions towards losses, and that a table of such rates had not been displayed in the office, as directed by the company’s deed. A committee was formed to draw up a list of all losses by fire incurred since the foundation of the office, and to calculate the level of contribution to be required from each member who was insured on the dates when the fires happened. Ironically, given the revelations about its own shortcomings seven years later, the Hand-in-Hand was consulted about bookkeeping methods. The Union’s committee proposed to draft profits and loss accounts at half-yearly intervals, and to fix levies and dividend payments to members on the basis of these accounts. It would appear that not only had the managers been operating largely in a state of ignorance as to the office’s profitability, but that they had also been fortunate in that deposits, premiums and interest income had covered losses to that date. The result was that those members who had joined the office at the outset with a seven-year insurance were faced with a substantial retrospective call just as their insurances were expiring and just as they were looking forward to a return of their deposits. The total loss since the office’s foundation was announced at just over £14,000. Members’ outstanding liability towards this was calculated at £3,300 for all members insured on 20 November 1722. This proved difficult to collect. By June 1724 there was still a shortfall of over £500 on the latter figure, which was attributed to members who had died, gone missing, evaded the call or gone bankrupt. A final call was made to cover this, of 4s% on those who had insured goods in brick buildings, and 6s% on members with goods insured in timber buildings. In response, nearly 200 members attended the autumn general meeting that year, four times as many as usual. The board somehow survived, but doubts about the
quality of the Union’s management clearly persisted. In 1730, at another huge meeting of 234 members, the results of a ballot to elect new directors was challenged from the floor and an inspection ordered. The details of this dispute, and the outcome, are also unclear, but thereafter relations between members and the board seem to have improved. In 1732 it was resolved to shorten and simplify the half-yearly ‘state of the office’ account presented to the general meetings, which ‘has so many articles therein that ’tis difficult to come at’. This put an end to the confusing mixture of different items thrown randomly into the credit and debit sides of the balance sheet, and an end to the detailed listing of stocks sold and purchased.32

The directors of the Hand-in-Hand also exhibited a remarkable laxity during this period, which, as at the Union, eventually prompted an assertion of proprietorial control. Late in 1729 a general meeting of members appointed their own committee of nine ‘to examine the accounts, the deed of settlement, the cash of this office and the behaviour of the servants and whole management of the office’. Reporting six months later, the committee found that balloting for directors had not been carried out in accordance with the deed, and had been held in a ‘private manner’. Much worse, ‘almost the whole management of the affairs of the contributionship’ had been left to the direction of the head clerk, Mr Taylor: ‘The affairs of the Contributionship have fallen under a very careless and negligent management and thereby subjected the society to great errors and mistakes and a possibility of sustaining considerable losses.’ Taylor was found to have over £2,300 in cash in his own hands rather than locked in the office chest, ‘a sum so large that it may be proper for this general meeting to consider how to prevent such hazard for the future’. The clerk was also discovered to have made a long series of ledger errors and failed to settle accounts promptly. The result for some members had been up to 50 per cent less dividends than they had been entitled to, while others had incurred losses rather than receiving profits. Finally, the committee found that the policy registers had not been indexed for nearly three years, ‘a neglect so great that it is almost impossible to know who are members of this Society or what sums they are insured therein, and [it] is moreover wrote in so bad and careless a manner that very few places therein are legible’.

Following this report, Taylor was dismissed for ‘breach of trust and neglect of duty’, and a call made on his guarantors for £672 owed to the office. As at the Union Fire Office seven years before, there were no mass resignations from the board. However, this indictment of the Hand-in-Hand’s management ensured that in the following years, the directors paid considerable attention to the clarity of accounts and to the transparency of their dealings. The office accounting system was reformed and in 1737, ‘following several years’ experience’ of this new system, the directors
declared they had found it ‘of great advantage to the society by making all the expenses and transactions ... plain to every member and preventing any frauds’. In 1742 a committee was established to reduce the company’s deed to only those clauses ‘which are consistent with the present circumstances of the Office’. The new deed, presented to members the following year, was designed to simplify the many by-laws passed since the office had been founded, which had

aimed to remedy inconveniences not foreseen in its infancy, [but] which have gradually swelled to such a bulk as themselves to prove an inconvenience ... and some of which have not been quite so plain and clear as to prevent misunderstandings and disputes concerning their meaning.

The new deed contained just 27 articles, two of which proscribed directors from trading in the goods of the office or using it for private trade, and from becoming debtors or mortgagees to the Hand-in-Hand.33

IV

The early eighteenth-century crises at the Union and the Hand-in-Hand thus illustrate the relative weakness of proprietorial control in these fire offices, and, on the face of it, appear to provide support for the ‘managerial discretion’ thesis which emphasises the greater costs associated with the agency of mutual managers. Nevertheless, members’ power did eventually exert itself quite forcefully in both offices during the 1720s to bring directors and officers into line. The reforms which resulted induced a new confidence in both insurers. A prospectus issued by the Hand-in-Hand in 1731 declared that:

The universal approbation and encouragement it had met with from the public sufficiently evidenced the happy continuance, faithful management, and stable security thereof: it being apparently preferable, by the nature of its constitution, to all others of a different foundation, having not only overcome the hazardous state of its minority, but advanced its stock to such a height that the interest coming in was more than double the constant yearly expenses; and which, being under the most frugal and disinterested management, might reasonably be esteemed a certain security to all its members and beyond comparison superior to what any other office could pretend to.34

The growth which followed during the second quarter of the century was accompanied by relatively low levels of fire damage. This good fortune,
however, disappeared during the second half of the century. Table 1 shows the average amount paid by the mutual offices in claims, in terms of old pence per £100 insured (d%) for each five-year period between 1726 and 1800, effectively an index of the burden of losses by fire. The table demonstrates that the 1760s, the early 1780s and early 1790s witnessed very high insurance losses from fires, the product of the capital’s rapid population growth, waves of speculative building, and decades of regulatory neglect. This was accompanied from the mid-1770s, as can be seen in Table 2, by steep increases in the operating costs of most companies, stock and mutual, which was largely the result of rising rentals and clerical salary inflation during the American and French wars.

