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## IMPORTANCE OF INSURANCE HISTORY

SCIENTIFIC ARTICLE

### Abstract

The insurance history explores the emergence and development of insurance industry and the nature of its philosophical, economic, social and legalist predecessors. Moreover, it has been employed both in methods of historical and of insurance science. Insurance science is multidisciplinary (it consists of law, mathematics, insurance economics, etc.). The studying of history of insurance allows for the correct understanding of specific connections through longer periods. This can help avoid repeating the same mistakes.

One should note that the entire insurance industry, including the contemporary period, is extremely historically oriented. No single risk-adjusted premium, and consequently, the formation of reserves can be determined without a careful analysis of claims history. Likewise, the customer protection laws arise from “learned historical homework”.

The research material is practically unlimited, in chronological and professional terms. Although the classic insurance theory is based on the legacy of ideas of Enlightenment (17<sup>th</sup> and /or 18<sup>th</sup> Century), the earliest traces of insurance history go back to 1800 BC (Hamurab’s Code).

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## 1. Introduction

The history is generally deemed to mean (according to Friedrich Jeger, *Lexikon Philosophie - Hundert Grundbegriffe*; Reclam 2011, S. 109) the aspects of the past that people remember and construe so as to better conceive the nature of the fluctuations in time and their effects on the present and future of mankind.

Since the ancient times, there have been discussions and records on the usefulness of history. In the meantime, while some consider it the starting point for shaping the future, considering it the “teacher of life”, others argue that nothing can be learned from it. With the emerging modern basis of historical research, from the Enlightenment onwards, there has also been a growing criticism of the processing usability of historical material. This reduced both the negative and positive approximations as regards history.

By the end of the 20<sup>th</sup> century, consequentially with reactions to the constant attacks of “opponents of history”, a new group of its advocates appeared in the so-called.

### 1.1. Vienna Didactics of History Model

Vienna Didactics of History Model has developed since the early 1980s through the cooperation of all five History Institutes at the Vienna University. The “Vienna Didactics of History” emphasizes the social and communication dimension of history learning. Therefore, it is central to the development and mediation in history understanding and awareness. All those who learn about history in schools as well as political, social and cultural scientists at universities, the students in adult education or in museums are potential addressees of Vienna Didactics of History.

As a “didactics of process-oriented history”, the didactics of history model has achieved the international recognition in the past years, through numerous European common projects, a number of publications and lectures.

Particularly in the field of history of economics, we can present convincing examples of “learning from mistakes made in the past”.

The fact is also helpful that the history of economics, as a discipline, connects the science of national economics and historical sciences. It explores the historical development of economy in mutual dependence with other cultural changes.

### 1.2. Insurance History - Derivative of Vienna's Didactics of History

One of the most remarkable monumental papers associated with Vienna's Didactics of History is the “History of Insurance in Austria”, which has been published

as a periodical in Vienna and Belgrade since 1988. This paper, which consists of 13 volumes, comprises about 12500 pages of text and images by about 400 European authors under the leadership of a regular member of the European Academy of Sciences and Arts, university professor, Wolfgang Rohrbach, PhD. Through this encyclopaedic collection, by the end of the 20th century, the insurance history was established as a scientific discipline with its own independent methods. Before that, it primarily considered the history of businesses and sectors.

The history of insurance explores the emergence and development of the insurance industry and the nature of its philosophical, social, economic and legal-historical predecessors. It is used both in methods of historical sciences and science of insurance. In doing so, it uses both history sciences and insurance science methods.

The readers will acknowledge that the invention of insurance, simultaneously with the invention of a wheel, represents one of the greatest achievements of humankind in ancient times. The basic principle of each insurance focuses on the idea of a solidary community, i.e. a community of risk carriers that take out insurance and pay, each, a certain amount (in cash or, previously, in kind) into a joint fund; This grants them the right to receive, in the event of damage, a particular amount of money from that fund, equalling as a rule, the amount of damage.. The concept of insurance itself did not emerge at once, but developed in various parts of the world out of a series of previous processes during the ancient times, the Middle Ages and early new era. The predecessor of insurance and classical insurance is the same: the risk carriers' community. Although this basic principle is easily graspable, there has not been, until today, any legal or statutory definition as to what the term 'insurance' means.

## 2. History of Construing Insurance Concept

The 19th century professional literature includes various interpretations, none of which the experts have generally adopted.

The "General Civil Code", that came into effect on January 1, 1812 in the German parts of the monarchy (without Galicia), dedicated to the insurance contract five paragraphs which can be partly used today (1288-1292); It considered insurance as a part of the group of games of chance. Generally, the lottery has many similarities with insurance, inter alia, because the insurance originally had, to a large extent, a betting or lottery character. However, games of chance, compared to the entire risk carriers community, do not serve to either cover the financial risk or as a collective savings. Alfred Manes, in his 1909 Insurance Lexicon, defined the theory of games of chance as the most erroneous learning about insurance.<sup>2</sup> Later, in 1935, he precisely defined insurance as an elimination of a risk of individual through the contributions of many.

