Marine Insurance in Philadelphia during the Quasi-War with France, 1795-1801

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Abstract

Until 1792, marine insurance underwriting in America was carried out entirely by private individuals. By 1810, the business had shifted into the hands of joint-stock corporations. This paper investigates this rapid transition between institutional forms, focusing on a pivotal period when newly-formed corporations existed side-by-side with private underwriters, and when the risks to American shipping increased substantially as a result of French privateering during the Quasi-War between the US and France. I compare data from a private underwriter and a marine insurance corporation to examine the Quasi-War’s effect on insurance rates, the volume of business, and the institutional structure of the marine insurance industry.

1 Introduction

Around 20 June 1797, the prominent Philadelphia merchant George Latimer insured goods worth $400 from Philadelphia to the island of Hispaniola in the West Indies on board the snow Boston. He obtained his insurance through the long-established brokerage firm of Isaac Wharton & David Lewis. In consultation with the broker, a policy was drawn up specifying the details of the risk; the rate of premium was tentatively agreed; and the policy then lay in the broker’s office for several days, during which time, other merchants stopped by and, if they considered the premium acceptable, wrote their names on the policy (hence

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becoming “underwriters”) along with the amount of the risk they were willing to cover. A typical policy was subscribed by several private underwriters. For the Boston’s voyage to Hispaniola, Latimer paid a premium of 15%, reflecting the danger of capture by French privateers then active in the Caribbean.

Several other merchants were also shipping goods on the Boston. On 26 June, William and Samuel Keith purchased $480 of insurance at 15% on twelve hogsheads of Claret, recently imported from Bordeaux, which they were re-exporting to Port au Prince;\(^1\) and the following day, Boys & McCallmont insured goods worth $800 to Cape Nichola Mole and one other port in Hispaniola, also at 15% (to return 2\(\frac{1}{3}\)% if the risk ended at Cape Nichola Mole). But rather than visiting a broker, these merchants obtained their insurance from a joint-stock marine insurance corporation, the Insurance Company of North America (INA).

At this time, France and Britain were at war. Therefore, as was usual, the assured in all cases warranted that the vessel carried the documents required to establish that the goods were American (neutral) property under US law. Nevertheless, the Boston was captured on 25 July by the French privateer Fine, and later condemned by a prize court in the French port of Jean-Rabel (Bonnel 1961: 325). This was unfortunate, but not unusual; during the late 1790s, hundreds of American merchant vessels suffered similar fates.

By the eighteenth century, marine insurance was a centuries-old practice widely used by merchants to spread risk. Traditionally, underwriting had been carried out by private individuals (mostly other merchants), with the transactions usually intermediated by brokers who gathered “names” for each policy. By limiting their exposure on any single risk, and spreading their underwriting judiciously across a variety of voyages, the underwriters attempted to make a profit while minimizing the likelihood of heavy losses. This system of private underwriting ultimately attained its most developed form in Britain, where Lloyd’s coffee house in London developed into a sophisticated marine insurance marketplace. Two marine insurance corporations had been chartered in London in 1720, but had failed to capture much of the market, because of a lemons problem which prevented them from competing

\(^1\)National Archives and Records Administration, Collector of Customs at Philadelphia, Outward foreign entries, E1059B, Box 1689, 13 June 1797; and INA marine blotter, ACE archives.
effectively with the private underwriters at Lloyd’s (Kingston 2007b).

In the American colonies, a marine insurance industry based on private underwriting had emerged during the mid-eighteenth century (Kingston 2007a). The first marine insurance corporations were founded in the early 1790s, and during the next decade, private underwriting virtually disappeared. This paper investigates the rapid transition between institutional forms: what happened, and why? To investigate these questions, I focus on a pivotal moment in this transition (1795-1801), when private underwriters existed side-by-side with newly-formed marine insurance corporations, and the risks to American shipping increased substantially as a result of the Quasi-War between America and France. I compare data from a private underwriter and a marine insurance corporation in Philadelphia (America’s leading port at the time) to examine the Quasi-War’s effect on insurance rates and on the pace and direction of institutional change in the American marine insurance industry.

The paper proceeds as follows. The next section describes how the practice of marine insurance evolved in Philadelphia up to the 1790s. Section 3 provides an outline history of the Quasi-War and its effects on American trade. Section 4 describes the data and presents evidence on how the marine insurance business in Philadelphia was affected by the Quasi-War. Section 5 considers the motivations for the transition from private to corporate underwriting, and explains why the Quasi-War appears to have accelerated this development. Section 6 concludes.

2 Marine insurance in eighteenth-century Philadelphia

In a marine insurance contract, a merchant pays a premium to an underwriter in exchange for a promise that the underwriter will reimburse the merchant for losses incurred at sea (and sometimes also in port). By the eighteenth century, the contractual form of the policy was fairly standardized, though the exact contractual details varied considerably; for example, the voyages insured ranged from simple one-way trips between two ports to more complicated voyages allowing for flexibility as to route and cargo depending on circumstances. The risks covered also varied from “sea risk” only (dangers of wind and weather) to (more usually)
broader coverage including the possibility of enemy capture.

In the early eighteenth century, American merchants generally obtained insurance through their correspondents in London, although this entailed considerable inconvenience. Orders for insurance sometimes arrived late, leaving the merchants uninsured. American merchants also had to rely on (and pay) their London agents to obtain financially sound underwriters at the lowest possible premia, and to represent their interests when making claims. Sending the required documents to support a claim and receive payment could be a lengthy process, particularly if disputes arose (as they frequently did).

Accordingly, as the trade of the colonies grew, an indigenous marine insurance industry emerged. In Philadelphia (then America’s largest port), an insurance brokerage was operating by the early 1740s, and similar brokerages operated in Boston, New York and elsewhere. These firms were for the most part merchants or shopkeepers who also “kept an insurance office” on the side, where merchants would stop by periodically either to insure their own ventures or to underwrite those of others. The merchants and underwriters were generally local and known to each other, although merchants in other ports could also purchase insurance through local correspondents. In one ten-month period in 1756-7, for example, Philadelphia merchant Reese Meredith purchased 37 insurance policies through his nephew Thomas Wharton’s brokerage on his own account, and 72 more on behalf of correspondents, and underwrote on 178 policies. Yet, even in Philadelphia, the extent of the market was sufficiently limited that a broker might sometimes be unable to find a sufficient number of underwriters to cover large policies. In 1787, Philadelphia broker Benjamin Fuller was only able to obtain 34 underwriters on a large policy, “All the underwriters in the City (except 2 or 3) having Subscrib’d”, and had to write to brokers in New York to obtain additional underwriters. Even after Independence, American merchants continued

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2William Till to Lawrence Williams, Historical Society of Pennsylvania (HSP) MS 660, 5 August 1743.
3On Boston, see Hardy (1901); on New York, see, eg., Gerard Beekman to John Channing, 10 September 1746 (White 1956).
4HSP #1735 (Leonard Beale collection), Marine Insurance ledgers. See Kingston (2007a) for a detailed study of Wharton’s brokerage business during the French and Indian War.
5HSP MS AMB 3485, Benjamin Fuller to Herbert and Potts, 9 August 1787.
to obtain a substantial amount of insurance through their agents in London.

