

**Comparative Studies
in the History of Insurance Law**

**Studien zur vergleichenden Geschichte
des Versicherungsrechts**

Volume / Band 2

**The Past, Present,
and Future of Tontines**

**A Seventeenth Century Financial Product
and the Development of Life Insurance**

Edited by

Phillip Hellwege



Duncker & Humblot · Berlin

PHILLIP HELLWEGE (ED.)

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Prof. Dr. Phillip Hellwege

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The project 'A Comparative History of Insurance Law in Europe' has received funding from the European Research Council (ERC) under the European Union's Horizon 2020 research and innovation programme (grant agreement No. 647019).



European Research Council
Established by the European Commission

Bibliographic information of the German national library

The German national library registers this publication in the German national bibliography; specified bibliographic data are retrievable on the Internet about <http://dnb.d-nb.de>.

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© 2018 Duncker & Humblot GmbH, Berlin

Printing: CPI buchbücher.de GmbH, Birkach

Printed in Germany

ISSN 2625-638X (Print) / ISSN 2625-6398 (Online)

ISBN 978-3-428-15615-3 (Print)

ISBN 978-3-428-55615-1 (E-Book)

ISBN 978-3-428-85615-2 (Print & E-Book)

Printed on no aging resistant (non-acid) paper
according to ISO 9706 ∞

Preface

The present volume is the second volume in the research project: ‘A Comparative History of Insurance Law in Europe’ (CHILE). CHILE has received funding from the European Research Council (ERC) under the European Union’s Horizon 2020 research and innovation programme (grant agreement No. 647019). The deadline for submitting the final papers was 31 May 2017. I would like to thank Michael Friedman for his critical comments on an earlier draft of this volume and for correcting the English.

Augsburg, July 2018

Phillip Hellwege

Summary of Contents

<i>Phillip Hellwege</i>	
Chapter 1: Introduction.....	9

Part 1

The Framework for the Development of Tontines

<i>Christian Rietsch and Georges Gallais-Hamonne</i>	
Chapter 2: Lorenzo Tonti.....	19
<i>Georges Gallais-Hamonne and Christian Rietsch</i>	
Chapter 3: Financial Engineering in the 17 th and 18 th Centuries – Tontines in England, France, and Ireland	49
<i>Robin Pearson</i>	
Chapter 4: The Socio-Economic Setting for Developing Tontines from the 17 th to the 19 th Centuries.....	79

Part 2

A Comparative Legal History of Tontines

<i>Sophie Delbrel</i>	
Chapter 5: Tontines in France from the <i>Ancien Régime</i> to the Third Republic	109
<i>Boudewijn Sirks</i>	
Chapter 6: Tontines in the Dutch Republic and the Early Kingdom (1670–1869) .	121
<i>John MacLeod</i>	
Chapter 7: Tontines in England and Scotland.....	143
<i>Martin Sunnqvist</i>	
Chapter 8: Tontines in Scandinavia	153
<i>Phillip Hellwege</i>	
Chapter 9: Tontines in German-Speaking Territories	167
<i>Kent McKeever</i>	
Chapter 10: Tontines in Portugal – Nicholas Bourey’s Paleo-Tontine of 1641	193
<i>Maura Fortunati</i>	
Chapter 11: Tontines in Italy	203
<i>Rafael Illescas</i>	
Chapter 12: Tontines in Spain	229

<i>Kent McKeever</i>	
Chapter 13: The Evolution of the Tontine in North America	239
<i>Marcelo Nasser</i>	
Chapter 14: Tontines in Latin America	259
<i>Jan Halberda</i>	
Chapter 15: Tontines in Poland	273
<i>Balázs Tókey</i>	
Chapter 16: Tontines in Hungary	289
<i>Tamara Korchagina</i>	
Chapter 17: The Russian Experience with Tontine Insurance	297

