<u>Trading on Risk</u>

How the War of 1812 Affected the Queens Insurance Company

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Abstract:

Through the lens of the Queens Insurance Company's insurance journal, the growth and challenges of the marine insurance industry within Canada during the War of 1812 is explored. As the first war that any insurance agencies within the British colonies in North America faced, it tested the capacity of young colonial insurance companies to adapt and manage risk. Through these journals it is possible to track the financial risks and precautions the business took in a time of war.

The War of 1812 created conditions and climate of risk that had significant impact on colonial marine insurance companies, such as Queens Insurance Company in Liverpool, Nova Scotia, which had to adapt underwriting rules and premium strategies to survive the risks of wartime. With the increase of risk to ships due to the War, underwriters and stockholders in the Queens Insurance Company needed to adjust and solidify their policies to help negate those risks. Penalizing those that chose higher-risk shipping lanes by charging higher premiums not only served to negate the risk but also encouraged use of safer routes which the underwriters deemed to have acceptable risk levels. The length, duration, and type of voyage were specified within the policy. The voyages that took higher risks were penalized through higher rates. Their need to be competitive in an international market and the wealth they were able to accumulate through the War years are reflective of marine insurance in Britain and the United States. The Queens Insurance Company is not a unique case, but telling of a larger trend of increased premiums, risks and prosperity through war. Marine insurance companies such as Lloyds of London and American companies had handled wartime uncertainties with raised premiums and exceptions. Insurance companies in Canada started to grow at the beginning of the nineteenth-century. The War of 1812 is the first true test of their abilities as a competitor within the global market. The Queens Insurance Company was one of several small, local insurance organizations that emerged in Nova Scotia to offer a local insurance alternative and the War of 1812 tested their ability to survive and manage the risks associated with wartime marine insurance.

To understand the impact of war, it is necessary to know how the insurance industry functions, which even two hundred years later has not seen the basic principles change. According to Lewis E. Davids in his *Dictionary of Insurance* the term insurance means, “The contractual relationship that exists when one party, for a consideration, agrees to reimburse another for loss caused by designated contingencies.”[1] During the eighteenth-century it became common practice that most vessels embarking on a voyage would purchase an insurance policy.[2] The amount they paid is referred to as a premium, or consideration, and fluctuates over time as the company adapted business practices over the War years. Blanket policies made very little exclusions on the coverage offered by these insurance policies. The 1814 policy from Halifax, Nova Scotia, details all the things it is able to cover:

> … do take upon us [underwriters] in this Voyage – they are of the Seas, Men of War, Fire, Enemies, Pirates, Rovers, Thieves, Jettisons, Letters of Mart, and counter Mart, Suprizals, Takings at Sea, Arrests, Restraints, and the Detainmant of all Kings, Princes and People of what Nation, Condition or Quality foever … all other Perils, Losses and Misfortunes that have, or shall come to Hurt, Detriment or Damage of the said property … [3]

The quote is notable for the extensive coverage that is offered. Almost any calamity that could happen was included in this policy. As long as the masters of the ship could prove that they had taken reasonable precautions than the insurance company covered all the damages. This generalized approach created an environment of high risk and high reward.

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[1] Lewis E. Davids, *Dictionary of Insurance* (Totoya: Rowman & Allanheld, 1983) [Davids, *Dictionary*] 161

[2] Thomas Akins, *Insurance Journals*, 1803-1817, MG1 Vol2-7, Nova Scotia Archives [Akins, *Journal*]

[3] James Thom and Company, *James Thom and Company insurance policy on the schooner Favourite*, 1814, MS-4-213, SF Box 46, Folder 10, Dalhousie University Archives

The Queens Insurance Company [QIC] was a joint stock marine insurance corporation. This type of marine insurance company was becoming more prevalent around the world by the early 19th century. During the quasi-war with France, American insurance companies saw a boom in joint stock marine insurance corporations and a sharp decline in private insurance firms.[4] It was through times of war that the gamble of investing in insurance was tested. Private companies might make more money, but the stress of having to pay out claims during times of such high risk was too financially insecure. They needed to have a larger base in order to counteract this risk.[5] A joint stock marine corporation had a handful of stable investors who doubled as underwriters.[6] Through splitting both the income and the cost of the insurance agency, these companies were able to flourish through difficult times thanks to their ability to ease the strain of paying out claims. For a location such as Liverpool, Nova Scotia, with a smaller population than London or Philadelphia, the ability to have a fixed number of shareholders and underwriters through the joint stock marine insurance corporation also helped create a viable business in a small market. Unlike Lloyds of London, which started as a coffeehouse frequented by sailors, who would publish the ships about to head out and men could literally put their money down, and allowed for anyone to underwrite any policy, there was not the volume of traffic to support such an approach in the smaller market of rural Nova Scotia.[7] Despite being a local option, QIC still needed to compete

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[4] Christopher Kingston, "Marine Insurance in Philadelphia during the Quasi-War with France, 1795-1801." *Journal of Economic History* 71, no. 1 (2011) [Kingston, *Philadelphia*] 164

[5] Kingston, *Philadelphia*, 175

[6] Ibid.