With Independence, American merchants gained new opportunities for trade with continental Europe and the non-British West Indies (Shepherd and Walton 1976), but their access to the British West Indies was restricted. Further restrictions on trans-Atlantic 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 (Palmer 1981). With the advent of the European war in 1793, however, prospects brightened considerably. Both Britain and France loosened their mercantilist restrictions on trade with their West Indian colonies, and the French, in particular, began to rely heavily on neutral vessels to carry on this trade. In the 1790s, American trade boomed.

Independence also freed Americans from Britain’s Bubble Act of 1720, which had prevented them from setting up joint-stock corporations for insurance and other purposes. The ensuing chartering of numerous corporations, including banks and insurance companies, was one component of a set of institutional innovations in the early 1790s described by Sylla (2006) as the “U.S. Financial Revolution”. The first marine insurance corporation in America, the Insurance Company of North American (INA) was formed in Philadelphia in 1792 and began petitioning the state legislature for a charter. Many of Philadelphia’s merchants and private underwriters initially opposed the charter, but when it became clear that the company was operating successfully, the opposition concentrated instead on gaining a charter for a company of their own. Accordingly, in 1794, two corporations were chartered: the INA, and the Insurance Company of the State of Pennsylvania (ISP). Many more corporations were formed in Philadelphia and other US cities over the ensuing decade.

3 The Quasi-War between America and France

In the eighteenth century, many private vessels were suitable for conversion to military use - indeed, many merchant vessels were armed as a matter of course. During wartime, it was common for belligerent nations to commission private vessels as privateers to prey on enemy commerce. Privateering provided a free, straightforward and incentive-compatible way for
the state to increase its naval strength and harass enemy commerce, and should not be confused with piracy. At least in theory, privateers were subject to strict rules governing the treatment of both enemy and neutral vessels. If the vessels or goods they captured were legally condemned in prize courts, they became property of the captor (sometimes, the state also took a cut of the profits). If, on the other hand, the privateers were unable to show that the vessel or goods were legitimate captures ("good prize"), they were released, sometimes with payment of compensation. In practice, however, nations differed over the conditions governing the neutrality of vessels and cargoes, and inevitably, because a lot of money was at stake, the system was sometimes abused.

Peacetime rates on one-way voyages from America to either the West Indies to Europe were usually on the order of $2\frac{1}{2} - 3\%$, with some variations depending on the vessel, captain, time of year, destination, details of the voyage, and so forth.\(^6\) Because of the risk of capture, however, war could drive premia up to 20 – 30\% or more. Furthermore, the uncertainty associated with the risks also increased, leading to large and sometimes sudden fluctuations in premia on particular routes, as news of political developments or enemy naval movements arrived.

This created both problems and opportunities for merchants and underwriters. On the one hand, wartime trade could be highly profitable as shortages caused by the interruption of commerce drove up the prices of goods; yet, rapidly changing political and military circumstances, and the slow speed of communication meant that unskilful or unlucky merchants could easily find themselves facing ruin. In seeking to exploit such opportunities, insurance became more necessary than ever. Similarly for underwriters, high premia meant that wartime underwriting could be highly profitable if carried out judiciously, but it could prove disastrous if some unexpected political or military development, such as the capture of a convoy or the seizure of a large number of vessels in port, caused a string of losses.

Britain and France were at war from February 1793 until March 1802. Although the United States remained officially neutral throughout this period, it almost went to war on

\(^6\)See, eg., Levi Hollingsworth’s Subscriptions of 1784 in Isaac and Samuel Wharton’s insurance office, in HSP MS 1552 Box 8b.
several occasions. In the Spring of 1794, war with Britain for a time seemed imminent as a result of a British Order in Council issued on 6 November 1793, which amounted 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 over two hundred American vessels in the Caribbean. The British, however, revoked the Order in January 1794, and in November 1794, the two countries signed a treaty.

The objective of Jay’s treaty, from the American point of view, was to avoid war with Britain, and to put an end to British captures of American merchant vessels. In addition, American merchant vessels obtained limited access to the British West Indies. In return, however, Jay (the American negotiator) made several concessions to Britain which were unfavorable to France and which violated the spirit of treaties which had been made between the US and France in 1778 and 1788. Among these, the treaty 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”, whereby neutral vessels could not in wartime enter into a trade which had been closed to them in peacetime. These provisions were injurious to the French, who hoped to use the Americans as neutral carriers to obtain provisions, and to carry on trade with their colonies in the West Indies. Indeed, it was to preserve American neutrality for this purpose that the French had not insisted on enforcing the provisions of their earlier treaties, which in theory obligated the Americans to defend French colonies in the West Indies from the British (Allen 1909: 18).

The final implementation of Jay’s treaty was delayed until April 1796 by pro-French opposition in the House of Representatives. Once it became known that these efforts to derail the treaty had failed, France retaliated by issuing a series of increasingly restrictive decrees which led to captures of American shipping by French privateers. The first, dated 2 July 1796, was vague as to the terms under which American vessels would be “good prize” (that

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8 On the Quasi-War generally, see DeConde (1966), Allen (1909), Clauder (1932), and Phillips and Reede (1936).
is, subject to seizure by privateers and condemnation in prize courts), but nevertheless served
as a pretext for over 300 French captures in less than a year.\(^9\) A second French proclamation
on 2 March 1797 stated that American ships without a properly printed rôle d’équipage (crew
list) would be good prize, a requirement which had no basis in international law, but served
as a pretext for further French captures of vessels which had had no warning of the new
requirement.\(^{10}\) A third decree on 18 January 1798 provided that all neutral vessels which
carried any item of British manufacture would be good prize (Allen 1909: 298-9). Since it
was virtually impossible to ensure that no item of British manufacture would be found on a
ship, this amounted to virtually open season on American shipping. President Adams called
it “an unequivocal act of war on the commerce of the nations it attacks.”\(^{11}\)

The tensions with France were exacerbated by the European wars, the distance, and
the political instability in France, all of which impeded diplomatic efforts at finding a solu-
tion, and by the political chaos in the West Indies, which made it difficult for the French
government to control the actions of their agents there. Some of the judges who condemned
American vessels in French colonial prize courts were at the same time shareholders in the
privateers making the captures. Even a Frenchman described the situation in the West
Indies in 1798 as “A system of piracy almost general, sustained by a commercial tribunal
which condemns without reserve and without exception neutral and allied ships on the most
frivolous pretexts” (Palmer 1981: 78).\(^{12}\)

