

The Thirty Maidens of Geneva: the first securitisation in financial history

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Between 1760 and 1789 Geneva bankers built an investment structure that satisfies every element of a modern securitisation: they bought cash flows, pooled them, divided the pool into tradable shares and sold those to investors. The cash flows were French life annuities. They ended with the deaths of children. The episode is worth studying because every mechanism in it recurs, and because the ethical question it raises was asked at the time.

1 How the French state borrowed

The eighteenth-century French monarchy financed itself through a mixture of taxes, offices sold for cash, perpetual rentes and life annuities. Life annuities suited a state that wanted money now and preferred an obligation that would extinguish itself. They suited investors who wanted income without the credit risk of a redeemable loan.

Around 1760 the crown moved to a uniform rate, paid irrespective of the age of the person on whose life the annuity was written. An annuity on a seventy-year-old carried the same rate as one on a seven-year-old. From the crown's point of view this was administrative simplification. From the point of view of an investor who could calculate life expectancy it was a standing invitation.

2 The Geneva response

The Genevans calculated. They selected girls of five to ten years from healthy, long-lived families, frequently from the families of the subscribers themselves — among them daughters of Jean-Louis Pictet and Philibert Cramer. Before 1774 the nominees had to be over seven, so that the risk of

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death from smallpox lay behind them; after inoculation became common, the minimum age fell to four.

Selection was only the first step. The lives had to be monitored, because the value of the investment depended on them. The nominees were required to present themselves weekly for inspection by the French Resident in Geneva. Doctors drew up the shortlists and were paid by the partners, who also paid for the girls' medical care. Their state of health was reported in the Geneva newspapers.

3 The structure

A single annuity is a wager. If the nominee dies, the income stops and the capital is lost. The Geneva device was to combine about thirty such annuities into a pool and to divide the income into tradable shares. If one nominee died, the pool lost one thirtieth of its income; the shareholders felt a reduction, and their capital survived.

The banker Jacob Bouthillier Beaumont established the first syndicate for the annuity issue of 1763 and refined it in 1771 into the *Syndicat des Trente Demoiselles*. The shares were distributed through the city by means of instruments known as *billets solidaires*.

Set out in modern terms, the transaction had every element now associated with securitisation: an originator selecting assets, a pooling vehicle, tranching into transferable interests, servicing arrangements — the collection of arrears in Paris through agents holding powers of attorney — and ongoing performance monitoring of the underlying assets.

4 The scale

This was no curiosity. In the 1770s and 1780s the Geneva pools bought up to 30 per cent of individual state annuity issues, with an average somewhat below a quarter. After 1775 roughly a third of all French life annuities written on third-party lives were held in Geneva. In 1793 the city held some 10.3 million livres of such annuities, serviced at nine to ten per cent.

The performance was remarkable. One pool achieved an average lifespan of 63 years, well beyond contemporary expectation. The consequences of a single death were correspondingly large: when the eight-year-old Elizabeth Pernette Martin died, more than 200,000 livres of income disappeared.

5 The criticism at the time

Contemporaries did not treat the structure as neutral. The deputy Pierre-Joseph Cambon later denounced the borrowings of 1779 to 1787 as proof of the incapacity of the monarchy and as ruinous to the state. The criticism was fiscal in its ground: a state that pays a uniform rate on lives selected against it is subsidising the selector.

The moral question — that the return on an investment depended on the survival of named children, whose health was inspected weekly and reported in the press — was raised less often, and the structure's defenders could point out that the nominees were cared for better than most children of their age precisely because of the investment.

6 How it ended

The construction had a flaw that no amount of diversification could cure: every cash flow depended on one debtor. Thirty lives spread the mortality risk perfectly and did nothing at all about the credit risk of the French crown.

The Revolution brought the assignats, first issued in December 1789 as a bond bearing five per cent interest and secured on nationalised church land, converted into paper currency by September 1790, with circulation rising from 400 million to 1.2 billion livres. War from 1792 accelerated the depreciation. Consolidation of the revolutionary debt and the cancellation of two thirds of it in 1797 destroyed the Geneva holdings. The Geneva-born Étienne Clavière, who was at the origin of the assignats in 1790 and twice served as minister of public contributions, was arrested with the Girondins on 2 June 1793 and died in prison on 8 December 1793.

7 What carries over

Mispricing is found. A state that prices an instrument without regard to the characteristic that determines its value will be selected against by whoever can measure that characteristic. This is adverse selection in its purest historical form, and it operated for almost thirty years before the crown changed the terms.

Diversification addresses one risk only. Pooling thirty lives removes idiosyncratic mortality risk and leaves the common exposure untouched. The lesson of 2008, that correlated defaults defeat a structure built on the assumption of independence, was available in 1789 to anyone reading the Geneva pools correctly.

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Structure follows servicing. The Geneva syndicates worked because the administrative apparatus worked: selection lists drawn by doctors, weekly inspection, powers of attorney, collection agents in Paris, publication of the state of the lives. A structure is only as good as the arrangements that keep it running, a proposition that reappears in every modern discussion of servicing risk.

The ethical question belongs in the structuring, not in the marketing. Where the return on a product depends on the life, health or misfortune of identifiable people, the question of whether it should be built at all is part of the design work. Leaving it to the public is a choice with its own consequences.

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