Special issue of The Geneva Papers in memory of Orio Giarini

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Published online: 31 March 2021
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This special issue of *The Geneva Papers* is published in memory of Orio Giarini, who died on 28 February 2020. Orio, along with Raymond Barre, founded *The Geneva Papers* in 1976 as a way to support and encourage research on the economics of risk and insurance, at a time where research in the field was still nascent.

Orio had grasped the importance of managing risks for the benefit of economic development very early on and anticipated that insurance would play a major role in that respect. With this conviction in mind, Orio shaped the initial activities of The Geneva Association and laid the foundations for stimulating academic research in the field of insurance economics. He had understood that educating students and scholars in the economics of risk and insurance would improve the image of insurance among the general public. In 1973, he created the European Group of Insurance Economists, initially a gathering of insurance professors to discuss research and teaching in insurance, which rapidly became one of the most reputed academic circles in insurance economics. He launched many research projects to better understand the economic relevance of insurance, edited *The Geneva Papers*, and invited the best-known economists to contribute to the activities of The Geneva Association, for instance by launching the series of Annual Lectures.

Orio paved the way for the development of insurance economics and in recognition of his contribution to the field, we invited various researchers and former members of The Geneva Association who knew Orio well and benefitted from his intellectual contributions to contribute articles to this issue in his memory.

The special issue consists of two sections. The first section contains original pieces of research linked either to insurance or risk, which echo Orio's research appetite. The second section is composed of testimonies to Orio's role, as

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Secretary General of The Geneva Association, in shaping fields of study in risk and insurance as well as personal careers. It also shows Orio's intellectual interest in myriad topics other than insurance.

The first paper in the first section by David Cummins, Georges Dionne, Robert Gagné and Abdelhakim Nouria addresses the function and role of reinsurance for insurers. The authors analyse empirically the costs and benefits of reinsurance for a sample of U.S. property-liability insurers. They show that the purchase of reinsurance significantly increases insurers' costs but significantly reduces the volatility of the loss ratio. This means that by purchasing reinsurance, insurers accept to pay higher costs of insurance production to reduce their underwriting risk.

The paper by Peter Zweifel proposes a practical way to bridge the gap between risk (where probabilities of occurrence are fully known) and uncertainty (where these probabilities are unknown). This is applied to an insurance company that considers launching an innovative product but cannot gauge precisely the likelihood of a favourable reception by the market, that of a competitor launching its own innovation, or approval by the regulatory authority. He uses the Linear Partial Information theory to systematically exploit the existence of imprecise information and provides advice on the best decision for the insurance company.

The paper by Christian Gollier addresses how habit persistence affects risky decisions such as the demand for insurance and risky assets. This is an important question, as when consumers build habits of consumption, they face the risk of having to reduce their consumption below their habit level in adverse situations, and then should be more risk averse. Using a two-period portfolio choice model, Christian shows that adding habit persistence can substantially reduce the aversion to risk through a time-diversifying risks channel. This result goes against the widespread idea in the literature that habit persistence can resolve the equity premium puzzle.

Roland Eisen's paper investigates a topic dear to Orio: vulnerability. According to Orio, vulnerability comes with two risks, human-made risks and natural risks, which are both growing in dimension and are increasingly interrelated. This paper discusses the role of mutual insurance to control such vulnerability. In particular, it addresses the advantages of mutual insurance when risks are large, probabilities uncertain or unknown, and events interrelated or correlated.

The paper by Jean-François Outreville provides a comprehensive analysis of the relation between foreign direct investment (FDI) and insurance. Only a few papers have examined the potential role of FDI in insurance services. Some papers have explained the factors contributing to foreign entry in a single country or the determinants of FDI-preferred locations. Others have examined the impact of foreign entry on the host country sector or the relationship with insurance development and insurance market activities. The purpose of this paper is to review the empirical literature on the relationship between FDI and insurance services and to propose avenues for future research in the field.

Eric Briys reflects on Orio's intellectual work and interests by offering an insightful journey on the topics of insurance, growth and the service economy. The paper makes a link between Orio's ideas and the notions of ergodicity and path-dependence, whose consequences are still not yet fully understood in

economics. Ergodicity and path-dependence are indeed critical when one aims at bringing more precision to soul and more soul to precision, which was what Orio was looking for.

The paper by Patrick Liedtke analyses the implications of the COVID-19 crisis on insurance investing by considering three categories of investment for insurance companies. First, it looks at the impact of the severe drawdown in the equity markets on a typical insurer's balance sheet. Second, it analyses the effects of the dislocations in fixed income and the impact of downgrades on insurers' solvency capital. Finally, it studies alternative investments, with particular focus on private markets. The paper highlights the growing sophistication and complexity of investments for insurers and calls for companies and regulators to wisely balance policyholder protection interests with market efficiency goals.

In the second section, devoted to testimonies to Orio, the first paper by Walter Kielholz provides a thorough picture of the history of The Geneva Association and how, under Orio's lead, The Geneva Association initiated innovative fields of research related to insurance, such as vulnerabilities, risk, old-age pensions and welfare. The paper also addresses the successes and failures of The Geneva Association. It concludes with current and future challenges and opportunities for insurance and The Geneva Association, the functions of which are even more necessary in a changing risk landscape.

The final four papers are personal memories of Orio, which stress his intellectual curiosity and contributions, and the role he played in the research and professional trajectories of the authors.

Henri Loubergé explains the influence Orio had on his academic career, both as a mentor and colleague. He comments on their joint research works and provides a few stories from when he was the Vice Secretary General of The Geneva Association, sharing an office with Orio and supporting him in the early years of the Association.

The text by Neil Doherty offers a reflection on Orio's works and impact from an academic perspective. It shows Orio's understanding of the benefits that academic research could bring to The Geneva Association, and how he encouraged academics to explore new avenues of risk management research. Orio considered insurance as one pillar in addressing the risks people face over their lifetime but insisted that other pillars, such as savings, social security and the labour environment, should be studied.

Walter Stahel's text is a tribute to Orio as both a great intellectual and a friend. It presents some of the many scientific collaborations Orio developed to better understand the effect of risks on society and of insurance in dealing with these risks. It also recognises Orio's intellectual curiosity and how smart he was.

Finally, Geneviève Reday-Mulvey pays homage to Orio and his work on the fourth pillar as a holistic solution to longevity risk and the notion of a counter-ageing society, where ageing should be seen as an opportunity and not a problem. Geneviève retraces the development of the Four Pillars programme that she headed at The Geneva Association and how it has influenced the political and public debate on old-age income.

The papers in this issue inevitably refer to just a few of the many issues Orio was interested in. Nevertheless, they reflect Orio's personality and we hope he would have enjoyed reading them.

Publisher's Note Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

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