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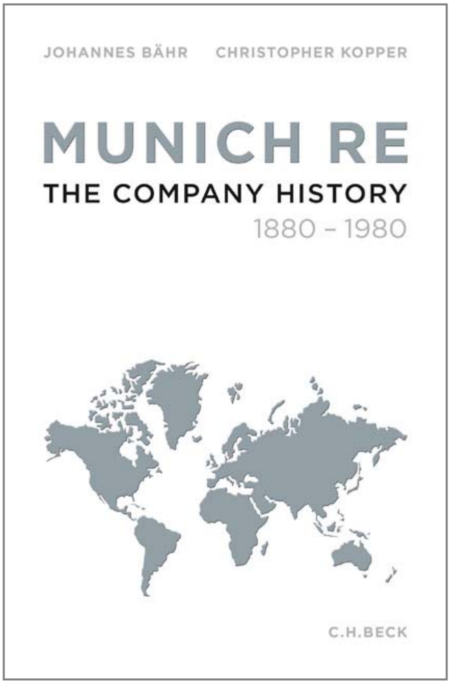

Johannes Bähr Christoph Kopper

Munich Re

The Company History 1880-1980

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MUNICH RE

The Company History
1880–1980

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Patricia Casey Sutcliffe

C. H. Beck

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Contents

1. Introduction

For over 100 years, they have played a major role in the insurance industry, but they are less familiar than the large general insurers. What we are talking about here are reinsurance companies. Founded in 1880, the Münchener Rückversicherungs-Gesellschaft AG (Münchener Rück) was the largest reinsurance firm in the world up to 1914, during the 1930s, and from the late 1960s, but the broader public seldom took notice of it. This was due, first of all, to its reserved press and public relations work, which the company limited for more than a century to the reporting of figures from its balance sheets. Secondly, lack of familiarity with the company derived from the nature of its business: reinsurers only enter into insurance contracts with the primary or direct insurers and insurance brokers. In contrast to direct insurers, they do not appear in the public eye through mass advertising and a visible sales network. Only against this backdrop does it make sense that Münchener Rück has been so silent in dealing with its own, significant history. This book, whose original German edition was published 135 years after the company's founding, constitutes the first comprehensive company history of Münchener Rück, which has been called Munich Re worldwide since 2009 and thus will be referred to as such hereafter.

The economic function of reinsurers is not well known, either. Without sharing risks with reinsurers, countless direct insurers would not have survived the economic consequences of natural catastrophes like earthquakes and hurricanes and would have been forced into insolvency by the burden of their payment obligations. Reinsurance against events resulting in catastrophic damages made a concentration of high values in the form of residential and commercial buildings, machines and infrastructure possible in many states and in regions that tend to be hit regularly but unpredictably by natural catastrophes. Even in less spectacular business segments such as fire and motor insurance, the reinsurers evened out claims management for direct insurers and simplified the calculation of insurance premiums. This book will also address the question of whether and how reinsurers made insurance for specific risks possible in the first place.

This does not mean that the existence of independent reinsurance companies was functionally required and thus brooked no alternative. In Great Britain and the U.S., the task of sharing risk was not primarily handled by reinsurers but rather by cooperation among direct insurers in the form of joint insurance policies and insurance syndicates. The Lloyd's insurance syndicate in London is the best-known example of this. At the same time, the information gap between the direct insurer and the reinsurer generated the latent danger of bad risks being transferred to the reinsurer. For this reason, this study looks into the means Munich Re used to reduce this information deficit and how it attempted to prevent one-sided risk transfers to its detriment in the way it formulated the policies. It shall investigate how the relationship between reinsurers and direct insurers was changed by shifts in economic performance, new risk-assessment techniques, and new forms of cooperation.

Particular attention will be paid to the evolution of scientific risk assessment. Whereas the assessment of insurance risks was based on experiential knowledge into the 1960s and risks were quantified by means of comparatively simple statistical (actuarial) methods, Munich Re shifted to forward-looking and scientifically-based risk assessment earlier than many competitors. Above all, it grounded the assessment of georisks like earthquakes and storms in natural science, and in the 1970s, it introduced mathematical models for risk assessment in the property insurance segment.

For various reasons, hardly any reinsurance company is more suited to a long-term study than Munich Re. Munich Re founded Allianz Versicherungs-AG in 1890 and enabled this company, with a high rate of reinsurance, to become by far the largest direct insurer of Germany. Yet the relationship between the two companies was by no means static. Through its increasing size and financial strength, Allianz was able to adjust its relationship to Munich Re and reinsure smaller portions of its business. Still, Munich Re's close tie to the largest German direct insurer generated a considerable volume of premiums, which promoted its growth. The close cooperation between Munich Re and Allianz was regulated by means of an association agreement and was also created through mutual capital holdings (crossholdings). Each insurance company had representatives on the supervisory board of the other, generating a close intertwining of personnel that lasted until the association agreement was dissolved in 2003.

Using the examples of subsidiaries MR held in common with Allianz and its own capital stocks in direct insurers, this book pursues the question of the means MR used to secure long-term ties. In addition to its capital assets, its well-endowed reserves, and its reputation as a competent and productive insurer, Munich Re's capital investments in direct insurers served as an instrument of customer loyalty that is worthy of systematic analysis. In this context, this study is dedicated to the question of whether Munich Re as a (co-)owner of other companies aimed to improve short-term yields or whether it concentrated on a longer-term ownership strategy as a typical stockholder in the economic order of "Rhenish Capitalism" (Michel Albert).

Reinsurers differentiated themselves from direct insurers early on with their much higher proportion of foreign business. The spatial distribution of the reinsurance business across more than one continent was not primarily due to the fact that even a large, national insurance market like Germany quickly became too small for an expansive business strategy. The transcontinental spatial distribution of insured risks served, above all, as a means of balancing regional risks and as protection against a possible spatial accumulation of risks. There were few barriers to internationalization. In contrast to the direct insurance industry, a reinsurer did not need authorization from the national regulatory body for insurance nor a costly sales network. Thus, Munich Re managed even before 1900 to extend its business from its core area of continental Europe (above all, the German Reich and Austria-Hungary) across the Atlantic to North America, the largest growth market of this era.

With the great earthquake of San Francisco in 1906, Munich Re was confronted, for the first time, with great risks that did not exist in its European business. Consequently, the history of Munich Re is almost a textbook history of globalization up to the beginning of the First World War (1914). The forced disintegration of the world market resulted from this war. With the military expansion of the Third Reich, Munich Re came to dominate the European reinsurance industry, but this ended when all of its foreign assets were seized and Munich Re was prohibited from engaging in foreign business. In the 1950s, Munich Re managed to internationalize once again. Since the Asian and North American markets became increasingly important, this could rightly be called globalization. By the end of the 1970s, Munich Re had established business relations with insurers in almost all the countries of the world. The globalization of the reinsurance business compelled the company early on to push the limits of what was insurable. Munich Re had initially treated earthquake and flood losses as incalculable and thus uninsurable risks. After Munich Re entered the U.S. and Japanese markets, it had to adapt to the conventions of these insurance markets and reinsure these risks. This proved to be a catalyst for the scientific understanding and assessment of risks.

The First and Second World Wars resulted in the loss of a considerable portion or even all of the company's foreign assets and pushed Munich Re back to the area of the German Reich, its allies, and neutral states. The shift in the political regime from the Weimar Republic to National Socialist rule was associated with the transition to a rigid autark policy. The extensive chapter on Munich Re during the National Socialist era deals, among other things, with the question of to extent to which National Socialist economic policy restricted options in the international reinsurance business and confronted insurers with plans for the nationalization of the insurance industry. This context raises the issue of how Munich Re responded to the conflicting politics of competing actors in the Nazi regime, and how the primacy of financing arms and the war restricted its investment options. This is tied to the question of how Munich Re's leadership utilized the chances and risks of National Socialist politics and what means it used – also on the symbolic level – to shape its connections to the political elite.

One of the specific risks of business behavior under National Socialism was the challenge presented by its racist politics, above all the step-by-step expropriation of Jewish property. In this context, the study examines whether Munich Re consciously exploited the business opportunities associated with these practices, such as the distressed sales of Jewish-owned life insurance policies and real estate, even if these opportunities would have been regarded as morally problematic, unethical, and damaging to the firm's reputation under ordinary circumstances. A similar challenge arose in the course of the German occupation of Western and East-Central Europe through the sharply asymmetrical power relation, which favored German companies.

Aside from the risks it had insured and the risks of war and dictatorship, Munich Re was also confronted with macroeconomic risks. Among the significant macroeconomic shocks to the insurance industry that have not yet received much scholarly attention is the hyperinflation of 1923, which ended with the complete devaluation of financial assets. The consequences for (re-) insurers of the world economic crisis that began in 1929 have not been studied much, nor have the effects of the collapse between 1971 and 1973 of the system of fixed exchange rates (the Bretton Woods system). This book shall clarify which strategies Munich Re employed to try to protect itself from external shocks like inflation, restrictions on the circulation of money and movement of capital, and currency fluctuations. Particular attention is paid to the firm's investment strategy, which involved investing in fixed-interest securities in crises of deflation and covered payment obligations in fluctuating foreign currencies through monetary investments in the same currencies.

As research into the history of reinsurers is not yet well developed, this study is based primarily on our own studies in the files of the Historical Archive at Munich Re. To complement these, files in the archive of the current subsidiary ERGO, in the Swiss Re Company Archieves and in state archives were analyzed. The present book, which adheres to scholarly standards, is the most comprehensive study on the business history of a reinsurance company to date. Earlier studies concentrated on actuarial practices and insurance markets but pursued historical questions only to a limited extent. This is also true of the multiple volumes of the unpublished documentation written by Martin Herzog in the 1980s on the history of Munich Re. The authors of this book were able to gather a wealth of information from this documentation. The 2014 study on the history of Swiss Re provided some important indications of the long history of relations between the two largest competitors in the worldwide reinsurance industry and imparted methodological suggestions on the history of risk. For the history of the insurance industry and state insurance policies under National Socialism, Gerald D. Feldman's comprehensive history of Allianz from 2001 continues to be fundamental and exemplary.

There are some problems with the source material on the history of Munich Re. Some of the files from the period before the First World War were destroyed in the winter of 1946/47 when Munich Re's main building at Königinstraße 107 was seized by the American military government, requiring the clearing of the attic. After Herzog, a former member of the Allianz board of management, had completed his voluminous manuscript on the history of Munich Re by the end of the 1970s, the board considered the investigation of the company's history to be finished and had the greater part of the historical files destroyed. A company archive was not formed until the year 2000, combined with the collection of more recent files.