Meanwhile, an American diplomatic mission in 1797 not only failed to produce peace,
but gave rise to the “XYZ” scandal\(^{13}\) which moved American opinion sharply in favor of
war, so that during 1798, there was constant uncertainty about whether war would be

\(^{10}\)See, for example, the case of the sloop Townsend, captured en route to Antigua in 1798 and condemned
for lacking a rôle d’équipage and invoice of cargo (US Court of Claims, 1908).
\(^{11}\)Second Annual message of John Adams, 8 Dec 1798. Accessed via the Avalon project.
\(^{12}\)American State Papers: Foreign Relations, No. 125, 22 June 1797 (Vol. 2, p. 28-65) contains many
detailed accounts of the capture and condemnation of individual vessels and the treatment of their crews.
\(^{13}\)The French foreign minister, Talleyrand, acting through three agents, refused to meet the American
delegation without a £50,000 bribe, a large loan to the French government, and an apology for comments
made by President Adams in May. The Americans refused. The delegation’s correspondence was published
in America in April 1798, with the names of the French agents changed to X, Y and Z, causing a scandal
which shifted American public opinion sharply against France.
declared. Because war constantly threatened to erupt during this period, but was never officially declared or fully engaged, the conflict “placed the Adams administration and the American people in a state of almost perpetual crisis” (DeConde 1966: 328) and is referred to as a “Quasi-War”. The French were unwilling to formally declare war - in fact, ostensibly, France’s goal was to force the United States away from an alignment with Britain and back into an alignment with France (though the effect of her actions was exactly the opposite). However, the American administration would have preferred a French declaration of war, which would have united America behind the war effort, to an American declaration of war, to which many Americans were opposed.

In the summer of 1798, the US took steps to build an army and navy in preparation for a war. By late 1798, the newly-created American navy had become active, capturing their first French privateer in July 1798. By winter 1798, the coast of the American mainland had been largely cleared of privateers, and the French had fallen back to the West Indies, where hostilities continued. Most notably, in February 1799, the frigate *Constellation* captured the French frigate *Insurgente*. The war was limited, in the sense that American vessels were not authorized to attack unarmed French vessels or to attack the French on land, but only to attack vessels which posed a threat to American shipping; but already by December 1798, President Adams could claim that “Perhaps no country ever experienced more sudden and remarkable advantages from any measure of policy than we have derived from the arming for our maritime protection and defense.”14 In all, the American navy captured three vessels in 1798, 27 in 1799, and 59 in 1800 (Palmer 1981: 521).

These events led to sharp fluctuations in insurance rates as rumors of war waxed and waned (Figure 1). There was some uncertainty about French intentions as early as October of 1795, when the INA board sent a deputation to the Secretary of State to “inform him that a Report prevails that the French cruisers have orders to Capture all vessels bound to British ports and request him to apply to the French minister to know whether this is so or not”.15 French captures began early in 1796. By late 1796, American newspapers carried lists of

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15 Montgomery (1885: 53).
captured vessels and the usual rate of a premium on a one-way voyage to the West Indies was 5−6%, already well above the usual peacetime rate of $2\frac{1}{2}−3\%$. By early 1797, it had risen to 10−15%, and 25% was paid in January 1798. These averages disguise considerable variation across ships, depending on the details of the policy, the character of the captain and crew, the sailing qualities of the vessel, and so on, as well as fluctuations over time in response to news of political developments. The secretary of one of the corporations remarked in 1797 that “Circumstances varying as they do We are obliged to vary premiums very often.”

In 1799, premiums began to come down as a result of the American Naval successes. In June, one merchant ordered insurance on a voyage from Jamaica to Philadelphia “at as low a premium as possible which I trust will be reasonable as the risk now cannot be great.” That year, France experienced two coups d’état (the second led by Napoleon Bonaparte), and through various channels it became clear that the new French government wanted peace. Accordingly, a second American diplomatic mission left for France in November 1799. After protracted negotiations, a peace agreement (the Mortefontaine Convention) was finally signed on 3 October 1800. Although this agreement was not widely popular, it was very favorable to US shipping: “all the great points concerning navigation are settled to our advantage; they are extremely liberal and contain all we could require” (quoted by DeConde 1966: 288), and pressure from merchants helped to ensure its approval in the senate in February 1801 (DeConde 1966, ch.8).

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16HSP MS 2001 (ISP letterbook), 11 Mar 1797.
17David Lewis papers, Library Company of Philadelphia Collection at HSP, McA MSS 015, Box 1, Folder 8, Woodbury Langdon to Wharton & Lewis, 24 June 1799.
18In one respect, however, the treaty appeared unfavorable to American merchants. In exchange for releasing the US from its obligations under the treaties of 1778 and 1788, the US gave up all claims for compensation for the “French spoliations”. The merchants (and underwriters) who had suffered these losses argued that by giving up these claims, the US government had, in effect, appropriated their private property for public use without compensation, which was forbidden by the Constitution of the US. The resulting “spoliation claims” took over a century to resolve (Causten 1871; Allen 1904).
4 Marine Insurance in Philadelphia during the Quasi-War

This paper compares data from two manuscript sources which record marine insurance underwriting in Philadelphia during the Quasi-War: 1,054 policies insured by a private underwriter through the Philadelphia insurance brokerage of Wharton & Lewis, between 13 April 1795 and 30 March 1801, and 8,330 policies insured during the same period by the Insurance Company of North America (INA).

In the Wharton & Lewis record, the following information is recorded for each voyage: the date the insurance was effected; the type of vessel (schooner, brig, ship, etc.); the name of the vessel and of her captain; the origin and destination; the name of the merchant for whose account the insurance was made; the sum insured; the nature of the property insured (goods, vessel, or occasionally, specie); the percentage rate of premium; the total amount of premium; and in most cases, “Fate” (arrived, lost, or taken). The sums insured recorded in this account book do not reflect the total sums assured on vessels, and some voyages known to be insured through Wharton & Lewis’s office do not appear in this record, so the record appears to reflect the underwriting of a single substantial underwriter, or possibly some kind of syndicate, acting through the brokerage. The underwriter is most likely John Savage, who is named in the 1791 Philadelphia Directory as a grocer located at 326 South Front Street, but who by 1794 had risen to become a merchant and underwriter, and later

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19 “Account of Policies Underwrote at Wharton & Lewis’s Insurance Office”, HSP MS AMB 95591. The INA data is from the Marine Blotters, ACE INA archive, Philadelphia.

20 In December 1795, for example, the prominent Philadelphia merchant Stephen Girard obtained $10,000 insurance through Wharton & Lewis on the ship Voltaire from Philadelphia to Hamburg and back (Gillingham 1933: 100). However, the entry in the account book records a sum assured of only $800, at 8% premium.

