

# THE ORIGINS OF FIRE INSURANCE

Although there is evidence to suggest that fire insurance existed in the period before the 17th century in Europe, it was the **Great Fire of London (1666)** which forcibly alerted the public to the value of such protection. The London fire began in the King's Bakery on Pudding Lane, a narrow street lined with oak framed houses. Soon after the outbreak of the fire, neighbours quickly formed a bucket brigade in an attempt to extinguish the blaze. Despite their valiant efforts, the **fire quickly spread** to an inn with a large supply of straw and fodder in its livery stable. **Fuelled by the abundance of dry materials and fanned by a strong breeze, the inferno soon raged out of control.**

One of the first casualties of the fire was the wooden waterwheel that lifted water out of the Thames River and into the pipes which supplied the city. The rudimentary water system was soon completely dry and of no use to the firefighters. The fire raged for four days, consuming 436 acres of the city and 13,200 houses. The fire was finally halted when the Lord Mayor ordered that houses in its path be pulled down to create a fire break. Remarkably, only six people perished in a disaster that caused between \$8 and \$12 million damage. There is, however, no accurate estimate of the number of people who died from exposure the following winter in shanty towns erected in the ruins of the city.



*London engulfed by the Great Fire, 1666.*

Shortly after the reconstruction of the city began, **Dr. Nicholas Barbon, a physician and leading builder, proposed the idea of distributing the losses incurred during a fire among a larger group of people.** Despite ridicule from many of his colleagues, Barbon decided to offer personal underwriting on houses and other buildings. Heeding the harsh lesson imposed on them by the fire, many customers flocked to his firm, known as "The Fire Office", to take advantage of his new service. Barbon offered rates at 2.5 percent of the value of brick buildings and five percent for those constructed of wood.

Barbon's success in the fire insurance business encouraged the establishment of rival companies. In an effort to stifle the competition, Barbon appealed to the

Privy Council to grant him a monopoly on his service. His request was denied. Failing to secure legislative aid, Barbon turned to economic tactics and attempted to undercut his rivals. He also pioneered the idea of sponsoring his own fire brigade, thus achieving two goals. **First, the fire brigade would protect the buildings he insured, thereby minimizing his losses and, second, its highly visible presence promoted his business at fires, which were well attended public events. This represents the first venture of a fire insurance company into the firefighting field.**

During the late 17th century, the insurance business expanded, as did company fire brigades. The drills for these rudimentary firefighting units were often carried out in public to allow people to



assess their respective efficiency and place their insurance with what they judged to be the most impressive company.

When the news of a fire spread, all companies dispatched their firefighting units. At the scene, there was an immediate search for a fire mark, a leaden plate attached to the facade of a house which bore the symbol of the insuring company. Once the identity of the insuring company was established, its fire unit set to work extinguishing the blaze while the other units idly made jokes at the expense of their colleagues. This service, provided by the insurance companies, was vital as the city did not offer municipal fire protection until 1866.

The idea of fire insurance which found expression through Nicholas Barbon proved to be a great success. By 1680, he wrote business on over 5,500 buildings. At his death in 1698, he headed a large insurance empire that dominated the early years of fire insurance in England.

Fire insurance also gained popularity throughout Europe and, later, in the United States. In the 1670s the German guilds in Hamburg were united into a 'Generale Feuer Casse' or municipal insurance company. This organization set standards that were subsequently adopted by the business: classification of risks, annual premiums based on the amounts insured and a maximum insurable. Fire insurance in the United States, as in England, began as personal or partnership underwriting. Most of the early operations wrote both fire and marine risks, which were crucial to leading merchants of the Eastern seaboard. The Philadelphia Contributorship, founded in 1752 with the assistance of Benjamin Franklin, was the first fire insurance company in the United States. Growth of fire insurance was slow; by 1820 there were 28 stock companies, and most of these firms were strictly local in their operations.

The early years of business in North America were difficult for fire insurance companies. Problems confronted by these fledgling firms included a limited demand for fire insurance coverage which in turn prevented the accumulation of the large capital reserves necessary for proper protection against the threat of serious conflagration. The businesses suffered from a number of serious fires arising from the prevalence of wooden construction in 18th and 19th century America. Companies that lacked adequate reserves or overextended themselves in insuring a single area were forced out of business by major fires. The New York fire of 1835 caused over \$15 million damage and wiped out most of that city's insurance companies. This disaster forced the leading companies to define



*Fire fighting in England, 1762, as seen by the great caricaturist, William Hogarth.*



risks more clearly and to recognize the necessity of improving their financial stability. Failed companies could at best pay only a fraction of the insured's claim and the credibility of the insurance business was being severely undermined.