This book begins in 1880 with the founding of Munich Re and ends with its centennial in 1980. It would not have been possible to write about the restructuring of the company in the 1990s because the necessary temporal distance and access to company files still in use are lacking.

The authors wish to thank a number of people for the support they pro-

vided during the various stages of the project. Particular thanks are due to the long-term manager of Munich Re's Historical Archive, Lic. Phil. Zoran Andric, who helped to launch the project and supported it all along the way. Markus Holmer, M. A., the director of the ERGO Archive, deserves thanks for his cooperation and important tips. The archival research conducted by Michael Bermejo-Wenzel, M. A., Ramona Bräu, M. A., and Mathias Irlinger, M. A., both in Germany and abroad was of valuable assistance. Dr. Patricia C. Sutcliffe did an outstanding job with the translation of the manuscript. The authors are also very grateful to Dr. Tanja Roos for editing the translation with amazing diligence and to Laura Pöhler, M. A., for the excellent supervision.

Part I:
The Company's Rise, Acid Tests, and Setbacks (1880–1932)

2. The Beginnings of Reinsurance: The Long Path to Equality

It is known that insurance contracts are not a modern invention. Even in ancient times there were contracts to provide in case of emergency and also to cover the risks of seafaring. Mostly, these involved the allocation of loans that did not have to be repaid in the event of loss or damage.[1] Not until much, much later, in 14th-century Italy, did premium insurance contracts come into being. They were the prerequisite for the emergence of the reinsurance principle, in which an insurer transfers a portion of the assumed insurance risk to another insurer, giving this insurer a corresponding share of the premium. The first known reinsurance contract was taken out on 12 July 1370 in Genoa for the freight of a ship sailing from there to Bruges.[2] Since insurance companies did not yet exist, the parties to the contract were individual merchants and ship owners. In the Genoese reinsurance contract of 1370, the merchant Guilano Grillo assumed the risk for the ship's passage through the Mediterranean and transferred the risk for the further passage from Cadiz to the two first reinsurers, the merchants Goffredo Benaira and Martino Sacco. These sorts of contracts can only be found in the following centuries in the field of marine insurance, which, to a certain extent, formed the starting point of reinsurance. Reinsurance contracts, however, were by no means the rule in this area. The risk was mostly shared in the form of a coinsurance agreement in which the insurer took on other merchants – often a large number of them – as further direct insurers along with the customer.[3] Reinsurance contracts were almost only arranged if an insurer expected loss or damage to occur or retrospectively regretted having made the contract for other reasons.[4]

This illuminates a fundamental problem that plagued reinsurance for a long time and explains why it took about another 500 years after the Genoese contract of 1370 for this form of insurance to become firmly established. No other insurance segment had such a long and difficult start-up period. On account of the specific character of reinsurance as insurance for insurers, the initiative in this case always came from the direct insurer (the ceding company), which usually had an information advantage over the reinsurer because, after all, he knew the customer or his products or the transport conditions. The reinsurer took on the greater peril, for which he was compensated with a sizeable premium.

For example, it was often the case that a merchant who had insured a ship's freight would reinsure this risk if he did not receive any news about a plan for the course of the trip. Even greater was a direct insurer's readiness to reinsure if he found out that storms were brewing in the respective area or pirates had been spotted. In such cases, the reinsurer was taking over a bad risk. Already in the Genoese contract, the risk was very unevenly distributed. The direct insurer reserved the passage across the Mediterranean Sea for himself and reinsured the more dangerous part of the passage, the stretch across the Atlantic. It took a certain daring to take on a bad or even a totally unknown risk for the prospect of a premium. So it is not surprising that reinsurance attracted speculators and gamblers. Little of this changed when the focal point of European marine trade shifted – along with maritime insurance as well – from Genoa and Venice to the Netherlands and Great Britain.

Well into the 18th century, insurance contracts were generally only to be found in trade, and particularly in maritime trade. For the most part, people relied upon assistance in emergencies from family members and charitable support from church institutions. In the Reformation period, the first fire guilds were formed in German-speaking Europe; these were rural cooperatives whose members mutually supported one another if loss occurred. Fires were no longer regarded as God's punishment – and thus as an unpredictable danger – but rather as a manipulable risk.[5] The reinsurance concept was not relevant in this case because this form of assurance was not based on contractual relations. The first German insurance companies, too, which emerged in the Enlightenment era, had managed without reinsurance. These companies under public law were fire insurance funds established by cities or feudal lords, such as the Hamburger Feuerkasse founded in 1676 – the self-declared oldest insurance company in the world – and the Feuersozietät Berlin established in 1718, later known as Berlin-Brandenburgische Feuersozietät.[6] These companies insuring buildings against fire did not need to fear expensive losses because they had solid support from their municipal or state carriers. But private fire insurance companies, the first of which emerged in England after the Great Fire of London in 1666 as joint-stock companies or mutual companies, did not take out any reinsurance either. They protected themselves by classifying the risk and setting the premium accordingly.[7]

With the rise of overseas trade, the importance of shipping and transit insurance in Great Britain also grew. Almost all international insurance transactions transpired in London, particularly in the coffee house of Edward Lloyd, first mentioned in 1688, where shipowners and wealthy merchants met to negotiate insurance contracts carried out in the form of coinsurance contracts.[8] Reinsurance contracts were not primarily a means to share risks in England in this era but rather were increasingly used for dealing in speculative premium differences. Direct insurers tried to conclude insurance contracts with high premiums in order to then completely reinsure the risk for a lower premium. Reinsurers entered into these agreements in the speculative expectation of finding an insurer to whom they could transfer the entire risk in retrocession for an even lower premium.[9] Often, English merchants had business associates on the continent conclude insurance contracts in order to reinsure these in London for a lower premium.[10]

The first half of the 18th century was a time of heavy speculation in Great Britain, as in France and the Netherlands. Thus, the London stock exchange experienced one of the first big speculative bubbles of the early modern era in 1720 on account of the dirty stock trading of the South Sea Company. After the resulting crash, the British government felt obliged to prohibit trade with stocks,[11] which probably drove speculation in marine insurance and reinsurance contracts. Ships now were frequently overinsured by several speculators together as a bet on their sinking. Among other things, these sorts of overinsured ships set sail without any freight at all.[12] Since these practices came to threaten overseas trade, the British government felt obliged to prohibit reinsurance contracts in the Marine Insurance Act of 1746. The law did allow for some exceptions, to be sure – in the case of the death of the direct insurer, for example – and only applied to marine insurance, yet it actually amounted to a prohibition on reinsurance in Great Britain, the leading insurance market in the world at the time. Lloyd's, above all, profited from this, because in this highly capitalized market even larger risks could be shared among members in the form of coinsurance. The prohibition lasted for 118 years and was not lifted until 1864 by Queen Victoria.[13]

In Hamburg, the Senate prevented the planned founding of a stock-based insurance company in 1720 in order not to encourage speculation. Only 45 years later did the first private insurance company in the German-speaking world come into being, a marine transportation insurer in the British mold. In 1779 a private fire insurance company was also founded in Hamburg.[14] After the Napoleonic Wars, large transregional companies of this type emerged, such as the Gothaer Feuerversicherungsbank (founded in 1820) and the Aachener Feuer-Versicherungs-Gesellschaft (founded in 1825). For the first time, risks were also reinsured in the fire insurance sector. In 1825 the Vaterländische Feuer-Versicherungs-AG in Elberfeld took out the first reinsurance of a fire insurance policy in the world with the Compagnie Royale d'Assurance Contre l'Incendie in Paris.[15] Reinsurance was now no longer an object for speculative transactions but became an instrument for fire insurers to share risk with one another.

In contrast to previous reinsurance contracts or to coinsurance, reinsurance contracts between direct insurers could be detrimental to the cedent if the two companies were competitors. The policy gave the reinsurer insight into the direct insurer's business – knowledge the reinsurer could use for its own direct insurance business. As a result, German fire insurers preferred to take out reinsurance policies with companies that operated in other markets, increasingly choosing foreign ones.[16] In this way, reinsurance policies contributed early on to an intertwining of insurers within Europe, but in an asymmetrical form: German direct insurers reinsured a significant share of their policies in France and Belgium, whereas French insurers hardly transferred any policies to German companies. British fire insurers had a relatively strong presence in the German states but took out no fire insurance policies there, instead sharing risk by means of coinsurance.

The outflow of a considerable portion of German insurers' profits to foreign economies burdened the trade balance of the states in the German federation. Moreover, it was also a disadvantage for the customers that they could get practically no information about the reserves and business conduct of the foreign insurers. Consequently, Prussia passed a law about personal property and fire insurance providers in May 1837 that subjected foreign companies to rather strict controls and implemented a licensing requirement. Nonetheless, this actually augmented the outflow of premiums abroad because several British and French insurance companies that did not receive a license for direct insurance in Prussia then operated as reinsurers in this market for domestic companies.[17]

The founding of the Kölnische Rückversicherungs-Gesellschaft (Kölnische Rück) should be viewed in this context. The initiative came in December 1842 from several influential Rhenish bankers, merchants and industrialists, including Gustav Mevissen (from 1884: von Mevissen) and Simon Oppenheim (from 1867: von Oppenheim). The great fire of May 1842 in Hamburg may have encouraged the project because the claims settlement process demonstrated how important reinsurance policies were. However, in contrast to a common view, the Hamburg fire was not the decisive factor.[18] The founders of Kölnische Rück rather wished, above all, with their appeal on 22 December 1842 to ensure that "the profit of the German insurance industry be kept" in Germany.[19] Previously, an insurance company in Wesel in the Lower Rhine region had already created a reinsurance association out of its stockholders after negotiations with a French insurer had failed to secure a reinsurance policy.[20]

The founders of Kölnische Rück at first debated whether the company should be an independent enterprise that was not part of a direct insurance company or a subsidiary of the Cologne-based fire insurance company Colonia. In the following decades, the issue of which form was more advantageous for a reinsurer remained debatable. In the case of Kölnische Rück, Mevissen, as an entrepreneur and politician, prevailed with the argument that primary insurers would prefer a reinsurer not affiliated with a competitor.[21] The license was granted in April 1846, but Kölnische Rück was unable to do anything at first because of conflicts concerning its capital resources, the economic crisis of 1847/48, and the revolution of 1848 and its consequences. Not until 1 July 1852 was Kölnische Rück able to launch operations as the first reinsurance company in the world. The Rothschild bank in Paris had traded the company's capital free-floating shares, largely to French investors.[22] Then, as early as 1853, another reinsurer was founded on a different model in Aachen – not as an independent company but as a subsidiary of Aachener und Münchener Feuer-Versicherungs-Gesellschaft.[23] By 1870, a total of 12 professional or pure reinsurance companies had been founded in Germany, Austria-Hungary and Switzerland.[24] These differed from other reinsurers in that, like Kölnische Rück, they engaged exclusively in the reinsurance business.

