
PROBLEMS

Insurance in Imperial Russia

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Early Insurance Activities

In Russia, the notion of community responsibility for loss of life and property and the distribution of risk was put into effect as early as the eleventh century. *Russkaya Pravda*, the first Russian law code, provided, in sections 3 to 6, for a community payment to relatives of a man who met violent death in or near the community.¹ Moreover, the caravan type trade centered in Kiev in all probability necessitated some type of primitive loss sharing agreements. Since the city of Novgorod was a member of the Hanseatic League until 1494, it too, in all likelihood, had some form of transport insurance.

* This study is concerned with the development of non-social insurance in Imperial Russia — Life, Fire, Ocean and Inland Marine, and Casualty insurance — a subject on which there has been no treatment in any language. Excluded from consideration are various forms of social insurance — worker's compensation, old age pensions, disability payments, hospital insurance and survivors' benefits.

All dates in the text are old style unless indicated otherwise.

List of abbreviations:

ELAHP - Equitable Life Assurance Society of the United States, History Project Files.

NYLICUSSR - New York Life Insurance Company, Claim Against the U.S.S.R.

NYIDCD - New York State Insurance Department, Corporate Document Files.

NYLFF - New York State Library, Manuscripts and History Section, Home Office Statements of Foreign Fire Insurance Companies.

¹A. YAKOLEVA and L. CHEREPNINA (editors), *Russkaya Pravda po Spiskam Akademicheskomu, Troitskomu, i Karamzinskomu Spisok (Russian Truth according to the Academic, Troitsky and Karamzin versions)* (Moscow: Publishing House for the Higher State Literature Courses, 1929) p. 10; George Vernadsky (trans.), *Medieval Russian Laws* (New York: Columbia University Press, 1947) p. 23.

The first attempts, in modern times, at providing for some sort of insurance were initiated by Peter the Great. He established organizations to encourage sea trade which had a system of partial repayment for losses.² He also established a plan whereby relatives of those lost while in government services would receive a pension from the religious houses,³ these innovations disappeared after Peter died.

Modern stock company insurance was introduced in St. Petersburg in the middle of the eighteenth century by the Dutch, who were active in the field of insuring goods in transit on the ocean, and their agents offered coverage to Russian merchants. For a few years at the end of the same century the English began handling this type of insurance and they forced the Dutch from the field. The disruptions of the Napoleonic wars, however, brought these British insurance ventures to an end.⁴

About this same time another form of insurance came into use in the Riga area where the "Riga Mutual City Society for Insurance against Fire" was created in 1765 and a "Riga Suburban Society for Insurance against Fire" in 1785. These two organizations, outside of Russia proper but within the empire, had no influence upon the development of insurance in Russia until the 1860's when other cities began copying their example.⁵

The first domestically sponsored true insurance to be introduced in Russia proper came through the efforts of Catherine the Great, who on June 28, 1786, issued a "Manifesto Concerning the Establishment of a State Mutual Bank".⁶ This bank was designed to promote the economic well-being of both industry and the landed gentry by providing for cheap loans. Section 20 of this decree, moreover, provided an additional benefit:

We command that Our Bank, in both Capitals and in all cities except at [insurance] risk stone houses, mills, and factories as part of its business...

When the "Rules of Our State Mutual Bank" were established on December 23, 1786, they provided for an Insurance Section as the third of the four sections of the bank;⁷ and three days later this section began to accept fire insurance risks on stone structures, roofed with tile or iron, which were used either as private dwellings or as industrial buildings.⁸ These buildings were

² J. RYBNIKOFF, "Die Entwicklung der Versicherung in Russland bis zum Ende des 18. Jahrhunderts", *Zeitschrift für die gesamte Versicherungswissenschaft* Vol. 28, No. 1 (July, 1928) p. 304.

³ *Ibid.*, p. 310.

⁴ *Ibid.*, p. 311; "Soviet Union", *Insurance Markets of the World* (Zurich: Swiss Reinsurance Company, 1964) p. 137.

⁵ G. DOBSON (trans.), *Company Fire Insurance in Russia 1827-1910* (St. Petersburg, 1912) p. 1.

⁶ *Polnoe Sobranie Zakonov Rossiiskoi Imperii* (Complete Collection of Laws of the Russian Empire) (St. Petersburg, 1830) Vol. XXII (1784-1788), No. 16.407.

⁷ *Ibid.*, No. 16.481.

⁸ Dobson, p. 1.

insured at 75 per cent of their value as determined for tax purposes by the assessor of the city Duma. The insurance offered by the bank did not specify categories of risk or different premium levels; rather, insurance on all structures cost fifteen rubles per one thousand rubles of assessed valuation.⁹

Catherine provided exceptionally favourable laws for the Insurance Section in order to promote its growth. All loans or mortgages drawn on the State Mutual Bank, which were secured by real property, had, as a stipulation of such a loan or mortgage, to have this property insured by the Section. Russian property owners were also strictly forbidden to insure their property with foreign concerns and a fine of 150 per cent of the value of the property insured, payable to charity, was the penalty for breaking the law.¹⁰ In spite of these favourable conditions insurance operations were feebly carried out. Collection of premiums never amounted to more than 70,000 rubles in any one year, and the value of property insured never surpassed 6,500,000 rubles. In the last full year of operations the Insurance Section had at risk only 1,600,000 rubles in property value and in 1822 it was closed entirely because of its unsatisfactory financial status.¹¹

After the reign of Catherine II, the Emperor Paul tried to promote several other insurance projects.¹²

In 1799, an Insurance Office was formed within the State Assignat Bank. This office was to provide insurance for commodities both in transit and in storage. The Insurance Office lasted only two years and collected only 1,214 rubles in premiums.¹³ In 1801, the Insurance Office was reduced from an autonomous section of the Assignat Bank to a subsection of an other office, and by 1806 it was closed entirely. The Emperor Paul also encouraged the establishment of a fire insurance system. In 1798 in St. Petersburg and in Moscow, he ordered the Commercial Departments of the city governments to establish voluntary fire insurance, but nothing came from his edict. Again in 1800, he called upon private enterprise to form a Russian insurance company but since he was assassinated within a short time, the company was never organized.

⁹ *Ibid.*

¹⁰ "Strakhovanie (Insurance)". *Entsiklopedicheskii Slovar (Encyclopedia Dictionary)* (St. Petersburg, 1901) Vol. XXXIA p. 739.

¹¹ "Statistics of the Russian Joint Stock Companies" as quoted in the partially translated statistical handbook; G. DOBSON (trans.), *Company Fire Insurance in Russia 1827-1910*, (St. Petersburg, 1912) p. 4.

¹² The following discussion is mainly based on material found in the 20 unnumbered introductory pages of *V Pamyat 75 ti Letnago Yubileya Pervago Rossiiskago Strakhovogo Obschestva Uchrezhdennago V 1821 Godu (in remembrance of the 75th anniversary of the First Russian Insurance Company established in 1827)* (St. Petersburg, 1903).

¹³ Dobson, p. 4.

Paul's successor, Alexander I, was concerned with foreign affairs for the greater part of his reign and did not give much thought to insurance. The problem of providing for protection to industry against disaster was reviewed by the Ministry of Finance in 1822. The Ministry desired to found another "State Mutual Bank" with state insurance offices which would offer fire insurance to the public. The Ministry proposed that this bank be established as soon as possible. The Governing Senate was in the process of examining this project when "at nearly the same time, five St. Petersburg merchant houses, with the house of Shtiglitz at the head, offered a project for a stock insurance company to be called the St. Petersburg Phoenix".¹⁴ The Governing Senate took both proposals into consideration but the backers of the company later withdrew and neither project materialized.

In 1823, Alexander's newly appointed Minister of Finance, G.L. Kankrin decided to look again at the question of how to create a state fire insurance system. In a memorandum to the Senate he outlined a plan for insurance offices which would be outside of a state bank.¹⁵ He felt that sufficient capital could be raised for these offices if either the government or private enterprise could be persuaded to back the idea. Kankrin later provided a more concrete proposal for raising capital for these offices. He suggested that both the government and individuals jointly put up the funds.¹⁶ This project was delayed in council, however, until the accession of Nicholas I.

The problem of establishing an insurance system was not resolved by the time Alexander died and, in fact, Alexander's inactivity in this area was responsible for the demise of the only two operating insurance schemes. The only viable insurance enterprises existed outside Russia proper, on the Baltic coast, and were of little consequence. Emperor Nicholas I, however, turned fairly rapidly to this problem as soon as he took office.

The Beginning of Private Stock Company Insurance

In 1826, Count Kankrin resubmitted his Ministry's project for state fire insurance offices to the Governing Senate. Emperor Nicholas however, in reviewing this proposal consulted the state archives and there came upon the 1822 proposal for a St. Petersburg Phoenix. He then put aside Kankrin's proposal and called together the people involved in the Phoenix proposal to see if they would care to attempt again to form a fire insurance company.

¹⁴ V. PAMYAT, unnumbered introductory pages.

¹⁵ *Ibid.*, a portion of the memorandum appears on the 10th unnumbered page.

¹⁶ Kankrin would have placed the controlling interest in the insurance enterprise in the hands of state agencies. The project called for a capital fund of 15,000,000 rubles, to be divided into shares of 1,000 rubles each. Eight thousand shares would be issued to the State Mutual and Commercial Bank, 2,000 shares to the State Guardianship Council, 2,000 shares to various city councils, and the 3,000 remaining shares would be sold to private investors.

Two of the people, Baron Shtiglitz and Count Mordvinov, indicated that they would be willing to try.¹⁷

Shtiglitz and Mordvinov approached the various merchant houses in both capitals in order to raise funds for the enterprise. In less than a year, 10,000 shares of stock were sold to raise 10,000,000 paper rubles for the capital fund. The Emperor officially sanctioned statutes for the fire insurance company's organization on July 22, 1827. The company, The "First Russian Insurance Company Established in 1827" (*Pervoe Rossiiskoe Strakhovoe Obshchestvo Uchrezhdennoe v 1827 Godu*), which began to do business on 14 October 1827, was the only insurance firm in Russia proper until 1835.