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<sup>2</sup> Alfred Manes, *Versicherungs-Lexikon. Ein Nachschlagewerk für alle Wissensgebiete der Privat- und Sozialversicherung*, Tübingen, 1909, pp.1419.

Karl Hax, in 1964, described insurance as “planned coverage of cash needs, which are individually uncertain but generally estimable on the basis of inter-economical risk settlement.”

The Dieter Farnier’s 2011 concept of insurance read as follows: “Insurance is covering one, individually uncertain but generally estimable cash requirement on the basis of collective and temporal risk balancing”.<sup>3</sup>

However, as mentioned above, no legal definition has been set until nowadays (2017).

### **3. Definitions of Concepts Preceding and Immanent to Insurance**

Certain things have become, however, more comprehensible by the creation of unified terminology described hereinafter.

The insurance area is part of the “social insurance” or “social security”. The 1935 draft law in the United States uses the term “social security” for the first time; afterwards, the term quickly expands internationally.<sup>4</sup>

According to the guidelines of the 1944 International Conference in Philadelphia, social security measures include illness, childbirth, disability, unemployment, old age, death and the additional extraordinary expenditures and work-related damages.

Under the Article 22 of the United Nations Human Rights Declaration, every human being as a society member is entitled to the right to social security.<sup>5</sup>

The concept of “social security” covers the following three areas:

#### **Social assistance**

This is the oldest principle of social security which was, until the First World War, often called charitable assistance. The precondition for providing the social assistance is the need, which is, as a rule, inspected. Social assistance services are not dependent on any kind of counter-services by the recipient. Only those who cannot help themselves out or do not receive the necessary help from any other entity are delivered such services. Since the middle 20th century, the term social assistance had been increasingly used in legislation, instead of the term care. Since the middle Ages, the assistance providers in Europe consisted of spiritual ranks and church community (because of the lack of government-owned social institutions). During the early modern age, they were joined by guilds, associations, interest groups and various other fraternities, and finally, in the era of enlightenment, by the governments.<sup>6</sup>

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<sup>3</sup> Dieter Farny, *Versicherungsbetriebslehre. Versicherungswirtschaft*, V, Karlsruhe, 2011, pp.15.

<sup>4</sup> In „Social Security“, the slogan „freedom of need“ emerges without any further details.

<sup>5</sup> Felix Ermacora, *Handbuch der Grundfreiheiten und Menschenrechte/Kommentar*, Wien, 1963, pp. 609.

<sup>6</sup> Christian Linden, Erich Tauer, „Private Krankenversicherung“, *Die Versicherung*, br.6/1965, pp.15

### **Provisioning**

The concept of provisioning was initially conceived as governmental reward for a special service performed by soldiers or officials for the general public cause. The persons who used to receive benefits under such regulations included Serbian armed peasants, inhabited along the Austrian military border of Krajina.

Government provisioning for soldiers began in Austria, under the emperor Charles VI (died in 1740), and led to the official reorganization of church charities and endowments.<sup>7</sup>

The first step in provisioning is to check the legal basis of a request, in terms of age, disability (in case of war victims), years of labour, etc. In other words, in provisioning, there is already a predetermined structure of “services and counter-services”, but financial coverage is not provided through *a priori* payment of contributions, but by work done for the government or for the public cause.

The government age pension scheme for civil servants was provided in Europe through the end of the 18th century, by way of exception. With this regard, the “Pensionsnormale” for civil servants of Emperor Joseph II of March 24, 1781, represents a pioneering step of the socially oriented government. It was the first comprehensive Austrian pension law.<sup>8</sup>

### **3.1. Definition of Insurance History**

The insurance history is a cultural and/or humanistic science, which deals in emergence and development of human communities-risk carriers and their institutions, insurance companies, and discovering the nature of their predecessors.

It is, however, necessary to distinguish between the insurance theory and practice; both appear in professional literature under the preceding term - “insurance”.<sup>9</sup>

Otherwise, this industry uses a specific terminology that is constantly changing (popularly called ‘Insurance Chinese’) prone to the risk of misinterpreting, as claimed by historians outside this profession.

For these reasons, insurance history takes a special position in two ways. It is, on the one hand, part of the insurance science and, on the other hand, part of historical science.

The insurance science itself is multidisciplinary and employs very different methods to gain the knowledge and awareness of insurance phenomenon.

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<sup>7</sup> Gottlieb Herrenleben, „Zirkular des Hofkriegsrates an Sämtliche Regimenter vom 8. November 1727“, *Sammlung österreichischer Gesetze und Ordnungen, [=Supplementum Codicis Austriaci I]*, Leipzig, 1748, 136/2

<sup>8</sup> Bernd Wunder, „Die Institutionalisierung der Invaliden-, Alters- und Hinterbliebenenversorgung der Staatsbediensteten in Österreich (1748-1790)“, *MIÖG*, No. 2/1984, pp. 115.