In an attempt to protect the public interests state governments passed reserve acts, stipulating that companies must maintain an adequate reserve out of which to pay claims. But companies persisted in a policy of paying out dividends to their stockholders at the expense of developing a surplus fund and continued to function with insufficient capital to meet emergencies.

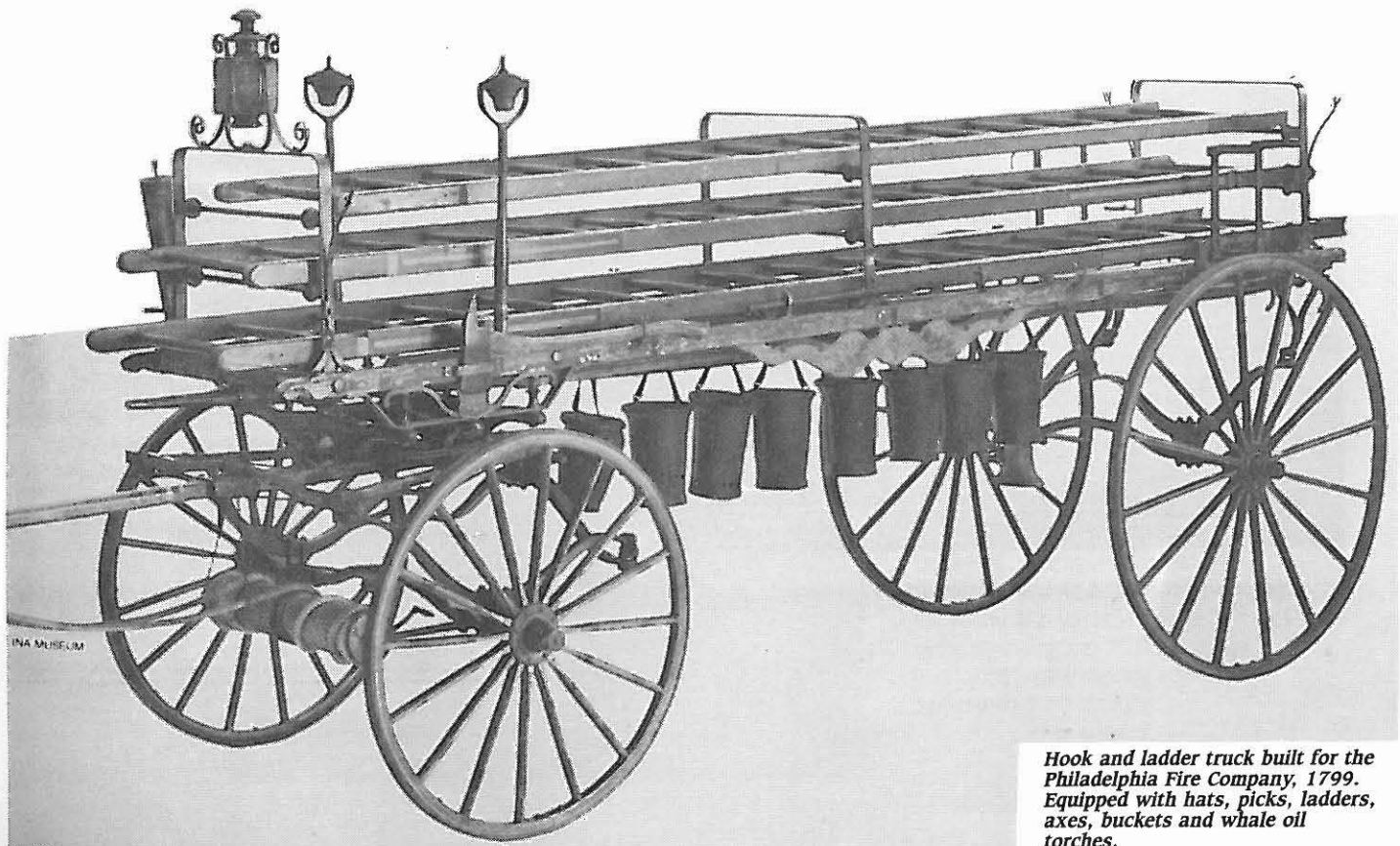
Following the Civil War in the United States, a spirit of cooperation replaced the competitive attitude that had characterized the insurance industry and often driven premiums below cost. In 1866, the leading American companies formed the National