The state, in the decree establishing the company, granted substantial privileges to this important new business enterprise in order to promote its growth. The First Russian Company was given a twenty-year monopoly for doing insurance business in the capital cities of St. Petersburg and Moscow, the city of Odessa, and the provinces of St. Petersburg, Moscow, Latvia, Kurland, and Estonia. The company was also exempted from all taxation whatsoever except on premium collections which were subject to a levy of 25 kopeks per 1,000 rubles received.¹⁸

The company was run in the following manner: the stockholders met once a year to hear business reports and to elect the board of directors. The board of directors of the First Russian consisted of five regular members who were given five-year terms of office, and two candidate members who were to fill unexpected vacancies. As a stipulation for holding office all board members had to own twenty shares of stock in their own right. The powers of the board were very broad. They alone could pass decisions that were legally binding on the company and had the privilege of electing the president of the company. The board met but once a week; day to day business affairs were handled by an appointed managing director. By statute the home office of the company had to be in St. Petersburg.¹⁹

The demand for fire insurance was by no means satisfied by one company; and another company, the "Second Russian Insurance Company Established 1835" (*Vtoroe Rossiiskoe Strakhovoe Obschestvo Uchrezhdennoe V 1835 Godu*), was organized in 1835. Company statutes were presented to the Governing Senate and the Emperor gave approval to the company on 6 March 1835 and it began business on May 1, with its main office in St. Petersburg. One million five hundred thousand (1,500,000) rubles were raised to capitalize the concern, which was structured along the same lines as the First Russian and it too received concessions from the government. The company was favoured with a twelve-year monopoly in forty provinces of Euro-

¹⁷ V. PAMYAT, unnumbered introductory pages.

¹⁸ *Ibid.*

¹⁹ NYIDCD, *Ustav Pervago Rossiiskago Strakhovago Obshchestva (Statutes of the First Russian Insurance Company)*, (St. Petersburg, 1903) Articles 14-30.

pean Russia.²⁰ The First and Second Russian companies had no competitors in the fire insurance field until 1846.

Another type of insurance project was begun just prior to the founding of the Second Russian fire insurance company. A Prussian emigrant to Russia, Ferdinand Shvedersky, approached the Ministry of Finance in 1834 with a plan for a life insurance company. A tentative set of statutes were drawn up and submitted to the Governing Senate on 15 April 1835. The Emperor and many high officials and titled nobility became interested in Shvedersky's plan since it offered the prospect of high return for capital investment, and because it offered the prospect for protection for their own lives.

Official approval came on 4 September 1835, when a decree was issued authorizing the formation of the life insurance company which was to be headed by Shvedersky. This new corporation received the exclusive privilege of having a monopoly on life insurance for twenty years in the Empire. The firm called itself the "Russian Company for Insurance of Capital and Income" (Rossiiskoe Obshchestvo Zastrashkovaniya Kapitalov i Dokhodov).²¹ The entire capital of the company was raised among government officials within a short time. The 4,000,000 rubles capital were invested in 4 percent interest-bearing bonds of the State Commercial Bank. At the very beginning the company issued four types of insurance policies: straight life, annuities, pensions, and a type of policy which paid a specified sum yearly to the children of a decedent until they reached a certain age. These insurances were available to all private citizens. In 1837, the company was permitted to insure an additional class of people, army conscripts.

The statutes of the company were amended to read:

The company is permitted to insure pensions for conscripts desiring the same... for every 2 rubles paid to the company by a conscript in service, the conscript will be paid by the company, after service of 22 years in the Guard, or 25 years in the army, a life pension of one ruble a year but in all cases the insurance must be based either on the absolutely voluntary consent of the conscript or it will be given to him because of service.²²

The business of insuring conscripts lasted until 1856, but it was never an important activity.

²⁰ NYIDCD, *Ustav Vtorogo Rossiiskago Strakhovago Obshchestva*, (*Statutes of the Second Russian Insurance Company*), (St. Petersburg, 1907).

²¹ The name was originally the "Russian Company for Insurance of Life Pensions and Other Important Income and Monetary Capital" (Rossiiskoe Obshchestvo dlya Zastrakhovaniya Pozhiznennikh i Drugikh Strochnikh Dokhodov i Denezhnikh Kapitalov), but it was later shortened to the above.

²² *Piatidesiatilietie Vysochaishe Uchrezhdennago Rossiiskago Obshchestva Zastrakhovaniia Kapitalov i Dokhodov*, (*The Fiftieth Anniversary of the Great Establishment of the Russian Company for Insurance of Capital and Income*), (St. Petersburg, by the Company, 1885) p. 40.

The original statutes of the company provided for a corporate organization similar to the First and Second Russian fire insurance companies. This type of shareholder-controlled organization was not satisfactory to the policyholders because their money soon exceeded the stockholders' investment and they felt that they should have a voice in company policy. In 1838, they protested against the Board of Directors fiscal policies and three years later, they were admitted to stockholders' meetings. This life insurance company was the only life company to be founded during the reign of Nicholas I.²³

The business of insuring property against fire grew rapidly during the 1830s and 1840s. The two companies in the field, the First and Second Russian, were unable to keep up with the demand. Certain merchant houses discovered that the exclusive privileges of the fire insurance companies would not be renewed and that the time was ripe to form a new stock fire insurance company. Early in 1846, three St. Petersburg merchant houses petitioned the government for permission to form a new stock fire company to be called the "Insurance Society Salamander" (*Strakhovoe Tovarishchestvo Salamandra*). The petition stated that the First and Second Russian companies were neglecting to fulfill their public obligations, and that these companies were maintaining a highly selective policy which restricted fire insurance to the upper classes alone. The proposed company would offer insurance to all who could afford it.²⁴ The Emperor sanctioned a set of company statutes on April 2, 1846 with the provision that the Salamander not infringe on previously granted monopolies during 1846 and 1847.²⁵ The merchant houses of St. Petersburg quickly raised 3,000,000 silver rubles for capital and the company began business on October 27, 1846.

By the middle of the 1840s, the Russian Empire boasted three fire insurance companies and one life insurance company, but the important field of insurance on transportation of goods was left entirely untouched. To be sure, the government had realized the need for transport insurance as far back as the reign of Emperor Paul. Also in St. Petersburg, in 1822, a group of merchants formed an "Original Insurance Organization of Transports" to assist one another in cases of loss of goods, but the merchants did not offer true insurance.²⁶ Between 1826 and 1846, Count Vorontsov, the Governor General of New Russia, had permitted twelve different groups to try to form stock

²³ *Ibid.*, p. 42.

²⁴ NYIDCD, Salamandra, File No. 2, "Pervsky, Classen, and Plitt to L.A. Pervosky, Minister of Internal Affairs" February 28, 1846.

²⁵ NYIDCD, Salamandra, File No. 1, *Sanktpeterburgskiya Senatskiya Vedomosti* (St. Petersburg Senate Newspaper), No. 27 Tuesday, April 2, 1846 "Ustav ot otnya tovarishchestva pod nazvaniem Salamandra" (Statutes of the Fire Insurance Society "Salamander").

²⁶ *Ibid.*, p. 9.

companies for insurance of goods on ships in the Black Sea and the Sea of Azov, but all had failed to get organized.²⁷

In the middle of the 1840's two different St. Petersburg merchant societies decided to form stock transport insurance companies. The first company, the "Russian Company of Ocean, River and Land Insurance and Transportation of Goods" (Rossiiskoe Obshchestvo Morskago, Rechnago, i. Sukhoputnago Strakhovaniya i Transportirovaniya Kladei) began to organize and sell stock in 1844. However, by the time it began business in July 1847, the other merchant group had formed a company and was already in business.²⁸

The "St. Petersburg Commercial Company of Ocean, River and Land Insurance named Nadezhda" (S. Peterburgskoi Kommercheskoi Kompanii Morskago, Rechnago, i Sukhoputnago Strakhovaniya Pod Firmu Nadezhda), was formed by a group of First Guild merchants on 15 March 1847. The company began operating on 9 April 1847 beating the other transport insurance company into business by three months. This company dealt exclusively in insurance on goods in-transit. It was extremely successful in the first year and was able to declare a 10 per cent dividend to stockholders. The Nadezhda established agencies not only in St. Petersburg, but also in Odessa, Riga, Helsingfors and Viborg.²⁹

All the companies formed during Nicholas's reign were private organizations which sold shares to the public and which paid dividends to shareholders. These companies had a golden era of prosperity during the first thirty years of their existence. All three fire insurance companies had a wide market and the first two even had monopolies in certain areas for a time. The companies insured property valued at 282,000,000 rubles. From 1827 to 1851, the full amount of property value risk amounted to 3,084,472,000 rubles on which 19,557,996 rubles in premiums were collected. Fire insurance losses amounted to 8,742,716 and administrative expenses were 2,081,097 rubles. These statistics indicate that their total losses and expenses amounted to 55.3 per cent of fire insurance premiums collected and that profits amounted to 44 per cent of premiums collected.³⁰ The Russian Life Insurance Company did not do as well as the fire insurance companies, but in the first twenty years of its operation, the company insured 3,309 people and dividends to stockholders were never less than 5.8 per cent annually.³¹

²⁷ *Piatidesiatilietie Uchrezhdennoi s Vysochaishago Soizvoleniia S. Peterburgskoi Kompanii "Nadezhda": 1847-1897 (The Fiftieth Anniversary of the Founding of the St. Petersburg Company "Nadezhda": 1847-1897)*, St. Petersburg, by the company, 1897) p. 2.

²⁸ *Ibid.*, p. 4.

²⁹ *Ibid.*, p. 5.

³⁰ Dobson, Statistical Table #15 gives the full figures for fire insurance in Russia 1827 to 1851.

