

How Benjamin Franklin Became the “Father of American Insurance”

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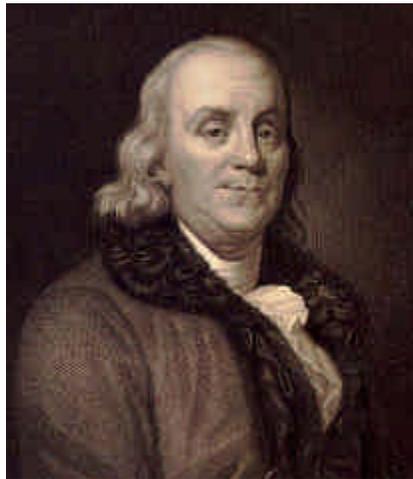


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In the spring of 1730, a major fire broke out in Fishbourne's wharf in Philadelphia, destroying stores and homes and threatening to consume the entire city. Till then, the city owned only one old engine (a cart with a hand-pump, water barrel and hose), a few leather buckets and wooden ladders. Panicked by this fiery disaster and generally unprepared to fight the ever-present danger of fires, Philadelphia purchased three additional engines, 20 ladders, 25 iron hooks (attached to long wooden poles and used to pull down burning walls), and 400 buckets and stationed this equipment at various strategic spots around the city. Still, the great danger of a massive, citywide conflagration persisted, since there was no organized fire-fighting force and the equipment was extremely primitive.

On February 4, 1735, following another fire, a most interesting letter on the subject of preventing and extinguishing fires appeared in The Philadelphia Gazette, a newspaper that had the largest circulation in colonial America. The letter, presumed to be written by an old citizen who had considerable experience with and knowledge of fires, contained well-reasoned advice, offered numerous reforms and

told of the formation in a "city in a neighboring province" of a "society of active men belonging to each fire engine, whose business is to attend all fires whenever they may happen. Be-



For Franklin, insurance was an idea 'whereby every man might help another without any disservice to himself.'

sides becoming proficient from practice, these men hold quarterly meetings to talk over how they can improve their methods. Since the establishment of the Society," observed the letter writer, "there has been no extraordinary fire in that place."

Additionally, the author admonished Philadelphians to carry burning coals from one room to another "in a warming pan and shut," and he proposed prohibiting "too shallow hearths" and wooden moldings on each side of the fireplace. He advised that chimneys be cleaned more carefully and frequently and that chimney sweeps be licensed and held liable and fined for any chimney fire that occurred within 15 days of a chimney cleaning. In the spirit of his suggestions, the letter-writer remarked: "An ounce of prevention is worth a pound of cure."

The city's first fire-fighting group

The letter aroused Philadelphians to form the city's first fire-fighting organization. Its author? Benjamin Franklin, of course, then the 29-year old publisher of the Gazette, who was soon to create America's first organized fire brigades and found the incipient nation's first fire insurance company, The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire.

Franklin and four others soon founded Union Fire Company, the pioneer fire-fighting brigade. This voluntary association quickly grew to its

prescribed membership limit of 30 men. Each man purchased buckets, hooks and other equipment to take to a fire. Any man who failed to answer the fire-call or was negligent in maintaining his fire-fighting equipment was fined. The members met once a month for "a social evening together, in discussing and communicating such ideas as occurred to us on the subject of fires" according to Franklin. Many more wanted to join the Union Fire brigade, and "they were advised to form another...; and this went on, one new company being formed after another, till they became so numerous as to include most of the inhabitants who were men of property" (Franklin). Soon "half a dozen volunteer fire companies were earnestly functioning in the city. As a result of their collective zeal, Philadelphia became, so far as fires were concerned, the safest city in America" (John Bainbridge, *Biography of An Idea: The Story of Mutual Fire and Casualty Insurance*).

Never satisfied, Franklin continued to urge fire prevention methods. He opposed the boiling of oil indoors. He noted that the use of axes to open holes in a building near Christ Church had enabled the water from engines and buckets to enter the building more readily and do "ten times the service it could otherwise have done."

The Franklin Stove

Four years after organizing the fire company, Franklin invented a new kind of stove that was safer and more efficient in saving fuel than any then available. He called it the Pennsylvanian Fire-Place, but it soon came to be known as the Franklin Stove. Many assume this stove was built to make a better fire, but Franklin actually designed it to prevent a bigger fire. It contained the fire's flames so that hot embers did not shoot out onto the floor and start fires, as often happened with fireplaces. Franklin's intention in in-

venting the lightning rod was also to prevent fires by protecting "habitations and other buildings from mischief by thunder and lightning." Still, despite his continuing education in preventing fires and ongoing improvements in extinguishing them, Franklin realized that the occurrence of all fires could not be prevented. People would still suffer property damage and loss from fire.



The Firemark of the Philadelphia Contributionship

Franklin broached the idea of forming an insurance company at a meeting of the Union Fire Company on February 26, 1750. The minutes show the members agreed to raise a thousand dollars for "a fund for an Insurance Office to make up the damage that may arise by fire among this Company." In this way, each member of the fire company would be indemnified if his property were damaged or destroyed by fire. Franklin and two others were appointed as the investment committee with authorization to lend at interest half the money in the fund, which they lent to a merchant. This transaction is the first known investment by an American insurance company.