<sup>9</sup> Wolfgang Rohrbach, „VERSICHERUNGSWISSENSCHAFT/ Definitionen – Retrospektiven - Perspektiven (mit historischen Aspekten)“, *Mensch-Wissenschaft-Magie / Mitteilungen der Österreichischen Gesellschaft für Wissenschaftsgeschichte*, No. 33/2017, pp. 181.

The science-based insurance history has reached its special interdisciplinary position only in the last three decades. Before that, it was primarily the history of companies and departments. This “advancement” was achieved, among other things, due to an increased awareness of the leading circles of the profession of how extremely historically oriented insurance is. No single premium could be determined without a careful analysis of the history of claims and payments. In addition, insurance history explores the emergence and development of the insurance industry and its predecessors in economic, social and legal history terms.

Co-operations with external business partners also play a role. The science, on the other hand, must consider the insurance-mathematical, demographic, insurance-medical (epidemiological), political and philosophical components in their historical dimensions.

Based on its social and historical roots, the insurance history also explores and describes various forms of societies with regard to their insuring and provisioning measures from the past. There are, for example, risk carrying communities which have influenced society in the same way as spiritual institutions (e.g., churches, monasteries), semi-secular and semi-religious institutions, social ranks, strata or classes (craftsmen’s guilds, associations of traders, officers’ pension schemes etc.).

Nowadays, history in general and insurance history in particular, are classified, together with the relevant issues they are concerned with, under anthropology as well, as its special segment. There is a concept of historical anthropology, which is, in its turn, associated with philosophical anthropology.

Here, humans are scientifically explored as not only objects, but subjects as well. Among other things, it is about qualitative characteristics such as personality, freedom of decision-making and self-defining capability.<sup>10</sup>

### **3.2. Seven Constituent Characteristics of Each Insurance**

In order to be able to claim that insurance history texts rite about insurance in its classical sense, it is always necessary to consider seven characteristic features:

#### **1. Mutual Coverage**

In one group or the so-called solidary community or the risk-carriers community, it is possible, by the principle of “one for all and all for one”, at a significantly lower expenditure per participant, insure a risk, than if everyone took out the insurance cover on their own.

#### **2. Clear Provisions on Entitlement to Risk Cover**

Under the provisions of the contract, the Insurer clearly defines spatial, temporal, personal and components or assumptions referring a particular subject as a precondition for explicit entitlement of the Insured to a particular cost cover.

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<sup>10</sup> W. Rohrbach, pp. 186.

### 3. Mutual Risk Coverage Obligation

For receiving indemnity, one is required to pay the premiums/contributions. A number of people pay a sum of money, insurance contribution, into the cash fund (at the insurer's account), in order to receive compensation from such fund in the case of loss occurrence.

### 4. Uncertainty of Occurrence of Event Insured Against

The occurrence of insured event is not certain – at least, there is uncertainty with regard to its intensity or time of occurrence (for example, death is certain to everyone, but not the moment of its occurrence; this is what makes life insurance possible).

### 5. Predictability of Insured Occurrence

It must be possible to make informed predictions about the likelihood and scope of insured occurrence (statistical estimation).

### 6. Spreading Risk in a Group

The risk must not be single - there has to be enough other, comparable risks.

7. Insured Occurrence only With Few Risk Carriers, Compared to Number of all Risk Carriers

Insurance predecessors or insurance-like institutions differ from classic insurance companies by missing one or more of seven constituent features. If such entities still exist today, they are considered the so-called "insurance-like" institutions; otherwise, they are referred to as the "insurance predecessors".<sup>11</sup>

## 4. Tasks of Insurance History

The history of insurance is less a matter of preserving and spreading the actual knowledge of past provisioning or insurance of humanity against risks, but primarily of increasing such knowledge. The historical material is, in principle, infinite, as there are always new sources and views on the past. The latter, in particular, ensures that new findings constantly appear because of different questions, even with regard to ancient epochs. The sources, both written and material, always require interpretation - they will not speak for themselves. There are methodical rules that modern historical science has formulated over the course of two past centuries and that need to be obeyed in order to differ plausible and logically admissible interpretations from the unacceptable ones.

Exploring, interpreting, linking and deepening are at the essence of work of historians. When this work is scientifically sound, it allows the employment of insurance history lead to better understanding of the industry-specific relations over longer periods. This can help avoid the repetition of errors.

Moreover, it should be noted that the entire (even modern) insurance industry is extremely historically oriented. No single risk-based premium and formation of

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<sup>11</sup> W. Rohrbach, pp. 182, 183.

reserves are possible without accurate analysis of history of loss events. Consumer protection laws also result from “learned historical homework”.

This will allow us the smooth transition to importance of insurance history.

## 5. Importance of Insurance History

Frequently asked questions to historians, especially in times of crisis, have lately been: “Can one learn anything from history?”

“Is insurance history just a luxury or can it be useful?”

The answers are various and countervailing. First, it depends on the kind of available historical material, the “back then” applied economic policy strategies, for (a striking) example, the ones resulting from the 1929 world economic crisis vs. 2008 global financial crisis. Would it be possible today to avoid the mistakes made at that moment in the past, having in mind the predictions of current legal and economic foundations.