Table 1 also illustrates how the Westminster Fire Office managed to remain comparatively free of fire damage, despite higher losses in the 1760s, 1780s and early 1790s. During its worst years for claims, the West End office suffered far less than its rival mutuals, and the gap between its loss ratios and those of the Hand-in-Hand and the Union more than doubled between the 1760s and 1790s. The Westminster emerged as the most successful of the three mutuals during the second half of the eighteenth century. Its insurances doubled between 1760 and 1790 and its share of the metropolitan insurance market continued to rise into the 1780s, well after

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**TABLE 1**

**THE LOSS RATIOS OF THREE MUTUAL FIRE OFFICES**

(old pence paid in claims per £100 insured (d%), quinquennial averages)

<table>
<thead>
<tr>
<th>Year</th>
<th>Union</th>
<th>Hand-in-Hand</th>
<th>Westminster</th>
</tr>
</thead>
<tbody>
<tr>
<td>1726–30</td>
<td>24.0</td>
<td>14.1</td>
<td></td>
</tr>
<tr>
<td>1731–35</td>
<td>14.4</td>
<td>6.2</td>
<td>12.6</td>
</tr>
<tr>
<td>1736–40</td>
<td>11.6</td>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>1741–45</td>
<td>13.3</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>1751–55</td>
<td>18.1</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>1761–65</td>
<td>18.3</td>
<td>21.5</td>
<td>14.8</td>
</tr>
<tr>
<td>1766–70</td>
<td>28.6</td>
<td>31.8</td>
<td>14.7</td>
</tr>
<tr>
<td>1771–75</td>
<td>27.0</td>
<td>19.4</td>
<td>7.1</td>
</tr>
<tr>
<td>1776–80</td>
<td>17.5</td>
<td>20.1</td>
<td>11.1</td>
</tr>
<tr>
<td>1781–85</td>
<td>57.5</td>
<td>22.4</td>
<td>12.3</td>
</tr>
<tr>
<td>1786–90</td>
<td>21.8</td>
<td>23.3</td>
<td>10.8</td>
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<tr>
<td>1791–95*</td>
<td>52.9</td>
<td>30.7</td>
<td>15.2</td>
</tr>
<tr>
<td>1796–1800**</td>
<td>22.4</td>
<td>9.2</td>
<td></td>
</tr>
</tbody>
</table>

*Westminster’s average is for 1790–94. ** Union’s average is for 1795–99.

**Sources:**
the other two mutuals had begun to decline. It was the only fire office in London, with the exception of the newcomer the Phoenix, whose business did not shrink during the difficult early 1780s.

Despite its comparatively low rate of fire losses, the Westminster was not without its troubles, although measuring ‘profitability’ from the surviving records is extremely difficult. An in-house investigation into the history of the business, carried out in 1866, remarked that the Westminster appeared to have been successful for most of the eighteenth century, but that ‘the accounts were kept in such a form that without great labour the results cannot be ascertained’.35 In fact, the Westminster’s accounts list a ‘neat profit’ series of figures, which, when expressed as a proportion of total income from underwriting and investments, show profits drifting downwards, from 12 per cent in the 1770s to six per cent in the early 1790s.36 Underwriting losses plus expenses repeatedly absorbed over 80 per cent of members’ premiums and deposits during the 1760s and again from the late 1770s, leaving the margins very thin. By contrast, the underwriting ratio (losses plus expenses expressed as a proportion of premiums) of the Royal Exchange Assurance was normally below 80 per cent for most of this period, and this was on a total premium income which

<table>
<thead>
<tr>
<th>Year</th>
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<th>Hand-in-Hand</th>
<th>Westminster</th>
<th>Royal Exchange</th>
<th>Sun</th>
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<td>4.3</td>
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<td>3.0</td>
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<td>3.7</td>
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<td>2.9</td>
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<td>5.4</td>
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<td></td>
</tr>
<tr>
<td>1766–70</td>
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</tr>
<tr>
<td>1776–80</td>
<td>3.3</td>
<td>2.3</td>
<td>4.9</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>1781–85</td>
<td>4.5</td>
<td>3.2</td>
<td>5.3</td>
<td>4.1</td>
<td></td>
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<tr>
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<td>3.1</td>
<td>4.7</td>
<td>6.5</td>
<td>5.2</td>
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<td>1791–95*</td>
<td>8.2</td>
<td>5.3</td>
<td>5.6</td>
<td>6.1</td>
<td>6.7</td>
</tr>
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<td>1796–1800**</td>
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Notes: *Westminster’s average is for 1790–94. ** Union’s average is for 1795–99.