A year later, Franklin proposed extending the insurance program and its benefits beyond the fire company's members. Again, a committee consisting of Franklin and another member called a meeting of all the fire compa-

nies. These firefighters, the core of the first incorporated insurance company in America, met on September 7, 1751, and voted to provide insurance benefits for all the citizens of Philadelphia. The following notice appeared on February 18, 1752, in Franklin's Gazette:

All persons inclined to subscribe to the articles of insurance of houses from loss of fire, in or near this city, are desired to appear at the Court-House, where attendance will be given, to take their subscriptions, every seventh day of the week, in the afternoon, until the 13th of April next, being the day appointed by the said articles for electing twelve directors and a treasurer.

A mutually owned company

The insurer was a mutual company "apart from all views of separate gain or interest." Those individuals wishing to insure through the new company signed the Articles of Association or Deed of Settlement. The lieutenant governor of the province was the first to sign, indicating the government's approval of the project. The first private citizen to sign was, of course, Benjamin Franklin. Two other insurance subscribers also signed the Declaration of Independence 24 years later. One of them, Robert Morris, became the Revolution's chief financier.

The first meeting of the subscribers was held on March 25, 1752, at which time twelve directors, headed by Franklin, were elected. Two directors were master craftsmen in carpentry, Joseph Fox and Samuel Rhodes; they soon made important contributions to the process of evaluating and underwriting risk. The minutes of the fourth meeting contain a resolution that "Benjamin Franklin is desired to get a sufficient number of policies printed." The Contributionship issued its first policy on June 26, 1752, to the company's treasurer. Franklin took out two policies on rental properties; ironically,

they were issued on July 4.

From 1752 to 1784, the Philadelphia Contributionship remained the country's only fire insurance company. The idea of insurance took time to mature. After all, only 3 percent of the population was urban, and the Revolutionary War, the formation of a national government and a severe currency crisis occurred in the intervening period. But that time proved valuable to the development, testing and perfection of the mutual insurance concept, for the Philadelphia Contributionship initiated several important improvements.

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The first improvement was the practice by Fox and Rhodes of surveying or inspecting every building before a policy was issued. They required changes and corrections to the property if it was not up to the company's standard. Fox and Rhodes had a master craftman's eye for construction, materials and potential hazards. Their inspection system constituted a rudimentary beginning of rating risks and a process of selecting those properties that demonstrated the owners' interest in preventing loss.

The second improvement consisted of setting the rate or insurance premium relative to the quality of the risk. A rate was determined on each building by taking into consideration Fox and Rhodes' written inspection report and its evaluation of the type of struc-

ture, its construction, materials, occupancy, upkeep, safety or firefighting-enhancement features (like an opening to the building's roof), and the property's general risk character.

In 1763, when Franklin took out his third policy, the policyholders voted unanimously to correct a prior defect in their insurance company's operations. While the number of policies had increased 6-fold during the company's first decade, its financial position was weaker than its first year of operation. The amount of insurance in force and policyholder deposits were less than in 1753. New business had slowed. The reason was that no provision had been made to use the interest on deposits to create a reserve. Instead, the interest was being divided among policyholders on a pro rata share of their deposits and paid to them as individuals. Consequently, a loss of a few thousand dollars could potentially deplete the deposit account and bankrupt the company.

Accumulation of safety reserves

Therefore, the policyholders agreed in 1763 to put all deposit monies in a common account from which incurred losses should first be paid from the interest accumulated in the account, not the principal. "Thus was enunciated for the first time in America the great principle of insurance-accumulation of safety reserves" (Bainbridge). Years later at the Contributionship's centennial meeting, the chairman offered a singular hope for those who might gather at its two hundredth anniversary. He hoped they "will have as much reason to speak as favorably of us for our constancy in the maintenance of the great principle of 1763-the devotion of all that the company can gain to the payment of all that the members can lose"-as he had to speak of the "wisdom and foresight" of those who went before him "in introducing the principle

among us."

By the first annual meeting, in 1753, the company had issued 143 policies and suffered no loss. Franklin was re-elected director, but he moved on to reform the postal service as Deputy Postmaster General after his second term. Franklin continued, however, to think about fire prevention even while serving his nation overseas. From France he wrote to Samuel Rhodes: "It appears to me of great importance to build our dwelling houses, if we can, in a manner more secure from danger by fire. We scarcely ever hear of fire in Paris. When I was there, I took particular notice of the construction of their houses, and I did not see how one of them could well be burnt." He then offered his newest ideas on fireproof construction. On his last trip to Europe in 1785 at the age of 79, he wrote two essays on fire prevention: "The Causes and Cures of Smoky Chimneys" and "Description of a New Stove for Burning Pitcoal and Consuming All Its Smoke."

One of our nation's foremost founding fathers, Benjamin Franklin helped proclaim and establish our independence as a member of the committee formed to write the Declaration of Independence and as ambassador to France. He helped secure our liberty as a member of the Constitutional Convention. And, as the founding father of American insurance, he showed us how to protect ourselves from want caused by destructive fires. His wisdom has been proved in the 246 years since he founded the Philadelphia Contributionship--an idea, as he put it, "whereby every man might help another, without any disservice to himself."

*This article first appeared in
Bank Insurance Marketing, Winter
1998, V.7 N.1., pp. 29-30, 32
"How Benjamin Franklin Became the
'Father of American Insurance'"
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