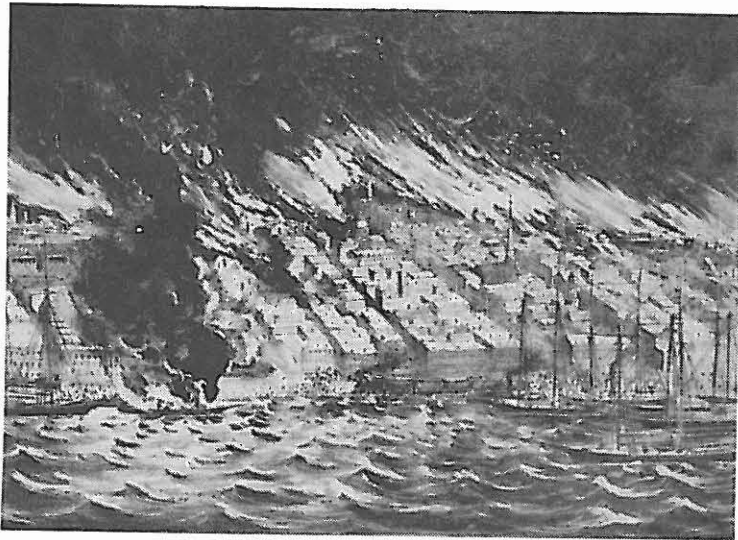
*Benjamin Franklin (1706–1790) portrayed as a fireman. He founded the first volunteer company at Philadelphia in 1736.*

Board of Underwriters in an effort to introduce some uniformity into the industry. The organization assumed a scientific approach toward the classification of risks and granted local representatives

more duties to carry out closer inspections of the important risks. Fire maps came into use at this time.



*Hook and ladder truck built for the Philadelphia Fire Company, 1799. Equipped with hats, picks, ladders, axes, buckets and whale oil torches.*



*The burning of Chicago, 1871, from a Currier & Ives engraving.*

This new-found cooperation was short-lived. Serious fires in Chicago and Boston in 1871 and 1872, respectively, destroyed numerous companies and weakened many more. It is hardly surprising that the fire insurance industry fell on hard times during the decade. This period witnessed the growth of many irresponsible companies that sacrificed integrity for quick profit. The National Board of Fire Underwriters ceased to formulate rates, relinquishing this task to local boards. Intense competition again became the order of the day, as companies slashed premiums to dangerously low levels in an effort to attract business. These rate wars drove numerous companies into bankruptcy. The surviving firms recognized the shortsightedness and impracticality of undercutting one another, and the spirit of cooperation was revitalized. At this time larger regional boards appeared, giving some stability to the American fire insurance industry.

The development of fire insurance in Canada followed a pattern similar to that in the United States. While no fire insurance companies are known to have operated during the French regime, the Phoenix Company of London began to advertise its services in British North America shortly after the Conquest (1763). A 1782 policy in St. John's, Newfoundland was the first risk assumed by the Phoenix Company in North America. Two years later, the company issued a policy in London for \$2,000 for a Halifax firm. Within a few years, the Phoenix commissioned fire plans of St. John's and Quebec City in order to issue policies in these two cities. In 1804, the company established an agency in Montreal, the first in Canada, and the following year a second in Halifax.



*The Boston fire, 1872, from a Currier & Ives engraving.*



The first Canadian company, the Nova Scotia Fire Insurance Association, was founded in 1809 by a group of businessmen in Halifax. In 1819, it was incorporated as the Halifax Fire Assurance Company. A second indigenous operation, the Quebec Fire Insurance Company, was launched unsuccessfully as a mutual organization in 1816 and later reorganized as a joint stock company. Ontario entered the field in 1833 with the British Assurance Company. Prior to 1840, at least six Canadian companies carried on business: the Halifax, Globe, British America, Central of Fredericton, Home District Mutual and the Gore District Mutual. Colonial competition notwithstanding, the long-established British firms continued to control a lion's share of the market.