Sources: as Table 1, plus GL Ms 15042/1, Sun, Quarterly Accounts and Balance Sheets, 1786–1812; GL Ms 11933A, Sun, Annual Accounts, 1791–1887; GRE archives, Lytham St Annes, Royal Exchange Assurance, ‘Doomsday Book’, pp.37–45. I am most grateful to GRE (UK) Limited and its archivist, Miss C.B.Lillystone, for making
was some five times larger than the Westminster’s by the 1790s. The comparison of expense ratios, measured as a proportion of sums insured, given in Table 2, also shows the Westminster to have possessed the most costly management of all the London insurance offices before the mid-1780s.

The Westminster Fire Office, therefore, despite the low losses relative to other mutuals, was not especially profitable or efficiently run by the standards of the stock companies. In response to the tighter margins, the office launched annual policies, ‘merely as a trade’, in 1782. Annual policyholders did not qualify as members, and were not entitled to any distribution of profits. This annual business was apparently profitable, and it expanded rapidly, while the volume of septennial insurances declined. By 1805 annual policies accounted for 24 per cent of the total sums insured. The Westminster also succeeded in maintaining a relatively stable level of deposits returned to its members. Between the 1760s and the early 1790s such annual returns, paid out of surpluses, fluctuated between 38 and 47 per cent of members’ total payments (that is, premiums, deposits and contributions to losses levied during the year). When losses by fire were heavy, the Westminster met claims, as did other mutual offices, by selling stocks as well as through calls on members’ deposits. Raiding investments in this way helped reduce the burden of levies on members, protected members’ deposits, and therefore encouraged loyalty and goodwill. If abused, however, the device could be fatal, especially in a period when the price of gilts was falling. Ultimately the comparatively low incidence of fire in West London, combined with the expansion of business and greater spread of risk, through the development of annual insurances, allowed the Westminster to get away with this strategy without serious crisis. The other mutuals were not so fortunate.

By the early 1770s, there were already signs of difficulties for the Hand-in-Hand. Its share of the London market had begun to be eroded during the 1750s by competitors, a process which accelerated during the 1760s. The number of current policies also began to decline again. After 1770, these indicators slipped into free-fall. There were 39,000 members of the Hand-in-Hand in 1770, but just 15,000 by the end of the century. In the same period, the volume of insurances fell by over one-third to £10.1m. The trigger of this decline was the rising tide of fire damage in London, and the increased burden this placed on the members of the office. Its joint-stock rivals, the Sun and the Royal Exchange, were able partly to offset such metropolitan losses by rapidly expanding their businesses outside the capital. This option was not available to the mutuals, whose operations were constitutionally confined to greater London, and who had no experience in establishing and managing country agents. The Hand-in-
Hand’s annual losses, which had been running at about £6,000 in the mid-1750s, soared to over £20,000 by the middle of the next decade. The office worried about hazardous properties, setting up a standing committee in 1762 to oversee this expanding category of insurances. Concern was also voiced over the great number of fire alarms raised, about the frequency of chimney fires, and about dangers of waterside risks. The Hand-in-Hand lost £6,000 through two fires at Shadwell and St Katherine’s in 1761, £13,000 by the fire at New Crane in 1763, and over £8,000 by another three Thamesside fires in 1765. The great fire in Cornhill and Bishopsgate in November 1766 cost the office a further £22,000. The office dug deeply into members’ deposits in order to meet these losses. Deposits collapsed from a peak of £84,000 in 1759 to just £25,000 by 1766, as the office repeatedly levied contributions on members after each set of fires (see Figure 1). Its stock of gilts was also raided to supplement the trawl for cash. At this stage,
The problem appeared to be solely an underwriting one, for the administrative costs remained fairly stable at around £1,200 a year. During the 1770s, however, these costs began to rise both absolutely and relatively, reaching £2,500 by 1793, and doubling as a ratio of sums insured.

Underwriting losses rose again during the 1780s and early 1790s. The Hand-in-Hand’s board considered but rejected a number of potential solutions. A proposal to extend business to the whole of England and Wales was discussed twice, in 1766 and 1773, before finally being accepted in 1789. Another proposal, to follow the Westminster’s example and introduce annual insurances, was twice rejected on legal advice in 1789 and 1792. In 1780 the office began to survey all London properties whose policies were about to expire, with the hope of reclassifying as many as possible from brick to timber, and thus increasing the yield of premiums and deposits. These surveys continued from 1780 to 1786, and were resumed with even greater vigour in 1794. By 1800 some 20,000 houses had been inspected. The reclassification of some of these, an unknown number, brought in an additional several hundred pounds each year, although at considerable cost to customer relations. Generally, however, the Hand-in-Hand’s board appeared to have little idea how to halt the withering away of their business. In 1793 the problem of how to increase insurances was placed on the agenda of several board meetings, but on each occasion the discussion was postponed and nothing agreed. The only discernible change in response was an effort to protect members’ deposits in a way not achieved during the 1760s. While contributions to losses were still levied during the 1780s and 1790s, and while the absolute amount of deposits again fell sharply, the average value of each member’s deposit did not fall. This was largely the result of the office raiding its stocks even more frequently than before to pay for losses, and to reduce the levy on members. By the end of 1794, total net assets (stock, cash and property minus unpaid losses) were at their lowest level for over half a century.