The Schweizerische Rückversicherungs-Gesellschaft AG (hereafter: Swiss Re; the company, formerly typically referred to as Schweizer Rück, has gone exclusively by the English version of its name since 1999), which came into being in 1863 likewise as a professional reinsurance company, became one of the most important competitors of market leader Kölnische Rück. Moritz Grossmann, the director of Helvetia Feuerversicherung, had founded this enterprise in December 1863 with the support of the Swiss Credit Institute (Credit Suisse). Helvetia, Credit Suisse and the Basler Handelsbank each took over one-third of the capital stock and later sold these shares largely to corporate customers.[25] A great fire is also often seen as the cause of Helvetia's founding, the fire in Glarus in 1861. However, the new study on the history of Swiss Re shows that this is no more true than in the case of Kölnische Rück. Swiss Re also primarily resulted from a desire to keep reinsurance policies at home rather than allowing them to continue to flow abroad.[26]

The founding of Swiss Re marked the arrival of the professional reinsurance company as a specialty of the Central European insurance industry. When the first professional reinsurance company in Great Britain was founded in 1867, the Reinsurance Company, Ltd., the German Federation already had five such enterprises, Austria-Hungary had two, and Belgium and Switzerland each had one.[27] The lag in Great Britain is especially conspicuous because it was, as before, the leading insurance nation in the world. The reason for this was not the prohibition on reinsuring marine transit insurance policies in effect until 1842, but rather because coinsurance had proven to be an effective form of sharing risk in the United Kingdom and, extending from there, in the United States. Economic historian Robert Pearson lists other reasons beyond "underwriting traditions" for British insurers' weak involvement in the European reinsurance market: opportunity costs, low profit margins, and obstacles relating to state regulation.[28] But the fact that the banks in the German states, in Austria-Hungary, and in Switzerland had entered the insurance industry early on was also decisive. Unlike in Great Britain, the joint-stock banks and some private banks in Central Europe were important financiers of industrialization. They also invested in insurance companies and had no interest in capital flowing abroad by means of reinsurance premiums – capital that was abundantly needed at home. The Sal. Oppenheim bank was among the founders of Kölnische Rück; and the Schweizerische Kreditanstalt was among those of Swiss Re. Of course, it was by no means certain that these would turn out to be good investments for the banks or whether the Central European model of companies engaging exclusively in reinsurance would last.

Although reinsurance policies meanwhile had come to be regarded as indispensable in the insurance industry because the size of damages for fire and transit insurance had grown ever larger with industrialization, the first professional reinsurance companies found themselves in a difficult position. After a good start, Kölnische Rück discovered that German direct insurers were continuing to choose foreign companies for their reinsurance needs. Other direct insurers themselves acted as reinsurers or shared risks via coinsurance policies. Kölnische Rück had to give up its hail and life insurance segments after just a few years.[29] In the 1860s, when claims for fire insurance rose, some at Kölnische Rück briefly contemplated withdrawing the company from this segment and transforming it into a direct insurer.[30] Swiss Re was having no more luck than the German market leader; five years after it was founded, a crisis generated by heavy losses for fire insurance abroad threatened its very existence. At Swiss Re, too, some considered giving up the fire insurance segment and making it a direct insurance company. In the end, however, company officials decided to restrict it to a smaller and qualitatively better portfolio.[31]

On 25/26 November 1868 representatives of seven independent European reinsurers – that is, those that were not also direct insurers – came together in Munich to discuss the critical situation in their branch. They were not interested in setting prices but in talking about the fundamental relationship between direct insurers and reinsurers. They complained bitterly and quite justifiably about direct insurers, who, like their predecessors in the 14th century, tended now, too, to share only bad risks with reinsurers and not good ones, and to exploit their information advantage over the reinsurer when they did. The direct insurer's assessment of the risk could usually be seen in the portion of the risk he kept for himself, although most direct insurers kept reinsurers in the dark about this so they could more easily dispatch their bad risks. They perceived reinsurers "as a welcome depot for disagreeable risks," Friedrich Wallmann, the editor of one of the leading trade journals (*Wallmann's Versicherungs-Zeitschrift*), stated in 1874.[32] Austrian insurance expert Adolf Ehrenzweig characterized reinsurance policies at that time as "leonine," referring to the figure of speech "societas leoninis" that had been introduced by Ancient Roman lawyers alluding to the well-known animal fable by the Greek writer Aesop. In a "societas leoninis," one party to a contract receives all the profit (the "lion's share"). The lion in this metaphor was the direct insurer, while the reinsurer was the sheep that the lion could treat however he wished.[33] The emergence of independent professional reinsurance companies in the 1850s and 1860s in no way overcame the asymmetry in the relationship between direct insurers and reinsurers that had existed from the beginning. Enterprises, like Kölnische Rück and Swiss Re, in order to balance their risks, depended on rapidly issuing a large number of reinsurance policies because they operated exclusively within this segment. Thus, at first, they could not afford to refuse to take on bad risks.

Direct insurers' interest in "leonine policies" may also have been the reason that most of them continued to transfer their policies to foreign reinsurers. They were not particularly concerned that it was in the national interest to keep reinsurance premiums within the domestic economy because the outflow of premiums deprived the capital market of means and burdened the trade balance. The direct insurers, rather, focused on their business interest, and it was easier, after all, to unload their bad risks on foreign reinsurers than domestic ones. An insurance company in Paris, Brussels, or London had less precise information about the risks taken on by a German fire or transportation insurer than Kölnische Rück or Aachener Rück did. This circumstance presented an especially big problem for Swiss Re because it conducted the greater part of its business with foreign insurers on account of its small domestic market. As the history of Swiss Re written by Tobias Straumann demonstrates, this enterprise's heavy losses in the 1860s derived without exception from policies with foreign insurers.[34]

The outcome of the aforementioned Munich meeting of 1868 was a catalog of wishes for direct insurers. These included that direct insurers and reinsurers should not henceforth compete with one another, that reinsurance premiums should be raised for risks that were especially great, and that reinsurers should always be informed of how great the portion of the risk was that they were taking on. Reinsurers were no longer to take on sums that were higher than those the direct insurers retained for themselves. Conference participants even considered it "not doable" to pay commissions for direct insurers.[35] The Munich conference likewise failed to solve the 500-year-old problem of reinsurers overreaching. Although direct insurers had long since acknowledged the necessity of reinsurance, they were not particularly impressed by the resolutions put forward in Munich and could not be forced to change their behavior toward reinsurers.

In the economic upswing after 1870, the so-called founding boom, Germany's reinsurers experienced a certain rise, also because French reinsurers had temporarily lost some market share due to the Franco-Prussian War. But, meanwhile, the prohibition on reinsurance in England had been abolished, and there were numerous new companies being founded in Germany. In 1871/72 alone, a total of 13 reinsurance companies were founded in Germany, Switzerland, and Austria-Hungary – more than had previously existed in the market. Most of these newly founded companies did not last, but the heightened competition among reinsurers pushed down premiums and reduced profit margins. Ten years after the reinsurance conference in Munich, German reinsurers were consistently making a profit, but the loss ratio for reinsurers, according to a survey of the Prussian Statistical Office, was significantly higher (68 %) than for direct insurers (57.5 %).[36] The model of an independent insurance company exemplified by Kölnische Rück, after the experiences of the 1860s, was regarded as flawed. Many experts recommended a return to coinsurance.[37] As before, the majority of German reinsurance business went to foreign companies.[38] And reinsurance companies still lacked a secure foundation in the form of generally accepted rules that would have made it possible for them to be equal business partners with direct insurers.

3. Founding and Beginnings of Munich Re

Carl Thieme and the Founding of Munich Re

The Münchener Rückversicherungs-Gesellschaft AG (hereafter MR) was founded on 15 March 1880. On this day the Royal Bavarian State Ministry of the Interior granted the banking house Merck, Finck & Co. and lawyer Hermann Pemsel a concession to establish a joint-stock company "which has the aim of providing reinsurance on the fire, life, transportation and hail insurance policies taken out on associations, corporations, companies and individual persons."[1] Anyone who has much to do with the history of MR will quickly determine that the two recipients of the concession are hardly remembered as the founders of the company anymore. Instead, this achievement is mostly attributed to an insurance agent from that time, Carl Thieme (from 1914: von Thieme), and major industrialist Theodor Freiherr von Cramer-Klett. Thieme had suggested the foundation of a reinsurance company, but he did not possess the necessary capital, nor would he, in all likelihood, have been able to apply for the concession without giving up his position as the Munich representative of the Thuringia Versicherungs-AG. The founding was only made possible because Freiherr von Cramer-Klett, probably the richest man in Bavaria at that time, supported the project and was prepared to contribute enough capital into the new reinsurance company. His financial holding company, Klett & Co., and two banks close to him, the Merck, Finck & Co. bank and the Bank für Handel und Industrie, together came up with more than 80 % of the capital stock with a nominal value of 3 million marks.[2] Cramer-Klett did not deal directly with applying for the concession himself but left this to chief representative Hermann Pemsel and his financial advisor Wilhelm Finck (from 1905: von Finck), the controlling partner of Merck, Finck & Co.

Although Cramer-Klett's, Pemsel's, and Finck's participation can hardly be overstated, Thieme deserves the top billing among the founders of MR. Not only did the idea come from him, but he was the only founder familiar with the insurance industry. He took over the management of the new company and built it up according to his own conceptions. Whereas Thieme was operating out of a pioneering entrepreneurial spirit, Cramer-Klett was concerned with diversifying his already very considerable ownership of companies. At that time, he understood just as little about reinsurance as Pemsel, who came at it from a legal perspective, and Finck, who managed the firm's capital.[3]

Thieme's motives become clear from a glance at his background. Born on 30 March 1844 in Erfurt, Thieme practically grew up in the insurance industry because his father Julius worked for Thuringia Insurance from 1853.[4] Carl Thieme knew early on that, professionally, he wanted to follow in his father's footsteps. After completing his schooling and military service, he began working for Thuringia Insurance, where he worked his way up from apprentice to inspector in Breslau and Hanover, and finally to general agent in Munich.