³¹ *Piatidesiatilietie... Rossiiskago Obshchestva*, p. 102.

The Nadezda company, which insured goods in-transit, expanded beyond the borders of Russia. Overseas offices were founded in Messina, Konigsberg, Paris, London, Amsterdam, Dundee, Rotterdam, New Castle, Rostok, Lubeck, Liverpool, Hamburg, Marseilles and Glasgow. These offices were supplemented by agreements with foreign insurance concerns in Messina, Marseilles, and Gotenburg. This vast transport insurance system of the Nadezhda lasted until the Crimean War when the company was forced to withdraw into Russia proper and give up ocean-marine insurance.³² Nevertheless, the foundations of a diversified and strong insurance system were established during the reign of Nicholas I, and the system begun in this era was to last another sixty-odd years.

The Development of Private Stock Company Insurance During the Reigns of the Last Three Tsars, 1855-1914

The death of Nicholas I, the end of the Crimean War, and the accession of Alexander II, brought important changes to Russia. Alexander's reign ushered in a period of economic expansion which was continued through the reigns of the next two Tsars, and insurance companies shared in this growth.

All the insurance companies founded prior to the Crimean War, had been established in the administrative capital of Russia, St. Petersburg. Moscow merchants, however, felt a need for a fire insurance company in their city, and in 1858, a syndicate was organized which founded the "Moscow Fire Insurance Company" (*Moskovskoe Strakhovoe Ognya Obshchestvo*). The company, beginning business on 28 May of the same year, wrote fire insurance exclusively.³³ At the same time, another company was formed in St. Petersburg called the "St. Petersburg Fire Insurance Company", which began business on 12 May 1858 with a capital of 2,400,000 silver rubles.³⁴

Life insurance companies, however, did not develop as rapidly as did fire insurance companies. Indeed, during these years, the Russian Company for Insurance of Capital and Income was the only life company to be found in Russia. The exclusive privileges of the Russian Company expired in 1855 but the company was quite unwilling to give up its special status. The company effectively argued that the special nature of life insurance, with its long-term accumulation of capital, merited special protection from both domestic and foreign competition. The Ministry of Internal Affairs accepted this argument

³² *Piatidesiatilietie... Nadezhda*, p. 8.

³³ *Moskovskoe Strakhovoe ot Ognya Obshchestvo: 1858-1908 (Moscow Fire Insurance Company: 1858-1908) (Moscow: by the Company, 1909) p. 1-10; and NYIDCD, Moscow, Articles of Association of the Moscow Fire Insurance Company (Moscow: by the Company, 1909) articles 9-12 and nota.*

³⁴ NYIDCD, St. Petersburg, *Articles of Association of the St. Petersburg Fire and Life Insurance Company (St. Petersburg, by the Company, circa 1900) articles 1, 5-8.*

and on November 21, 1857 renewed the company's monopoly for another ten years.³⁵ This monopoly on the life insurance market was not, however, continued after 1867 and the field of life insurance was opened for competition. In June, 1868, acting under special permission of His Majesty, the St. Petersburg Fire Insurance Company changed its name to the "St. Petersburg Fire and Life Insurance Company" and began to do a successful life insurance business.³⁶ This company offered its insurances at a lower premium rate than the Russian Company did and it also gave dividends to its policy holders, thereby forcing the Russian Company to lower its rates. The competition between the two companies made life insurance protection available to a greater part of the population.

Fire insurance companies continued to be organized. Another successful company, the "Russian Insurance Company" (Russkoe Strakhovoe Obshchestvo), was established in St. Petersburg in 1869; and by 1870, Russia had a dozen successful fire insurance companies, two transport insurance companies, and two life insurance companies.

On 31 May 1872, another private stock transport insurance company entered into business. This company, named the "Northern Company of Insurance and Storage of Goods with Delivery of Warrants" (Severnoe Obshchestvo Strakhovaniya i Sklada Tovarov s Vudacheyu Varrantov), was initially established in St. Petersburg but later was moved to Moscow because it ran into difficulties in the capital.³⁷ Its financial position became so precarious that it was given over to new management and in September 1879, was completely reorganized, even changing its name to the "Northern Insurance Company" (Severnoe Strakhovoe Obshchestvo). Thereafter, it ceased insuring warehouses and insured only goods in transit on ocean or river vessels or on railroad trains; but it also began underwriting fire risks.³⁸

In the same year that the Northern was formed, two more companies, engaged in the fire insurance business, were established in Moscow by groups of merchants. The first one, the "Anchor Insurance Company" (Strakhovoe Obshchestvo "Yakor"), began business in June³⁹ and the second, the "Volga Insurance Company" (Strakhovoe Obshchestvo "Volga"), later in the year.⁴⁰

The last successful stock insurance company to be formed in the nineteenth century, was the "Rossia Insurance Company" (Strakhovoe Obshchestvo Rossiya). A syndicate of St. Petersburg merchants raised

³⁵ *Piatidesiatilietie... Rossiiskago Obshchestva* p. 10.

³⁶ NYIDCD, St. Petersburg, *Articles of Association* article 1.

³⁷ *Severnoe Strakhovoe Obshchestvo: 1872-1897 (The Northern Insurance Company: 1872-1897)* (Moscow: by the Company, 1897) p. 21.

³⁸ NYIDCD, Northern, *Ustav Severnago Strakhovogo Obshchestva (Statutes of the Northern Insurance Company)* (Moscow: by the Company, 1907) articles 1, 11.

³⁹ NYIDCD, Jakor, *Ustav Strakhovogo Obshchestva "Yakor"* (Moscow: by the Company, 1980) articles 1, 5, 7.

⁴⁰ Dobson, p. 17.

4,000,000 silver rubles to found the company. This company, the most successful of all the Imperial Russian private stock insurance companies, was officially organized on 20 March 1881 and it began business on 1 May of the same year.⁴¹ The "Russian Transport and Insurance Company" (Rossiiskoe Transportnoe i Strakhovoe Obshchestvo), the only successful stock insurance company formed in Russia in the Twentieth Century, began business in 1904.⁴²

During the period from 1855 to 1914, three major changes occurred in the activities of the Russian stock insurance companies. All the stock companies, except one, had begun by offering either fire or transport insurance exclusively, but in the years after 1855, all, except the Russian Company for Insurance of Capital and Income, which remained an exclusively life insurance company, applied at various times to the government to change their company statutes and insurance rules to include other types of insurance, so that by 1900 there was no company dealing exclusively in one type of insurance.⁴³

The second major change was inspired by the activities of foreign insurance companies admitted to do business in the empire. In the last decade of the nineteenth century, nearly all the Russian stock insurance companies entered into the life insurance field after they had observed the success of the foreign life insurance companies. Their entry into the life insurance field was a great mistake for the Russian companies, since most of them had no experience in this type of insurance. The two Russian companies with any experience in this line, the Russian Company for Insurance of Capital and Income and the St. Petersburg Fire and Life Insurance Company, used mortality tables based on English morbidity data which data were not suitable to Russian life expectancy. The newcomers in the life field at first used no tables, but later adopted German materials. However, these too were unsuitable to Russia.⁴⁴ Collection of data for life expectancy tables based on Russian experience did not begin until 1910 and they were completed in 1916, but too late for use by the Imperial companies.⁴⁵

The last major change in the activities of the stock companies had international significance. The Russian companies, as a result of certain difficulties, had developed a very strong competence in the field of reinsurance.⁴⁶ There

⁴¹ NYIDCD, *Rossia, Ustav Strakhovago Obshchestva Rossiya (Statutes of the Insurance Company "Rossia")* (St. Petersburg: by the Company, 1905) article 1.

⁴² Dobson, p. 17.

⁴³ This conclusion is based on an examination of company statutes found in NYIDCD.

⁴⁴ ALBERT PARRY, "Insurance in Czarist Russia", *The American Conservationist* November, 1936, p. 10.

⁴⁵ *Ibid.*, p. 13.

⁴⁶ Reinsurance is an agreement between two insurance companies by which one assumes all or part of the risk of loss under a policy issued by the other. By means of

was a great international market for reinsurance and after 1896, nine insurance companies sought and received permission to operate outside of the Empire for the purpose of providing reinsurance for foreign concerns.

The main attraction of an international business based on reinsurance is that there is no need to maintain a field force in the host country; all a company need do is establish an office and deal directly with the domestic concerns of that country. All transactions are carried out in the form of contracts (treaties) of reinsurance.

The various Russian companies spread their activities throughout Europe and to the overseas territories of the European powers in a very few years. The companies were even doing business in South and Central American countries at the turn of the century.

The United States of America provided a vast insurance market as well and the Russian companies wished to begin reinsurance operations there also. In the United States, however, a foreign concern could not simply establish an office and begin business. Insurance was regulated and this activity was controlled by each of the several states separately. The most advanced system of regulation was found in New York State. Acceptance by New York State meant that a company was sound and the company, therefore, found itself acceptable to all other states. In order to get a license to do business, a foreign company had to fulfill the provisions of Section 27 of the New York Insurance Law.⁴⁷ These provisions stated that a foreign company had to put up a security deposit to the value of \$500,000 in acceptable securities which would be for the protection of policyholders, \$200,000 had to be signed over to the Superintendent of Insurance (the principal regulatory officer), and \$300,000 had to be signed over to United States citizens who would act as trustees for the company. The United States branch of a foreign concern would also have to submit annual statements on its United States business to the New York State Insurance Department. The United States branch would be subject to on-the-spot examinations once in every five years. In law and taxes, the United States branch would be treated like a domestic concern, except that transfer of assets out of the country was subject to prior approval by the N.Y. Superintendent of Insurance.

In July, 1899, the Insurance Company Salamander became the first Russian company to decide to try to do a reinsurance business in the United States.⁴⁸ Negotiations with the Superintendent of Insurance began im-

reinsurance the risk of loss is spread and no one company is subject to a disproportionately large loss under a single policy. (*A Dictionary of Insurance Terms*).