[7] Lloyd's, History, 2015, http://www.lloyds.com/lloyds/about-us/history (accessed 11 03, 2015)

with Lloyds of London. As Julian Gwyn wrote, "… many ship owners, especially those with larger vessels, still relied on Marine Insurance offered in Britain." [8] It was seldom that a ship larger than a brig would purchase insurance from QIC and most times the voyages would be smaller in nature and take place along the Canadian, American or Caribbean coast.[9] Despite these international competitors the QIC was able to become a solid investment during the War of 1812.

The lens into the world of this company comes from the insurance journals of Thomas Akins. He wrote the marine insurance policies for the Queens Insurance Company from 1803-1817.[10] He was a local man and merchant who had grown up in Township of Falmouth.[11] As the agent for the company it was his job to broker a policy between the shipmasters and the private underwriters he represented. As the company agent, Thomas Akins made fifty pence per policy regardless of size.[12] His insurance journals create the backbone for understanding how the War of 1812 affected the Queens Insurance Company. Each page outlines the voyage details, price and underwriters for each policy that was written during those years. The insurance journals offer an insight into the economic impact of the War on the insurance industry and the growth of a newly formed colonial insurance company. Through these journals it is possible to track the financial risks and precautions the business took in a time of war.

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[8] Julian Gwyn, *Excessive Expectations: Maritime Commerce and the Economic Development of Nova Scotia, 1740-1870* (Montreal: McGill-Queen's University Press, 1998), http://books.google.ca/books?id=IpYQPmMFECwC, 216
[9] Akins, *Journal*
[10] Nova Scotia Archives, *Akins family fonds*, https://memoryns.ca/akins-family-fonds (accessed 11 30, 2015)
[11] Ibid.
[12] Akins, *Journal*

Private investors underwrote the Queens Insurance Company in Liverpool. These citizens would own a share of the company and be responsible for paying out claims. Depending on the percentage of the company they owned they would pay that percentage of the claim. On October 26, 1811, Brig Hope was insured for £800 on its voyage from Liverpool, NS to Saint John's, NFL.[13] At the time, there were twenty-six underwriters. Snow Parker held the largest share, and, if anything were to happen to Brig Hope on its journey, he would be responsible for paying £62.10 towards the total claim. If nothing were to happen, then Parker stood to make £3.15 on the policy.[14] The men who comprised the underwriters for the QIC were pillars of the community and, more importantly, key players within maritime economics. Snow Parker was reputed to be the richest man in Liverpool during these years. He made his fortune not through his political or judicial careers, but as a privateer.[15] He was not the only one with connections with the privateering economy. All of the underwriters had stable incomes from outside sources and a working knowledge of trade and marine life.

Before the War of 1812 the marine merchants of Liverpool still faced risks during voyages. Many of the investors in QIC had firsthand experience with those perils. In 1811 underwriter John Barss lost his Brig Caroline to French privateers in the West Indies; after which he traded his captain's office for a merchant's office on land.[16]. He

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13 Akins, *Journal*, policy no. 412
14 Akins, *Journal*, policy no. 412
15 J. B. Cahill, "PARKER, SNOW," *Dictionary of Canadian Biography*, vol. 7, University of Toronto/Université Laval, 2003 http://www.biographi.ca/en/bio/parker_snow_7E.html (accessed November 27, 2015) [Cahill, *Snow*]
16 John G. Leefe, "BARSS, JOHN," Dictionary of Canadian Biography, vol. 8, University of Toronto/Université Laval,

was not the only one. Another underwriter, Snow Parker, had been held captive for ransom by privateers at the age of 18.[17] Out of twenty-seven underwriters, more than half of them had experienced loss or damage of property due to privateers, and all of them had faced the realities of the risk marine travel posed by its very nature: swells, storms and currents. As the underwriters for policies, they were intimately aware of the stakes involved with marine travel. Their knowledge and expertise provided them with the capacity to make sound business and investment decisions during wartime when they effectively assessed risks and adjusted policy premiums and proper coverage.

(Excerpt Ended)

2003http://www.biographi.ca/en/bio/barss_john_8E.html (accessed November 27, 2015) [Leefe, *John Barss*]

[17] Cahill, *Snow*