

The business of risk

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Insurance is the business of transforming uncertainty into calculable cost. An insurer collects premiums from many policyholders, each of whom faces a risk of loss, and pays the losses of those who suffer them. Because the losses of a large number of policyholders are more predictable than the loss of any individual, the insurer can estimate the total losses and set premiums that cover them with a margin for costs and profit. The mathematical foundation of this business is the law of large numbers, which Jakob Bernoulli formulated in Basel and which Part A and Part B have already mentioned. Its economic foundation is the willingness of individuals and companies to pay a certain premium to avoid an uncertain loss, which Daniel Bernoulli explained in his essay on the measurement of risk of 1738.

Basel has a particular relationship with insurance. It is the city of the Bernoullis, whose mathematics underlies the actuarial science of insurance. In the nineteenth century, it became the seat of several insurance companies, among them the group known today as Baloise, which grew into one of the leading insurers of Switzerland and expanded into Germany, Belgium and Luxembourg. Its chemical industry created risks, of fire, explosion, pollution and liability, that required insurance on a large scale. And its private banks managed the investments of insurers and the life insurance policies of wealthy clients.

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This chapter examines the development of Basel as an insurance centre from the mid-nineteenth century to 1945. It describes the origins of the Basel insurers, the role of the great fire of Glarus in the foundation of Swiss insurance companies, the federal supervision of insurance introduced in 1885, the life insurance business and its connection with wealth planning, the international expansion of the Basel insurers and the crises they faced, and the emergence of social insurance alongside private insurance. Part I returns to insurance in its modern form, including the merger of Baloise and Helvetia.

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