At that time, there was the opinion that the crisis will just pass away and the market will help itself out. In other words, there was the lack of knowledge that financial adjustments do not necessarily have a positive effect on the real economy. Therefore, strict budgetary discipline was followed and deflationary policy pursued. Although the currency was super-stable, large parts of the population were not able to purchase anything but bare necessities. As a result, more businesses wound up and unemployment rate continued to rise. Even those who still had money, decided to save instead of buying what was necessary, out of fear, whereby the sales of goods continued to drop. As a result, more and more insurance contracts (covering transport, industrial plants, etc.) were cancelled. In order to empty their warehouses to a reasonable measure, the entrepreneurs offered their products with ever lower profit, even below the cost price. Although everything became cheaper, the situation started to resemble a nightmare. The government tax income shrank weekly. Often, completely new houses, insured against fire, were arsoned by hired “assistants”, in order to be able to employ and pay the bricklayers, carpenters etc. out of the sum insured, in the course of reconstruction.<sup>12</sup>

Today low interest rates seek to boost liquidity and facilitate investment. Many governments are even aware of higher deficits they sustain in order to invest heavily in stimulus programs. The WIFO expert, Stephan Schulmeister, comments on this approach as follows: “If the state allows a higher deficit, the work will not go down so much and the state will end up with a smaller deficit.”<sup>13</sup>

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<sup>12</sup> Wolfgang Rohrbach, VERSICHERUNGSGESCHICHTE – LUXUS ODER NUTZEN FÜR DIE BRANCHE, 2010, <https://austria-forum.org>

<sup>13</sup> Siehe Michael Bachner, „Einlagensicherung für Häuselbauer nötig“, *Kurier*, 1.11.08, pp. 15.



These are two of many examples of how the economists draw conclusions from past events or evaluate historical material to avoid repetition of strategic mistakes.

In the context of insurance history, as the examples show, a particular networking with other sectors of the economy is often crucial, such as the nature and intensity of partnerships between insurers, banks, hospitals, interest groups and politics.

These networks are so complex that they require far-reaching scientific foundations. In other words, an insurance history paper needs not only throw light on purely industry-related structures, without considering a sage and profitable capital investment of the insurance industry in the banking sector, tax benefits, etc. Even the best economic theories can sometimes have little effect, unless the legislator creates appropriate framework that promotes healthy partnerships.

It were precisely these tasks that the US government failed to fulfil in the recent world financial crisis; in other words, they learned little from history (1929 crisis), repeating many old errors and enhancing destructive debt accumulation or crash of many small and medium enterprises and impoverishment of the middle class.

### **5.1. Insurance Science – Its Characteristics and Importance for Insurance History**

The insurance science is a multidisciplinary science consisting of the following individual sciences:

- Insurance Law
- Insurance Economics Actuarial Science
- Insurance Medicine Insurance Politics
- Insurance Philosophy
- Insurance Psychology
- Insurance Criminology
- Insurance Engineering
- Insurance History
- Insurance Informatics

The 21<sup>st</sup> century insurance science is also an interdisciplinary science that deals with the different aspects and areas of insurance in its research and learning.

Interdisciplinarity is deemed the use of assumptions, ways of thinking or methods of various disciplines. The interdisciplinarity of insurance science means the comprising of several independent individual sciences that search for solutions to generally scientific issues, each through its respective methods.<sup>14</sup>

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<sup>14</sup> Michael Jungert, Elsa Romfeld, Thomas Sukopp, Uwe Voigt, *Interdisziplinarität. Theorie, Praxis, Probleme*, Darmstadt, 2010, pp. 9-17.

By the end of the 1970s, the insurance history was multidisciplinary. In the case of a multidisciplinary orientation of scientific disciplines, there is neither a set-up uniform conceptual framework structure, nor developed common solution strategies. Each discipline defines and edits its own problems largely isolated. A synthesis is only reached in addition, by bringing together the results obtained separately. Following the pattern of “planning next to each other - acting side by side” introduces multidisciplinary as the weakest form of content-related cooperation.

However, the insurance science does not only deal in providing the general description and quantification of insured losses, but also tries to explain and forecast them by researching cause-effect relationships.

The findings of sciences relevant for particular areas such as physics, chemistry, medicine and psychology, are employed and incorporated into the contractual law form of the General Insurance Terms and Conditions.

Today, in the European welfare states, the insurance science is required, more and more, to deal in the fundamental issues of regulatory and economic policies of a newly structured division of tasks between the government and private insurance market.<sup>15</sup>

The range of tasks of the insurance industry in the years to come will be largely affected by the effects of migration, new forms of providing for jobs and employment for young people, fairer taxation and the preparation of expertise on future insurance needs and their impact on the product range.

The history of insurance must already begin to incorporate these aspects into its research program.