21 Philadelphia Directory compiled by Matt Ainslie, University of Delaware; downloaded from www.math.udel.edu/~rstevens/datasets.html. In August 1794, through Wharton and Lewis, Savage purchased £375 insurance on the Schooner Delight from Hispaniola to Philadelphia (the policy is in HSP MS 1552, box 8b). In September 1795, he underwrote £200 on the Nancy, which appears in the WL manuscript record for £200 (the policy is in HSP MS 1552, Box 8b, 28 Sept 1795; the total sum assured was £1875; there were 9 underwriters, five of whom subscribed for £200). The HSP also has a smaller record (MS Am 3680) of 166 policies insured through the brokerage firm of Shoemaker and Berrett between June 1796 and February 1798. The format and handwriting in this record are identical to that of the Wharton & Lewis record, and both arrived at the HSP from the same source, so it is safe to assume they reflect the underwriting of the same underwriter. Among the subscriptions recorded is $700 on the Snow Ceres, insured for $700 from Aux
became one of the founders of the Philadelphia Insurance Company in 1803.\textsuperscript{22}

Wharton & Lewis was by far the most established insurance brokerage operating in Philadelphia at this time.\textsuperscript{23} Thomas Wharton (1730/1-82) had begun brokering policies in the 1750s, as a sideline to his main business as a merchant.\textsuperscript{24} His younger brother Isaac (1745-1808) joined the business by 1763 (Montgomery 1885 p.20); Isaac’s clerk David Lewis (1766-1840) became a partner in the 1780s (Gillingham 1933: 46-7).\textsuperscript{25} Therefore, the Wharton & Lewis register of policies is an incomplete, but substantial and probably quite representative, record of the most important locus of private underwriting activity in Philadelphia during this period.

About half of the voyages in the Wharton & Lewis record are single or return voyages to or from the West Indies or South America. Another third were (mostly one-way) voyages to or from Europe. The remainder included coastal voyages to other American ports, and voyages to Asia, Africa, New Orleans, and a small number of cross-voyages (voyages between two foreign ports, such as from Europe to the Far East). Most of the voyages either originate or terminate in Philadelphia, but voyages to or from New York and Baltimore are also quite common. Because of the increased uncertainty, insurance on round-trip voyages became less common during the Quasi-War (in 1795, there are more return than one-way voyages to the Caribbean; in 1797, much fewer). There are several idiosyncratic entries, such as insurance on cash carried on board the Crescent, the 32-gun frigate presented by the US government to the Dey of Algiers in 1797 as part of a bribe to stop attacks on US shipping by the Barbary corsairs. In September-October 1797, there is only a single entry: Ship Cayes to Philadelphia at 7\(\frac{1}{2}\)% in June 1797. The policy on the Ceres is in the ACE INA archive. The total sum assured is $5,000; and the only person who subscribed for $700 was John Savage.

\textsuperscript{22}\textit{An Act to Incorporate the Philadelphia Insurance Company}: Early American Imprints, 2\textsuperscript{nd} series, no. 29468.


\textsuperscript{24}See Thomas Wharton letterbook 1752-59, HSP MS 708A series 3 vol 24. Kingston (2007a) studies the development of Wharton’s business in the 1750s.

\textsuperscript{25}For Wharton genealogy see Wharton (1880). Regarding David Lewis, see David Lewis papers, Library Company of Philadelphia MeA MSS 015. For a time in the 1780s, Isaac’s brother Samuel was a partner (see, eg., Levi Hollingsworth’s Subscriptions of 1784 in HSP MS 1552, Box 8b).
Figure 1: 3-monthly average premium rates for one-way voyages on different routes insured through Wharton & Lewis, April 1795 - March 1801. Source: HSP MS AMB 95591.

Sickness, Captain Disease, on a voyage from Earth to Heaven with a cargo of “7500 souls” - a reference to the outbreak of Yellow Fever during which many Philadelphia residents left the city. The following year, the Wharton & Lewis record is again blank between early August and mid-November for the same reason.

Figure 1 shows 3-monthly average premium rates for the main categories of one-way voyages insured through Wharton & Lewis. Return voyages were also frequently insured, and this data has been included, assuming that the rate for a single voyage was 60% of the rate for a return voyage.\textsuperscript{26}

Although the Wharton & Lewis register of policies records the origin and destination

\textsuperscript{26}Chew (2005: 592) has a figure with insurance rates for 18 months in 1796-1797, based on data from the Baltimore Insurance Company, which shows a similar sharp increase in premia on West Indies voyages.
for each voyage, there is some residual noise in that some of the policies underwritten may have contained unusual clauses or conditions. For example, on May 26 1797, the schooner Illinois was insured at and from Philadelphia to Jeremie, and thence to any other British port in Hispaniola, at a rate of 25%, with $2\frac{1}{2}\%$ to be returned in case the vessel went only to Jeremie. On August 4th, the policy was amended to the effect that for an additional $2\frac{1}{2}\%$, the Illinois would be permitted to visit Jeremie a second time on the way back to Philadelphia from Port au Prince (Fowler 1888: 59). The entry in the register of policies reads simply “May 26, schooner Illionois, captain Nesbit, Philad-Jeremie &b (ie., &back), (for account of) William Bell, $800$ on Vessel and Goods, 25%, (amount of premium) $200$, A (Arrived)”. Other entries read, for example, “Jeremie &c”, indicating that the policy was for Jeremie but contained additional provisions for travel to other ports.

Policies may also have contained provisions exempting the underwriters from certain kinds of risks. At some times, the risk of seizure in port was commonly refused by underwriters on vessels traveling to French ports. A small number of policies were insured against sea risk only. For example, on 6 March 1797, the Brig Defiance was insured from Jamaica to Philadelphia. The vessel was insured for $4\frac{1}{2}\%$ against sea risk only, but goods on board were covered against all risks at 15%.

It frequently happened that several merchants separately insured goods carried on the same vessel, or that a single merchant insured large consignments of goods with multiple policies. These instances enable us to compare the premia charged by the corporation and the private underwriters. There are 246 voyages which appear in the Wharton & Lewis record and which were also insured at around the same time by the INA. In most cases, the premium charged is the same; the occasional small differences do not appear to be systematic, and may be largely due to the arrival of new information between the signing of the policies, or to idiosyncratic and unobservable differences in the terms and conditions on particular policies; or simply to the bargaining skill of different merchants.