⁴⁷ Chapter 690 Laws of 1872, "An Act in Relation to Insurance Companies... of Foreign Governments, doing a fire insurance business in this State", Sec. 27 *N.Y. Insurance Law*.

⁴⁸ NYIDCD, Salamander, "Protokol Sobraniya Direktorov Strakhovago Tovarishchestva Salamandra No. 449 (Protocol of the Board of Directors of the Insurance Society Salamander No. 449)" July 16/28, 1899.

mediately. Two hundred thousand dollars were invested by the company in New York City bonds and the bonds were transferred to the Superintendent of Insurance. A trust agreement was arranged with the New York Life and Trust Company and \$300,000 in United States government securities were transferred to this bank for the protection of United States policyholders. The Salamander was admitted to New York and licensed to do business, fire reinsurance, as of December 31, 1899.⁴⁹

The Moscow Fire Insurance Company entered the United States through Connecticut to do a fire reinsurance business at the same time and had to fulfill the same sort of conditions. The company shifted its office to New York in 1903.⁵⁰

The third company to seek admission to the United States was the St. Petersburg Fire and Life Insurance. It was admitted through New York on 2 February 1900. The company, however, never did any business in the U.S. and by a resolution of the board of directors in St. Petersburg, it withdrew from the United States on 23 April 1901.⁵¹

The Rossia Insurance Company was the next to enter the United States for the purpose of a fire reinsurance business, on 5 February 1904. The company moved its offices from New York to Hartford, Connecticut in 1911. The Rossia established a separate branch doing ocean-marine reinsurance in Connecticut on 23 November 1911.⁵²

The First Russian Insurance Company entered New York to do fire reinsurance on 13 February 1904.⁵³ The Russian Reinsurance Company did the same on 6 March 1907.⁵⁴ The Anchor Insurance Company was licensed in New York for fire reinsurance on 20 June 1908.⁵⁵ The last two companies to be admitted to New York were the Northern Insurance Company on 24 November 1911,⁵⁶ and the Second Russian Insurance Company, on 10 December 1913, both to do fire reinsurance.⁵⁷ The Second Russian established a separate marine reinsurance branch in 1916.⁵⁸

Altogether, nine Russian Insurance Companies were admitted to the United States, one withdrew, the other eight remained in business through World War I. Mandated security deposits for the Russian companies

⁴⁹ Entry documents in NYIDCD, *Salamander*.

⁵⁰ Documents in NYIDCD, *Moscow*.

⁵¹ NYIDCD, *St. Petersburg*, some documents list December 31, 1899 as the date of entry.

⁵² Documents attesting to fulfillment of laws involved appears in NYIDCD, *Rossia*.

⁵³ Entry documents in NYIDCD, *First Russian*.

⁵⁴ *Ibid.*, *Russian Reinsurance*.

⁵⁵ *Ibid.*, *Anchor*.

⁵⁶ *Ibid.*, *Northern*.

⁵⁷ *Ibid.*, *Second Russian*.

⁵⁸ *Ibid.*

amounted to over \$4,000,000 but the Russian concerns were required to have much more capital in the United States because premium reserves had to be maintained.

The business activities of the Russian companies were quite widespread. Since reinsurance treaties were concluded with companies doing business with every state in the union the Russians, by extension, did business in every state in the union. For example, even though the Salamander was not licensed to do business in California, it nevertheless paid \$200,000 on reinsurance losses in connection with the San Francisco earthquake and fire in 1905. The companies continued the investment pattern of the home offices by investing heavily in railroad and municipal bonds. Only the United States branch of the First Russian company held Tsarist bonds.

It is difficult to say just how profitable the United States branches were to their Russian home offices since funds passed back and forth between the United States and Russia in a bewildering series of transactions. It seems safe to say, though, that the companies that had entered the United States at the turn of the century, the Salamander, Moscow, and Rossia, had the most profitable business; while the First Russian, Second Russian, Anchor, Northern, and Russian Reinsurance had the least profitable business.

The Russian stock insurance companies found themselves on the horns of a dilemma during the rule of the last three Tsars. On the one side, the volume of business increased constantly; for instance, in the largest line of insurance, fire insurance, the amount of property at risk increased in nearly every year from 1855 to 1914 and while in 1855, three hundred fifty million (350,000,000) rubles of property were covered, in 1910, twelve billion (12,000,000,000) rubles were insured annually, but on the other side profits were failing. By the 1870's the companies were forced to write unprofitable business. The insurance companies we have previously discussed were able to weather the storm, but others were not able to do so. The unsuccessful companies all met their end because they could not maintain a successful profit margin. The Moskva Insurance Company, established in 1888, closed in 1893; the Baltic, formed in 1880, and the Fatherland (*Otechestvo*), formed in 1891, both failed in 1894; the Rossianin, organized in 1890, was put into liquidation in 1896 and; the Commercial Insurance Company (*Kommercheskoe Strakhovoe Obschestvo*), which had begun in 1869, ceased business in 1899, all in the period between 1893 and 1899.⁵⁹ The decline of profits in the face of an increased volume of business was brought about by three factors. First, until 1875, there was no scientific method in use for collecting and analyzing general insurance loss data; each company haphazardly compiled information for its own use. Moreover, since each company insured property in bits and pieces around the empire, and since no company had a business large enough to get an overall sample of insurance conditions, serious mis-

⁵⁹ List of failures supplied in Dobson, p. 17.

takes were made in the rate structure. The second factor accounting for this condition was the establishment of non-stock insuring organizations which competed with the stock companies in the fire insurance field. The last and most important reason for the situation of the stock companies was the rampant and highly destructive competition between the companies themselves. The stock companies became thoroughly alarmed and they realized that they had to work to alleviate this disastrous situation. Early in 1874, representatives of eight Russian stock insurance companies met and decided to establish a Conference of Russian Stock Insurance Companies. Beginning on January 1, 1875, the companies agreed to meet in January, February and September of every year to discuss mutual problems and to apportion the insurance market among themselves to avoid destructive competition. This marked the beginning of a system designed by the companies to protect themselves and to maintain an adequate profit margin. Scientific collection of statistical data began in 1884, when all the companies which belonged to the Conference began to submit data to the Tariff Committee of the Russian Insurance Companies. This Committee prepared rate tables binding on all members. A really workable system of rates, however, did not go into effect until 1905, too late to save the five companies that failed. The Committee acted as the statistical agent of the companies until the disruptions of the First World War.⁶⁰

The stock insurance companies also tried a second method of protecting themselves. They got together and financed a stock insurance company which would act as a reinsurer for all the companies. Each company bought a block of stock and none was issued to the public. Beginning on 2 February 1896, this "Russian Reinsurance Company" (*Obshchestvo Russkago Perestrahovaniya*) accepting reinsurance on all fire, transport, ocean and inland marine, and life insurance risks.⁶¹

During the reign of the last three Tsars, the government took interest in the activities of the stock insurance companies because of various complaints about their financial condition. Prior to 1855, there was no government regulation of the insurance companies, but Alexander II changed this after he ascended the throne. The first act affecting the companies was the promulgation in 1857 of rules governing the affairs of the various boards of directors. The State also required that each of the insurance companies submit its statutes for examination by the government. The statutes were reissued to each

⁶⁰ "Strakhovanie (Insurance)", *Entsiklopedicheskii Slovar (Encyclopedic Dictionary)* (St Petersburg, 1906) Vol. XXXIA p. 739 ff, gives a short history of this syndicate of Russian companies. Statistical material in this article comes from Tariff Committee material. (See also the Appendix for a comparison of U.S. and Russian fire insurance rates 1892-1910).

⁶¹ NYIDCD, *Russian Reinsurance, Ustav Obshchestva Russkago Perestrahovaniya (Statutes of the Russian Reinsurance Company)* (St. Petersburg: by the company, 1905) article 1.

⁶² *Grazhdanskie Zakoni (Civil Laws)*, Vol. X, Part 1 (1857 articles 2139-2188).

firm after they were rewritten according to government specifications.⁶³ Then the Ministry of Internal Affairs began to issue separate Insurance Rules to each company for each type of insurance.⁶⁴ These Rules explained how each type of insurance was to be handled, the duties of the company, and the rights of policyholders. The Insurance Rules were to be incorporated into every policy written. Any changes in Rules or statutes that a company wished to make had to be first sanctioned by the Ministry of Internal Affairs. The government also declared that beginning with 1870, anybody wishing to organize an insurance company had to put up 500,000 rubles as a security fund to be deposited in the state bank. These things were done to stabilize the companies.

The investment funds of the companies also came under governmental control in order to prevent rash investments. By statute, the monies of the companies had to be invested in interest-bearing bonds of the Russian government or obligations backed by a state guarantee.

The large amounts of fire insurance that were written, not to mention life or transport insurance, required, of course, large premium reserves. Insurance capital was, therefore, available for mandated investments in the Imperial Russian economy. The major share of stock insurance company capital went into government guaranteed bonds of the railways of the empire, especially the Kursk-Rybinsk, South Eastern, Tambov-Saratov, Dvinsk-Vitebsk, Ryasan-Uralsk, Kozlov-Voronezh-Rostov, South Western, Moscow-Kazan, Moscow-Rybinski-Vindau, Nicolai, Chinese Eastern, and Kiev-Voronezh railroads. The largest area of investment for the stock companies was foreign government debentures (probably according to Russian foreign policy requirements); at various times the companies owned Swedish, French, German, and American bonds. The companies also loaned money at interest to various government-sponsored land banks such as the Don, Kherson, Nizhni-Novgorod-Samara, Vilna, Tula, Yaroslav, Kostroma, Kharkov, Poltava, Nobility, and Bessarabia-Tauride. Insurance company funds were also invested in bonds of the municipalities of St. Petersburg, Moscow, Voronezh, Poti, Odessa, and Kiev. Other authorized areas of investment included various Imperial bond issues and State loans, real estate mortgages and after 1896 stock in the Russian Reinsurance company.⁶⁵

The regulation of insurance company funds also included conditions for the issuance of loans, selling of pledged securities on default, amounts of

⁶³ *Ibid.*

⁶⁴ *Polozhenie Nadzori za Devatelnostyu Strakhovikh Uchrezhdenii i Obschestv s dopolnitelnimi uzakonenyami (Prescription for supervision of activities of Insurance establishments and companies - with additional legislation)*, (St. Petersburg: Publishing House of the Insurance Section of the Economic Department of the Ministry of Internal Affairs, 1894) is the source for the rest of this discussion on government regulation.