## **5.2. What Distinguishes Insurance Science from Insurance Practice?**

The interdisciplinary insurance science is based on a general goal of gaining knowledge. The connection to practical results and not merely theoretical knowledge is certainly possible. The task of the insurance practice, on the other hand, would be - from the point of view of the shareholders gaining profit in the economic sense. It would therefore strive to achieve only (and quite reasonably) the earning goals, if there were no ethic codes, guidelines and targets imposed by the government (in terms of risk and social policy), or certain lobbying bodies, prompting the insurance practice to adopt both distinctive and numerous consumer-oriented aspects and objectives.

The government may e.g. require that certain retail risks are mandatorily and at defined rates transferred to private or public insurance institutions (for example, motor vehicle liability). Insurance supervision and contract laws, in turn, are primarily

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<sup>15</sup> Versicherungswissenschaft Wirtschafts Enzyklopädie, [www.economia48.com/Versicherungswissenschaft](http://www.economia48.com/Versicherungswissenschaft), accessed on 1. 6. 2014.

intended to protect interests of the insured / consumers, which is important both to the government and for tax reasons.<sup>16</sup>

If, however, the state withdraws from its responsibility of controlling the insurance industry, as it was the case in the European Union, following the American neoliberal model and without approval from the insurance science and profession, the problems of purely economic nature appear.

The deregulation of the insurance industry, referred to as the implementation of the third EU Claims Directive into national law, as of 1 July 1994, sparked a competition war as sharp as was ever experienced since the 1930s.

The doctrine that the market would settle its own problems in a satisfactory manner for all - which lacked any scientific reasoning - proved disastrous.

### **5.3. Executive Summary on Significance of Insurance History**

The (insurance) history is similar to the game of chess. Although each game is unique, there are always characteristic combinations and moves derived from experience (the past), that exclude or diminish peril. In addition, with certain constellations, predicting of the next steps of the partner accurately is possible without being a prophet. This also applies to the economy in its socio-political networking.

Even though (insurance) history is not repeated in detail, there are always recurring rules and sequences.

Jürgen Kocka describes five theses:

- Historical knowledge which reveals causes and developments is indispensable for understanding modern world and its development.
- Historical memory serves to legitimize existing social and political relations of domination, justify the political decisions, defend against criticism and justify protest.
- By showing the social and political present as they are and how changeable they are, consequentially, the science of history can help to create an attitude that does not accept reality in its apparent necessity, but based on its used and missed, past and perhaps still existing possibilities.
- History creates identity. Through confrontation with the striking other and explaining current phenomena from the aspect of their historical causes, history can be used to orient individuals and groups in the present.
- After all, history can also be the subject of entertainment and pleasure.<sup>17</sup>

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<sup>16</sup> Edmund Schwake, *Versicherungspraxis: Versicherungsökonomische Sicht*. U: Peter, ALBRECHT/Elmar HELTEN *Versicherungswissenschaft und Versicherungspraxis – Zwei Welten?* - Google Books *Ergebnisseitebooks.google.at/books?iSbn=3899522400*, accessed on: 5.6.2014

<sup>17</sup> Chapters of the essay by Jürgen KOCKA, *Social Functions of History* are cited in: Wolfgang ROHRBACH, *Introductory remarks on the Insurance History of Austria in 25 Years of Insurance History of Austria / Ethics-Sustainability Insurance (Anniversary Volume)*, (Beograd - Vienna 2013), pp. 65.

These findings must be considered a success of historical research. For a long time, insurance history, in simple terms, came down to description of company founders, glorified services of the directors-general and self-proclaiming statements about “satisfactory” premium development. War and times of crisis were bypassed by the phrase “and then came hard times”. No wonder that the critics, like essayist Michael Scharang, denied that lessons were learned from history. Moreover, stated: “Anyone who condemns the present in such a way blocks his experience and his thinking ... And it is only through the power of a sufficient understanding of the present that accurate prepositions of the past can be made and future unrevealed.”<sup>18</sup>

### **Shaping the future without working through history?**

So is it time to finally disregard the past and turn to the future? Such questions are based on a mistake of reasoning. Past, present and future are inseparable. On the contrary, they make reality only as three-dimensional. Thus, only those who use scientific methods “sine ira et studio” to master the past and work through history can master the present and future, as well. The task of mastering the past has not been completed in many areas of Austria, or has been so but very late. An example: Only 53 years after the end of the Second World War, the Federal Government set up an international Committee of historians to compensate for the old injustice to Nazi victims. Incidentally, the Austrian insurance industry was exemplary in this regard. Others, who were not so, had to realize that unresolved history pursues and overtakes you. Not infrequently, the aggressive ignoring of unresolved story becomes very expensive.

The popular demand to put an end to history negates the fact that human civilization consists of the sum of knowledge and experience. It would be like dragging out one’s own roots, if one wanted to delete painful memories from the collective conscience. Repression leads to neurosis!

This statement applies not only to individuals, but also to the group. Repression of history is unsuitable as a future strategy for a new and secure Europe. These findings especially apply to the insurance industry, which is extremely historically oriented.

## **6. Small Collection of Insurance Historical Milestones**

The historical details of prominent insurance predecessors, early forms and classic institutions described in this Chapter have been extracted from the largest scientifically-based insurance history documentation in the world. We shall in short describe it as follows:

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<sup>18</sup> Compare with 6. volume “Versicherungsgeschichte Österreichs”, Wien 2000.