Although Thuringia Insurance was not a predecessor of MR, the latter's foundation and beginnings were significantly influenced by Thieme's actions in this insurance company. Thieme's experiences as an agent at Thuringia played an important role in his later behavior on the board of management at MR. Karl Ferdinand Wehle, a head clerk of the Thuringian Railway Company, founded Thuringia Insurance as the "Railway and General Reinsurance Company" in 1853. It soon expanded its business to include fire and life insurance, but in the 1860s, it suffered losses like many other insurers. At that time, Wehle tried in vain to offset the losses by expanding the business to Russia and France.[5] In 1866 Thuringia completely gave up on reinsurance because this segment – as the Festschrift for the 100th anniversary of the company put it – "had generated losses over the course of time."[6]

As an inspector for Thuringia, Carl Thieme had followed the downfall of its reinsurance from close up. A few years later, one of the most difficult missions that the board of management had to dole out was entrusted to him: At the turn of the year from 1869/70, he was transferred to Munich to the general agency in charge of all of Bavaria. Thuringia had had to pay high claims in the fire branch there because the number of fires in Bavaria had climbed with the increase in fire insurance policies.[7] It was obvious that many cases involved arson, but this could seldom be proved. The director of the Munich general agency, Gustav Knote, was apparently rather helpless in dealing with this development, so the board of management in Erfurt felt compelled to transfer responsibility for the Bavarian fire and transit insurance segments to 27-year-old Carl Thieme. Later, it was said that the management had thus "sent its best horse out of the stall."[8]

Thieme rapidly surprised general agent Knote not only with his business skills. In February 1870 he was associating with Knote's sister-in-law Marie von der Nahmer, whom he had met on an outing to the Kleinhesseloher Lake. Only a few months later, on 10 Mai 1870, the two were married.[9] In February 1871 the first child was born to Carl and Marie Thieme, a son Friedrich (Fritz), followed by six siblings over the next twelve years. Already in 1863, at 19 years of age and out of wedlock, Carl Thieme had fathered his son Oskar, who grew up with his mother in Werneuchen near Berlin.[10]

The economic boom in Germany that followed the founding of the Reich in 1871 was also beneficial to Thieme's business dealings. Like many of his contemporaries, the young family man allowed himself to be seduced by the extremely optimistic mood of the "founding boom" into speculating with his private money on the stock market. When the boom ended in a market crash in the fall of 1873, he lost a considerable fortune.[11] By contrast, Thieme's involvement in relatively risky fields turned out to be quite successful. For example, he introduced Thuringia fire insurance in Lower Bavaria, as well, which most competitors had avoided because of the numerous cases of arson.[12] As early as spring 1873, in addition, he had taken over the representation for the Österreichische Hagelversicherung [Austrian Hail Insurance Company] in Bavaria. To be sure, he was less successful with this, but this also demonstrated his high risk tolerance as Bavaria was considered to be an area particularly susceptible to hail.[13] Thieme's successes in the fire insurance business prompted the Munich general agency to develop into Thuringia's largest branch office. In Bavaria, there were soon entire villages exclusively insured by Thuringia.[14] The management rewarded Thieme by transferring leadership of the general agency to him in 1874. His counterpart Knote had already left the company a few years before.[15]

At the end of the decade, Thieme, who was only 35 years old, had achieved a great deal. He had a certain amount of wealth and enjoyed a high status because of his professional accomplishments. Yet the success came at a price. Thieme's health was poor; he suffered from inflammation of the vocal cords and had to stay at a health spa in Bad Ems in the early summer of 1879.[16] At that time, he was already thinking about founding a new insurance company. It is no longer possible to determine exactly what prompted him to do so. Perhaps the successful general agent felt compelled to manage a company himself. At Thuringia he could not hope to be appointed to the board of management because his father was a member of this body and the supervisory board would probably not wish to have two Thieme's in the management. In addition, Carl von Waldow, at that time the head of Thuringia, had a rather strained relationship with both Thiemes. He envied Carl Thieme's successes and believed – as Julius Thieme wrote to his son in May 1879 – "the general agents were sometimes far better off than he."[17]

Against this backdrop, it made sense for Carl Thieme to seek other opportunities. As the manager of one of the largest insurance agencies in Bavaria, he had a variety of contacts, including lawyer Hermann Pemsel, who had only recently begun to work in Munich.[18] Through Pemsel and banker Wilhelm Finck, Thieme found out that people in the circle around the major industrialist Cramer-Klett were thinking about founding an insurance company. Cramer-Klett and his advisers viewed this step as a sensible complement to the two banks they had built up in Munich: the private bank Merck, Finck & Co. (originally Merck, Christian & Co.) founded in 1870 by Cramer-Klett's chief representative of many years, Hermann Merck, and the Süddeutsche Bodencreditbank [Southern German Mortgage Credit Bank] that came into being one year later.[19]

It is no longer possible to reconstruct what happened between Thieme, Pemsel, Finck and Cramer-Klett in the months before MR's founding. The reports that have survived stem entirely from a later period and are contradictory in some ways. Hermann Pemsel's son Wilhelm writes in his memoirs that his father, at Cramer-Klett's behest, approached Thieme at that time: "In 1879 or at the start of 1880, Herr v. Cramer-Klett had mentioned to my father that he wished to use a large sum for the foundation of a fire insurance company. My father discussed this project with Thieme, who, however, said that fire insurance was not a nice business and that he would suggest that Herr v. Cramer should rather found a reinsurance company."[20] A different narrative can be found in Bernhard Hoffmann's biography of Finck. Hoffmann refers to a no longer extant letter from 1917 according to which Thieme submitted the suggestion to Finck for the founding of a reinsurance company in Munich in the winter of 1879/80.[21] Cramer-Klett's biographer Johannes Biensfeldt, in turn, reports that Thieme approached Cramer-Klett with a suggestion to found a company for hail insurance, which Cramer-Klett supposedly rejected. When the two met up again in the summer of 1879 while staying at a health spa,[22] Cramer-Klett apparently asked Thieme for figures because Friedrich von Schauss, the director of the Süddeutsche Bodencreditbank, had suggested that he found a personal property and fire insurance company. The data Thieme presented discouraged Cramer-Klett from pursuing this project. In the winter of 1879/80, Thieme had then suggested founding a reinsurance company to Cramer-Klett and had been able to persuade him that

Germany had a gap in this area because German insurers, for the most part, as before transferred their policies to French and British reinsurance companies.[23] According to later statements by Hermann Pemsel, Thieme claimed at that time that a single Berlin agency annually transferred premium revenues of 20 to 25 million marks to British reinsurers.[24] If these statements are true, then Thieme was exaggerating in order to impress Cramer-Klett.[25] Nonetheless, the argument that founding a new reinsurance company would reduce the outflow of premiums abroad must have been just as decisive in this case as it had been for the founding of Kölnische Rück and Swiss Re.

Theodor von Cramer-Klett had moved from Nuremberg to Munich in 1878 and had brought along Pemsel, his proxy with general power of attorney, to the Bavarian capital. His entrepreneurial rise had begun more than thirty years before with a marriage to Emilie Klett, the sole heir of Nuremberg industrialist Johann Friedrich Klett. Prior to this marriage, the son of a textile salesman was known as Theodor Cramer. He had sold books but also had completed a training program at a bank. Cramer-Klett built up the iron foundry and engineering factory that his father-in-law had founded, Klett & Comp., into the largest company in Bavaria. The king of Bavaria then raised him to the peerage for the construction of the glass palace in Munich. As his wealth increased, Cramer-Klett grew less and less interested in the inherited company, which was now called Maschinenbau-Actien-Gesellschaft Nürnberg and later became MAN. He purchased shares in railway companies and worked closely with the Bank für Handel und Industrie in Darmstadt through his financial holding company Klett & Co. This bank was one of the first German joint-stock banks, whose founders (Gustav von Mevissen, Simon and Abraham von Oppenheim) had already played a major role in the founding of Kölnische Rück. In Munich, Cramer-Klett was significantly involved in the founding of the Merck, Finck & Co. bank and of the Süddeutsche Bodencreditbank. In 1878 he was granted a hereditary seat on the Imperial Bavarian Council.[26] This prince of industry and bank founder possessed what Thieme lacked: capital and high-ranking connections.

The reports that have survived of the discussions among Cramer-Klett, Pemsel, Finck, von Schauss and Thieme in the year before the founding of MR suggest that these men at first were in no way set upon founding a reinsurance company. Cramer-Klett and von Schauss were clearly leaning toward a fire insurance company; Thieme, according to Biensfeldt's statements, at first preferred the idea of a hail insurance company. Wilhelm Kißkalt, Thieme's successor, also recalled this later.[27] Deciding to set up a reinsurance company seems to have been a sort of common denominator that all the participants could agree upon.

