

Editorial

Surrounding Risks

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Research in insurance and finance was always intersecting although they were originally and generally viewed as separate disciplines.

Insurance is about transferring risks between parties such that the burdens of risks are borne by those who can. This makes insurance transactions a beneficial activity for the society. It calls on detection, modelling, valuation, and controlling of risks. One of the main sources of control is diversification of risks and in that respect it becomes an issue in itself to clarify diversifiability of risks. However, many diversifiable risks are not, by nature or by contract design, separable from non-diversifiable risks that are, on the other hand, sometimes traded in financial markets and sometimes not. A key observation is that the economic risk came before the insurance contract: Mother earth destroys and kills incidentally and mercilessly, but the uncertainty of economic consequences can be more or less cleverly distributed by the introduction of an insurance market.

Financial economics is about allocating economic resources over time and space under conditions that typically contain risks. Governments, corporate companies and individuals have a time and state varying supply and demand for economic resources and financial markets allocate these resources accordingly. This makes financial transactions a beneficial activity for the society. Time-value of money becomes a fundamental issue and since the states of the world are uncertain over time, the contracting over time means contracting over risks. Finance deals with price formation and decision making in such a market. Market prices of risk may be fully determined by market participants. However, many marketed risks are not, by nature or by contract design, separable from non-marketed risks that are, on the other hand, sometimes diversifiable and sometimes not. A key observation is that the contracting of risk is a consequence of the contracting over time: Assets facilitate flows of resources but introduce uncertainty in returns and creditworthiness. Prices respond to these uncertainties.

Both in practice and in mathematical methodology insurance and finance have moved closer together during the last decades. Also, for many academics in the fields, this convergence has become

a main driver for innovation, both in relation to insight and development of methods. But still, most research outlets consider themselves as belonging to one field or another. *Risks* does not! Indeed, journals in financial economics with a mono-disciplinary history tend to welcome and publish insurance-related research and *vice versa* but to *Risks* inclusiveness, inter-disciplinarity, and open-mindedness is the very starting point.

Risks is an outlet for research in the more or less classical disciplines mentioned in its scope but particularly welcomes material that bridges, focuses or augments those disciplines. Research at the intersection between insurance and finance, practically and/or methodologically, is the obvious example. Less obvious examples are general decision making under uncertainty; preferences and behaviour; public and political aspects of finance and insurance; risk classification; risk perception outside the financial/insurance market; treatment of risks in the laws that regulates the financial and the insurance industries. What surrounds the material is, first, an analytical or formal approach to the research questions and, second, high standards with respect to innovation, relevance, and importance. At the surface this may sound almost like the journal of everything. But it's not. It is a journal of understanding, formalising, contracting, controlling, trading and marketing of...*Risks*.

Let me finish by stating a list of 5 one-liners that are keys to the managing of the journal. Here I just write briefly why they are relevant to *Risks*. In future editorials I will elaborate on them, one by one, by twisting them and shouting them out loud.

- What is complicated is not necessarily insightful and what is insightful is not necessarily complicated: *Risks* welcomes simple manuscripts that contribute with **insight**, **outlook**, **understanding** and **overview**.
- Reflection on research dissemination may increase the power of penetration: *Risks* welcomes creativity in paedagogical tricks and techniques that challenge conventions and improve readability.
- Transfer research, incremental research and radical research are equally important for the community: *Risks* welcomes material that transfers bachelor level material to the public and to the market, material that extrapolates insight and results within the conventions, and material that breaks up with the conventions. All aspects are part of the food chain of wisdom and one thing is not better than another.
- Authors are not just calculators so they should have an opinion and make decisions: *Risks* welcomes authors who dare to express their opinion and who decide on what is important to tell the reader, what is not, and why.
- Knowing means being responsible: *Risks* welcomes contributions that show responsibility for societal impact by being clear-cut and not wrapped up in cotton and too many reservations and “all things being equal”.

Welcome to *Risks*!