Figure 2 compares the volume of business done by the corporation (“INA”) and the private underwriter (“WL”) from April 1795 - March 1801. This figure reveals a striking shift
in business out of the hands of the private underwriters and into those of the corporation beginning in early 1797, at around the time that French captures began, and lasting until the threat receded around 1800. Figure 3 shows the same data by year, as well as the total number of vessels entering Philadelphia from foreign ports, which may be taken as a rough indication of the overall size of the market.\textsuperscript{27} The overall pattern is clear: the private underwriter insured 286 voyages in 1796, which collapsed to only 69 in 1798 before recovering to 186 in 1800. The number of vessels entering Philadelphia from foreign ports also fell somewhat, but only from 817 in 1796 to 487 in 1798, and 565 in 1800.\textsuperscript{28} The number

\textsuperscript{27}The goods on a single vessel, and the vessel itself, might be covered by several policies; and Philadelphia’s underwriters insured both inbound and outbound voyages both to Philadelphia and other American ports, and occasionally, “cross risks” between foreign ports.

\textsuperscript{28}Similarly, the official value of exports from Pennsylvania fell from a high of about $17.5 million in October 1795-Sept 1796 to $8.9 million in the year to September 1798, before recovering to $17.4 million in the year
of policies insured by the INA, however, actually increased from 1148 in 1796 to 1547 in 1798, and was 1459 in 1800. Of course, there were many more private underwriters (and one other corporation) in the market, so it is not possible to gauge market share precisely. However, the Quasi-War appears to have coincided with a substantial shift of the marine insurance business out of the hands of private underwriters and into those of the corporations. The system of private underwriting had its own advantages, however (see below); and when the threat of war receded, the private underwriters appear to have made a temporary comeback.

The shift of business to the corporations during the Quasi-War is equally evident if to September 1801, and then plummeting to only $7.5 million in the year to September 1803 as a result of the Peace of Amiens (American State Papers: Commerce and Navigation, No.173, 2 March 1812, Vol. 1, p. 926-929).
we look at total premium revenue (Figure 4). The private underwriter’s total premium income fell slightly from $14,642 in 1796 to $13,251 in 1797 (the higher premiums almost compensating for the falling volume of business), and then collapsed to only $7,007 in 1798. In contrast, the total premia earned by the INA climbed from $467,122 in 1796 to $1,225,790 in 1797 and $1,304,219 in 1798. As the risks began to fall in 1799 and 1800, the position began to become reversed, but in 1801, the private underwriter’s record becomes disjointed - some policies are entered in non-chronological order - and the last entry is at the end of March 1801, suggesting that this private underwriter may have ceased to underwrite.29

29Isaac Wharton and David Lewis did not cease the insurance business in 1801: they were still brokering policies in 1802 (Gillingham 1933: 47). In 1803 they reconstituted their business as a chartered corporation, the Phoenix Insurance company, which was chartered in February 1804 (An Act to Incorporate the Phoenix Insurance Company of Philadelphia, Early American Imprints, 2nd series, no. 50464).
Although some private underwriting continued in Philadelphia for several more years, \(^{30}\) by 1803 the dominance of corporate underwriting was assured.

5 Explaining the shift to corporate underwriting

As shown in Figure 3, the corporations did a substantial business right from the start, and their formation must have come as a blow to the business of the private insurance brokers. \(^{31}\) Nevertheless, it would seem that there were no hard feelings between Wharton & Lewis and the INA. Many of the shareholders and directors of the INA continued both to purchase insurance and to underwrite privately. John Nesbitt, the first president of the INA, occasionally purchased insurance through Wharton & Lewis at least until 1798, as did other INA board members, such as merchant John Leamy. \(^{32}\) In July 1793, when the board of the INA decided to decline to underwrite a 12-month “time” policy on the brig Nancy, several members of the board nevertheless offered to cover the risk privately themselves. \(^{33}\) The INA’s office at 107 south Front Street, was just a few doors from Wharton & Lewis’s office at 115 south Front Street, and when a question arose as to the proper practice in a case of inadvertent over-insurance, the secretary of the INA naturally turned to Wharton & Lewis, as the most experienced insurers in the city, for their opinion and advice. \(^{34}\)

Although they were in competition, the corporation and private brokers also had many interests in common. They formed joint committees to investigate fraud and to communicate with the government about political developments. \(^{35}\) As the number of captures mounted,

\(^{30}\)In the Historical Society of Pennsylvania there is an underwriter’s subscription book covering the period April 1804 - January 1807 (HSP, insurance papers #1552, Vol 2 and Box 7); and an extensive record of policies insured between 1803-1815 through various insurance companies and brokerages (Ms Am 36802). Most of the policies are underwritten by corporations; but several private brokerage firms appear, the most prominent being that of Nalbro Frazier. These entries become progressively less common, and the last record of a privately underwritten policy appears in February 1811, though the record continues to 1815.

\(^{31}\)As noted above, when it became clear that the INA was likely to obtain a charter, many of those who had initially opposed the INA charter later became involved in forming the rival ISP. Isaac Wharton was among the approximately 150 founding shareholders of the ISP (Fowler 1888:50).

\(^{32}\)HSP MS AMB 95591.

\(^{33}\)INA letterbook, ACE INA archives, 22-24 July 1793.

\(^{34}\)(Montgomery (1885: 77, 81); INA letterbook, letter to Stephen Girard, 6 Aug 1794.

\(^{35}\)Montgomery (1885:54); ISP letterbook, HSP Ms 2001, Dec 1795.
they cooperated in attempting to free or obtain compensation for vessels which had been
detained by either the English or French, and in obtaining information about the practices
prevailing at the prize courts, which might change without warning.36

5.1 Advantages of Corporations

What were the advantages and disadvantages of corporations compared to the existing sys-
tem of private underwriting? In support of their petition for a charter, the INA’s founders
argued that a corporation could draw on a larger stock of capital than could be accessed
through the existing system of private underwriters (whereas under the existing system,
“for want of a sufficient number of underwriters of responsibility” large sums of money were
“drained from the country” to pay foreign underwriters). Furthermore, a corporation could
sue and be sued, making it easier for the assured to recover in case of loss; and by holding
a large, securely invested capital fund it could improve the security of the policy.

It might be (in fact, it was) argued that all of these advantages could equally be
provided by an unincorporated company.37 In particular, a natural progression from the
loosely-organized system of private underwriting through brokers was to organize stable
syndicates of underwriters rather than assemble a new group of underwriters for each policy.
This was how the business developed in the French port of Rouen in the 1740s (Miquelon,
1978, p.123-5), and with the development of syndicates at Lloyd’s of London in the late
nineteenth century; and there had been attempts to organize unincorporated marine insur-
ance companies in America along these lines. In 1757, six prominent Philadelphia merchants
organized a “company”, each agreeing to cover a one-sixth share of the risks underwritten by
one of them (Thomas Willing) for a period of one year, and not to underwrite separately in

36This was especially true of the French, of course, but there was also intermittent uncertainty about
the intentions of the English. In 1800, for example, the INA complained that “The late Captures made
by the British Ships are truly alarming and none more so that those made by the Halifax Squadron, as
we cannot discern the principles or pretences on which some of them are made, & of course know not by
what precautions to guard against them. They seem to imply some new rule of conduct of which we are
uninformed, either of late adoption, or by new construction of former regulations.” (INA letterbook, letter
to Forsyth Smith &Co., 20 August 1800).