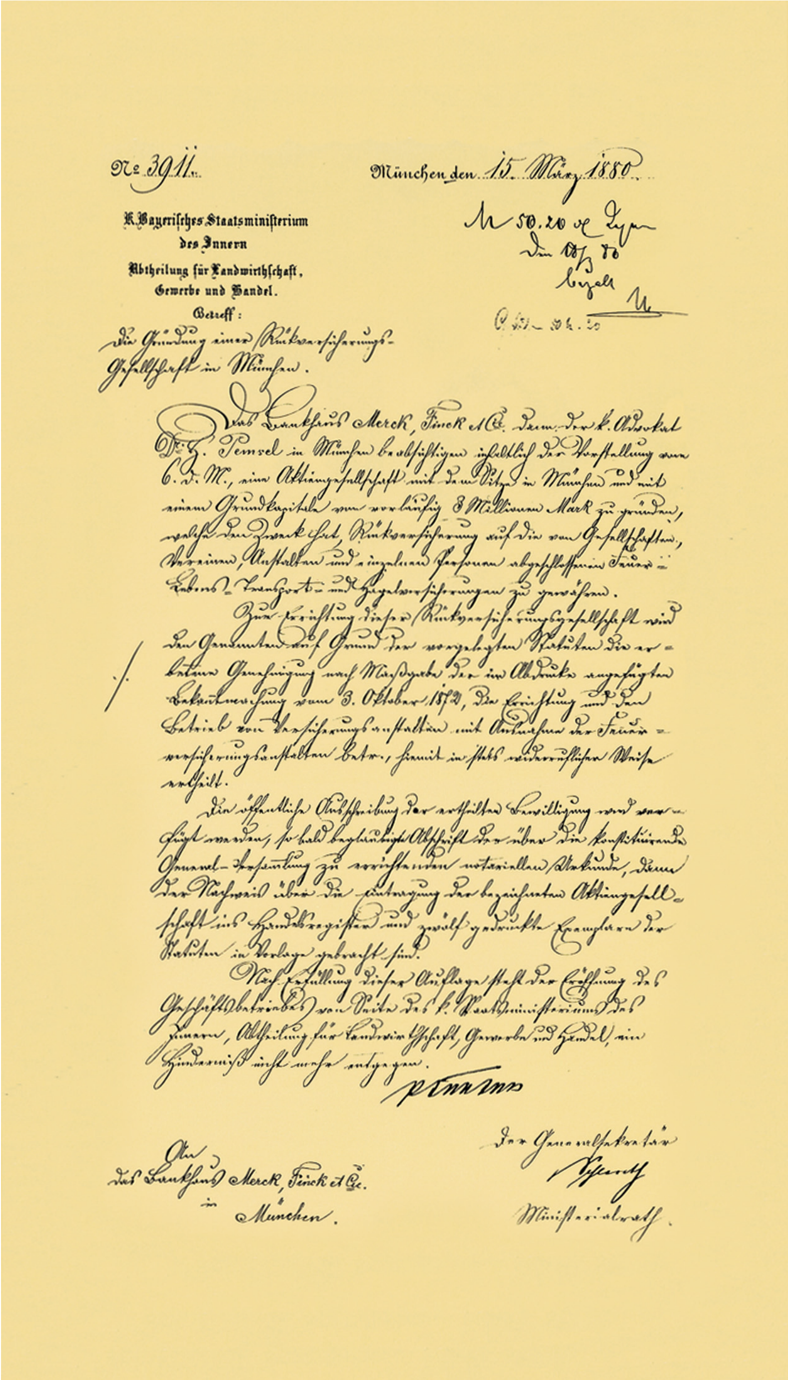
Thieme was not as free to decide as Cramer-Klett, Pemsel, and Finck, however, on account of his job. Practically speaking, he could only consider a reinsurance or hail insurance company since fire, transportation, or casualty insurers would have presented competition to his employer, Thuringia, which would hardly have allowed its general agent to do this. Thieme was not willing to give up his lucrative position as a general agent of Thuringia in Munich in order to found a new insurance company. After all, one could not predict whether this project would be a success, nor how long 62-year-old Cramer-Klett, who was in poor health, would be able to exert control over it. Consequently, Thieme continued to manage Thuringia's general agency for another six years after the founding of MR. As was typical for general agents at that time, his family lived in an apartment in the same building as the office, on Glückstraße. Since Thuringia had stopped selling reinsurance in 1866 already, Thieme was able to manage a reinsurance agency also as a general agent for Thuringia without a conflict of interest.

Reports about the first contacts between Thieme, Pemsel and Finck indicate that Cramer-Klett's circle was entirely dependent on the expertise of Thuringia's general agent for insurance questions and trusted his judgment. Hermann Pemsel was a capable lawyer who had specialized in trade law. As Cramer-Klett's proxy with a general power of attorney, the educated, social upper middle class citizen was a member of several supervisory boards.[28] But he had never had anything to do with reinsurance before; it was an entirely new field for him. Nonetheless, he familiarized himself with the material very quickly. His son Wilhelm commented on this in his memoirs: "My father, who later enjoyed being an authority on reinsurance questions …, did not know at that time what this word meant and arranged for Thieme to come up with a proposal."[29]

Banker Wilhelm Finck – at age 32 the youngest of MR's founders – was the financial expert in the group. After absolving an apprenticeship in a bank in Frankfurt and a job at an import firm in London, Finck had joined the Munich bank Merck, Christian & Co. as an authorized representative with power of attorney in 1870, later becoming a partner and gaining so much influence that the bank changed its name to Merck, Finck & Co. in 1879. He had won Cramer-Klett's trust through his support in the founding of the Süddeutsche Bodencreditbank and in the transformation of the early enterprise Klett & Comp. into a stock corporation. For this, Cramer-Klett had granted him a loan that enabled the young banker to purchase partnership shares in Merck, Christian & Co. Finck was known for his conservative business principles. He was considered the "archetype of solidity."[30] During the founding boom of 1871/72, he had not succumbed to the temptation to engage in speculative transactions, which paid off after the following stock market crash and contributed to the renown of the young banking company.[31]

Alongside Cramer-Klett, Thieme, Pemsel and Finck, Friedrich von Schauss, the director of the Süddeutsche Bodencreditbank, and Philipp Nicolaus Schmidt-Polex were also members of MR's founders' circle. Von Schauss was simultaneously a representative in the Reichstag. Belonging to the National Liberal faction, he temporarily fell out with his party because he supported Bismarck's policy of protective tariffs. Von Schauss had first-class connections in Munich and also, through his relatives, to the industrial magnate Hugo von Maffei. For his part, Schmidt-Polex, a retired private banker from Frankfurt, represented the Bank für Handel und Industrie, where he was deputy chairman of the supervisory board. Also, as a co-owner of the Philipp Nicolaus Schmidt bank, he had once been Finck's supervisor during his apprenticeship.[32]

Thus, MR's formation was due to Thieme's and Cramer-Klett's common – though variously motivated – interest in founding an insurance company. That the enterprise emerged in Munich had to do with Cramer-Klett having cofounded two banks there, to which an insurance company was now to be added. Unlike the case of Kölnische Rück, this location did not yet have an insurance company founded by merchants, industrialists, or bankers. The most important companies in this sector had been founded in the leading economic regions of the Reich, in the Rhineland, in Saxony, Thuringia, and Berlin. Munich had lacked the private capital for this. The Bavarian capital had become a site for insurance companies through initiatives of the monarch that had led to the founding of the public Allgemeine Brandversicherungsanstalt (1811), today's Bayerische Landesbrandversicherung, and the Bayerische Hypotheken- und Wechselbank [Bavarian Mortgage and Exchange Bank] (1834) including its insurance business, later known as the Bayerische Versicherungsbank.[33] Not until the period of the Reich's founding was there enough capital available in Munich for founding private banks on the basis of joint stocks. Now three joint-stock banks emerged, the Bayerische Vereinsbank (1868), the Bayerische Handelsbank (1869), and the Süddeutsche Bodencreditbank (1871). In addition, there were the Merck, Finck & Co. bank (1870) that ran the Bank für Handel und



No. 3911.

München den 15. März 1880

K. Bayerisches Staatsministerium des Innern
Abtheilung für Landwirthschaft, Gewerbe und Handel.

Betreff: die Gründung einer Rückversicherungs-Gesellschaft in München.

Das Bankhaus Merck, Finck & Co. dann der k. Advokat Dr. C. Pemsel in München beabsichtigen inhaltlich der Vorstellung vom 6. d. M., eine Aktiengesellschaft mit dem Sitze in München und mit einem Grundkapitale von vorläufig 3 Millionen Mark zu gründen, welche den Zweck hat, Rückversicherung auf die von Gesellschaften, Vereinen, Anstalten und einzelnen Personen abgeschlossenen Feuer-, Lebens-, Transport- und Hagelversicherungen zu gewähren.

Zur Errichtung dieser Rückversicherungsgesellschaft wird den Gesuchstellern auf Grund der vorgelegten Statuten die erbetene Genehmigung nach Maßgabe der im Abdrucke angefügten Bekanntmachung vom 3. Oktober 1872, die Errichtung und den Betrieb von Versicherungsanstalten mit Ausnahme der Feuerversicherungsanstalten betr., hiemit in stets widerruflicher Weise ertheilt.

Die öffentliche Ausschreibung der ertheilten Bewilligung wird verfügt werden, sobald beglaubigte Abschrift der über die konstituirende General-Versammlung zu errichtenden notariellen Urkunde, dann der Nachweis über die Eintragung der bezeichneten Aktiengesellschaft ins Handelsregister und zwölf gedruckte Exemplare der Statuten in Vorlage gebracht sind.

Nach Erfüllung dieser Auflagen steht der Eröffnung des Geschäftsbetriebes von Seite des k. Staatsministeriums des Innern, Abtheilung für Landwirthschaft, Gewerbe und Handel, ein Hinderniß nicht mehr entgegen.

Pfeufer

An das Bankhaus Merck, Finck et Co. in München.

Der Generalsekretär
Ministerialrath.

Figure 1 The letter of 1880 granting the concession for Munich Re

Industrie as well as several private banks, including Aufhäuser & Scharlach (1870).[34] MR emerged several years later as a direct consequence of this as the first insurance company in Munich founded on private initiative.

On 3 April 1880 the official constitutive act of MR took place in the office space of the Merck, Finck & Co. bank. The enterprise was provided with nominal share capital of 3 million marks, 40 % of which its founders put in (1.2 million). Unlike at Thuringia or Kölnische Rück, MR shares at first continued to be wholly owned by the founders. Cramer-Klett's financial holding company Klett & Co. and the Bank für Handel und Industrie each took on a third of the share capital, and Merck, Finck & Co. took on a sixth. The remaining sixth went in equal parts to Wilhelm Finck, Hermann Pemsel, Friedrich von Schauss, Philipp Schmidt-Polex and Carl Thieme. Not until eight years later were MR shares offered publicly.

Table 1 Founding shareholders of Munich Re in 1880[35]

Shareholder	*Nominal investment in marks*	*Number of shares*
Freiherr Theodor von Cramer-Klett für Firma Klett & Co.	1,000,000	1,000
Bank für Handel und Industrie	1,000,000	1,000
Merck, Finck & Co.	500,000	500
Wilhelm Finck	100,000	100
Dr. Hermann Pemsel	100,000	100
Dr. Friedrich von Schauss	100,000	100
Philipp Schmidt-Polex	100,000	100
Carl Thieme	100,000	100
Total share capital	3,000,000	3,000

From the beginning, it was clear that Thieme would take over the management of the new reinsurance company. Clearly no one saw his ongoing position as a general agent for Thuringia as a problem. Rather, his close tie to this direct insurer was more likely regarded as an advantage because it secured MR its first serious cedent, just as Colonia had been for Kölnische Rück and Helvetia for Swiss Re. Yet the founders did not wish for this tie to be too close lest doubts arise about its being an independent pure reinsurance company that was not controlled by a direct insurer and did not engage in its own

Figure 2 Carl Thieme (von Thieme from 1914), cofounder of Munich Re and chairman of the board of management from 1880 to 1921

direct insurance business. Thieme, Finck and Pemsel assumed that direct insurers would be more likely to transfer their policies to a reinsurer that did not belong to another direct insurer. This argument had already proved decisive in Kölnische Rück's founding as an independent reinsurance company.[36] Yet Cramer-Klett, Pemsel, Finck and Thieme had other reasons for choosing to create an independent reinsurer, even though this company form seemed to be a closeout model. Cramer-Klett would hardly have invested his capital in an insurance company that was essentially under the influence of another insurer and for which Thuringia would have had more say with the management than his close associates Finck and Pemsel. Even Thieme could not have been very interested in Thuringia having too great an influence because then his development opportunities would not have been much greater than at the general agency. Seen in this way, MR's founders hardly had a choice in betting on an independent reinsurance company.