Fire insurance companies in Canada shared with American firms the problems of organization and standardization. In the second half of the 19th century, the Canadian fire insurance industry responded to the wild fluctua-

tions in business by initiating wider associative movements. The first such organization began in Halifax when representatives of the Halifax, Alliance, Phoenix, American, Liverpool and London and The Royal met on January 5, 1857. This meeting, designed to establish tariffs for the City of Halifax, was called after a major fire alerted the companies to the need for cooperation. During the meeting, it was decided that "in order to better serve the interests of the community and the participating companies, a joint body or association called the Halifax Insurance Board be formed". The board, composed of representatives of the above named companies resolved that:

...the benefits of such a Board shall be confined to forming Rules and Regulations for the guidance of the members of this association, the establishment of a Tariff of Rates for the City, and generally adopting such measures as may lend to the mutual benefit of all concerned.

*A Sun Company fireman of the eighteenth century.*



The new board faced its first major test on September 9, 1859, following a disastrous fire which destroyed two blocks of buildings on Granville Street in downtown Halifax. The total settlement amounted to £128,075 and resulted in a five shilling increase to Halifax tariff rates. After a careful investigation, the board attributed the fire's rapid spread to "the want of sufficient supply of water at the commencement and to a general want of management", and requested the city to launch its own investigation into the causes. The board made a number of recommendations, including an improved water supply for the city, the hiring of more firemen, and the laying of pipes not less than 12 inches along the entire length of Barrack Street with branch lines leading down the hill to be used exclusively for fires. Failing the implementation of these protective measures, the board faced no alternative but to increase tariffs.

A number of emergencies arose requiring action by the insurance board. In May 1861, the resignation of the Union Fire Engine Company rendered Halifax defenceless against fire. The board hastily called a meeting to discuss the dangerous situation with the city council which, in turn, summoned all available able-bodied men to form a volunteer fire brigade.

The efforts of the Halifax Insurance Board demonstrated to Nova Scotian companies the value of larger associations and inspired the formation in 1864 of the Nova Scotia Board of Fire Underwriters, the first province-wide association in Canada. The board was empowered to set tariffs to which all participating companies were bound to adhere. Failure of companies to comply resulted in a vote of censure by the board and an order for the violating company "to cancel the insurance so improperly effected and return the premium".

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One year after the formation of the Nova Scotia Board, neighbouring fire insurance companies followed suit and formed the New Brunswick Board of Fire Underwriters.

The high incidence of large fires in 19th century Canadian cities had the inevitable consequence of driving numerous fire insurance companies into bankruptcy. In an effort to lend some stability to the struggling industry, the new Canadian government passed the Insurance Company Act in 1868. This act, loosely based on American legislation, required that all companies operating in more than one province had to acquire a license from the Minister of Finance. Under the terms of the legislation, each company was required to deposit \$50,000 with the government. The influence of the Act was immediate as the number of fire insurance companies dropped dramatically (In 1868: British 26, American 29, Canadian 6. In 1869: British 12, American 4, Canadian 5). These companies were also required to file a detailed schedule of financial

statements each year. Failure to comply with the provisions of the Insurance Act resulted in a \$1,000 fine for each infraction.

Despite the example provided in the eastern provinces, movement toward an association in central Canada was slowed by the fierce competition and petty rivalries that existed between fire insurance companies. Fire underwriters in Ontario and Quebec suffered during 1870. That year, the percentage of losses to premiums ran at 85 percent, compared with 57 percent in 1869. In 1869, the premiums collected amounted to \$1,785,539 and the losses paid to \$1,027,720. In 1870, however, many companies suffered – the Quebec Company lost \$2 for every \$1 collected, the Phoenix \$1.50 for every \$1 and the Aetna \$1 for \$1.