37See “Thoughts on Insurance Corporations, &c.” by “An Enemy to Unnecessary Corporations”, United
States and Evening Advertiser, 1 Jan 1794, reproduced in Fowler (1888, p.48-9).
their own names (Gras and Larson 1939: 139-149). In 1783, a group of Boston underwriters formed a similar unincorporated company, in which each agreed to take a one-twentieth share in any policy signed by any three of them (Hardy 1901: 48). Note, however, that the members of these “companies” did not assume joint liability. They simply eliminated the transactions costs of finding a new group of underwriters for every policy.

Given the option of forming stable unincorporated syndicates, why did marine insurers instead adopt the corporate form? Limited liability is commonly regarded as a primary motive for incorporation: in comparison with unlimited-liability partnerships, corporations provide protection for investors with “deep pockets” in case the firm should become insolvent. However, unlimited-liability partnerships had never been observed in British or American marine insurance. Instead, the most salient organizational alternative was private individual underwriting, either through stable syndicates such as Willing & Co., or (more usually) ad-hoc syndicates organized by brokers on a policy-by-policy basis. In either case, there was no joint liability. Each private underwriter was liable only for the amount he had underwritten (or for his share of the syndicate), the “deep pockets” problem did not arise.

Furthermore, while some corporations obtained charters with clear limited liability provisions, many of the charters were more ambiguous or avoided the question, and in at least one state (Maryland), corporations were chartered with proportional liability (see below). Perkins (1994) argues that from a de jure standpoint, “the historical evidence regarding whether stockholders in the late eighteenth and early nineteenth century had limited or unlimited personal liability for a firm’s potential losses is inconclusive” (p.373), but that they probably enjoyed de facto limited liability (p.117), which later became formalized as the American common law developed in the early nineteenth century. Given this ambiguity, he argues that in early republic “we may safely conclude that the prospect of limited liability

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38 Willing & Co. regularly underwrote through Thomas Wharton’s brokerage in 1759 (Kingston 2007a).
39 In the case of Willing & Company, assuming joint liability would have been illegal under Britain’s Bubble Act of 1720. It is quite possible, of course, that the syndicate members made an informal commitment to cover the deficiencies of others if necessary; but as they were very careful about who they admitted to the syndicate, and the agreement was for a fixed term of one year, this was probably a minor concern. Their articles of agreement are reproduced in Gras and Larson (1939: 144-6).
does not appear to have been among the inducements attracting investors to place their funds in the shares of commercial banks and other corporate ventures” (1994: 117).

The corporate charter granted to the Insurance Company of North America (INA) in April 1794 was silent on the question of limited liability. However, its founders were keen to limit their liability if possible, and sought legal advice as to whether they could do so by changing the wording of the policy (Montgomery 1885: 49). The standard form of policy used by private underwriters included the clause “And so we the Assurers are contented and do hereby promise and bind ourselves, each one for his own part, our Heirs Executors and Goods, to the Assured”. At first the INA also used this form, but in May 1794, shortly after incorporation, it changed the wording to “And so we the Assurers are contented, and do hereby bind the Capital Stock, and other common Property of the President and Directors of the Insurance Company of North America to the Assured” (Montgomery 1885: 17, 49-50). This might be read as an attempt to highlight the security of the policy; but it may also be viewed as an attempt to explicitly restrict any claims to the “common property” of the corporations (as opposed to the private property of the shareholders). Either way, it would appear that the stockholders’ liability was limited to the nominal value of their shares.

Subsequent corporate charters in Philadelphia and New York were similarly silent on limited liability. In December 1803, the Articles of Association of the Phoenix Insurance Co. made clear the founders’ intention that “the members of this association shall not be liable to any loss, damage, or responsibility, in their persons, or property, other than the

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40 Handlin and Handlin (1945) similarly argue that limited liability was not a general feature of early US corporations, or a prime motive for incorporation. Dodd (1954: 370) was unaware of “any substantial evidence on the question whether, at the turn of the century, informed opinion in Massachusetts did or did not regard incorporation as implying limitation of liability”, and argues that the shareholders’ limited liability only became clear through court cases in 1808-9 (1954: 372; see also Hurst 1970:26-8 and Forbes 1986).

Harris (2000: 129) argues that in Britain, limited liability was a major motive for incorporation by 1800. In fire and life insurance, however, companies were generally unincorporated (Harris, p.107-8). In the 1820s, insurance corporations were chartered with unlimited liability, but managed to achieve limited liability by inserting suitable clauses in their policies (Hunt 1936: 33, 100). Limited liability became the general rule for British insurance companies in 1862 (Hunt 1936: 136).

41 INA charter: Early American Imprints (EAI), 2nd series, no. 1112.

42 A similar clause appears in privately-underwritten policies from Britain and America throughout the eighteenth century. See, eg., HSP collection 1552, box 6/8.
property which they have respectively invested in the capital and funds of the Company”,
but although the charter they obtained two months later adopted most of the provisions of
their Articles of Association verbatim, the section on unlimited liability was conspicuously
omitted. Again, it is hard to tell whether this was because limited liability was rejected
or taken as a given. In any case, the Phoenix adopted a policy wording similar to that of
the INA, as did the Union, which was also chartered in 1803. It was not until 1810 that
Pennsylvania granted a charter with a clear statement of limited liability.

Like the Philadelphia corporations, both the New York Insurance Company and the
United Insurance Company (also chartered in 1798 in New York) placed clauses in their
policies stating that only the joint-stock property of the company would be liable to pay
losses.

Both Connecticut and Rhode Island chartered marine insurance corporations with clear
statements of limited liability. In Washington DC, the US senate granted the Columbia
General Insurance Company a limited liability charter in February 1803. The 22 marine
insurance corporations chartered in Massachusetts between 1797 and 1805 also limited share-
holders’ liability, but they also made the President and Directors jointly and severally liable

