

The Last Word

Putting **Fears** to Rest

Throughout history insurance helped to alleviate fear and provide comfort to policyholders.

by Lori Chordas

Insurance can conjure up a host of emotions, including fear and anger. But it can also help quell those feelings.

In the mid-1830s, Prussia, looking to compete with its European counterparts, built a critical railroad line between Berlin and Potsdam in Germany so passengers could travel across the nation. But workers laying the tracks feared injury and passengers worried that trains powered by coal-fired steam boiler engines might explode.

In 1838, the Prussian Railway Liability Act—the world’s first form of workers’ compensation insurance—was enacted to help alleviate those concerns. The act required railways to indemnify employees as well as passengers for injuries sustained by railroad construction or transport, unless they were caused by employee negligence or an act of God.

Prior to the act, employers were liable for damages caused by industrial accidents only if employees could demonstrate that the mishap was a result of employer negligence. However, negligence was often difficult to prove because employers had several defenses that exempted them from paying damages for employee accidents.

“What insurance did was reassure passengers and workers that a railroad wouldn’t be insured unless it was safe,” said Nir Kossovsky, CEO of Steel City Re, a managing general agency to various Lloyd’s syndicates and other insurers led by Tokio Marine Kiln. The psychological benefit of overriding fear by having indemnification also allowed Prussians to build more railways and become an industrial powerhouse, all of which was made possible by insurance, he said.

Americans during the Industrial Revolution in the late 18th and early 19th centuries were also concerned about the safety of steam boilers used to drive steamboats, locomotives and industrial machinery. At that time, boilers were exploding at a rate of almost one every four days, Kossovsky said.

While many industrial owners dismissed the incidents as acts of God, “others simply assumed that

their boilers would explode and they would lose one or two other workers,” according to Hartford Steam Boiler Inspection and Insurance Company’s website.

Hartford Steam Boiler, which is today part of Munich Re, was founded in 1866 to help allay those fears. The specialty insurer inspected boilers to increase their safety and provided insurance as a guarantee of a quality inspection, Kossovsky said. That coverage transferred certain property risks from mortgage holders and business and building owners by signaling to property stakeholders that their collateral was secure, he said. “It also assured employees that their employers offered safe working environments.”

During America’s Great Depression in the 1930s, insurance once again helped alleviate consumer trepidation. Many banks at that time failed because they were undercapitalized or poorly managed. The Federal Deposit Insurance Corp. was born out of the Banking Act of 1933 to reduce the economic disruptions caused by those failures. Insurance offered by the FDIC initially indemnified up to \$2,500 in depositor losses caused by a bank failure, Kossovsky said.

Today, insurance is continuing to help lessen economic angst, especially among corporate leaders and their boards. Current headlines are filled with news about corporate scandals. Shame and humiliation following a reputational hit aren’t the only problems companies may endure. Loss of customer and brand loyalty can take a significant toll on an organization’s bottom line.

Reputation risk insurance was designed to help restore public confidence and allow organizations to elevate and differentiate themselves in an economically significant way, Kossovsky said.

“Reputation risk is very much tied to culture, which defines expectations. And reputation risk is the threat of not meeting those expectations, which, in turn, creates angry stakeholders and economic damage. Reputation risk coverage helps remove those concerns,” he said.

That’s been the power of insurance over the years, Kossovsky said. “It helps alleviate fear and anger and provides comfort to policyholders.”

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