Part 3

The Present and Future of Tontines

<i>Moshe A. Milevsky</i>	
Chapter 18: What Can Tontine Design of the Future Learn from Its Past?	307
<i>Jan-Hendrik Weinert</i>	
Chapter 19: Tontines in Europe Today	317
<i>Jonathan Barry Forman and Michael J. Sabin</i>	
Chapter 20: Tontines in the Western World Today	329
<i>Salvatore Mancuso</i>	
Chapter 21: Tontines and other Forms of Rotating Credit Associations in Africa .	343

Part 4

Comparative Analyses

<i>Jerònia Pons Pons</i>	
Chapter 22: A Comparative Analysis from the Perspective of Economic History .	367
<i>Phillip Hellwege</i>	
Chapter 23: A Comparative Analysis from the Perspective of Legal History	383
List of Contributors	399
Index.....	401

Chapter 1: Introduction

By *Phillip Hellwege*

A. A modern definition of tontines.....	9
B. The practical importance of tontines	10
C. Tontines and the history of life insurance.....	11
D. Lorenzo Tonti as the inventor of tontines.....	12
E. The present and future of tontines	12
F. The objective and structure of the present volume	13

A. A modern definition of tontines

A tontine may be described as a pooled life annuity.¹ Investors buy a predefined number of shares, paying the same purchase price for each share. The issuer in turn promises to pay interest each year on the total amount of raised capital – that is, the total sum of the purchase prices – as annuities to the investors. The characteristic feature of tontines is that the annuities of deceased investors are shared by surviving investors. The investors' heirs have no rights in the tontine. Thus, the total sum of annuities is, each year, divided between the surviving investors. The more investors that die, the higher the share of each surviving investor is, until the last surviving investor receives the total amount of annuities. With the death of the last survivor, the issuer's obligation to pay annuities terminates. Furthermore, the issuer has no obligation to repay the raised capital back to the investors: the capital is lost to the issuer.

To give a simple example: an issuer offers 100 shares, each at a cost of 100 Euro and promises to pay 5% interest per annum. The raised capital is 10,000 Euro. The annuities thus amount to 500 Euro per annum. As long as all 100 investors are alive, each of them will each year receive 5 Euro as annuity. When 50 investors have died, the 50 survivors will share the total annuities amount of 500 Euro: each surviving investor will receive 10 Euro as his or her annuity. When there are only 10 investors left, each will receive 50 Euro per annum. The last surviving investor will receive 500 Euro per annum – based on his or her original investment of 100 Euro.

A tontine can serve different functions. Investors can use it as a pension product: the longer an investor lives, the higher his or her chances are of outliving

¹ In detail see *Gallais-Hamonne* and *Rietsch*, 50, below.

the other investors and, correspondingly, the higher his or her chances are of receiving an increase in annuities. A tontine may also be used as a means to provide for close relatives: the investor and the annuitant do not need to be identical.² The issuer, for his part, may use a tontine as a tool to raise capital: once the last annuitant dies, the obligation to pay interest on the capital terminates and he has no obligation to repay the capital to the investors.

B. The practical importance of tontines

It is generally believed that the Italian Lorenzo Tonti (1602–1684) invented tontines and that he proposed them to Cardinal Mazarin (1602–1661) in 1653. However, Tonti's original plan of 1653 failed to be implemented. A Danish plan of the same year similarly failed to be implemented. It is generally thought that the first tontines in Europe were successfully launched in Holland: 1670 in Kampen and 1671 in Amsterdam and Groningen, with more to follow. France issued its first tontine in 1689, with England coming soon after in 1692. The first German tontine is said to have been issued in 1698. It is thought that tontines witnessed their apex in the 18th century. Nevertheless, the number of tontines mentioned in modern literature is small: it discusses a handful of tontines in France, England, Ireland, and Denmark. For Germany, modern literature usually refers to tontines in Bolzano (1737), Gotha (1752), Austria (1760), Nuremberg (1777 and 1783), Potsdam (1788), and a small number of tontines in Hamburg.³ It is only the Dutch literature that has identified a larger number of tontines for the 17th and 18th century.