It is uncertain how the Hand-in-Hand survived. Relieving members by draining interest-bearing assets to pay for claims provided a temporary solution, but it was also a strategy for self-extinction. The extension of the office’s business to the provinces from 1789, the rapid improvement in loss ratios in the late 1790s, and the relatively low administrative costs of the office, which were still lower in the mid-1790s than the Royal Exchange, the Sun or the Westminster, must all have helped (cf. Table 2). A revision to the deed of settlement in 1805 reneged on a long-standing agreement with the Union Fire Office not to encroach on each other’s business. It extended the Hand-in-Hand’s product range to the insurance of goods and merchandise, including farm stock, and annual non-participating policies were introduced at the same time. Life insurance was added in 1836, with
non-participating policyholders paying a lower premium than those holding with-profits policies for whole lives. The Hand-in-Hand thus survived into the nineteenth century as a mutual office with some non-member policyholders, operating in short- and long-tail lines and across national markets. In a sense, it became more like a stock company without undergoing full demutualisation.

The Union Fire Office also survived, despite facing an even tougher set of obstacles. After the mismanagement of the 1720s, the Union became the most rapidly growing fire office in London. As rising property values pressed on the limits of insurance cover, the Union responded by raising the maximum accepted on any one policy to £6,000 in 1759. Other measures also helped to attract more business. The geographical limits of the office’s operations were extended to a 20-mile radius around the City. A fixed 2.5 per cent dividend was announced on the deposits of all policies due to expire, as a kind of end-of-term bonus. This dividend was altered in 1766 to a return of 25 per cent on premiums paid, which amounted to a four-fold increase in the Union’s generosity to its members. The small charge levied on policies transferred from other fire offices was abolished, and insurance cover was extended to include plate in residential houses. The sums insured soared by 21 per cent in the four years to 1761, reaching £5.7m, and continued to expand for the rest of the decade. The total funds accumulated rose to a peak of over £85,000 in 1765.

Even as assets were accumulating and insurances still expanding in the early 1760s, the Union’s troubles had begun. During the last third of the eighteenth century, the office produced the worst performance of all London insurers. By the end of the century its business was fast approaching a total meltdown. Sums insured, which had grown strongly to reach £8m by the early 1770s, plunged to £3m by the late 1790s (see Figure 2). The amount paid out annually in claims, which had never risen above £5,000 before 1760, fell below this level only six times between 1770 and 1792. The Union was sharing in a trend which affected all insurers, but it is difficult to account for the especial severity with which the fire-storms of London ravaged this particular office. Perhaps the very rapid growth of the 1760s trawled up a disproportionate number of morally or physically hazardous risks. Perhaps the Union’s underwriters did not exercise enough caution when insuring goods in the inflammable buildings of London’s waterside. Whatever the reason for the Union’s disastrous losses, it had increasingly to rely on selling assets to meet claims, over and above the levies on members. This, as we have seen, was a practice increasingly resorted to by the other mutuals. While, however, the Hand-in-Hand was to some extent able to replenish its stocks after each wave of depletions, the Union’s funds collapsed without restraint. From a peak of £85,000 in the late 1760s, assets
shrank to just £10,300 by 1795 (see Figure 2). Many of the stocks sold, mainly bank and South Sea stock and other gilts, were traded in at a loss of several hundred pounds on their book value in the bear markets of the 1780s. Furthermore, while the insurance and investment base of the office vanished before the directors’ eyes, the Union’s administrative costs rose steeply. By the 1790s, the office was by far the most expensively managed, relative to size, of all the London insurers (see Table 2).

The Union’s directors were very conscious of the turn of fortunes, and made repeated efforts to find a solution. In the early 1760s, even as they were encouraging growth, they worried about hazardous risks such as sugar bakeries, distilleries, chemists’ shops and Thames-side insurances. These concerns continued to be expressed into the 1780s. Investigations were ordered, temporary suspensions on certain categories of insurance imposed, proposals on blatantly dangerous risks sieved out, the costs of the fire brigade were examined, but all to little effect. The calamitous losses and the precipitous decline in funds compelled the board to cease paying dividends on terminating policies in 1773. Four years later, the board resolved to deduct 25 per cent from the deposits on all expiring policies, a complete reversal of its earlier policy. This amounted to an admission that the end-of-term bonus payments, particularly since 1766, had been a serious mistake. The 25 per cent deduction was, according to the Union’s chairman, ‘the most equitable manner of reinstating the office of what appears to have been
paid away of the Deposits’. The board succeeded in getting its resolution passed by a meeting of members without any evidence of resistance. In 1781, however, due to further ‘heavy losses’ and ‘the present low price of the stocks’, the deduction was raised to 50 per cent of deposits. A standing committee was also established to report ‘from time to time’ on the state of the office. Following a recommendation by this committee, the board announced a call of ten shillings per cent on sums insured by members on or before January 1782, ‘towards making good the very heavy losses sustained by fire within two years past’. The timing of this announcement could not have been worse, coinciding as it did with the government’s decision to introduce a percentage stamp duty on fire insurances. The levy finally provoked a revolt by members: 32 of them, under the office’s constitution, called an extraordinary meeting. So many attended that the meeting had to be removed from the Union’s office to Haberdashers’ Hall. A ‘committee of proprietors’ was elected to confer with the board and to examine ‘the state of the accounts of the society, the reasons of any depreciation in their deposited capitals, the causes of the late call’ and other matters, and to report back to a general meeting. Two separate investigations followed. A new accounting system was drafted with the aim of spreading the burden of losses more equitably among the membership than the board’s previous series of flat rate levies had done. Consideration was also given to the establishment of an ‘emergency fund’ to meet extraordinary losses. This idea was initially rejected, but eventually accepted in 1789. The notion of keeping a reserve for extraordinary liabilities was remarkably slow to catch on in both stock and mutual fire offices – the Sun, for instance, did not set up such a fund until the 1880s – but the extremity of the circumstances forced the Union’s directors into this move. The Union’s rates for deposits and premiums on different categories of risk were also examined. New tables of higher rates were drawn up in 1785, but some prices were found to be ‘considerably higher’ than those of other insurers, and were reduced again in 1786, the committee ‘thinking it of great importance to the welfare of the society that the charge of insurance should be as near as possible the same as elsewhere’. Also in 1785 amendments were made to the office’s constitution to extend the business to the whole of England and to farming stock. Various publicity drives were launched. In 1789, for instance, 3,000 copies were printed of ‘An Account of the Design and State of the Office’, ‘for circulation and in part distributed by the firemen on their next walk’.