Austria is the only country in the world that possesses a fully documented insurance history, from ancient predecessors to the present day. Since the beginning of 1988, around 400 specialists and executives in the sector, as well as related social politicians, scientists, journalists and officials from 12 countries have published 13 periodicals (more than 12,000 pages) titled "Insurance history of Austria" under the editorial direction of Univ.Prof.Dr.W.Rohrbach. During the first 25 years, the encyclopaedia appeared through the Viennese publishing house Holzhausen, and since 2013 in Belgrade, it has been published by the publishing house Tronikdizajn.

### **6.1. Ancient Predecessors**

Until the beginning of the 20th century, historians were of the opinion that there was no insurance (predecessors) before the 5th century B.C.

#### *6.1.1. Codex Hammurabi*

The so called Codex Hammurabi, , carved in cuneiform on a stone column during the reign of the Babylonian King Hammurabi (about 1800 B.C) is deemed the oldest insurance history source in the world. The Codex mentions the traders caravan insurance (against robbery and burglary during carriage) and a kind of long-term care insurance for terminally ill spouse or housewives, the latter being financed by contributions to the "community" and co-payment of the (healthy) spouse.<sup>19</sup>

#### *6.1.2. Marine Risk Insurance*

The 4th century B.C. insurance of marine risk, i.e. vessel load (in Latin: *foenus nauticum*), was the predecessor of marine (transport) insurance; the Romans took it from the Phoenicians, and the Germans from the Romans. One or more capital representatives gave a loan to the vessel operator which had to be repaid if the vessel reached its destination undamaged; in case of accident, however, the loan would serve to cover the damage. As interest rates reached a level of 20-30%, in 1230 Pope Gregory IX banned such loans for usury. The classical marine insurance was introduced as "replacement".<sup>20</sup>

#### *6.1.3. Ancient Roman Associations for Medical Treatment and Funeral*

Under the names "collegia tenuiorum" and "collegia funeraticia", in the first centuries of the Christian era, there were associations for supporting the ill and

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<sup>19</sup> Wolfgang Rohrbach, "Hammurabi: König und Versicherungsmentor", *Versicherungsgeschichte Österreichs*, vol IX, Wien 2010, pp. 39.

<sup>20</sup> Wolfgang Rohrbach, "Vorläufer, Wegbereiter und Träger der altösterreichischen 'Versicherungsweltmacht'", *Vers.geschichte österreichs*, vol VII, Wien 2008, pp. 52.

organizing funeral in all Roman provinces; their members were mostly legionnaires and long-distance traders. Christian religions communities later took over these club institutions and further developed them into Caritas.

## **6.2. Medieval Predecessors**

In the Middle Ages, there were no governments in the modern sense. Social security was offered by spiritual, aristocratic and craftsmen and bourgeois institutions.

### *6.2.1. Christian Monasteries as Health and Life Insurance Predecessors*

In addition to missionary tasks, the monasteries took on (to some extent they still do) the tasks of care of the elderly and ill. In almost every medieval monastery, there was a hospital called "infirmaria"; outside the monastery walls, there was a "hospitale pauperum". Monks experienced in medical preparation and treatment took care of the ill. The funds came from donations of the entire Christian community. These earmarked funds are considered the original form of the health insurance premium. Donations are still being collected by the Order of the Merciful Brothers and the Maltese in their annual gatherings and used to treat the ill without financial support.

There was also a preform of the "special class insurance" for the wealthy (providing for a comfortably equipped hospital room and better care) called "gentlemen's privilege". In consideration of a land or a house (medieval single premium), noblemen or bourgeoisie in old age or in case of a chronic illness received lifelong better accommodation including food and treatment in the monastery.

The profits thus earned by the monastery were used for the medical care and nursing of the poorest.

When in the 15/16<sup>th</sup> century these hospital facilities became overcrowded, the monasteries bought themselves out of this obligation by paying lifelong (care) annuities. This laid the foundation for life and annuity insurance.<sup>21</sup>

### *6.2.2. Land Ownership - Medieval "All Risks Insurance"*

In the uncertain times of the early and high Middle Ages (8th-14th century), in which there was no state in the present sense, many free peasants, for fear of natural hazards, feuds, foreign invasions, robbery etc. went into the dependence of a powerful landlords. They handed over their land into the ownership of the Landlord, only to be returned to the peasants for cultivation and paying dues, in consideration of

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<sup>21</sup> Rohrbach, "Vorläufer, Wegbereiter..." a.a.O, S 70ff)

a kind of “protection letter” or “insurance package”. It was a veritable lifetime contract, under which the Lords offered the peasants “protection and shield” for the services and dues they received. In economic emergencies or upon accidents, the Lords had to assist the peasant sustaining the damage with building materials, seeds, food or assistants. If such a protection were not provided, the farmer was liberated from any further liabilities. In the southern German law wording of the 14th century titled “Schwabenspiegel”, there was a corresponding formulation. It was incorporated in a modified form in the 1917 Danube Monarchy Insurance Contract Act, regulating that the policyholder was exempt from the premium payment if the Insurer could no longer offer protection.<sup>22</sup>

### *6.2.3. Guilds, Interest Groups and Cooperatives*

Since the 10/11<sup>th</sup> century, in Central Europe, the cities blossomed into centres with two independent occupational groups, craftsmen and traders. Relations with property owners no longer determined their dues and security. Therefore, they needed other provisioning and insurance institutions.