⁶⁵ This information comes from a study of NYLFF microfilm.

capital that could be invested in mortgages, and amounts of real estate a company could acquire.⁶⁶

On 9 October 1899, through the combined efforts of the ministries of Internal Affairs and Finance, the government issued Rules for the Annual Statements of Insurance Companies. These rules dealt with both the form and the content of financial statements that had to be submitted to the government once a year.⁶⁷

The Section for Insurance and Measures against Fire of the Economics Department of the Ministry of Internal Affairs seems to be of some significance in the history of Imperial Russian insurance regulation. This Section is known to have dealt with government fire prevention activities and collection of statistical data, but the extent of its regulatory powers over domestic insurance concerns is unclear.

Insurance regulation did not succeed in Imperial Russia. The list of insurance company failures leads one to believe that more governmental control should have been exercised. The annual financial statements submitted for state inspection were subject to desk audit only. There is no record of any on-the-spot examinations to check the veracity of these statements. The greatest defect in the Tsarist system of regulation was the lack of a unified system of insurance controls. The Insurance Section of the Ministry of Internal Affairs had some control over insurance, but so, too, did the Ministry of Finance, the Ministry of Commerce and Industry, the Ministry of Law, and even the Ministry of Civil and Ecclesiastical Affairs. Other defects of the regulatory system included the lack of a codified insurance law, and the allowing of insurance companies to do fire and life insurance business at the same time and even to do a non-insurance business if they pleased.⁶⁸

These last two practices have always led to abuses of premium reserves and policyholders' money.

Non-Stock Insuring Organizations in Imperial Russia, 1855-1914

It has already been mentioned that there were difficulties for the stock insurance companies after 1855. These difficulties were partially caused by competition in the fire insurance field with non-stock, non-profit mutual fire insurance organizations.⁶⁹

⁶⁶ *Sobranie Uzakonenii i Rasporyzhennii Pravitelstva (Collection of Statutes and Decisions of the Government)*, Article 893, No. 70, June 16, 1898.

⁶⁷ *Sobranie Uzakonenii (Collection of Statutes)*, Article 2024, No. 127, October 19, 1899.

⁶⁸ *Ibid.*, the rules for annual statements provided for a separate report for non-insurance activities.

⁶⁹ In mutual insurance each participant contributes every year to a common fund to cover the losses of other members of the system. All participants are the equivalent of stockholders in a stock company.

The only mutual fire insurance societies in the Empire until 1860 were located in the city of Riga. Prior to 1860, the Imperial government had made several attempts to establish a mutual insurance system. The Emperor Paul had ordered the city governments of Moscow and St. Petersburg to initiate such a system at the end of the eighteenth century, but nothing was accomplished. In the early nineteenth century, the government attempted to make fire insurance on the first 5,000 rubles of property value compulsory in the Polish Kingdom, but this attempt failed as well.⁷⁰ The government of the province of St. Petersburg, in 1844, decreed that all buildings inhabited or used by state peasants were required to have mutual fire insurance coverage. The success or failure of this decree is unknown.⁷¹

During the reign of Alexander I, the Imperial government, too, made fire insurance compulsory in certain cases. In 1864 the newly created *Zemstva* (provincial governments) were each ordered to establish a compulsory mutual fire insurance system which required peasants to insure their own properties.⁷² On 14 December 1866, all provinces without *Zemstvo* type governments were ordered to do the same. Polish Kingdom Mutual Insurance began at the same time. The Cossacks, too, were ordered to establish a similar system in their settlements.⁷³

Government mandated compulsory mutual insurance grew very rapidly, as can be seen in the following table:

GROWTH OF COMPULSORY MUTUAL FIRE INSURANCE, 1875-1905
(in thousands of Rubles)⁷⁴

	Value of Property Insured			
	1875	1885	1895	1905
Polish Kingdom Mutual Insurance	214,216	337,282	435,335	672,303
<i>Zemstvo</i> Mutual Insurance	395,876	673,823	857,866	1473,161
Provincial Mutual Insurance	64,259	179,479	234,541	536,918
Cossack Mutual Insurance	—	—	—	42,977

The Holy Synod began compulsory fire insurance of church buildings in 1909.⁷⁵

⁷⁰ Mentioned in Dobson, p. 15.

⁷¹ *Ibid.*

⁷² See *Polzhenie Nadzori* for text of decree.

⁷³ *Ibid.*

⁷⁴ "Collection of Statistical Information of Provincial and *Zemstvo* Mutual Insurance" collected by the Ministry of Internal Affairs, Insurance Sections, quoted in Dobson p. 4 and "Tariff Committee of the Russian Insurance Companies, Various Dates-1907" quoted in Dobson, p. 4.

⁷⁵ S.P. LUNEVSKII, *Strakhovanie ot Ognya (Fire Insurance)* (St. Petersburg, 1912) p. 12.

The impetus for mutual fire insurance did not come from the state alone. After 1860, groups of interested citizens in various cities formed private, voluntary mutual insurance societies based on the experience of the Riga societies. By 1910, private city mutual fire insurance had expanded to such a degree that of the fifty-five largest cities of the Empire (population over 50,000), forty-two of them (76 percent of all the large cities) had such a society; in the seventy-six medium-size cities (population between 25,000 and 50,000) there were thirty-four societies (46 percent of medium-sized cities had mutual fire insurance societies); and in the 818 small towns in the Empire there were forty-nine societies (6 percent of small towns). It would appear, then, that the vast majority of small towns had to rely on the profit-making stock companies or the provincial societies while the large cities had several sources of fire insurance protection.

The various provinces also had their own separate voluntary mutual insurance societies, as well as government compulsory insurance. The only available information on these voluntary organizations comes from data collected by the stock companies on the town category of insurance (for statistical purposes, fire information was broken up into four main categories and many subdivisions. The town category is a main division). Even with these data, no picture of the operations of this type of insurance can be drawn.

There were other groups offering mutual fire protection besides government compulsory mutual fire insurance, voluntary mutual fire insurance, and provincial voluntary fire insurance societies. There were: regional societies of Estonia, Kurland, Kovno, Letland and Gursensky Volest; German Colony mutual insurance; Baltic Provinces mutual fire aid societies; Agricultural Society of Minsk; Agricultural insurance societies of Kiev, Podolia, and Volhynia; Agricultural mutual insurance society of Kovno; Mutual Insurance Society of Agricultural Commodities ("Snop", in Warsaw); Mutual Insurance Division of the Archangel Union of Timber Merchants; Mutual Insurance Society of Beet Sugar Workers and Refineries of Kiev; and Russian Insurance Union of Manufactures and Mill Owners.⁷⁶

In the year 1912 there were altogether 148 different voluntary mutual fire insurance organizations. Two of these organizations (the Riga societies) existed at the beginning of the XIXth century, thirteen were established between 1860-1870, twelve between 1870-1880, forty one between 1880-1890, twenty between 1890-1900, forty-five from 1900-1910 and fifteen from 1910-1912.⁷⁷

The various voluntary provincial and city mutual insurance societies were not viewed with favour by the competing stock companies, and the companies made several attempts to impede their functions. The government would not allow this, and in 1883, it forbade the stock companies from ac-

⁷⁶ List supplied in Dobson, p. 4-5.

⁷⁷ *Ibid.*

quiring a subsidiary writing voluntary provincial insurance and in 1884 forbade the formation of a subsidiary doing city mutual business.⁷⁸

It would be very interesting to make a long-range comparison of the growth of the various insuring organizations, but a lack of data prevents this. The Tariff Committee of the Russian Fire Insurance Companies did, however, publish a collection of data on the various fire insurance organizations for the year 1905. It appears then, that the combined value of property insured against fire in Russia amounted to 14 billion rubles; the stock fire companies did approximately 66 percent of this business, the four types of government compulsory mutual fire insurance did 19 percent, the city mutual societies 5 percent, and the other 10 percent was distributed among various private mutual insuring organizations.

The cost of fire insurance varied according to whether it was bought from a stock company or a mutual society or whether it was compulsory or voluntary in nature. The least expensive fire insurance came from the city mutual societies, but the stock company insurance was not much more expensive. The other private mutual societies were more expensive and state compulsory insurance most expensive of all.

There was one other type of non-stock insurance system which functioned in Imperial Russia. The Imperial Government was a leader in the establishment of Savings Bank Life Insurance. On 30 May 1905, the Ruling Senate ordered the Ministry of Finance to establish sections and funds for the issuance of life insurance policies in the state savings bank. Between 1905 and 1912 (the only period for which data is available), savings bank life insurance was issued to only 19,000 people.⁷⁹

The final years of the Imperial Russian non-social insurance system were ones of increasing prosperity. The fears arising from the revolution of 1905 were calmed and the future appeared bright.

Fire insurance was now available to the citizen from three different sources: the government, the mutual societies, and the stock companies. The other types of insurance were, for the most part, available only from the stock companies.

⁷⁸ *Sbornik Kassatsionnykh Reshinni Pravitelstvuyushchago Senata po Delam Strakhovykh ot Ognya Obshchestv za 1896-1905* (Collection of Appeal Decisions of the Ruling Senate on the Activities of Fire Insurance Companies for 1896-1905) (Warsaw, 1908) has instances where the fire companies were sued to prevent interference with mutual organizations.