All these efforts were still not enough to halt the decline of the Union, or to redeem the goodwill of the insuring public. During 1783 the joint committee of members and directors resolved that policyholders should be held liable to contribute towards all losses incurred during the term of their
insurances, over and above the amount of their deposits, rather than push the burden of excess claims from one generation of members on to the next. This went against the long-standing principle that the liability of members should be limited to the value of their deposits, but, in the circumstances, it was regarded as the best way to ensure the equitable treatment of all members.\textsuperscript{46} Statistics were collected for the first time, which showed the running totals of net deposits remaining for each annual cohort of policyholders (see Figure 3). The data revealed that those members taking out seven-year policies between 1777 and 1782, and again between 1787 and 1792, not only lost all their deposit money through calls, but ended up owing the office for contributions to losses over and above their deposits. Not surprisingly, the prospect of unlimited liability made the Union even less attractive to potential customers. One businessman cancelled his policy, as he explained in 1787, ‘having taken in new partners who choose to insure in offices where they are not subject to calls’\textsuperscript{47}

The reforms continued into the 1790s. Greater attention was paid to newspaper advertising. Two new reserves were created, a ‘forfeited deposits fund’ and an ‘increasing capital’ fund, both of which were aimed at preserving the surpluses of good years to meet the losses in bad years.\textsuperscript{48} In 1793, clerks in the office reported that many members believed that, because of the repeated calls on their deposits, their insurances had become more

\textbf{FIGURE 3}

\textbf{UNION FIRE OFFICE – DEPOSIT MONEY REMAINING}

(\% remaining per £ deposited, annual cohorts of 7-year policyholders insuring 1777–94)
expensive than they would have been in other offices. Others complained that they had been insured 20 or 30 years with the Union and had never received any dividend of profits. It seems that the traditional form of mutual insurance was not understood even by some of the office’s oldest members. In response, ‘explanatory statements’, setting out the premium and deposit system, were drafted for the benefit of all new members and those renewing their policies. Other areas tackled were the organisation and efficiency of the clerical staff, office procedures, fees, charges and clerks’ customary perquisites. Virtually no aspect of the business was left untouched. The management was in turmoil. It is impossible to be certain about what was going on in and around the boardroom, but the amount of business transacted by the weekly boards declined – the minutes of these meetings become much less informative from 1791–92 – while the managerial process seems increasingly to have been dominated by joint investigating committees of members and directors. Directors’ expenses were cut in 1793 as part of a general belt-tightening. One section of the board became thoroughly disillusioned. Weekly boards were often inquorate, while the standing committee threatened to fine those who did not turn up. Boards also seemed chronically incapable of making decisions. For example, the discussion of a proposal to introduce short-term insurances of one year or less, first put forward in November 1795, was postponed at four consecutive meetings, was dropped and then revived a fortnight later, was again postponed several times, and was finally debated at an un-minuted meeting held in February 1796. There were clearly sharp divisions and discontent among some directors. Two were excluded from the latter meeting because they refused to have anything more to do with the rest of the board. Another director, Joseph Wise, called at the Union’s office in response to a query about his membership and announced that ‘at present he is not insured anywhere, and that if he should insure again it will not be in the Union Society’. The proposal to introduce short-term policies provoked a further internal crisis. This departure from the traditional seven-year insurances offered an opportunity to tap new commercial markets, for instance underwriting goods held on commission on wharves and in quayside warehouses. It also implied costs, however, including further amendments to the deed of settlement, and the establishment of yet another fund siphoned off from members’ deposits. The membership split. Over 100 Union members, packing Haberdashers’ Hall in June 1796, supported the proposal. Four months later, a second extraordinary general meeting, attended by over 70, overturned the resolution. This seems to have settled the matter. Directors, however, continued to resign. Another two did so in 1798. Business continued to decline to a low point in 1803–4, when the sums insured amounted to just £2.3m.
Then, quite suddenly in 1805, the office was turned around by three major innovations. Annual and short-term insurances were finally introduced. Marketing was extended for the first time outside London with the establishment of a network of country agents. And in a buoyant money market the Union embarked on its first share issue, £300,000 in 1,500 shares with ten per cent paid up. The capital helped refloat the office funds, while insurances increased to £6.1m by 1813, £1m of which came in from the country agencies. Some problems remained. The new business outside London, built almost exclusively on annual insurances, was initially unprofitable, partly due to heavy losses and partly to rising administrative costs. The deficit over the period 1805–12, however, was a modest £3,300, which was covered by reserves. The Union, therefore, stumbled into the new century with some hope that it had been through the worst. On 16 February 1814 the office celebrated its centenary by illuminating the front of its new house in Cornhill, and with a dinner at the City of London tavern. The dinner was attended by 170 guests, who heard a ‘full exposition’ by the chairman and several directors ‘of the rise, progress and present prosperous state of the Society’. A dreadful ode, specially composed for the occasion, was sung by the assembly. This might be viewed as an early, rather tortured, example of corporate identity creation, with its own radical spin on the office’s history:

Our Union rose as Friend to Man  
Heaven saw and crown’d it with success:  
A Hundred Years have proved the Plan  
And Thousand Sufferers live to bless  
Hail! Union’s Sons! our nobler Plan;  
Not to destroy, but rescue Man! 