Naturally, Thieme found it convenient for Thuringia to be closely associated with MR, which is not surprising because he was set on both running MR and the Munich general agency by himself. Apparently, there were also plans at first for Thuringia to contribute to MR's capital with shareholdings. As can be discerned from Julius Thieme's letters to his son Carl, the administrative board of Thuringia had to make a decision about the founding of a reinsurance company on 10 April 1880 – a few weeks after MR was granted a concession. The administrative board decided against this project because its members, according to Julius Thieme, did not see "any use for the shareholders" in this,[37] but rather feared it was too high a risk for them. By contrast, close business ties to MR were regarded as advantageous ("affiliation with Munich Re") because Thuringia's reinsurance abroad up to that point had "its dubious aspects" and MR offered an opportunity for profitable shareholdings.[38] In Julius Thieme's letters, the suggestion at that time called for the founding of a reinsurance company as a subsidiary with capital stock worth 300,000 marks.[39] This sum by far would have failed to meet the capital requirements for a new reinsurance company because it amounted to only 10 % of the nominal and 25 % of the share capital raised for MR. Thus, one can assume that this suggestion had to do with purchasing MR shares – a view that the presentation in the Festschrift for Thuringia's 100th anniversary also supports. That account explains that Carl Thieme wished for "his old company to purchase shares of his enterprise."[40]

Directly before the administrative board made its decision in Erfurt, there were reports in the press that MR was to be transformed into a subsidiary of Thuringia.[41] Carl Thieme reacted with a strong disclaimer that appeared in the three leading German-language trade journals. He explained "that 'Thuringia' has nothing to do with the founding of the mentioned reinsurance company. This same company, rather, will set itself in no subsidiary relationships to a direct [insurance] company but will be prepared to enter into a reinsurance relationship to any solid German enterprise."[42] This disclaimer was later interpreted as Thieme's programmatic declaration. Martin Herzog regards it as a testament to Thieme's determination "to develop and lead Munich Re as an independent enterprise not dependent on any other."[43] Thieme, Finck and Pemsel aimed to resolve all doubt about MR's independence, which soon came to be a trademark of the company. Thieme's disclaimer, however, did not contradict the cooperation with Thuringia already underway. The independence he emphasized related to the fact that no other insurance company possessed majority shares ("subsidiary relationships"), which was undoubtedly the case and was never up for negotiation. Yet it would have been possible for Thuringia to own minority shares without violating this principle. Moreover, Thieme was not incorrect in stating in his disclaimer that Thuringia was not involved in the founding of MR. Whether Thuringia would purchase shares or just take out a reinsurance policy with MR would only be decided a few weeks later, after MR had been founded. Thieme vehemently repudiated accusations that the independence of the new reinsurance company had not been maintained because its chairman of the board of management continued to operate as a general agent for Thuringia. Only a "rogue," he wrote, would abuse such a dual position and use MR information about its customers to advance Thuringia's business interests.[44]

From the beginning, MR was conceived of as an autonomous reinsurer, but not as a fully independent and solitary unit. After all, a reinsurer could not really be too independent since it needed at least one larger cedent to establish itself on the market. It had not been any different at first for Kölnische Rück and Swiss Re, either. MR worked closely with Thuringia from the start and was able to conclude its first reinsurance policy with this company; the policy was approved by the supervisory board at the meeting in which it was first established, on 23 April 1880. At the same meeting, this body co-opted the chair of Thuringia's administrative board, private banker Hermann Stürcke of Erfurt.[45] From Thuringia's point of view, Carl Thieme was a successor in the tradition of its founder Wehle, because he "recognized more clearly than Wehle had in his day that nothing is more conducive to the reinsurance business than close relations with a strong direct insurer."[46] However, this did not lead to overdependence because MR was tied into Cramer-Klett's business group through its major shareholders and the chairman of the supervisory board.

Wilhelm Finck took over the chairmanship of MR's supervisory board and retained this position for more than forty years, until he died. Hermann Pemsel became the deputy chair. Other members of the first supervisory board were Franz Dülberg, who was on the board of management of the Bank für Handel und Industrie, Hugo von Maffei, Friedrich von Schauss, Philipp Schmidt-Polex, and Hermann Stürcke.[47]

The Rise of a New Kind of Reinsurer

In April 1880 Carl Thieme took up the business operations of MR starting with four colleagues.[48] A few weeks later, Carl Schreiner joined the staff as office manager. Alongside Thieme, he was, at that time, the only employee of the new firm who had already worked in the insurance industry. Schreiner

Figure 3 The "Börsenbazar" Maffeistraße 1, the first business headquarters of Munich Re (1880–1913)

had been employed since 1874 at the Rheinisch-Westfälische Rückversicherung in his hometown of Mönchengladbach. His skills were in such high demand that he was offered the position of managing the Badische Rück- und Mitversicherung in Mannheim, where he was the general director for four years.[49] MR's first office space consisted of two rooms in the building at Maiffeistraße 1, a building originally known in the city by the name of "Birnbaum-Bräu." Along Maffeistraße, which had been extended shortly before this, there were prestigious new office buildings housing the central offices of the Bayerische Vereinsbank and the Bayerische Handelsbank. The block containing "Birnbaum-Bräu" and the buildings at Theatinerstraße 3 and Maffeistraße 1 and 3 came to be known as the "Börsenbazar," or "stock exchange bazaar."[50]

Not far from the "Börsenbazar," at Pfandhausstraße (now Pacellistraße) 16, was the head office of Merck, Finck & Co. From there, supervisory board chairman Finck could keep a close eye on MR operations. Finck and deputy chairman of the supervisory board Pemsel did not restrict themselves to controlling the board of management but also retained the right to make the final decision in matters of business policy. MR's articles of incorporation – probably written by Pemsel – arranged for the supervisory board to determine the guidelines for business policy and to decide on how available monies should be used.[51] The board was to authorize all policies with foreign insurers. Thieme's employment contract, signed on 13 June 1880, contained similar provisions.[52] As the minutes of the meetings show, Thieme at first presented all policies to the supervisory board. Martin Herzog interprets these extensive supervisory board powers as indicating "that the founders were aware of the risk associated with this company."[53] In fact, such practices were quite widespread at that time. The General German Trade Law Book only contained provisions for the appointment and controlling function of the supervisory board. It did not prescribe a strict division between the competencies of the board of management and the supervisory board of a joint-stock corporation. This was not fundamentally changed by the stock law amendment of 1884. It remained possible to transfer powers of company management to the supervisory board per statute.[54]

In the case of MR, another factor was that the chairman of the supervisory board pursued a different business style than the risk-taking Thieme. Finck was regarded as a decidedly cautious and conservative banker, and with the statute, he probably wished – as Herzog suggests – to prevent the board of management from taking on overly large risks. Despite their varying temperaments, the chairman of the supervisory board and the member of the board of management worked quite well together. For the company, the combination of different business styles proved to be advantageous. "Thieme's style of rushing forward and Finck's cool sobriety" – this is how one insider described it in retrospect – "produced a felicitous mix …"[55]

At first, it was entirely uncertain how MR would develop. Although there was a backlog of demand for reinsurance in Germany, the experiences of independent reinsurance companies up to then were not encouraging. MR's founders nonetheless had ambitious expectations. They figured that annual premium revenues would be around 2 million marks within a few years and would rise to about 5 million marks thereafter.[56] Under the conditions at that time, this expectation was downright optimistic. Premium revenues for all German reinsurance companies together amounted to 19.67 million marks in 1880.[57]

The gross premium revenues then rose much, much faster than the company founders had expected. Already in the third year of business (1882/83), MR, with premium revenues of 2.8 million marks, became the leading German reinsurance company, ahead of Kölnische Rück. In 1884 it overtook Swiss Re, too, becoming the market leader among reinsurance companies.[58] Its market share in Germany by this time was about 20 %.[59] By the end of the 1880s, MR already brought in 10.5 million marks in premiums, which comprised about 25 % of all the reinsurance premiums recorded in Germany.[60]

One factor contributing to the rapid rise in premium revenues was that MR was founded at a favorable time. The German insurance industry was experiencing a boom in the 1880s. As the period of heavy industrialization began, the need for making provisions for the risks associated with it increased. Many companies and private households were now more likely in a position to take out insurance policies, and the capital market was once again performing well enough for the primary insurance policies to be refinanced easily. The gross premium revenues of German insurers climbed between 1880 and 1890 by about 60 % and those of reinsurers even by almost 140 %.[61]

Of course, this does not explain why MR grew more rapidly than all the other German reinsurance companies in its first decade and its market share almost continually rose, even though the number of competitors increased. The business strategy Thieme pursued, with which he ultimately founded a new type of reinsurer, was the decisive factor in this. From the beginning, Thieme aimed to raise premium revenues quickly by means of concluding policies with as many cedents as possible in order to spread the risk thus assumed broadly. Already in the first year of business, he was able to conclude no fewer than 33 policies.[62] Most reinsurers at that time pursued a different strategy, preferring after the setbacks of the 1860s to focus on highly creditworthy business partners.[63] Thieme, by contrast, trusted in the balancing effect of quantity, probably also on account of his experiences with fire insurance in Bavaria at Thuringia. At that time, he had already had many clients with a bad risk. Fire insurers often had to pay for damages resulting from arson although this could not be proved. Yet the large number of insured buildings balanced this out. It was too improbable that several insured houses would be set on fire in one village at the same time.

At first, Thieme certainly had difficulty finding significant contractual partners. His father wrote him on 16 May 1880: "I thought from the beginning that it would be difficult for you to connect to the individual companies; your reports about the discussions that took place in Frankfurt relating to this were, thus, not unexpected to me."[64] Yet this changed quickly because Carl Thieme was also prepared to conclude policies with direct insurers who had a high rate of claims. These included, for example, the Gladbacher Feuerversicherung, which had suffered considerable losses from its business ties to the Westfalian farmers' associations on account of numerous cases of arson in this region.[65] Other reinsurers would hardly have scrambled to reinsure such policies. Thieme, in contrast, kept the premium revenues in mind and was certain that policies with a bad risk could be balanced out by other policies.