⁷⁹ *Otchet Gosudarstvennikh Sberagatel'nikh Kass po Strakhovaniyu Dokhodov i Kapitalov za 1908, 1912 god* (Financial Statement of the State Savings Bank Life Insurance for 1908, 1912) (St. Petersburg: 1909, 1913).

Foreign Insurance Activity in Imperial Russia, 1880-1914

Any activity by foreign insuring concerns in Russia was discouraged by the Imperial government until the final two decades of the nineteenth century. Until this time foreign concerns perhaps wrote ocean marine policies on Russian sea-going vessels but this business was certainly done outside of Russia.

In the 1880's, however, the St. Petersburg Commercial Company of Ocean, River and Land Insurance named *Nadezhda* found itself in competition with two foreign organizations for a brief time: the English "Lloyds of London" and the Italian "Azienda Assescuratrice". They were issuing contracts of insurance to certain vessels plying major Russian rivers. The *Nadezhda* company complained to the governmental authorities who then excluded these foreign concerns from the Russian market.⁸⁰

In the 1870's a new type of insurance plan came into use in the United States of America, this plan was to pave the way for the entry of American companies into the Russian insurance market. The Equitable Life Assurance Society of the United States (ELAS) revived an old financial idea, the "Tontine" system, in New York State and applied it to life insurance. The revival of Tontinism began an era of the most intensive growth, massive competition, and chaotic finance ever seen before or since in the life insurance business.

The Tontine system was developed from a scheme originally devised by a Neapolitan physician, Lorenzo Tonti (circa 1662), for painlessly solving the financial problems of France. Tonti had suggested that there be a state bond lottery in which the winner of a drawing would receive the accumulated interest of all who bought state lottery bonds; the others would receive no interest but would still retain possession of the principal. The idea had failed badly in France and other attempts to use the scheme fared no better.⁸¹

The application of Tontinism to life insurance ultimately failed too, but only after twenty five years of intensive use.

Under this plan, policyholders who purchased insurance at approximately the same time would be placed in a special Tontine Group or Plan. Their policies provided that all dividends earned during the first 20 years would be placed in a special fund to be distributed to survivors of the group at the end of 20 years. If a person died, or was forced to cancel or let his policy lapse, all dividends earned on his policy up to that time were lost to him and were held for the benefit of those survivors who kept their insurance in force. Some companies issued circulars, and their agents made promises estimating that dividends would amount to as much as \$1,000 on a \$1,000 policy at the end of twenty years.

When only small dividend payments were made in many instances, public

⁸⁰ *Piatidesiatiletie... Nadezhda*, p. 15.

⁸¹ TERRENCE O'DONNELL, *History of Life Insurance in its Formative Years* (Chicago: American Conservation Company, 1936) p. 120 ff.

resentment was aroused, particularly when these dividend payments were compared with the large sums promised by the agent and by the literature of the company. The companies used vast sums of money for lobbying activities. In addition, in some instances, there were close connections between the companies and banks engaged in underwriting securities. These connections were used by company officials for their own personal gain. Frequently, inexperienced relatives of company officials were given responsible positions at inordinately high salaries.⁸²

In New York State the legislature authorized an investigating committee (the Armstrong Commission) to probe thoroughly the activities of New York domiciled life insurance companies, this included all the major companies, during the years 1905 and 1906. The unfavourable disclosures were responsible for an across-the-board ban on all Tontine policies and dashed the hopes of the burgeoning American companies.⁸³

We must, however, return to the 1880s. Immediately after ELAS began issuing Tontine life insurance, the other large American life insurance companies began to issue their own Tontine policies. The New York companies, ELAS, Metropolitan and New York Life insurance Company (NYLIC), expanded businesses on a Tontine basis into Canada and Central and South America. They entered Britain and her Empire and within a few years they were in continental Europe. All three companies established offices in Paris from whence they branched into Spain, Italy, Greece, France, Scandinavia, the German Empire and Dual Monarchy.⁸⁴

Though previously in Russia no alien company was allowed to do business, on 9 November 1871, the Emperor signed a law which provided for the entry of alien life insurance companies provided that: they register with the government; they be responsible for prompt payment of claims; and they make a security deposit of 500,000 rubles — but no alien companies were immediately interested.⁸⁵ The market for life insurance in Russia was constantly

⁸² *Examination of Insurance Companies* (New York: New York State Insurance Department, 1955) p. 6, for an extensive treatment of Tontine policies consult JON S. HANSON and SPENCER L. KIMBALL "The Regulation of Specialty Policies in Life Insurance" *Michigan Law Review*, Vol. 62, No. 2, December, 1963, Section IV "Tontine Policies" p. 167-258.

⁸³ The ten volume *Testimony and Exhibits taken before the Joint Committee of the Senate and Assembly to Investigate and examine into the Business and Affairs of Life Insurance Companies doing Business in the State of New York* (Albany: Brandow Printing Co., 1906) is the history of the most famous investigation into the life insurance field done anywhere. The career of Charles Evans Hughes was made in this inquiry. The total business, including Russia, of life insurance companies mentioned in this paper forms a major part of the inquiry.

⁸⁴ See L.F. ABBOT, *The Story of NYLIC* (New York: by the Company, 1930) and R.C. BULEY, *The Equitable Life Assurance Society of the United States* (New York: Appleton-Century-Crofts, Inc., 1959).

⁸⁵ ELAHP, Text of Decree of November 9, 1871.

growing with the increasing affluence of society but the domestic life insurance companies were not able to attract clients. This vast nearly untouched market showed promise to the rapidly expanding American companies. The first alien company to seek entry into Russia was the New York Life Insurance Company which negotiated an agreement with the Imperial government, dated 5 November 1885. NYLIC agreed to make a 500,000 ruble Imperial bond deposit in the state bank as a guarantee to Russian policyholders. The company also agreed to guarantee its Russian business with all its property. NYLIC had to agree to abide by Russian law and to accept the judgments of Russian courts as binding. An annual financial statement had to be published in the official state paper.⁸⁶ A set of Rules for Life Insurance was issued shortly afterwards by the government, and the company immediately began to establish Tontine groups and issue policies. Most foreign life insurance companies did not want to put down a guarantee deposit and so only two other life insurance companies entered Russia during the Imperial era.

The next company to negotiate a licence was the French company, L'Urbaine-Vie, which was granted entry on 2 June 1889. It entered under a decree essentially the same as NYLIC, including a deposit of 500,000 rubles; however, the Urbaine's security deposit was later raised to 1,000,000 rubles. This company issued two types of policies, whole life and endowment, and did not do a Tontine business.⁸⁷

The Equitable Life Assurance Society was a formidable world competitor of New York Life and certainly would not allow NYLIC to dominate the Russian market. The president of ELAS, hearing of NYLIC's Russian Concession, directed Mr. Gustav Pohl, general manager of the German office, to send an agent into Russia.⁸⁸

A United States citizen, Sidney S. Schmey, who could speak no Russian but only English, German, and a little French went to St. Petersburg in 1886. Schmey immediately began spending large sums of money on parties to which were invited diplomats, Russian Senators, and various artists. He was able to secure, from the very start, a great number of applications and he set up a regular office and even engaged sub-agents. Schmey operated under only one restriction, which was that he secure no business in areas of high mortality. Some concerns (notably NYLIC) and interested individuals noticed

⁸⁶ NYICUSSR, file 1-B, Document 10-A-1, text of decree of admission.

⁸⁷ All information on l'Urbaine-Vie comes from Marcel Lafon, *Des Contrats D'Assurance Sur La Vie Souscrits En Monnaies Etrangères. Ou En Francs-Or* (Paris: Librairie Du Recueil Sirey, 1929) Chapter V and correspondence from Paul Menechal, Actuary and Manager, L'Urbaine-Vie to Paul J. Best September 10, 1964.

⁸⁸ The proceeding material on ELAS in Russia has been developed from information found in the memoranda of July 10, 1928, and June, 1951 "Schoofs to ELAS" as complemented by other letters and memoranda in ELAHP and supplemented by R. CARLYLE BULEY *The Equitable Life Assurance Society of the United States - One Hundreth Anniversary History 1859-1952* (N.Y.: Appleton-Century-Crofts, 1959).

Schmey's activities. They saw him as an all too successful competitor in the vast Russian market, a competitor who worked for a company which had not deposited the mandated security and had not received a concession. The illegal activities of ELAS lasted for four years. During this time all applications for insurance were considered as sent directly to the Society, as if no company representatives were in St. Petersburg. The policies issued were written in German, with the exception of a few in French and English. These policies, however, were mostly payable in rubles. At the time of the company's official admission to Russia, the German policies were rewritten to conform to Russian policy rules, but still had dates prior to commencement of ELAS' official Russian business.

ELAS finally applied for admission to Russia and it received a concession on 7 July 1889, one month after L'Urbaine-Vie. ELAS entered under generally the same terms as NYLIC and L'Urbaine-Vie. The company also had to make a deposit in the State Bank in St. Petersburg of 500,000 rubles worth of Russian Government securities. This deposit could not be withdrawn without the express consent of the Minister of Internal Affairs. All three companies were required, as of 1890, to deposit the full mathematical premium reserve for liability on Russian business, and a special reserve capital fund of ten percent of the net profits. The security demanded for Russian policyholders far exceeded anything the companies had anticipated. The concessions of all the three foreign life companies required that only Russian rubles be used in business transactions, Russian law would prevail, etc., but ELAS had an additional clause in its concession, stating that in any forced liquidation proceeding, the rules and regulation of the Russian government would be sovereign. Although the Society received its concession it could not officially begin business until the Minister of Internal Affairs had confirmed the Life Insurance Rules of the company. Nevertheless, \$2,070,718 worth of business was done in 1890.