V

The three eighteenth-century London mutuals all disappeared in a three-year period during the great M&A wave to create composite insurance offices in the decade before the First World War. Their histories during the nineteenth century remain to be explored, but the fragmentary data available suggest a picture of some growth mixed with much stagnation. The Hand-in-Hand, for instance, launched a quite successful life assurance business in 1836, but the sums it insured against fire declined by nearly 30 per cent between 1822 and 1850. At the end of the nineteenth century, the Hand-in-Hand still possessed, according to the chairman of the Commercial Union, ‘a fire business of the very best home quality’, but its size was modest, amounting to £109,000 in premiums in 1898. The Westminster too had
mixed fortunes. After decades of almost zero growth, its fire insurances began to increase during the 1840s, but the appointment of country agents from 1852 proved a failure, and the mid-Victorian decades were accompanied by heavy losses. Some recovery was made during the last quarter of the century following administrative reforms and the establishment of several branch offices outside London. In general, it would appear that all three offices survived largely on the basis of their existing niche markets in the metropolitan area, rather than through expansion into new markets or product innovation. The Westminster continued as a mutual until its purchase by the Alliance in 1906. The Hand-in-Hand also remained mutual until bought by the Commercial Union in 1905, and the Union, which had enjoyed rather better growth, was acquired by the same company two years later. Thus two of the three offices survived as mutuals for around 200 years. What lessons for modern theories of mutual organisation, if any, can be derived from the experiences of these offices during their first century of business?

First, the issues of transparency and managerial accountability, raised at different times by the members of the Hand-in-Hand and the Union, were common to both mutual and stock insurers, as were the related problems of clerical fraud, incompetent management, poor organisation and weak proprietorial monitoring systems. Several of the largest stock companies founded early in the nineteenth century, such as the Kent, the Manchester and the Atlas, had to overcome similar difficulties causing tensions between shareholders and management. Essentially there was little difference between the governance structures of stock and mutuals at the root of these problems, with directors reporting to and being elected by general meetings of shareholders and/or members. As we have seen, during the 1720s, 1780s and 1790s members of mutual offices did exert some power over wayward executives. Whilst any claims for these institutions as policyholder democracies are easily undermined – even the best-attended general meetings, at over 200, did not account for more than a tiny fraction of the membership of the Union and the Hand-in-Hand – it seems unlikely that ‘managerial discretion’ offers the best explanation for the competitive weakness of these mutual fire offices in the late eighteenth century. Nor is there much evidence to support the ‘expense preference’ thesis. Although the boardroom perquisites, chiefly taking the form of tasty dinners and good wine, were undoubtedly nice, the directors of the mutual offices received no salaries. Moreover, the comparison of expense ratios in Table 2 reveals a mixed picture, with the Hand-in-Hand, for instance, remaining cheaper to run than its stock counterparts, even when costs rose dramatically at the end of the century. The relatively high outgoings of the Union in the early 1750s and the Westminster between the 1760s and 1780s are probably best
explained not by ‘managerial gains’, but, in the former case, by the expense of building a new head office, and, in the second case, by higher rental costs in west London.59

This suggests that the ‘agency’ model has limited applicability to the experience of the eighteenth-century mutuals. There is more mileage in the ‘aggregate uncertainty’ model. The mutuals prospered while underwriting in London remained relatively uncomplicated and uncompetitive, and while they could concentrate on the safest lines of domestic property insurance.60

The increasing complexity of the metropolitan economy, however, the rising scale and technical difficulty of hazardous insurances, and the increasing need to differentiate markets within London, subjected them to growing pressure to become less risk-averse, and to extend their product range and area of business.61 The relative weakness of the head clerk in the mutual offices, and the lack of a semi-autonomous chief underwriter of the type embodied by the secretary in the stock companies, became a disadvantage in markets where customer choice was expanding, and where the level of specialist technical knowledge required by fire insurers was increasing. The deposit and call system also proved a handicap as competition from the premium companies heated up during the last decades of the eighteenth century. The system drained the goodwill as well as the assets of members, raised the cost of their insurance, and was not well-suited to cope with an increasingly volatile market. New stock companies tapped into buoyant capital markets after 1800, and were able to meet the fluctuations of fire underwriting with a continuous inflow of premium income from a national market.62 By contrast, the underwriting fluctuations experienced by the mutuals were enhanced due to the concentration of their business in the high value but inflammable metropolis.

With hindsight, it might be argued that such mutuals were doomed to struggle without the legislative protection and monopoly position offered to mutual property insurers in Europe.63 No such protection was forthcoming in Britain, and fire insurance mutuals withered. On the other hand, in life assurance, following the long-run success of the Equitable, and the increasing standardisation of the product with improved mortality tables in the mid-nineteenth century, mutual organisations thrived alongside stock companies, and even became more attractive as time passed. In Georgian London, mutual fire insurers, operating in a market where the demand for their standard seven-year contracts was falling, could survive only by embracing annual or shorter-term policies which stood outside the traditional deposit and call system. Incorporating short-term insurances into such a system would have been an accounting nightmare and would have pushed administrative costs through the ceiling, so it is not surprising that, when adopted, annual policyholders were kept outside the membership and
subjected to no calls or returns. Another device was to spread risks nationally, just as the Norwich Union attempted during its early years, although even the Norwich Union only survived its financial crisis in the early 1820s by demutualising and merging with a local stock company, the Norwich General. Alternatively, mutual fire offices could remain small, highly localised institutions, such as the Devizes Fire Office of 1785 or the office at Finchingfield in Essex in the early 1800s. These were usually short-lived, although business might be maintained for some years by very careful underwriting among a narrow circle of members. Ultimately, however, these early country mutuals were handicapped by their size and an absence of the reinsurance facilities which later helped small European and American mutuals offload risk.