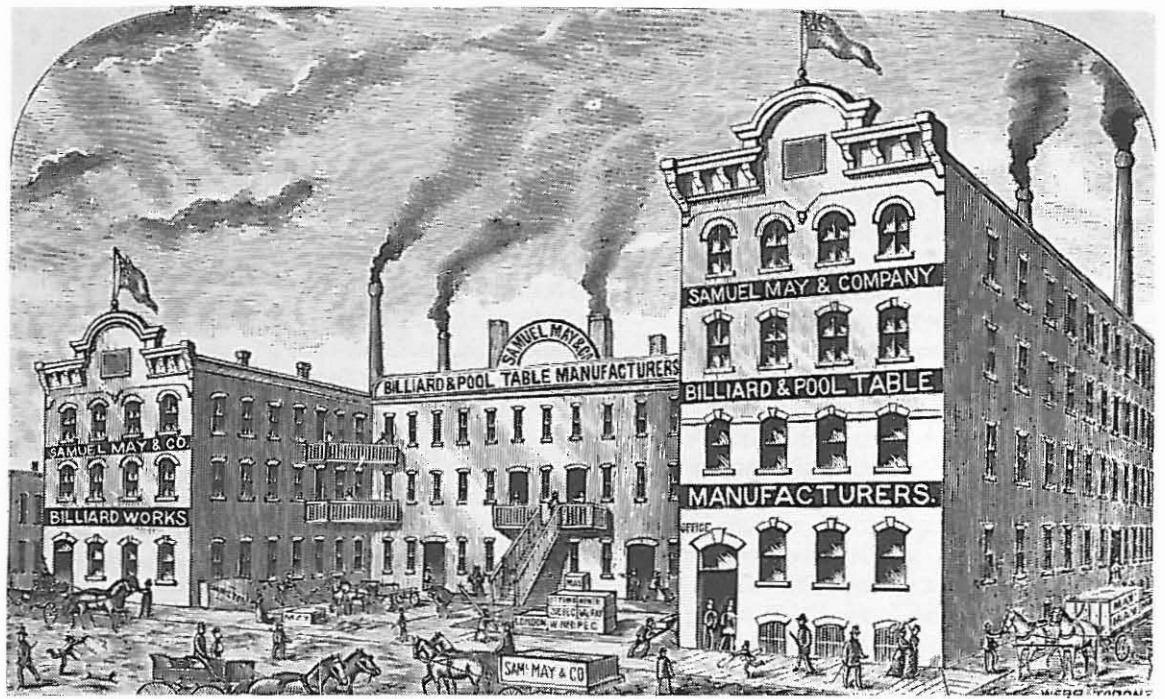
The cause most often cited for the poor showing of fire insurance companies was inadequate income driven dangerously low by stiff competition:

There are radical errors at work which must be eradicated – a reckless cutting of rates is one of these. Closer scrutiny and more vigilant supervision are required to prevent the operator of that ever fruitful source of loss and fraud – over-insurance. A thorough and frequent inspection of the risks by competent men would be the means of holding agents in check, and would take and keep off companies books many a bad risk. Something must be done to prevent the increase of such a general holocaust as that which will make 1870 a remarkable year in the annals of Canadian fire insurance.

(Monetary Times, March 31, 1871.)



*A typical executive suite of the mid-19th century.*



*Samuel May's billiard table manufactory, a typical large Toronto industrial risk.*

The Chicago fire of 1871 taught a valuable lesson. It revealed that the interests of the insured and the insuring companies were quite similar. In Chicago, fierce competition had driven down the premiums and the city was insured at a cheaper rate than anywhere else in the United States. With inadequate cash reserves to meet the cost of the 1871 conflagration, 53 companies were forced to close. This situation pointed out the need to establish fair rates that would provide companies with adequate capital to meet all costs of a serious fire. The formation of an association was still not viewed as a possible solution. The *Monetary Times* reported in 1871 that: "Combinations among the companies are generally regarded as unworkable".

During this period, some companies or 'Cheap Jacks' as they were called, sold insurance at rates below the cost at which adequate protection could be provided. The irresponsible practices of these companies drove premiums down low throughout the industry. The companies offering these 'bargain' rates were often forced to settle with their unfortunate

creditors by paying only a small percentage of the claim. Many people failed to realize these insurance companies operated on the same principles as other businesses and, like merchants who sold their goods below cost, could not long continue to function.

One of the chief contributors to low rates was a class of insurance middlemen known as 'drummers' or 'runners', an outgrowth of the American insurance industry that found its way into Canada. The drummer claimed to represent all insurance companies and received a commission for all business he placed. In reality, he hawked the customers' insurance from office to office, placing it at the lowest premium.

