

The business: commission, management and international investments

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The Genevan houses of the first half of the nineteenth century carried on lines of business inherited from the previous century. They acted as commission agents, buying and selling goods and securities on behalf of their clients. They dealt in bills of exchange and made international payments. They took deposits and managed securities portfolios for wealthy families.

Wealth management grew steadily in importance. The Genevan families, who had rebuilt part of their fortunes after the losses of the revolutionary years, entrusted their assets to trusted bankers, who were often relatives. The bankers invested these assets in public funds and securities from several countries: French annuities of the Restoration, British funds, loans of other European states and then, from the 1820s and 1830s onwards, shares in industrial and transport companies.¹

The experience of the revolutionary losses had left its mark. Genevan bankers practised a more systematic diversification across countries, currencies and classes of securities. They were wary of investments that paid too well and of borrowers of doubtful reputation. Their clients expected from them, above all, the preservation of capital. This prudent orientation, which would become the hallmark of Genevan private banking, took shape in these decades.

International markets were not, for all that, free of risk. In the 1820s many newly independent Latin American states floated loans in London, which attracted European investors before defaulting in large numbers in the middle of the decade.² This episode, which affected investors throughout Europe, served as a reminder that the globalisation of investment carries dangers and that the banker's judgement of the quality of borrowers remains essential.

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The Genevan houses also developed their relations with foreign financial centres. Their partners travelled, kept up correspondence and placed members of their families in partner houses. Ties with Paris remained close, thanks to the Parisian “haute société protestante”, several of whose families were of Genevan or Swiss origin. Ties with London grew stronger as the City became the world’s leading financial centre.

Worked example. In 1825 a Genevan family entrusts its banker with a portfolio of 200,000 francs. The banker divides it between French annuities, British funds, loans of other European states and shares in industrial companies, one quarter each, for an average yield of 4.5 per cent. An investment concentrated in Latin American loans at 6 per cent would have earned more for a few years, before suffering defaults that could have wiped out a large part of it. The family prefers a regular income of 9,000 francs a year and the preservation of its capital. The figures are fictitious; they illustrate the prudent orientation of Genevan management.

1 Notes

1. Pictet & Cie, 200 ans d'histoire (pictet.com): the house at first carried on “commission business of every kind”, the “collection of annuities” and “various speculations in goods”, which were soon abandoned in favour of wealth management and foreign exchange operations; clients’ portfolios included French annuities (2½ % France, 4 % Ville de Paris), the Dette intégrale of Holland, the Russian 5 % loan, lottery tickets from Vienna and Naples, tontines from Ireland and Turin, and later securities of the Pâquis suspension bridge and of steamboat companies.



2. Gail D. Triner, “Latin American Sovereign Debt, 1825-1852” (University College London, Debt Politics, ucl.ac.uk): between 1822 and 1825, seven newly independent Latin American states raised £20.75 million in London (Mexico 6.4 million, Brazil 3.69 million, Peru 1.2 million, Buenos Aires, Chile, Colombia, Central America); Peru opened the series of defaults by failing to pay its dividend of 15 April 1826, followed between September 1826 and October 1827 by Colombia, Buenos Aires, Chile and Mexico, Brazil remaining the only exception; Wikipedia (en), “Panic of 1825”: crisis of December 1825 arising in part from speculative investments in Latin America, seventy bank failures. ↩

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