In sum, levels of aggregate uncertainty and the dangers of adverse selection in the fire insurance markets of early eighteenth-century London, rather than indigenous issues of agency – which were largely common to stock and mutual offices – help explain the initial success of the mutuals. In time, the growing complexity and competitiveness of those markets, and the increasing burden of losses after 1760, exposed fundamental weaknesses in the organisational and financial structure of the mutuals, which only root and branch reforms – effectively making mutuals more like stock companies – could overcome.

NOTES

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1. The Norwich Union had three million life policyholders at the time of its £5bn flotation in 1997. Mutual insurers recently purchased by stock organisations include the Scottish Mutual, sold in 1992 to Abbey National, the Scottish Amicable, sold in 1997 to the Prudential, and in 1999–2000, the Scottish Widows with 1.6m members, sold to Lloyds TSB for £7bn, the Scottish Equitable, sold to Aegon (Holland), and the Scottish Provident with 750,000 policyholders, sold to Abbey National for £1.8bn. Other British mutuals recently or currently involved in sales or demutualisation include the Scottish Life, the United Assurance, the Liverpool Victoria, the Equitable Life and the Friends Provident.

2. A recent industry estimate predicted the market share of mutual life insurers in the UK to fall from 48% in 1992 to 23% during the present decade. The same ratio in the US, which had stood at 61% in 1961, was forecast to decline to below 20%. Sigma, No.4 (1999); G. Clayotn and W.T. Osborn, *Insurance Company Investment: Principles and Policy* (London, 1965), p.205. Demutualisation in life insurance has also occurred on a large scale in Canada, and has begun in Japan, with the listing of Mitsui Life at the end of 1998. *Financial Times*, 9 Dec. 1998.


4. The guaranteed annuity rate (GAR) policies continued to be sold until 1988. Ten years later,
the Equitable attempted to cut the bonuses for 70,000 GAR policyholders when it became clear that insufficient reserves had been set aside to pay for them. Resistance mounted, and the company’s action was ruled illegal by the Law Lords. The GAR bill was estimated to be £1,06bn, to be borne by the 415,000 individual with-profits policyholders who did not have the GAR. The situation remains unresolved at the time of writing (November 2001). *Financial Times*, 29 Aug.; 10 Oct.; 31 Oct. 1998; 22 Sept.; 29 Sept.; 6 Oct. 2001; *The Times*, 9 Nov. 2001.


14. Cummins et al., ‘Organizational Form and Efficiency’.


that it was under conditions of increasing competition, market fragmentation and predatory takeovers during the first three decades of the nineteenth century that new stock insurance companies adopted the ‘with-profits’ or bonus policy, hitherto the preserve of the mutuals, as a device to increase sales. Pearson, *Insuring the Industrial Revolution*, chapter 5; C. Trebilcock, *Phoenix Assurance and the Development of British Insurance*, Vol.1 (Cambridge, 1985), pp.476–83.

17. I am grateful to an anonymous referee for this point.


19. For example, Sy Sternberg of New York Life, *Financial Times*, 26 May 2000. The primary reason given for the flotation of the Norwich Union in 1997 was that the UK solvency requirements for life mutuals were holding back the growth of NU’s general business. Thus the aim was to float and separate life and general insurance as independent companies. Other mutual insurers in Japan and the US have floated to expand capital, to establish holding companies, and/or to enter the M&A game themselves. *Financial Times*, 30 July 1996; 16 Jan. 1997; 13 Nov. 1998; 28 April 2000.


21. E. Hatton, *A New View of London*, Vol.2 (London, 1708), pp.787–8. The Westminster’s founding membership was analysed from E.A. Davies, *An Account of the Formation and Early Years of the Westminster Fire Office* (London, 1952), appendix II. 59 of the 150 signatures on the first deed of settlement gave occupations or status titles. An analysis of the boards of the Union and the Hand-in-Hand in 1761, plus samples of members attending the general meetings of the Union in 1761, 1763 and 1771, indicates that both directors and members were drawn from a wide range of wholesale and retail trades located within the City and on its margins, particularly in the area from Cheapside across St Paul’s to Holborn and Smithfield. Relatively few were connected with finance, the professions or with shipping. Occupations and addresses were located for 15 of 24 Hand-in-Hand directors, and for the same proportion of Union directors in 1761, and for 29 of 61 Union members attending the General Meeting of 1761, 31 of 64 attending in 1763, and 32 of 52 attending in 1771, using *Kent’s Directory* at each date. Directors and members are listed in Guildhall Library, London (hereafter GL), Ms 8666/18, Hand-in-Hand, Directors’ Minutes (hereafter DM), 12 Nov. 1761; GL Ms 14022/12,15, Union, DM, 29–30 Sept. 1761; 27 Sept. 1763; 24 Sept. 1771.