The following represents a typical exchange between a drummer and an agent:

"What will you take a line on Mr \_\_\_\_\_'s drug stock at?" Agent or officer (behind the counter) – "Two and one half per cent." Drummer – "Nonsense! I can place it at one." Officer (astonished) "With what Company?" Drummer – "Oh at a half dozen offices." This adroit attack is followed by a further series of fibs concocted on the spot to suit

the circumstances, told with unblushing usage, asseverated with dauntless cheek, and reiterated with an assumed air of sincerity, that might deceive even the very elect, until our weak-kneed officer imagines his only safety lies in succumbing to the inevitable, and doing "as others do".

(*Monetary Times*, November 10, 1871.)

This undercutting of rates presented problems not only to insurance companies but also to insureds, as it created needless delays, or even worse, non-payment of claims.

While general conditions in the fire insurance business improved the following year, the problems of inadequate premiums continued to trouble the industry. This prompted a call for insurance reform and gave rise to a circular that was sent to all fire insurance companies on June 18, 1872. The communique called for joint action to be undertaken by the companies "whereby more satisfactory results may be obtained".

In light of the serious conditions within the industry, most companies expressed interest in the proposed association. Company representatives met in Montreal



in September to lay the groundwork for an organization that would plan the future of the industry and increase insurance rates to an adequate level. Intermittent discussions continued over the next few months, but disagreement about the hazard risk of certain businesses emerged, making any attempt to establish rates difficult. The companies eventually agreed on two scales of minimum rates based on firefighting ability. The first class included rates for Montreal, Toronto, Quebec, Brantford, Kingston, Brockville, Belleville, Guelph, Hamilton, London and Napanee. Other municipalities that lacked proper firefighting equipment would be placed on the second scale at a higher rate. The joint stock fire insurance companies met again in Toronto

and on December 20, 1872, agreed to form a general association and signed an agreement that bound them to adhere to rates established by that body. Two boards, one in Toronto and one in Montreal, were to meet regularly to discuss fire insurance issues. The power of the fledgling association was limited by the refusal of four companies to participate – the Phoenix, Lancashire, Provincial and Citizen's. On January 1, 1873, the new scale of rates adopted earlier by the general association went into effect. General dissatisfaction with the working of the tariff association arose in a lamentably short time. Companies that declined to join the association were not bound to its restrictions and were therefore at liberty to 'cut' rates and write risks as they pleased. A

second factor that may have contributed to the downfall of the association was an improved financial climate in the insurance industry in 1873. From 1872 to 1873, the premiums paid to companies rose from \$2,628,710 to \$2,968,416, while the losses paid dropped from \$1,909,975 to \$1,682,184. With the improved situation, many companies began to question the need for any form of association. The Western and the British American Companies were the first of several to withdraw from the general association. These companies apparently didn't realize that premiums had increased because of the association's influence, nor did they take into account the abnormally low number of fires in 1873. By June 1875, the Monetary Times

*The great fire  
at St. John,  
New Brunswick,  
1877.*





# London's First Attempt to Legislate Against the Fire King

IN THE early days of London as a village, and later as a town, from 1848 to 1850, the village and town councils governed the municipality largely by resolution, and by-law, but seventy-eight years ago it was decided to take advantage of increased powers granted by the Legislature of Upper Canada, and old resolutions and by-laws were discarded for newer and more stringent enactments. Thus it was that in 1850, when Simeon Morrill was mayor, and Murray Anderson, first Mayor of London as a City five years later, was chairman of a committee of the Council, by-laws were adopted establishing fire limits, and providing for additional safeguards for the municipality against the ravages of fire. Again in 1855, the City Fathers added to their fire safeguards by passing a by-law which regulated the construction of wooden buildings. Extracts from these by-laws follow:

WHEREAS it is necessary, by a By-Law, to enact certain regulations and laws for the general government of the Town of London, the several By-Laws now in force being deemed insufficient and in some respects inapplicable to the wants and conditions of the inhabitants.

Now be it therefore enacted by the Town Council of the Town of London, in Council assembled, under and by virtue of the act of the Parliament of this Province, entitled "An Act to provide by one general law, for the erection of Municipal Corporations and the establishment of regulations of Police in and for the several Counties, Cities, Towns, Townships and Villages in Upper Canada."