Among traders, these were guilds, the cooperatives based on free or mandatory membership, also called fraternities (confraternitates) or societies (societates). They were considered semi-religious, with semi-secular connections for mutual support, protection of the individual against injustice and violence. The guilds offered their members a range of insurance-related benefits in the event of illness, disability or death, as well as natural disasters. Regular contributions to the common cash box were the preform of insurance premium.

What the guilds were for craftsmen, the interest groups were for traders (Gilde and Hans). The funds of these associations were collected through the entry fees, regular contributions and penalties, and they played a greater role in provisioning, especially of the long-distance traders. Through interregional connections of the guilds, the protection of the individual and their transported goods could also be guaranteed abroad. Many guilds were so wealthy that they provided their own care homes for the sick or impoverished members.

In the Middle Ages, thousands of miners in the Alpine precious metal and iron mines worked in extremely hostile regions. The threat of illness and accident or disability was greater than elsewhere. Therefore, the charitable montanist prayer brotherhoods evolved; They practised caritative activities and became very insurance-like groups.

The Knappschaft, which claims to be the oldest form of health insurance in Europe, was located in Goslar (Lower Saxony). It goes back to the founding of

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<sup>22</sup> Wolfgang Rohrbach, “Kleine Fibel der Versicherungshistorie”; in: VERSICHERUNGSGESCHICHTE ÖSTERREICH, Bd.11. Verlag Tronikdzajn, Belgrad 2013, S 998)

a fellowship of miners in 1260 at Rammelsberg near Goslar, the main services of which included treatment in their own professional hospitals, payment of a kind of unemployment and sickness cash benefit, care of widows and orphans.

### **6.3. Early New Age - First Classic Insurance Documents**

The beginning of the modern era is differently defined by historians; In the Mediterranean area, “modern thinking” began occasionally in the 14th century, whereas in the Central Europe only at the end of the 15<sup>th</sup> century. The classic insurance in the form of marine insurance is one of the first “pillars” of the new era.

#### *6.3.1. Oldest Insurance Contracts of 1347 and 1384*

Since the middle 14th century, there were commercial insurers in the Italian city-states. The conclusion was originally made by notarial acts. The Archives of S. Giorgio of the Republic of Genoa contain the oldest verifiable insurance contracts and the oldest insurance legislation. The first surviving (marine) insurance contract dates back to 1347 and belongs to the Genoan Notariatic Archives of the Teramo Maggiale. The second oldest contract, but with the oldest policy was created in 1384 in Pisa.<sup>23</sup>

#### *6.3.2. Oldest Insurance Laws*

In accordance with the canonical prohibition of church interest, the law of 8 May 1366 prohibited the insurance contract as usury in Genoa.

**Under Decree of 21 October 1369** (in which the term *assecuramentum* was used for the first time in the sense of insurance), however, the Doge of Genoa Gabriel Adorno declared before the People’s Senate (comprising merchants and ship-owners) that insurance was legal, allowed and useful. In 1410, the law stipulated that all marine insurance concluded in Genoa should be taxed at 0.5 percent.

#### ***The Order of Barcelona***

Marine insurance was further developed in the 15<sup>th</sup> century Spain. The old wording of *Consolato del Mare* (a maritime code dating back to the year 1000) incorporated the additional 1435 provisions on marine insurance. This is the famous “Order of Barcelona”, long considered the oldest insurance document. The amendments of 1481 for the first time included a sample insurance policy. Further, it regulated that insurance may cover only 7/8 of the risk in order to make the policyholder exercise due care and diligence.<sup>24</sup>

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<sup>23</sup> Wolfgang Rohrbach, “Von den Anfängen bis zum Börsenkrach 1873”; in: *VERSICHERUNGSGESCHICHTE ÖSTERREICHS* Band I, Verlag Holzhauses Nfg., Wien 1988, S 75ff)

<sup>24</sup> W. Rohrbach, pp. 81.



#### **6.4. Probability Theory and Actuarial Science**

Mathematical and statistical research in the 16/17<sup>th</sup> Century (the age of mercantilism) created the technical foundations for the classical insurance. The starting point was the then widespread gambling and betting. The oldest trace of the concept of probability in a mathematical sense can be found in a commentary on Dante's *Divina Commedia* made in 1477 by Francesco da Buti. In the commentary, he calls the dice game "Zara" fraudulent. Based on the number combinations, he proves the low probability of winning.