The Russian press and Russian trade and industry organizations, prodded by the Russian insurance companies and abetted by the Minister of Finance, began to lobby against the American and French companies, seeking protection for Russian insurance concerns. They were especially against the Americans since they realized that the American Tontine policies were the reason for the success of NYLIC's and ELAS' life insurance business.

The Rules for ELAS, finally issued on 26 July 1890, were essentially the same as that of NYLIC and L'Urbaine, but the Society, in addition, had to establish an extra reserve fund on the Tontine groups. ELAS, of course, was unable to determine the amount that would be actually due on any Tontine group in ten, fifteen or twenty years and, thus, was not able to comply with this rule. A fund of sorts was established that proved satisfactory to the Ministry of Internal Affairs.

Mr. Schmey was able to do some astute recruiting for ELAS. He hired German Ivanovich Schoofs as an agent on 22 June 1893. Schoofs had been

with the Ministry of Internal Affairs, in the Economics Division, Insurance Section and had been working with the group in charge of foreign life insurance companies. Schmey was forced to resign on 29 September 1885 for irregularities in the Company's funds. The second General Manager of ELAS was a Dr. P.J. Popoff, an American of Russian origin, who was recommended to ELAS by the Russian ambassador in Washington. He remained until October 1904. German Schoofs became the secretary of ELAS in Russia in 1895 and he succeeded Popoff as the General Manager in 1904. He remained in that post until December, 1921, when he fled from Russia.

The successes of the American companies aroused bitter animosity in Russian business circles and various protests were made to the government. The American companies introduced General Batcheller the "Tontine Ambassador", into St. Petersburg. In conjunction with the American ambassador this propagandist attempted to counter the adverse publicity presented by Russian interests. Count Sergius Witte, the chief adviser to the Imperial throne, however, decided in favour of domestic concerns. On 25 March 1894, the use of Tontine, Semi-Tontine or accumulated profits policies was forbidden. This law was directed exclusively against the two American companies since they were the only issuers of these types of policies and did all their business in Tontine policies. Russia was the first country to forbid Tontine methods. This prohibition was put into effect in New York State also (in 1906), ending the Tontine era.

The Russian business of the American companies declined noticeably for several years. ELAS collected only \$1,761,708 (3,523,416 rubles) in premiums in 1895, but was able to boost business again after 1897, when it issued a special Russian policy which, although paying dividends yearly, made its first dividend payment at the end of the third year. In 1899, \$4,676,199 (9,352,398 rubles) was written by ELAS and in 1900, \$5,477,385.

The situation of the American companies in Russia became considerably better after 1899 when the Russian companies began to do a fire reinsurance business in the United States. The Russian companies did not want retaliation. Both NYLIC and ELAS were New York domiciled companies and eight out of the nine Russian companies that did business in the United States entered through New York.

The Russian branches of ELAS, L'Urbaine, and NYLIC, operated under many restrictions. The home offices did not allow them to write risks in areas of high probability of loss. A letter dated 17 February 1892 from the home office of ELAS to St. Petersburg, forbade business in Nizhny-Novgorod because of high mortality. Further restrictions later in the year stated that "no business shall be done east of Moscow or in Siberia, Russian possessions in Central Asia or in the Caucasus, unless specifically authorized in such cases".⁸⁹ As conditions became better, business was expanded to include lives

⁸⁹ ELAHP, "Home Office to Schmey" 3, December 1892.

in all of European Russia, except areas of high hazard such as Astrakhan and border areas: The Siberian Railroad was later taken as a measure of insurability, no insurance was issued to those living beyond the rail-head.

Other restrictions on the business of the foreign life insurance companies came from the Imperial government itself. The foreign life companies were under very strict control, a control which was not extended to domestic companies. The main offices of the Russian branches had to use books of numbered premium receipts, stamped by the Ministry of Internal Affairs. By means of the stubs, the government maintained a constant check on the amount of premium reserves to be deposited. The companies were subject to yearly examination and had to make an annual report to the Ministry of Internal Affairs. The amount of premium reserve was adjusted on a yearly basis.⁹⁰

ELAS, NYLIC, and L'Urbaine remained until the 1917 revolution. All three companies felt a squeeze on deposited securities when their values shrank because of the panic created by the 1905 revolution. The Tontine groups of the American companies were all paid off by 1914. ELAS, in view of the Russo-Japanese War and the 1905 troubles, decided to cease writing new business as of 1 April 1906, and its agency system was dissolved. It later renewed operations but restricted itself to principal towns of European Russia. Its old agency system was gone and since conditions had changed (the Salamander for instance, was offering 80 percent commission to agents on first-year business,⁹¹ compared with ELAS' 30 percent) the active period of ELAS in Russia was at an end. NYLIC and L'Urbaine, however, continued to accept new applicants for insurance.

The End of the Imperial Russian Insurance System, 1914-1932

The end of Tsarist Russia was fast approaching at the beginning of the second decade of the XXth century, but no one suspected the utter catastrophe that would occur.

The domestic Russian companies and insuring organizations were doing well and at first World War I did not greatly affect them. As is common to all insurance companies there were clauses in their insurance policies excluding losses due to war. The organizations soon, however, began to feel the pressures of both rising inflation and decreasing confidence in the government. As a result their positions became more precarious as the war years progressed.

The three foreign companies were doing well prior to World War I. The fears caused by the revolution of 1905 were calmed. At the beginning of 1914 a German life insurance company, the "Victoria", received a concession to do

⁹⁰ Mention is made of this close supervision in both ELAP, NYLICUSSR, and Lafon.

⁹¹ NYIDCD, Salamander, "Supplement to Balance Sheet for 1919".

business, but because of the war it never had time to organize its Russian office.⁹²

The beginning of the Great War caused immediate disruption in the operations of the foreign companies in Russia. The European offices of the American companies were cut off from each other and so the Russian branches were forced to deal directly with their home offices; something they had not done previously.

The New York Life Insurance Company ceased writing new business as of 31 December 1917, when affairs in Russia were already far deteriorated. The financial report of the company shows that it had 56,753,667 rubles in assets in Russia in 1916.⁹³

The Urbaine-Vie continued writing insurance until 1918. In 1918 it had policies on the lives of 16,000 people and had an annual premium collection of 9,000,000 francs (worth at that time \$1,800,000). The company had 43,000,000 francs invested in Russian government bonds and railway stocks and owned an office building in St. Petersburg costing 1,800,000 francs.⁹⁴

The approach of the war caused the Equitable Life Assurance Society of the United States to suspend the writing of new business on 25 July 1914. However, it remained in Russia until 1918 servicing its older policyholders. In 1918 the Society had 6,500 policies in force at a face value of 27,000,000 rubles. The 500,000 ruble security deposit and the premium reserve fund were still in Russian banks.⁹⁵

As the war progressed, due to increased difficulty in getting the mails through, the branch offices of the three companies had considerable problems even in contacting the home offices. Often two or three copies of a message had to be mailed at various times in order for one to get through. The companies were losing money also because Russian currency began to depreciate from 1915 and its value fell continually throughout the war and by 1918 Imperial rubles were worth practically nothing. The Imperial Government also put numerous restrictions on transfer of funds out of Russia.

The business of the foreign life companies was never very satisfactory in Russia. Though the mortality rate in Russia was very high, the foreign companies were not allowed to take this into account in their business dealings.⁹⁶ The American companies were required to use American experience in apportioning dividends to policy holders and America did not have as high a mortality rate as Russia did. The Urbaine had used French experience to the same effect.

⁹² Lafon, p. 178.

⁹³ NYLICUSSR, *Finasovi Otchet-1916* (Financial Report-1916).

⁹⁴ "Menechal to Best" September 10, 1964.

⁹⁵ Buley, p. 201.

⁹⁶ The Rules required the same dividend be paid to Russian policyholders as to American or French policyholders.

This condition was aggravated by the fact that the foreign companies were often fooled by the Russians. As one medical examiner for NYLIC said, the required documents proving death were frequently fraudulently obtained and the small operating forces at the head offices of the companies could not actually check on the veracity of the submitted documents.⁹⁷ Moreover, the Russian government required payment of claims. All things considered, the Russian business of the foreign life companies was not very profitable and certainly did not yield a sufficient return for all their investments.⁹⁸

The Bolshevik seizure of power did not immediately spell the end of either the foreign or domestic insurance organizations. The first move against them came when the Bolsheviks ended interest payments on government obligations as of 29 December 1917.⁹⁹ Since all insurance companies had investments in government issued or backed stocks and bonds and depended on interest to keep solvent, the Soviet decree was a severe blow. The next adverse move by the revolutionary government was the declaration of a government council, which had regulatory power over all insurance activities.¹⁰⁰ Nevertheless, the companies continued to function. However, one year after the coup d'état, without warning, the Soviet Government abolished stock company insurance entirely.¹⁰¹ On 13 December 1918, all the foreign and domestic insurance company offices in Moscow and Petrograd were seized along with all their available assets. In February, 1919 the People's Bank announced the transfer of all stock insurance company funds in government controlled banks to the State account. On 20 November 1919 all insurance contracts whether issued by the State bank or private concerns were declared null and void.¹⁰²

The non-stock insurance system also fell to Bolshevik control. Local committees of communists took over both the provincial and the city mutual fire insurance societies and incorporated them into the local soviet government. These fire insurance organizations continued to function until 1920, when they were liquidated.¹⁰³ This ended all vestiges of the old Tsarist system of insurance in territory under the control of the Soviets.

Outside of effective Soviet control, a few companies were able to continue business. The Salamander established the Reinsurance Company Salamander

⁹⁷ T. O'DONNELL, "Recollections of a Medical Examiner in Czarist Russia", *The American Conservationist* May, 1936, p. 17.

⁹⁸ The same conclusion is reached by Lafon.

⁹⁹ *Sobranie Uzakonenii i Rasporyazhenii Rabochego i Krestyanskogo Pravitelstva (Collection of Statutes and Decisions of the Workers and Peasants Government)* No. 13 (1917), Article 185, published December 29, 1917.