43 Articles of Association: EAI, 2nd series, no. 4867; charter (6 Feb 1804): EAI, 2nd series, no. 50464.
44 See Phoenix policies in HSP MS 1552 box 8b; Constitution of the Union Insurance Company, July 1803:
EAI, 2nd series, no. 5192; policy (25 July 1804) reproduced in Fowler (1888: 70). See also the Philadelphia
Insurance Company Articles of Association (1803), which specified limited liability (EAI, 2nd series, no.
4863); and its charter, which was silent on the issue (20 March 1804): EAI, 2nd series, no. 29468).
45 The charter of the United States Insurance Company specified that losses would be paid “out of the
joint funds of the company exclusively”. Charter: EAI, 2nd series, no. 21871.
46 The New York Insurance Company’s Articles of Association (1796) included a clear limited liability
provision; but its Act of Incorporation (1798) omitted these sections (Articles of association: EAI, 1st series,
no. 30884; charter: EAI, 1st series, no. 34226). See also Goebel (1969: 405-6).
47 See charters of the New Haven (1797), Hartford (1803), Middletown (1803), Norwich (1803) and Union
(1805) in Connecticut (1808); for the Connecticut corporations, however, note that only a fraction (from
10% to 40%) of the nominal value of the capital stock was actually to be paid in; the rest was secured by
promissory notes from the shareholders, making them in effect liable for further payments on demand up to
the nominal value of their shares. For Rhode Island: see charters of the Newport (1799), Providence (1799),
Warren (1800), Washington (1800) and Hope (1804), EAI, 1st series, nos. 35970, 36182, 38980, 38344; 2nd
series, no. 6494.
48 Early American imprints online, 2nd series, no. 5201.
49 Several of these were also authorized to sell fire insurance; and all were authorized to insure lives at sea
and against captivity. See charters (1799-1804) in Massachusetts (1805), Vols. 2 and 3. The phrasing varied
and was in some cases somewhat ambiguous. See also Dodd (1954: 225).
for all losses on policies underwritten after they knew of losses in excess of the capital stock.

In contrast, Maryland explicitly rejected limited liability in favor of “proportional” liability. The charter of the Maryland Insurance Company, passed on 24 Dec 1795, stipulated that if at any time the funds of the corporation should not be competent to pay and satisfy the just demands of the assured, that nothing herein contained shall be construed to discharge the stockholders from being liable for their respective proportions of said losses, according to the number of shares they may hold therein, but no stockholder shall be liable for more than his own proportion of losses as aforesaid, or to answer for the failure or deficiency of others.\textsuperscript{50}

Since the security of the policy therefore depended upon the solvency of the members, the charter also stipulated that any transfers of shares had to be approved by the directors. An unincorporated association formed in Baltimore in 1799,\textsuperscript{51} and two further corporations chartered in January 1805 similarly adopted proportional liability.\textsuperscript{52} The Maryland corporations were therefore essentially similar to large syndicates of private underwriters. The difference was mainly in their size, the ease with which shares could be transferred, and the fact that unlike the private underwriters, they raised a common capital fund as an initial bulwark against losses.

In summary, while it appears that the corporations’ founders were in general keen to limit their liability if possible, it is also clear that limited liability was not a deal-breaker. In all cases, either by the charters, or by clauses inserted in the policies, wealthy shareholders were insulated from joint liability in the event that other shareholders proved insolvent; but this cannot be viewed as the key advantage of incorporation, since there had been no joint liability under the existing system of private underwriting either.

What, then, were the advantages of the corporate form? The main advantage was probably to reduce the transactions costs of organizing what were, in essence, enormous yet

\textsuperscript{50}Laws of Maryland, Session Laws, 1795 (Maryland State Archives online, Vol. 647, p.54).
\textsuperscript{51}“Whereas it is contemplated to establish an office or society for insurance, in the City of Baltimore, under the name and stile of the Marine Insurance Office”, EAI, 1\textsuperscript{st} series, no. 35147.
\textsuperscript{52}Charters of the Marine Insurance Co. and the Union Insurance Co. Laws of Maryland, Session Laws, 1804 (Maryland State Archives online, Vol. 562, pp. 24-26 and 49-51). See also Blandi (1934: 48-50)
flexible underwriting syndicates, thereby increasing the security of the policy while reducing the transactions costs of spreading the risk more widely.\textsuperscript{53} In particular, the corporate form expanded the pool of available capital by enabling those unfamiliar with mercantile affairs to act as underwriters by entrusting their underwriting decisions to experts.\textsuperscript{54}

Given these advantages, the transition from private to corporate underwriting in America might appear inevitable in retrospect. But the story is not so simple. Recent research has challenged the idea that the corporation is a globally optimal form of organization (Guinnane et al. 2007). In particular, in the British marine insurance market, successive waves of marine insurance incorporations failed to drive Lloyd’s private underwriters from the market, suggesting that the industry was characterized by multiple equilibria (Kingston 2007b).

First, the corporations may have been at a disadvantage in overcoming agency problems between the insurer and the insured. As merchants involved in trade, private underwriters had intimate knowledge of the people, vessels and routes they underwrote. They interacted with brokers and with other merchant-underwriters in ongoing, multi-faceted and mutually beneficial business and social relationships, and they therefore naturally tended to insure each others ventures, since insurance could be profitable if judiciously practiced. Thus, insurance became part of the complex web of trusting personal interactions which characterized business in the eighteenth century (and is hardly irrelevant today). Although many of those involved in corporations were leading merchants, merchants may have had an incentive to insure the “best” risks privately.\textsuperscript{55}

The corporations may also have faced internal agency problems. Hilt (2006) shows that

\textsuperscript{53}In comparison, for example, the syndicate formed by Willing & Co. in 1757 seems quite inflexible despite its small size. The initial agreement was for a fixed period of one year. It was renewed in 1758, with one underwriter being replaced, but does not appear to have been renewed a second time (Gras and Larson 1939: 139-149; Gillingham 1933: 31-3).

\textsuperscript{54}Along similar lines, Harris (2005) argues that the corporate form enabled informed insiders to commit not to abuse the rights of less-informed outsiders and thereby attract investment in the East India Company during the seventeenth century. Hilt (2006: 204) similarly argues that corporations’ formal governance structure helped to induce small investors with no knowledge of whaling to invest in whaling voyages in the 1830s.

\textsuperscript{55}Because of the small scale of the market, and because many merchants were involved in the corporations, the American corporations’ disadvantage was likely much less severe than the lemons problem that inhibited the growth of British marine insurance corporations (Kingston 2007b).
corporations performed significantly worse than unincorporated partnerships at managing complex whaling voyages in the 1830s, and attributes the failure of the corporations to increased agency problems arising from the separation of ownership and control. Of course, private underwriting was also plagued by serious agency problems, which may have been partly overcome by repeated interaction between merchants, underwriters and brokers.

5.2 Effect of the Quasi-War

It remains to explain why the Quasi-War shifted the advantage so sharply in favor of corporations, and why private underwriting appears to have made a brief comeback after the Quasi-War (Figure 2). War could be highly profitable for underwriters, and just as the Napoleonic wars led to boom years in marine insurance in Britain (Kingston 2007b), the Quasi-War created tremendous profit opportunities for Philadelphia underwriters. Figures 2-4 show that the corporations were far more successful than private underwriters in taking advantage of these opportunities. Why?