German literature asserts that tontines were replaced by modern life insurance products in the early 19th century. Yet it seems that they resurged in the second half of the 19th century: U.S. life insurance companies offered tontine life insurance products on the European market, and these products were controversially discussed. As a consequence of the problems which these products generated, tontines were banned in many, but not all European countries. Furthermore, by the end of the 19th century it was generally thought that tontines were a form of gambling. In some European countries, tontines have nevertheless persisted, but only as a financial niche product. With the implementation of the Second European Life Insurance Directive of 1990,⁴ life insurance companies have again been allowed to offer tontine products in all Member States of the EU. Still, it seems that they have not regained any prominence.

² In detail see *Gallais-Hamonne* and *Rietsch*, 50 f., below.

³ In detail see *Hellwege*, 167, below.

⁴ Council Directive 90/619/EEC of 8 November 1990 on the coordination of laws, regulations and administrative provisions relating to direct life assurance, 29 Nov. 1990, 50–61.

C. Tontines and the history of life insurance

In conclusion, it seems that tontines are a purely historical phenomenon. And from an historical perspective, they seem to have been of only minor practical importance. Nevertheless, modern German-language literature stresses that tontines had a lasting impact on the development of life insurance. It is argued that ‘tontines ... helped spread the idea of insurance and made wider circles receptive for the idea of life insurance’ (‘Das Tontinenwesen ... hat den Versicherungsgedanken verbreitet und weite Kreise für die Lebensversicherung reif gemacht.’).⁵ Others add that tontines were forerunners of pension schemes⁶ and that they were important in further developing mortality tables and actuarial science.⁷ With respect to legal developments Hans-Martin Oberholzer claims:⁸

Dadurch, dass den Tontinen ... ein so grosser Erfolg beschieden war, sahen sich die Staaten schon früh gezwungen, gesetzgebungsmässig gegen die grössten Auswüchse vorzugehen und so das Fundament für unser heutiges Versicherungsrecht zu legen. Eine Folge dieser Versicherungsgesetzgebungen war die Herausbildung von vertrauenswürdigen Versicherungsanstalten.

Due to the fact that tontines ... were such a great success, national legislators felt impelled at an early stage to intervene with respect to their greatest defects. Thereby they laid the basis for today’s insurance law. A consequence of this insurance legislation was the creation of trustworthy insurance companies.

Or in the words of Gunter Kürble, who focuses more on the design of different insurance products rather than on their legal development:⁹

Der Weg zu einem funktionierenden Lebens- und Rentenversicherungsmarkt war die Krankengeschichte (Anamnese) der Tontine.

The path towards a functioning life and pension insurance market was the patient history (anamnesis) of the tontine.

And L. Gustav Du Pasquier summarizes:¹⁰

Die Tontinen haben in der Entwicklung des Versicherungswesens eine ausserordentlich wichtige Rolle gespielt.

⁵ *Heinrich Braun*, *Urkunden und Materialien zur Geschichte der Lebensversicherung und der Lebensversicherungstechnik* (1937), 100.

⁶ *Peter Koch* and *Wieland Weiss*, *Gabler. Versicherungslexikon*, vol. 3 (1996), 836.

⁷ *Peter Koch*, *Geschichte der Versicherungswissenschaft in Deutschland* (1998), 34–36.

⁸ *Hans-Martin Oberholzer*, *Zur Rechts- und Gründungsgeschichte der Privatversicherung* (1992), 91.

⁹ *Gunter Kürble*, *Der Exodus der amerikanischen Lebensversicherer aus Deutschland – die Tontine und die Vorgeschichte des Jahres 1894*, (1990) 79 *Zeitschrift für die gesamte Versicherungswissenschaft* 581–623, 598.

¹⁰ *L. Gustav Du Pasquier*, *Die Entwicklung der Tontinen bis auf die Gegenwart*, (1910) 46 *Zeitschrift für Schweizerische Statistik* 484–513, 484.