¹⁰⁰ *Ibid.*, No. 30 (1918), Article 397, published March 23, 1918.

¹⁰¹ *Ibid.*, No. 86 (1918), Article 904, published December 1, 1918.

¹⁰² *Ibid.*, No. 56 (1919), Article 542, published November 20, 1919.

¹⁰³ F.V. KONSHIN, *Gosudarstvennoe Strakhovanie v SSSR (State Insurance in the USSR)* (Moscow: Gosfinizdat, 1961) p. 51.

of Copenhagen to handle its foreign business, and its Russian business was carried on through an office in Kiev, a city not yet under Soviet control.¹⁰⁴ Though the office at Kiev was later destroyed, the Copenhagen company lasted until 1932, when the remaining assets were divided among surviving stockholders. The Rossia company turned its United States branch into a United States company called the Rossia Insurance Company of America in 1919.¹⁰⁵ The Anchor Insurance company domesticated its United States branch and called it the Anchor Insurance Company of New York.¹⁰⁶ The Anchor of New York remained until 1926, when it merged with the American Equitable Insurance Company.¹⁰⁷

The boards of directors of all the Russian companies doing an international reinsurance business fled to Paris either during or after the war. The United States branches of five of the Russian companies remained active until 1925 when the Russian Reinsurance, Northern, Moscow Fire, First Russian, and Second Russian were taken over by the New York State Insurance Department for liquidation. More than \$6,000,000 was involved in these proceedings and it took seven years to settle the main problems of liquidation. Five million, four-hundred thousand dollars (\$5,400,000) were finally distributed to creditors and surviving stockholders.¹⁰⁸

The three foreign life companies were, of course, destroyed in Russia but, after the war, escapees sued the companies for the cash value of their policies. In Britain and France the companies were found liable for the policies, but in Imperial rubles which were worth nothing.¹⁰⁹ In the United States, the Equitable Life Assurance Society refused to pay these claims and fought in court until 1932 when a decision of "no liability" was entered.¹¹⁰ The New York Life Insurance Company, on the other hand, paid out several million dollars until the court decision of 1932.¹¹¹ The year 1932 marked the end of active litigation concerning Imperial Russian insurance and the whole system passed into history.

¹⁰³ F.V. KONSHIN, *Gosudarstvennoe Strakhovanie v SSSR* (State Insurance in the USSR) (Moscow: Gosfinizdat, 1961) p. 51.

¹⁰⁴ NYIDCD, Salamander, "Supplement to the Balance Sheet for 1919".

¹⁰⁵ NYIDCD, Rossia, Domestication papers.

¹⁰⁶ *Ibid.*, Anchor.

¹⁰⁷ *Annual Report of Superintendent of Insurance* (Legislative Document) Vol. 1, 1961, p. 227a.

¹⁰⁸ The complete proceedings are contained in fifty folio volumes in the New York County Clerk's Office, Division of Records.

¹⁰⁹ "Perry v. Equitable" *Times Law Reporter* Vol. 45, beginning p. 468, (King's Bench, April 1929).

¹¹⁰ "Dougherty v. Equitable" *New York Reports* Vol. 226, beginning p. 71.

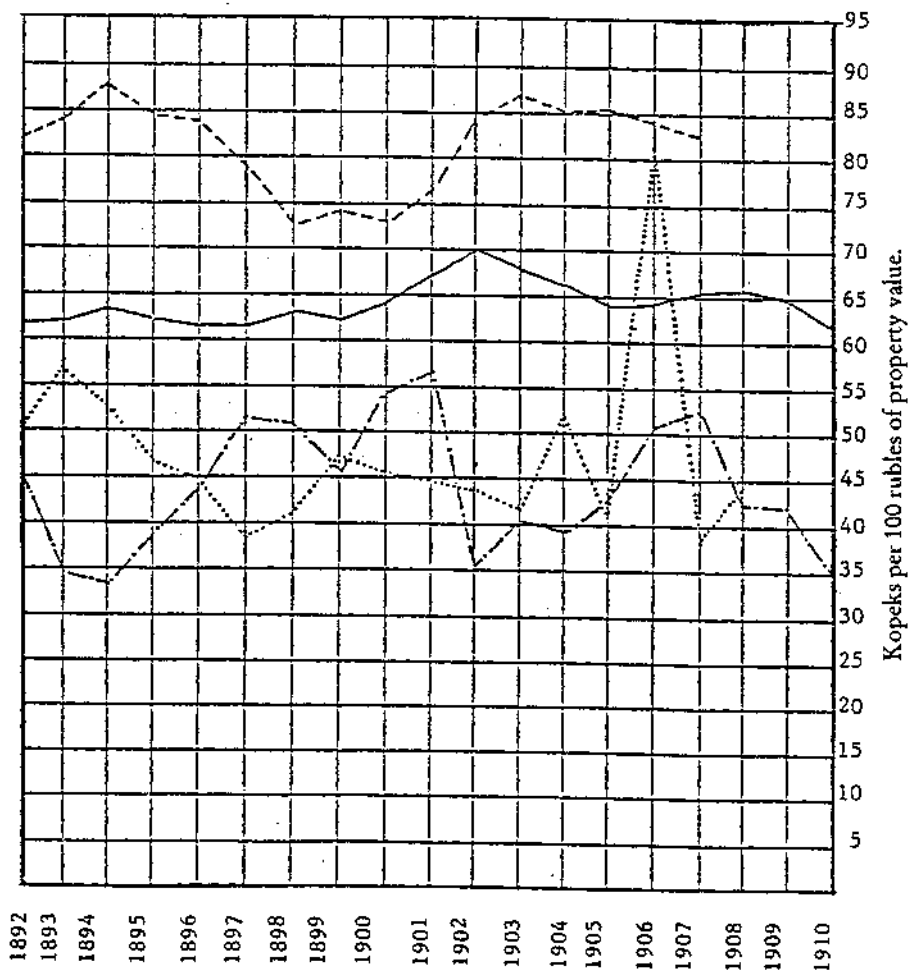
¹¹¹ The claim found in NYLICUSSR is partly based on the funds expended by NYLIC in settling accounts before 1932.

A Comparison of U.S. Stock Fire Insurance Companies and Russian Stock Fire Insurance Companies as to:

1. Average Premium on Similar Property
2. Fire Losses Paid on Similar Property

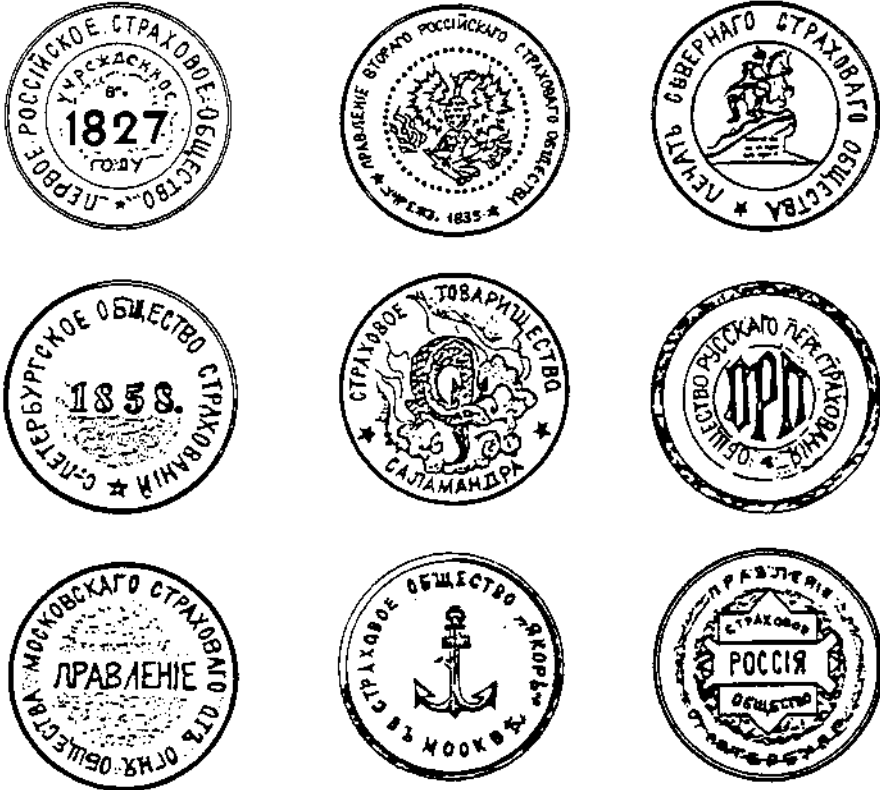
KEY

1. Average Premium U.S. Co.'s - - - - -
- Average Premium Russian Co.'s _____
2. Fire Losses Paid U.S. Co.'s
 - Fire Losses Paid Russian Co.'s - - - - -



APPENDIX

Comparison of U.S. and Russian fire insurance companies



The anonymous Russian author of *Company Fire Insurance in Russia 1827-1910* made a comparison between insurance rates and losses in the United States and the Russian Empire. He stated that he used materials from "Insurance in the United States of North America" by a Mr. Jarin from a publication of the "Society for the Study of Insurance" (1910, No. 3) for the years 1891-1895, and materials "from the review published by the 'National Board' (New York, May 13, 1909)" for the years 1896-1908. A search in the best insurance library in the U.S.A., that of the Insurance Society of New York, has failed to turn up a Society for the Study of Insurance. However, the figures the author quotes from the "National Board" are correct and are taken from tables I-X of *Proceedings of the Forty-Third Annual Meeting of the National Board of Fire Underwriters, May 13, 1909*. He proceeds to make an eighteen-year comparison between the U.S. and Russia. If both the Russian statistics and the U.S. ones are correct, then he has made the point that the Russian fire companies had better results and offered cheaper insurance than did American companies. It is doubtful that a accurate comparison can be made, but the following chart is adapted to illustrate the Russian author's conclusions.