First, the financial security of the private underwriters who insured their ventures was always a concern for merchants; Private underwriters might abscond, die, or go bankrupt before a claim could be paid. But the security of the privately-subscribed policy, always somewhat suspect, became more so in wartime. Most private underwriters were merchants, and while war provided many opportunities for gain, it also increased the probability of bankruptcy if the merchants’ ventures were unsuccessful. The Oliver brothers, merchants in Baltimore, warned in May 1799 that “The Times are so critical that there is but little security in any foreign expedition and we don’t feel anxious to engage in them”; but others were less cautious, leading to numerous failures early in 1800 (Bruchey 1956: 193, 201-2). Thus, one merchant advised his correspondent that although the private underwriters were slightly cheaper, he should insure through a corporation:

“Both the Insurance Offices are good; in this case we would prefer either. It being of a long duration before the Voyage is completed, Deaths and other accidents
may (and does too often) happen to Individuals."\textsuperscript{56}

Of course, merchants preferred sound underwriters at any time. The argument here is simply that this advantage of corporations was heightened during wartime, as there was a greater probability of underwriters’ bankruptcy, and a greater probability that the merchant would have to make a claim.

Second, although private underwriters might obtain a high expected return during wartime (if they underwrote judiciously), this came at the cost of a higher variance in their overall return. An unexpected political or military development, such as a change of policy regarding neutral rights, or the capture of a convoy of merchantmen, might cause multiple claims which could bankrupt even a careful underwriter. This probably encouraged them to become more cautious in their underwriting. In April 1797, one merchant wrote that “The underwriters that are substantial will not take a risk to the West Indies and back under 33\textsuperscript{1/2} to 40\% against all risks. I say substantial because many of our underwriters circumstances are such [that they are experiencing financial difficulties].”\textsuperscript{57} Of course, corporations also faced these dangers; but because they were able to spread risk more widely, corporations could afford to be less risk-averse than individual underwriters, and because their underwriting was backed by a large capital fund, they would be better able to weather a run of bad luck.

Third, war may have shifted the advantage in evaluating risks from private underwriters to corporations. Private underwriters, many of whom were merchants actively involved in trade, may have tended to insure those voyages for which they were familiar with the captains, cargoes, vessels and routes involved. War, however, reduced the relative value of this idiosyncratic knowledge about individual risks, overwhelming it with systematic risks which affected all vessels relatively more equally, while fluctuating frequently as a result of political developments. In processing the kind of information needed to evaluate these systematic risks, the corporations may have had an advantage, as they could afford to pay correspondents to send them information, and subscribed to newspapers from different cities.

\textsuperscript{56}David and Philip Grim to Watson and Paul, 4 February 1799, quoted by Wright (2005: 97).
\textsuperscript{57}David Spears, quoted by Ruwell (1993: 89).
For example, the ISP maintained a correspondence with Hercules Courtenay, the secretary of the Maryland Insurance Company in Baltimore, in which they exchanged information on current rates of premium and discussed political developments. On 5 April 1797, they informed him that

“The danger you appear to apprehend of a general sweep of all our Vessels by the French in their ports, is also seriously apprehended by us. And in consequence of this apprehension we think it worth nearly if not quite as much to write to French ports as English . . . I subjoin a list of Premiums as they at present prevail with us.”

Three other developments are worthy of mention. First, as discussed above, the success of the two pioneering corporations in Philadelphia led within a few years to similar incorporations in other American cities. This may help to account for the fall in business experienced by the INA in the years following the Quasi-War (Figures 3 and 4), although market entry in Philadelphia came a little later with the chartering of four new corporations in February-March 1804 (Fowler 1888: 69).

Second, as a result of both the increased capacity of the American marine insurance industry, and the intermittent political problems and uncertainties between the United States and Britain, the volume of American business insured in London fell sharply; one American merchant in London argued that the increased security afforded by corporations in America had led to a sharp decrease in the amount of insurance done in London by American merchants, so that by 1810, “nineteen twentieths” of his consignments from America were insured in America. In particular, American underwriters also generally had better and more recent information about the important West Indian routes, and this advantage became particularly important in wartime, when premia could fluctuate rapidly.

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58 The Maryland Insurance Company had its own correspondents; in 1795 and 1796 it paid $100 to William Baker of Fort Point for sending regular marine intelligence (Maryland Historical Society, MS Items Q9700000007413-5).
59 HSP MS 2001, ISP letterbook, 5 April 1797.
60 Select Committee on Marine Insurance (1810), evidence of S. Williams.
61 Kingston (2007a) argues that the rapid growth of Philadelphia's marine insurance industry (based on pri-
Finally, the yellow fever outbreaks clearly affected the business of the private underwriters. 1797 was not the first time this had happened: in September 1793, Wharton & Lewis had to turn down requests for insurance, “having been forced several weeks past to shut up our Office and leave the City, by reason of the Malignant Fever, which rages there”. During the yellow fever outbreaks in 1797 and 1798, both the INA offices and Wharton & Lewis’s office were temporarily moved, but because many of the private underwriters had fled to the countryside, it seems likely that the private underwriters’ business was more severely disrupted than that of the corporation. This likely reinforced the effect of the Quasi-War in hastening the demise of private underwriting.

6 Conclusion

Recent theories of institutional change have emphasized the role of learning; historical experiences may affect actors’ perceptions of the available institutional choice set and of the likely consequences of adopting particular rules - their “mental models” in the terminology of North (2005).

The marine insurance corporations which emerged in America in the 1790s had several important advantages over the prior system of private underwriting. They enabled merchants to avoid the transaction costs involved in finding a new set of private underwriters for each new policy. They increased the security of the policy because their underwriting was backed by a large capital fund. They expanded the pool of available capital by in effect enabling wealthy individuals without knowledge of trade or insurance to underwrite by entrusting their capital to experts. The Quasi-War amplified these advantages by reducing the security of the privately-underwritten policy, and by shifting the advantage in evaluating risks in favor of the corporations.

Although Britain and France experienced a brief peace in 1802-3, it must have been

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63Montgomery (1885: 83); Fowler (1888: 60)
clear at the end of the Quasi-War that a period of considerable uncertainty lay ahead. Peace with France, and Jefferson’s election in 1800, created the prospect of renewed tensions with Britain (later manifested in the Embargo Act of 1807 and ultimately the War of 1812). In this context, it seems likely that by bringing the advantages of the corporate form into sharp focus, the Quasi-War encouraged Wharton & Lewis to adopt the corporate form of organization. Accordingly, in 1803, they reorganized their private brokerage business as the Phoenix Insurance company, chartered in February 1804 with Wharton as its first president and Lewis as vice-president. Thus, the exogenous shock of the Quasi-War likely served as a learning experience which accelerated the transition from private to corporate underwriting in the American marine insurance industry.

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64 Lewis became president following Wharton’s retirement in 1805 (An Act to Incorporate the Phoenix Insurance Company of Philadelphia, Early American Imprints, 2nd series, no. 50464; David Lewis papers, LCP Collection at HSP, McA MSS 015, Box 3, Folder 102).


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