I. That from and after the passing of this By-law, all and every the By-Law and By-Laws of the former Mayor and Town Council of the Town of London, and all other By-Law and By-Laws of the said town in the month of January now last past, excepting the By-Law regulating the Markets, shall be and the same are hereby repealed.

II. And be it further enacted that for the good government of the said town, and other purposes herein intended, the following enactments, provisions, rules and regulations shall, from and after the passing of this By-Law, be in force within the said Town of London, that is to say—

1. That every owner or occupier of any dwelling-house, building or shop, or any owner or occupier of any part of any dwelling-house, building or shop, using therein a stove, or stoves, shall have, place and keep under such stove and stoves a brick or metal hearth; and the bottom of such stove or stoves shall not be less than eight inches from such hearth, and the sides or ends not less than eighteen inches from any wooden partition; and above such stove or stoves no stove pipe shall be nearer to the ceiling than twelve inches; and when stoves are used to heat other rooms than that in which the stove is placed, by an aperture in any wall or partition, such aperture shall extend at least nine inches round each stove on the top, and two sides thereof, which aperture shall be filled up with brick and mortar, or stone, and when any stove-pipe shall be passed through a wooden partition, it shall not pass nearer than six inches to such partition, or to any ceiling; and such space shall be filled with brick and mortar, or stone, and every stove-pipe whatever shall be conducted into a proper brick-built flue or chimney, safely and securely constructed.

2. That no ashes shall be placed or left in any wooden receptacle, in or near any dwelling-house, nor within twenty-five feet of the same, by any person or persons whatsoever, unless in some safe brick, metal or stone depository therefor.

3. That no stove-pipe shall be carried through the roof or side of any building, and that all stove-pipes passing through any floor, ceiling or partition, shall be so secured as to have no wood or combustible substance within six inches of such stove-pipe; and that the manner of securing such stove-pipes shall also be subject to the approval of the town inspectors, or either of the Fire Wardens or their assistants, and that all chimneys shall be carried up at least three feet above the roof.

reported that the Montreal Board had not met regularly for some time and was assumed to be defunct. In Toronto, the board continued to provide a forum for the interchange of ideas but possessed little real power. Smaller boards continued to operate in Hamilton and London.

After the dissolution of the general association, fire insurance companies slowly drifted back to their old practices, characterized by renewed fierce competition and falling rates. Following a year of intensive rate cutting, the industry was brought to its knees by a disastrous fire in Saint John in 1877. This fire, which destroyed two-thirds of the city, prompted the failure of three companies and severely hindered the operation of many others. The total losses paid in 1877 were \$8,490,919, while the premiums collected amounted to only \$3,764,005 (representing a loss ratio of 225 percent). Again there was discussion about forming another association to combat falling rates. This time it was acknowledged that in order to succeed, such an organization must involve all fire insurance companies operating in Ontario and Quebec.

The aim of association was not achieved immediately. Although the Manitoba and North West Association was formed on January 21, 1880, Central Canada did not follow suit for a few years. Companies continued to complain that premiums were insufficient to meet costs of carrying a risk, and even the stronger firms cut rates to increase business with

**By-law of London, Ontario which enacted stringent fire regulations and banned wooden construction in the commercial core area.**

little regard for increased liability to loss. The *Monetary Times* of April 1882 reported: "The state of the fire insurance business, we are told upon all sides, is disheartening; rates inadequate, competition unreasoning, agents easy-going and managers weak in the back". Another publication grimly described the unsound and unethical manner in which insurance business was practised: Rates have been reduced with a recklessness unequalled in any other class of business, and risks have been completed with a rapacity hitherto unknown, without regard to the moral or any other attendant hazard, until the whole business of Fire Underwriting has been completed demoralized...." (*Insurance and Financial Chronicle*, November, 1883.)

The future of fire insurance in Canada appeared anything but promising.

4. That the town inspectors, or either of them or the Fire Wardens, shall have authority at any time between the hours of nine and six in the day time, to enter any building or private residence, for the purpose of examining the stove-pipes, chimneys, or fire-places, in order that they may report thereon to the Town Council, and that no person shall refuse to admit either or any of the said officers, for the purpose aforesaid.

5. That every chimney or flue in which fire is commonly made shall, from the first day of November to the first day of April in every year, be swept at least once in every eight weeks, and when the same is daily used for kitchens and manufactories, once in every eight weeks throughout the year, in the same manner, by the tenant or person occupying.

