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# Coffeehouse trading... in the 21st century format

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To understand the future, one always needs to understand the past. The spreading of risk has existed as long as people have existed.

As early as 4000–3000 bc, bottomry contracts were known to merchants of Babylon. Under a bottomry contract, a loan was granted to a merchant who was not required to pay back the loan if his shipment was lost at sea. However, if the voyage was successful the merchant was required to pay the loan together with the interest on the loan.

## Lloyd's coffeehouse

As trade developed so did the risks involved in trading and transacting. Over time insurance started becoming more formalised with the practice of underwriting risks emerging in the London coffeehouses. It was during this period that trading began into the New World and people began emigrating to seek a better life, and the coffeehouse owned by Edward Lloyd (later Lloyd's of London) was the primary meeting place for merchants, ship owners and others seeking insurance.

## How insurance evolved

A basic system for funding voyages to the New World was established. Merchants and companies would firstly seek funding for their voyages, and this was usually provided by venture capitalists. In exchange, the venture capitalists would be guaranteed some of the returns from the goods obtained in the New World (tobacco, silk, cotton tea etc). Once funding was secured by the merchants and ship owners, they would go to Lloyd's and provide a copy of the ship's cargo to read to investors and the underwriters at the coffee shop. Those that were interested in taking on the risk would set a premium and would indicate for what share of the cargo they were at risk.

A voyage could be underwritten by multiple underwriters. The coffeehouse underwriters were initially only concerned with insuring marine risks but when in 1666, the great fire of London destroyed thousands of buildings, underwriting then began to extend to fire insurance. Therefore, as industry and infrastructure developed so did the types of insurance offered.

So, what does this mean for the future of insurance? Insurance will always continue to exist because people will always want to spread their risk, but the spreading of risk will evolve beyond what is considered as the insurable risks of today. This means that insurers, in order to keep up with the modern "merchant", need to evolve the way that they underwrite risks, the type of risks they underwrite and the way they sell their products.

## The future of insurance

Offering insurance in a coffeehouse in the 1600s met the needs of those seeking insurance but the clients of the 21st century need their tailored form of coffeehouse. This means creating and offering insurance policies that meet the changing needs of clients in established as well as emerging markets. In addition, insurers need to ensure that their operating models are nimble enough to conduct business with the disruptors of social, technological, economic, environmental and political changes.

As an example, how will the insurance industry operate post-Brexit? How will the United States' trade principles affect how trade is conducted and how will this influence how the risks of trading will impact on underwriting? Severe weather changes will lead to the potential destruction as that of the great London fire years ago.

The evolving insurance industry is not only limited to insurers. If intermediaries are to survive they need to ensure they keep up with the needs of clients. This requires intermediaries to understand their clients, ensure that they keep up to date with the evolving risks of their clients and tailor their operating model for the same disruptors that insurers face, albeit in different context.

Despite increased regulatory pressures on the insurance industry, regulation does create some form of consistency and level playing field. But the survivors will be those that will continue to innovate, stay ahead and overcome the "new world" disruptors.

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