This strategy paid off also because MR did not reinsure individual policies but made global policies with fixed rates obligatory. This solved the old reinsurance problem that direct insurers unloaded their bad risks on them. With obligatory global policies, this was no longer possible because it required direct insurers to transfer entire segments, such as their fire or transit insurance policies, to the reinsurer, who thus had to cover correspondingly high sums. The risk and the premium were divided between the two parties to the policy according to a fixed rate. In most cases, MR insisted that the share it assumed, the excess, could not be higher than the portion the direct insurer retained.[66] Thieme had not introduced the principle of global policies, but certainly no reinsurer up to that point had applied it as consistently as MR. The rate system and excess and retention regulation were not new, either. The reinsurance companies at the Munich conference of 1868 had already advocated this sort of procedure but had not been able to implement it then. Thieme knew how to make it clear to the direct insurers that global policies with a rate system were also in their interest because they could, in this way, reinsure a much greater risk than with individual policies. The implementation of the new procedure was surely fostered by the fact that the insured sums increased significantly at this time. Despite his talent in sales, however, Thieme was only able to persuade a few contractual partners to grant MR the privileged status of being their sole reinsurance company.[67]

Another reason MR was able to gain market share so rapidly was because it offered direct insurers a share of the profits – mostly 10 %. Like the global policies, this proved to be an effective tool for changing direct insurers' attitude toward reinsurers. At their Munich conference in 1868, reinsurers had still threatened to stop reimbursing them for commissions, but without success. Thieme, by contrast, with the profit-sharing, was betting on incentives. Direct insurers should no longer hope to profit at reinsurers' expense but contribute instead to the latters' profitability out of their own interest. In his view, direct insurers and reinsurers should be equal business partners with an interest in the economic success of their counterparts.

Thieme knew that his business strategy would prove successful only in an international framework, particularly since most German direct insurers remained unwilling to transfer their policies to German reinsurers. The older reinsurance companies, too, had expanded to foreign markets early on to increase the volume of their business and mix the assumed risks. Yet a reinsurer was usually less informed about the risks of foreign direct insurers than about those of cedents in its domestic market. Kölnische Rück, Swiss Re and the reinsurance segment of Thuringia, therefore, had suffered bitter setbacks with their foreign business.[68] Thieme, on the other hand, was prepared to take on bad or intransparent risks abroad to a certain extent in order to expand MR's business. He did not regard this as a gamble but as an opportunity bet on the hope that the risks would be balanced out by regional dispersion.

Within the reinsurance sector, Thieme's strategy at first met with skepticism. In 1896 the *Deutsche Versicherungs-Zeitung* recalled: "It was not long ago that one watched with concern, indeed, with bleak prophecies, the growth of a still young reinsurance company that made connections not only in Germany but almost everywhere abroad in order to achieve premium revenues never before present in Germany. Those who sat on the long bench of mockers in the insurance branch derided this business method by applying the phrase known from jumble sales to it: 'The mass must make it happen.'"[69] In fact, in MR's first years of business, it was not certain that the company would succeed in the long run with this principle. Although premium revenues increased rapidly, some of the business relations were obviously problematic. The growth Thieme pursued was too dramatic as he aimed to give the company a broad basis for business as quickly as possible. Walther Meuschel remarked on this in his history of MR: "In the first four years, not only did production increase, but there were also already serious problems to be solved." Production had "obviously rather gotten away from the management."[70]

MR's financial figures reveal that matters consolidated somewhat after the stormy growth of the first years (see Table 2). Yet the further development of the company proved that Thieme's strategy was right. Its broad business foundation put MR in a position, unlike many other reinsurance companies, to survive the intermittent crises of the sector unharmed.[71] Thieme's business principles came to be generally accepted and applied with the rise of MR by the turn of the century. They came to be regarded as the basis of the modern reinsurance business and were later recorded in the history of the sector as the "scheme in a new style" (L. Arps) and the "world model of the professional reinsurance business" (P. Koch).[72]

Not least, the way the company was financed promoted MR's rise; for that time, it was rather unusual and had the mark of supervisory board chairman Finck on it. Because its capital stock remained in the hands of the company founders, MR did not have to pay such high dividends in the first years of business as, for example, Kölnische Rück, whose shares were free floating.[73] Thus, the young company could use more of its profits to build up reserves, which at first it could only invest in consolidated stock and other government bonds. Investing in stock was not allowed until fiscal year 1896/97.[74]

MR's first business clients, in addition to Thuringia, included Gladbacher Feuerversicherung and the Vaterländische Feuer-Versicherungs-AG in Elberfeld. Already in the first year of business, MR concluded a policy with a foreign insurance company, the Allgemeine Versicherungs-Gesellschaft Phönix in Vienna, later called the Elementar-Phönix for short.[75] It was the beginning of one of MR's closest and longest-lasting business ties. MR got at least indirectly involved in the U.S. business by means of a policy concluded at the end of 1880 with the Transatlantische Feuer-Versicherungs-Aktiengesellschaft in Hamburg, which had a general agency in New York. In 1881 it entered the Russian insurance market with a policy with Nadeschda in St. Petersburg. The same year, MR was able to conclude policies with, among others, the London and Lancashire Fire Insurance Company and the Assicurazioni Generali, Trieste.[76] The proportion of premium revenues derived from foreign insurance grew quite considerable merely a few years after the company's founding. In the fire segment, it was already almost 50 % by the end of fiscal year 1884/85.[77] Nevertheless, there was not yet much regional dispersion. At first, Thieme built up a basis for business in the markets of the neighboring countries, which had similar structures and were relatively transparent – of the first ten foreign contractual partners, eight were in Switzerland, Austria-Hungary, or in Scandinavia.[78] In contrast, MR's first attempts to establish itself in the British and Russian markets were not successful. By 1883 already, it withdrew once again from the UK – like other foreign insurers – because there had been a number of large claims, and business suffered from strong competition in the British market.[79] The policy with the Russian firm Nadeschda was also soon dissolved because the ratio of claims comprised 200 % of premium revenues. At that time, the supervisory board decided to give up the Russian business for the time being.[80]

The first MR agencies came into being in 1881 in Vienna and Hamburg, with the agency in Hamburg also managing the Scandinavian business.[81] Five years later, an agency was also set up in Paris, led by Paul von der Nahmer, a nephew of Thieme's wife. Von der Nahmer, who had previously worked at a private French bank for a long time, represented the company from Paris in Belgium and Spain as well.[82]

The surviving documents do not reveal how well or poorly MR was informed about conditions among its foreign contractual partners. Thieme worked hard to maintain business contacts and to get information firsthand by traveling frequently. But, of course, he was only able to visit the most important foreign partners abroad in the first few years, for example, Svea Försäkrings AG in Göteborg and Assicurazioni Generali in Trieste.[83] Usually, acquisitions took place by means of a written offer, as was the case with Skandia, Basler Feuerversicherung, and Helvetia.[84] In these transactions, MR had to rely upon information it had gathered that may or may not have been true. MR, as a rule, did without insurance brokers to reduce costs.[85] The supervisory board's contacts were useful for this, as the example of the Transatlantische Feuer-Versicherungs AG in Hamburg demonstrates. MR entered into a business relationship with this company after Finck had received satisfactory information about its solvency.[86]

Table 2 Business development of MR 1880/81–1890/91[87]

Financial year *(always ending 30 June)*	Premium revenues in marks	Of these fire (without sub-segments)	Premium and claims reserves in marks	Net profit in marks
1880/81	1,051,521	83.9 %	415,216	64,723
1881/82	1,966,246	91.7 %	902,742	92,578
1882/83	2,788,773	85.0 %	1,138,639	94,098
1883/84	4,140,680	80.8 %	1,601,079	152,320
1884/85	4,515,049	76.9 %	1,939,678	202,635
1885/86	5,093,962	80.9 %	2,048,780	263,484
1886/87	5,381,607	75.5 %	2,378,371	286,186
1887/88	7,320,238	65.6 %	2,907,281	301,796
1888/89	9,483,501	62.2 %	3,320,604	347,651
1890/91	10,496,228	58.8 %	3,647,431	375,099

Whereas MR became, overall, much more successful in the 1880s than its founders had at first expected, one form of balancing risk – spreading the business over various insurance segments – failed to meet Thieme's expectations. According to its articles of incorporation, MR could engage in reinsurance for fire, life, hail, and transit insurance.[88] In actuality, though, the board of management, at first, were only able to engage in the fire insurance business in accordance with a directive of the supervisory board. In the second fiscal year, MR could then reinsure transportation policies, but only to the extent that "good fire insurance policies should be made to be dependent on them."[89] At this time, as before, fire insurance was the dominant segment in the German insurance industry, generating about 50 % of all premium revenues for direct insurers.[90] Under these conditions, a reinsurer could not even think of balancing out risks with a mix of different segments. The Kölnische Rück and the Swiss Re, too, concentrated at this point almost exclusively on fire insurance because premium revenues from transit insurance had declined dramatically.[91] The insured sums for casualty and life insurance were not yet high enough to generate a demand for reinsurance. However, Thieme soon realized that MR's business with transportation insurers was developing much more favorably than its core business with fire insurers, which brought in 76.9 % of all premium revenues for fiscal year 1884/85. By 1888/89, this share dropped to 62.2 %, whereas the share of transit insurance rose to 32 %.[92] At this point, casualty insurance became a growth sector in the insurance industry. This hardly foreseeable shift in the economic growth of the various insurance segments allowed insurers to look for opportunities to minimize strong dependence on one segment.

Table 3 The largest German reinsurance companies in 1888[93]

	Year founded	Premium revenues in marks in 1888
Münchener Rückversicherung	1880	7,320,238
Kölnische Rückversicherung	1852	4,002,646
Magdeburger Rückversicherung	1862	2,826,959
Badische Rück- und Mitversicherung, Mannheim	1886	2,393,144
Rheinisch-Westfälische Rückversicherungs AG, Mönchengladbach	1870	2,142,283
Deutsche Rückversicherung, Frankfurt am Main	1872	1,575,117
Leipziger Rückversicherung	1872	1,484,032
Mannheimer Rückversicherung	1884	1,366,230
Frankfurter Allgemeine Rückversicherung, Frankfurt an der Oder	1871	1,339,918
Transatlantische Rückversicherung, Hamburg	1876	1,322,117

When MR made its first public offering in March 1888, the world of finance perceived the company's business model as having outstanding prospects. After all, it was by far the largest reinsurance company at that time. MR had established itself in the most important markets of continental Europe, and it had raised its premium and claims reserves to more than eight times the level upon founding.[94] On account of the high expectations that this success story had aroused, the shares, which had originally been valued at 400 marks, could be sold at a rate of 710 marks. Finck wrote to Thieme to congratulate him.[95] But Thieme apparently did not share the euphoria of the chair of the supervisory board because he was busy working on expanding MR's scope and increasing its returns.