6. That every person residing in said town shall find and provide a good and sufficient ladder, or ladders, to be appended to the houses they shall respectively inhabit, and to be of sufficient length to reach the roof, and a ladder or ladders of sufficient length to reach the chimney.

7. That in the event of the chimney of any house in the said town taking fire, from any cause whatever, unless it shall have been swept by the person appointed by the council within the time specified in section No. 5, of this By-Law, the person or persons occupying the house to which such chimney is attached shall forfeit the sum not less than five shillings, or more than twenty shillings.

8. That each and every tenant or occupant of a dwelling shall provide himself with a good leather bucket, containing not less than two and a half gallons, having the initials of the owner's name thereon, which bucket shall be placed in some conspicuous place near the entrance of such dwelling; and that each merchant's shop, public inn, or grocery, shall in like manner be provided with two such buckets, to be kept in some conspicuous place within such merchant's shop, public inn or grocery.

9. That no kiln or building for the purpose of seasoning or drying lumber of any description, by the application of fire, shall be erected within the distance of two hundred feet of any other building within the limits of the town; nor shall any person or persons burn, or cause to be burned, any shavings or rubbish in the public streets, private yards, or lots, nearer than one hundred feet to any building, nor shall any person leave in his or their yard any heap of hay or straw within one hundred feet of any building.

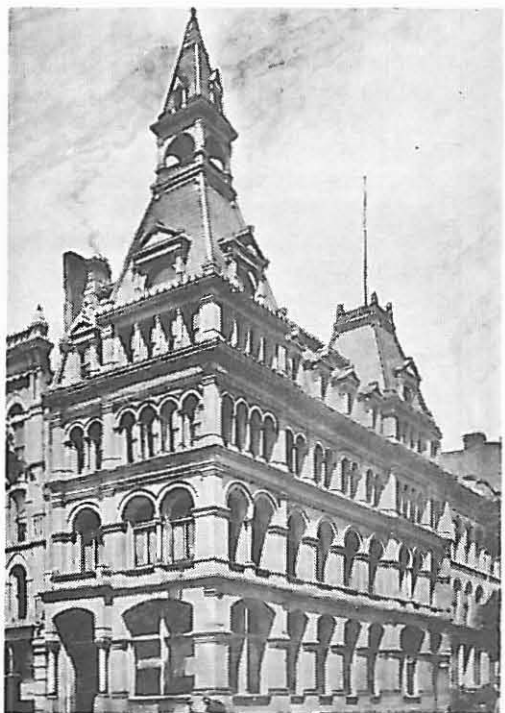
10. That no gunpowder above ten pounds in quantity shall be kept in any but a separate building, and such building shall not be nearer than three hundred feet to any other building, and that all gunpowder under such quantity kept for sale, shall be deposited in a fire-proof box or safe, in or on the roof of such house or shop from which it shall be sold; and that no person shall ascend to such place with a lighted candle, lantern or lamp.

IT IS HEREBY ENACTED, by the Town Council of the Town of London, in Council assembled, under and by virtue of the Act of the Parliament of this Province, intituled: "An Act to provide, by one general law, for the erection of Municipal Corporations, and the establishment of regulations of Police in and for the several counties, cities, towns, townships and villages in Upper Canada." That it shall not be lawful for any person or persons to erect, build or remove any wooden building, whatever, upon the land in the said Town of London, contained within the following limits, that is to say, commencing on the north side of Dundas Street, on the west side of the Western Hotel (now occupied by the Dennis Wire Co.), from thence north to the south side of North Street (Carling Street), from thence easterly, along the south side of North Street to the corner of North and Clarence Streets, from thence southerly along the west side of Clarence Street to the corner of Clarence and King Streets, from thence westerly, along the north side of King Street to the corner of King and Ridout Streets, from thence northerly, along the east side of Ridout St., to the corner of Ridout and Dundas Streets, and from thence westerly, along Dundas Street, to the west side of the said Western Hotel, the place of beginning.

Passed the 10th day of June, 1850.

S. MORRILL, *Mayor*.

JAMES FARLEY, *Town Clerk*.



The Western Assurance Company's head office, on Wellington Street, the "Insurance Row" of an earlier era in Toronto.