The real creator of the probability theory is the Frenchman Blaise Pascal (1623-1662), who recognized the bad luck of a noble dice player as incorrectly chosen number combinations (with low probability of winning). A key event of the probability theory emergence as a correspondence between Blaise Pascal and Pierre de Fermat in 1654, which is commonly regarded as the birth of the classical probability theory.

Decisive for the insurance industry was also the 1689 law of large numbers of Jacob Bernoulli (1654-1705), although published only after his death in 1713.

The founder of actuarial science is the Dutch statesman Johan de Witt (1625-1672). His fiscal policy aimed at consolidation and his economic policy to promotion of trade and commerce. Under his government, the Netherlands were a Heaven for the persecuted. In all of this de Witt, however, represented only the interests of the bourgeoisie. Whether his politics was approved amongst the wider population was not of his concern. This elitist "regent thinking" eventually became fatal for him. The assassination of the brothers de Witt was presented in literature by Alexandre Dumas, in his novel "The Black Tulip".<sup>25</sup>

#### **6.5. Philosophical Basis of Insurance Industry**

An opinion that is still valid today in some religions is that insuring is an unauthorized intervention in God's plans. The philosopher and last "Doctor universalis" Gottfried Wilhelm Leibniz (1646-1716) convinced Christian dogmatists with his statement that "the divine perfection does not reveal itself in tired, inactive fatalism, but in the overcoming of evil with all available means." Insurance is such a means. With this statement, Leibniz created a stable philosophical basis for the insurance industry in Christian Europe. In the following years, the cameralists or political scientists (e.g. Justi, Sonnenfels), led by the mercantile ideas, created economic publications, in which they among other things, referred to creation of state-owned fire, flood and crops insurance institutes.<sup>26</sup>

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<sup>25</sup> Peter Koch, *Pioniere des Versicherungsgedankens/ 300 Jahre Versicherungsgeschichte in Lebensbildern 1550 - 1850*, Wiesbaden, 1968, pp. 43.

<sup>26</sup> P. Koch, pp. 38.

## **6.6. Technical Progress in Industry and Transport as Engine of the Austrian Insurance Industry**

The industrial and trade boom of the second and third quarters of the 19th century, which coincided with the expansion of transport networks to water and land, brought a rapid upswing for Austria's insurance industry. On the other hand, the insurance industry itself contributed to such an expansion. Just as London based coffee-shop owner, Edward Lloyd, had been collecting news about vessel traffic and cargo for his guests dealing in traffic transportation since 1686 and published them in the newspaper "Lloyd's News", a number of insurers in Trieste have done the same.

In 1832/33, the Vienna and Triester insurance experts created a vessel cadastre titled "Lloyd Austriaco". This cadastre had been later developed into a very successful shipping company "Österreichischer Lloyd".<sup>27</sup>

The industrial products of the Vienna Basin and the products of the Viennese industry were to a considerable extent transported to the Balkan countries via the Danube Steamship Company, founded in 1829. The rapid expansion of the railway lines ensured a further upswing, since they connected the Adriatic ports - in particular Trieste - with Vienna, Brno, Prague, Budapest, Belgrade etc.

The composite insurers of the old Austrian seaport of Trieste soon had their branches in all major commercial and industrial canthers of the Central and South-Eastern Europe. The Riunione Adriatica di Sicurtà (founded in 1838) established branches at every important investment location along over 2500 km long navigable part of the Danube.

Azienda Assicuratrice (founded 1826) became the classic rail insurer in Europe and the Assicurazioni Generali - the universal insurer of the monarchy.<sup>28</sup>

Since 1855, the Austrian Monarchy came fifth in the insurance industry global ranking. In the alpine zones of Austria, the state-owned fire insurance companies continued to develop the new insurance proposals, including the cover for not only real property but movables as well. Austria had become an "insurance world power."

## **6.7. World-Famous Austrian Insurance Literature**

In parallel with the achievements, the Austrian insurance experts published the documentation and/or professional literature that gained global significance. In the first place, there is the periodical ASSEKURANZ-YEARBOOK, founded by Adolph Ehrenzweig in 1880 and continuously published until 1943. It shed light on the entire insurance world of that time. Each volume comprised 350-400 pages and was divided into three sections:

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<sup>27</sup> o.A. Die Jahrhundertfeier der Assicurazioni Generali 1831 - 1931, Triest 1931, pp. 42.

<sup>28</sup> Alfred Manes, *Versicherungswörterbuch*, Binnentransportversicherung, volume I, Tübingen, 1906, pp. 701.

1. General industry news (e.g. new lines of business, plans to establish private occupational health and retail life insurance associations, consideration of state compulsory workmen compensation schemes).
2. Scientific papers (dealing with the insurance law, mathematics, economics, medicine, politics, and history).
3. Statistics / Business results - broken down by country / continent.

We should also mention other publications, such as:

Franz Baumgartner, *The Austro-Hungarian Insurance Institutions from 1822 to 1888*, Vienna 1889

Insurance Compass, *International Insurance Annual Paper*, founded in 1893 by a group of experts

*The insurance ATLAS* of Emil Stefan, 1901.

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