"The Founding of a Casualty Firm along with Our Reinsurance Company": How Allianz Versicherungs-AG Came into Being

Along with his work as a member of MR's board of management, Thieme continued to run the general agency of Thuringia in Munich until 1886. Then he left the insurance company for which he had worked for over 20 years. The reasons for this decision were not recorded; one can only guess why. The Festschrift for Thuringia's 100th anniversary merely stated that the work associated with his dual roles had become too much.[96] According to another source, MR's cedents had balked at the idea that the member of the board of management generated competition for them in the direct insurance business as a general agent of Thuringia.[97] The deciding factor was probably Thieme's plans to transform MR in ways that simply could not be reconciled with his further work for Thuringia. MR's general stockholder assembly which then as later took place towards the end of the year, decided on 28 December 1886 to change the articles of incorporation. The company was now allowed to become involved as a coinsurer in the direct transit insurance business, which made it no longer solely a reinsurer.[98] At that time, Thieme was already pursuing a broader strategy, namely, entering into the direct casualty insurance business, which then still included liability insurance as well. As Victor Bernhardt, who joined MR in 1887, later recalled, Thieme had decided "probably already quite early on" to broaden the profile of the company he led by including a direct insurance company.[99] For this, it was necessary for him to give up managing the general agency because MR, as a direct insurer for casualty policies, would develop into a competitor of Thuringia.

Finally, Thieme, Finck and Pemsel decided to incorporate casualty insurance into an independent company and founded Allianz Versicherungs-AG in the fall of 1889. The extremely successful arrangement in which MR

Figure 4 Wilhelm Finck (von Finck from 1905), cofounder of Munich Re and chairman of the supervisory board from 1880 to 1924

and Allianz later worked together did not come into being through a master plan but rather as the result of a longer term, and at first very open, decision-making process and as a carefully balanced compromise among the various interests of the Allianz founders.

Thieme obviously left Thuringia amicably as the close business ties between the two companies remained intact. In 1890 Thuringia was still by far MR's most important cedent, with about 11 % of all its premium revenues attributable to fire insurance.[100] Thieme, however, had to expect that other casualty insurers would sever their business ties to MR when the reinsurer began generating competition in their segment. The first steps into the direct insurance business then were thus taken abroad, where the new model could be tested without competing with German corporate customers.

Together with the Feuer-Assecuranz-Compagnie of 1877, located in Hamburg, MR established a direct insurance company in the eastern Mediterranean area, Hamburg-Munich United. This Hamburg company had already proposed this sort of joint venture to MR in the mid-1880s. At that time, Thieme, who was still a general agent for Thuringia, declined, but in 1887 he accepted. Hamburg-Munich United opened agencies in Izmir, Thessaloniki, Alexandria, and Constantinople.[101] Its holdings in the Russian casualty insurance company Pomoschtsch ["Rescue" in English], a year later, were more important. As MR's articles of incorporation did not allow investments in other insurers, Thieme and several members of the supervisory board purchased the block of shares with their personal funds. In effect, this constituted MR's first equity investment and its first foreign investment.[102]

In May 1889 in a comprehensive memorandum addressed to the supervisory board of MR, Thieme advocated taking up the direct casualty insurance business. He also mentioned the idea of renaming the company "Münchener Versicherung".[103] The reasons Thieme gave for his plan, above all, were that MR as a pure reinsurer could hardly benefit from the hefty profits and dynamic development of casualty and liability insurance.[104] Increasing industrialization and the shift to large-scale industrial manufacturing had raised the number of work-related accidents. The perception of risks in the workplace had also changed. The imperial liability law of 7 June 1871 had made companies liable for accidents at the workplace to the extent that they could be found at fault. It had also stipulated that the insurance benefit would be credited to the compensation to be paid if the employer paid at least one-third of the premium. A range of direct insurers, also including several newly founded casualty insurance companies such as the Allgemeine Unfallversicherungsbank in Leipzig, the Magdeburger Allgemeine Versicherungs AG and the Kölnische Unfall-Versicherungs-AG now offered so-called collective casualty insurance policies for the employees of a business.[105]

The provisions of the liability law were soon perceived to be insufficient. Reich chancellor Otto von Bismarck made use of this when he was developing his social policies in the 1880s to tie the growing cadre of industrial workers to the state and reduce the influence of the socialist workers' movement. One of the core components of this program was the introduction of a legal obligation to obtain casualty insurance. The first two drafts failed in the Reichstag because of resistance from the Liberals. Only on the third attempt was the chancellor able to prevail with the casualty insurance law of 6 July 1884, which is regarded as a cornerstone of German social insurance legislation.[106] Bismarck hoped that this law would also supplant private casualty insurance, but this did not happen.[107] Although private insurance companies then had to leave the collective company policies to the state-run casualty insurance, they managed to specialize in insuring individual risks in the form of individual casualty insurance policies and in liability insurance for the self-employed. The debates about the law spread the word about the advantages of having casualty and liability insurance in broad circles of society.[108]

Private casualty insurers had a higher rate of return than other insurance segments because the average loss ratio (the proportion of paid claims to premium revenues) in this business, about 35 %, was significantly lower than that of fire or transit insurance.[109] In reinsuring Thuringia's fire insurance business, MR had a claims rate, in fiscal year 1890/91, for example, of 67 %.[110] It could hardly benefit from the high profits of the casualty insurance policies because direct insurers did not require much reinsurance. The sums for casualty claims were usually lower than for big fires or shipwrecks. The rates that reinsurers obtained from direct insurers were correspondingly low. Thieme did not want to accept reinsurers' exclusion from the lucrative casualty insurance business. He calculated for the supervisory board that MR, which was still one of the leading casualty reinsurers on account of its close ties to Thuringia and Pomoschtsch, took in premium revenues in this segment of 747,700 altogether between 1881 and 1888. The Kölnische Unfallversicherung, on the other hand, grossed about 1.2 million marks in premiums in 1888, and Thuringia made about 1.1 million marks with its casualty policies in the same year. Thieme concluded: "If we want to get results in the casualty segment, all that's left is the direct insurance business."[111]

For Thieme, reinsurance and direct insurance had never been mutually exclusive. His suggestion of taking up the direct casualty insurance business did not constitute a break with principles the company had employed up to that point.[112] He could well imagine that a company could engage in reinsurance and direct insurance without encountering a conflict of interest. After all, he had experienced this firsthand at Thuringia, which had been founded as a transportation insurer and reinsurer and had engaged in reinsurance alongside its direct insurance business up to 1866. MR had been founded as an independent company, not controlled by any other insurance company. Thieme, Finck, and Pemsel stood firm on this principle. Yet it had not been decided whether it would remain purely a reinsurance company. Upon the company's founding, this question had apparently not been given much consideration. That Pemsel and the bank of Merck, Finck & Co. had applied for a business license for a pure reinsurance company resulted from Thieme's position at Thuringia and did not mean that the founders had to stick with this business model for good.

Like most insurance experts of his time, Thieme regarded competition in the insurance market as segment-dependent, not extending beyond individual segments. According to this understanding, a reinsurance company had its own rules and interests, which board of management would adhere to even if they were agents of a fire and transit insurance company. From this point of view, it could operate in the direct casualty insurance business without causing direct conflicts of interest with its business customers in the fire and transit insurance segments. It merely needed to avoid generating competition for its important contractual partners in their segments. Carl Schreiner, who suggested entering the direct casualty insurance business to Thieme, also saw things this way.[113] Schreiner had left MR in 1886 to join the board of management of the newly founded Badische Rück- und Mitversicherungsgesellschaft AG in Mannheim, which also engaged very successfully in direct transit insurance. Within a few years the company had become the fourth largest German reinsurer.[114]

Thieme saw the segments an insurance company would present itself in more as a question of practicability and profitability. Whereas, in the 1880s, he had recognized the tremendous opportunities of the reinsurance branch, by the end of the decade he wanted to profit from the now lucrative casualty insurance business. Thieme had not sought to enter the direct fire insurance business – by far the largest segment among direct insurers, which MR's most important customers belonged to – because the heavy competition and high rate of claims precluded the possibility of achieving high profits. Rather, the disadvantages would have outweighed the advantages because MR would have become a competitor of its most important customers, who then probably would have found themselves another reinsurer. In the casualty insurance business, on the other hand, Thieme could accept that some MR customers might turn away from it if it generated competition for them as a direct insurer. He was certain that the two most important customers from this segment, Thuringia and Pomoschtsch, on account of their close ties – and in Pomoschtsch's case also capital ties – would continue to transfer their policies to MR. Thieme mentioned this explicitly in a memorandum of May 1889: "Should our company take up the direct insurance business, this does not mean that its reinsurance business will be lost; the larger part of it, above all, the business with Thuringia and our shares of Pomoschtsch, which together comprise two-thirds of our present premium revenues, will certainly remain."[115]

Thieme's planned transformation of MR did not, however, come to pass. Instead, on Thieme and Finck's initiative, an independent casualty and transit insurance company came into being with headquarters in Berlin: Allianz Versicherungs AG. This company was founded by means of a notarized contract of 17 September 1889 of Merck, Finck & Co., the Deutsche Bank, and a few other shareholders.[116] MR did not buy any of Allianz's capital stock because its articles of incorporation at that time did not allow it. Even after this changed in 1895, MR did not buy any stock and only did so after Thieme had left Allianz's board of management at the end of 1904.[117] At first, the circle of founders owned all the shares, which was also how the MR shares had been handled; they were not sold on the stock exchange until a few years later.

Even without capital investment, MR and Allianz had a close connection because Finck and Thieme held the most important positions in both companies at the same time. Finck took over the chairmanship of Allianz's supervisory board. Thieme became a member of the board of management together with Bruno Pohl, a casualty insurance expert who had previously worked at the Berlin branch of Zürich Versicherung, and whom Schreiner had introduced to Thieme.[118] Allianz's first supervisory board had three other members of MR's supervisory board besides Finck: Hermann Pemsel, Johannes Kaempf and Hugo von Maffei. Aside from Thieme, the two deputy MR board of management members Paul Szelinski and Marc Mauel, in turn, stepped in as deputy directors of Allianz's Munich management.[119] Allianz was developed as an affiliate of MR – the most important major shareholder of both insurers was the same, the Merck, Finck & Co. bank – but, at first, it was run like a subsidiary.

Thieme had still rejected this solution, the "founding of a casualty company alongside our reinsurance company," in his memorandum of May 1889. At that time, he had concluded that the company could achieve its aim "only incompletely and, above all, not permanently" in this way. Having its own casualty insurance company, he wrote in the memorandum, would only give MR a proportion and therefore merely a fraction of the earnings from the direct insurance business. Mostly, though, having the same people in the leading functions in both companies would not, in the long run, prevent the "casualty company" from later freeing itself of MR's influence and going its own way.[120]

[…]