22. Policy totals and sums insured from GL Ms 8666/9-20, Hand-in-Hand, DM, 1723-71, passim. For market share estimates, see note 5 above.

23. These were the charges listed in the company’s original prospectus. The premium was increased to 1½d% in the deed of settlement of 1696. The policy charge was dropped in 1711. Hand-in-Hand, ‘Insurance from Loss by Fire by the Amicable Contributors, at Tom’s Coffee-House in St Martin’s-Lane’ (1696), reprinted in D. Jenkins and T. Yoneyama (eds.), *History of Insurance*, Vol.1 (London, 2000), p.107; Hand-in-Hand, ‘Deed of Settlement, 12 November 1696’, reprinted in C. Walford, *Insurance Cyclopedia*, Vol.V (London, 1878), pp.634–8. The reference by Raynes to an annual premium of 7½s derives from his misreading of the first prospectus, H.E. Raynes, *A History of British Insurance* (London, 1948), p.88. The principal variations from the Hand-in-Hand’s scheme were that the Westminster charged no annual premium, but instead built this into the original deposit for their members, which was 7½s higher (at 12½%), while the Union charged a 2½% premium as a one-off payment in addition to a 10½% deposit. In 1743 the Hand-in-Hand adopted the latter system of a one-off premium plus deposit. GL Ms 8666/14, Hand-in-Hand, DM, 10 Nov. 1743.

25. There are no treasury or accounts committee minutes for any mutual office, although for the Westminster separate account books with monthly and annual statements survive for the last two decades of the century. For both the Union and the Hand-in-Hand, annual or half-yearly statements of accounts, as well as minutes of general meetings of members were included in the directors’ minute books, and there is no evidence of other standing committees existing and keeping their own minutes during this period.


27. Davies, *Westminster Fire*, pp.36–7. This may be compared with the £80 paid to Mr Spelman, REA’s first clerk to the fire insurance department, in 1721, Supple, *Royal Exchange*, p.51. The Westminster did not appoint a ‘principal clerk’ until 1768. The salary was £100, raised to £150 in 1769, ‘provided he follow no other employment in future’, and then to £200 in 1770. Westminster City Archives (hereafter WCA), Ms 343/76, Westminster Fire, General Court Minutes (hereafter GCM), 19 Oct. 1769; 12 April 1770.


32. GL Ms 14022/3, 5, Union, DM, 16 March; 28 March 1722; 10 June; 8 Sept. 1724; 22 Sept. 1730; 22 March 1732.

33. GL Ms 8666/10, 13, 14, Hand-in-Hand, DM, 8 May–4 Aug. 1730, 1 Nov. 1737, 30 Nov. 1742, 10 Nov. 1743.


35. WCA., Ms 343/112/54, Westminster Fire, Secretary’s Address to the Board, 13 Dec. 1866.

36. This and the following data series are derived from WCA, Ms 343/83-6, Westminster Fire, General Account Books, 1759–94.

37. By 1780 agency premiums accounted for 39% of the total earned by the Royal Exchange from fire insurance, and 47% of the Sun’s total premium income, Pearson, *Insuring the Industrial Revolution*, chapter 3, table 3.1.


39. 25% on the average annual total premiums paid to the Union, 1765–67, amounted to £1,066, while 2.5% on the average total deposits received in the same period came to just £263.

40. The Union’s minute books and accounts are unusually uninformative about the sources of claims, and references to specific fires are few.

41. GL Ms 14022/17, Union, DM, 2 May 1781.

42. GL Ms 14022/17, Union, DM, 29 May; 12 June 1782.

43. Dickson, *Sun Insurance*, p.111.

44. GL Ms 14022/18, Union, DM, 8 Feb.1786.

45. GL Ms 14022/18, Union, DM, 17 June 1789. It was the custom among the London insurance offices for their firemen to parade in uniform on the day of general meetings of proprietors.

46. GL Ms 14022/17, Union, DM, 8 Jan.; 12 March; 26 March 1783.

47. GL Ms 14022/18, Union, DM, 24 Jan. 1787.

48. GL Ms 14022/19, Union, DM, 28 Nov. 1792.

49. GL Ms 14022/19, Union, DM, 10 April 1793.

50. GL Ms 14022/20, Union, DM, 3 Feb.; 27 April 1796.

51. GL Ms 14022/20, Union, DM, 27 Jan.; 27 April; 29 June; 5 Oct.1796.
52. Union Assurance, *Bicentenary History*.
53. GL Ms 14022/23, Union, DM, 20 March 1812.
56. At the time, the incentive for the members of the Hand-in-Hand was that large fire insurance funds would be released for them in shape of lower premiums and higher bonuses, while the proprietors of the Union, as owners of a stock company, received 4% debenture stock from the Commercial Union in lieu of their shares, Raynes, *History of British Insurance*, p.379.
57. It was claimed that the Hand-in-Hand had 13,000 members as early as 1708, Hatton, *New View of London*, pp.787–8.
59. GL Ms 14022/9, Union, DM, 27 June 1750.
60. The management of liability in the face of unreliable underwriting data is also one of the explanations offered by Clark for the adoption of mutuality by most early eighteenth-century life assurance schemes. Clark, *Betting on Lives*, pp.102–3.
62. Harris also notes that vested interests, blocking new insurance ventures from achieving full incorporation, were a factor behind the ‘definite tendency’ to form unincorporated stock companies during this period, although he makes no comment on the position of the mutuals. R. Harris, *Industrializing English Law: Entrepreneurship and Business Organization, 1720–1844* (Cambridge, 2000), p.107.