

Life annuities and the “thirty maidens of Geneva” — overview and summary

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Among the financial innovations of the eighteenth century, few have captured the imagination as much as the Genevan investments in French life annuities constituted on the lives of carefully selected young girls. The capitalists of the city understood that the French monarchy was selling life annuities on terms that took no account of the age and state of health of the persons on whose lives they were constituted. They organised schemes to profit from this pricing error, selecting young and robust “lives” and spreading the mortality risk across a group of persons. These schemes, often referred to as the “trente demoiselles de Genève” (thirty maidens of Geneva), foreshadow techniques of modern finance: the pooling of risks, securitisation and the management of longevity risk. They also illustrate, in spectacular fashion, the dangers of concentration on a single sovereign debtor. This chapter describes the mechanism of the life annuity, the monarchy’s life annuity loans, the Genevan scheme, its results and its contemporary extensions.

1 In five sentences

1. A life annuity converts a capital sum into an income paid until the death of a specified “life”, and its rate ought to depend on the life expectancy of that person.
2. In the eighteenth century, the French monarchy issued life annuities whose rate varied little with the age of the lives, under the pressure of financial urgency, political considerations and an insufficient application of actuarial knowledge.
3. Genevan bankers exploited this error by constituting annuities on the lives of selected young girls, often thirty in number, and distributing shares in these schemes to investors, in a structure that foreshadows funds and securitisation.

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4. These schemes controlled the mortality risk, but concentrated the credit risk on the French monarchy, whose revolutionary bankruptcy inflicted heavy losses on Genevan savings.
5. The episode sheds light on contemporary longevity-linked instruments and recalls the importance of model risk, counterparty risk, diversification, the investment horizon and ethics.

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Online version: helveticaregister.com/geneva-life-annuities-and-the-thirty-maidens-of-geneva-overview-and-summary