



## **Destination Switzerland**

### *Work and location in the time globalization*

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Ever since living in Switzerland, the Ticino has been a favorite vacation spot for my wife and me. You get the Italianita after a short drive and without having to change currencies.

I was given an ambitious topic: to talk about Switzerland as a place to work and provide jobs in the time of globalization. Why should the Chairman of the Swiss-American Chamber of Commerce address it? Well, in my day job I have the privilege of running a global company. As CEO of the Zurich Financial Services Group, I have gained a few insights in what it takes to stay ahead of the curve. The second reason is that our Chamber has recently published a study on what it takes for Switzerland to win the battle in a globally competitive environment. I shall dwell on some of the study's findings and policy conclusions.

It is easy to get caught up in arguments for and against globalization. For some, it seems that the negatives strongly outweigh the positives. They see globalization as marginalizing the weaker elements of our societies. They fear that it hollows out our manufacturing base, and they are concerned that globalization is leading to a race to the bottom, that labor and environmental standards are undermined and forced to adjust to the lowest common denominator.

There may be some merit to these points. But fear is always a poor counselor. We must rather focus on the positive factors. I believe that globalization is a win-win for all, a point which

should not be too difficult to accept in this country and in this corner of Switzerland. Where would Lugano and the Ticino be without access to the Lombardy, Italy's most innovative region, a thriving hotbed of manufacturing and high-technology?

Switzerland's prosperity is undoubtedly related to foreign trade. Zurich, to give one example, makes nearly 90 percent of premium revenue abroad. Similar ratios hold for all Swiss multinationals and for most of our small and medium enterprises, as it has been for much of the post World War II period. Indeed, Switzerland's prosperity would have been impossible to achieve without access to foreign markets and an ability to embed our businesses in the much larger global economy.

But we cannot afford complacency. It may be true that Switzerland continues to be the most competitive country. That at least is what the latest study of the World Economic Forum tells us. It is also the reason why Switzerland has been successful in attracting foreign companies like Colgate, Google, IBM, Procter & Gamble, Jacobs and many more. This translates into an impressive 10 percent of the Swiss gross domestic product contributed by foreign multinationals. In recent years, their contribution to output has been growing roughly 5 percent annually.

However, I could also cite other studies that paint a less favorable picture. They focus on weaknesses of the institutional framework and economic environment. Alleged or real weaknesses include red tape or stifling bureaucracy in the public sector, trade barriers in certain sectors and lack of mutual recognition of foreign standards, a truly liberalized domestic goods market, an increasing burden of government debt, and still far too many difficulties in hiring qualified foreign labor.

You may have been surprised to hear me mention bureaucracy. Obviously, Swiss officials are not major obstacles. But let me tell you what we are up against. I have heard that officials in Shanghai are given four hours to respond to requests from the business sector. Not four months. Not four weeks, and not four days. Exactly four hours! And wait for this: should an official fail to be responsive three times in a row, he will be told to leave. I ask you to compare

this lightening speed to the time it can take to obtain a building permit in Switzerland, and I believe you will agree that there is room for improvement – even in this country.

Concerns like these lead to a number of recommendations in the study undertaken by the Chamber and the Boston Consulting Group. I will return to the study later. First, I would like to address what I believe are the very profound implications globalization has had on the way we run our businesses. It is important to see that a “globally integrated corporation” requires a different organizational model – or a different mindset if you will – than the merely “multinational company” of the past.

Let me explain by drawing on Zurich’s history. In 1875, only three years after its incorporation, the “Zurich Transport and Accident Insurance Company” had received state licenses to conduct business in Austria, Prussia and the bulk of the German states, as well as Denmark, Sweden and Norway. By 1900, Zurich was established in Europe and ready to cross the Atlantic. It happened in 1912 with the establishment of operations in the US states of New York, Illinois, New Jersey and Massachusetts. Our expansion in foreign countries continued throughout the 20th century, interrupted only by the two World Wars.

But for most of the time the foreign activities were run as portfolio of only loosely connected international businesses. They lacked a unifying rationale and a global purpose. Today, and in stark contrast, we are looking at an integrated enterprise. Common core processes and methodologies have been disseminated through The Zurich Way. We are centrally controlling the risks that arise from different lines of business across multiple jurisdictions. We are investing in common information technologies and communication platforms that not only serve our internal needs but allow for closer customer proximity. Finally, we manage our international talent pool across all time zones in a consistent and integrated fashion.

Over the past two years you may have seen that our company has undertaken a global branding campaign based on both advertising and employee engagement. Our effort derives from the desire to provide our customers with a uniform experience. No matter what their needs are and where they may be, they will receive the same service level. Our agents are

drawing from one pool of expertise in underwriting and claims management, and their actions are backed up by the vast resources of a large global corporation. It enables us to be the most cost-efficient supplier without any quality loss in customer service.

After coming to Zurich, I quickly learned how segmented the Swiss market actually is. It starts with four official languages, but it goes much deeper. Such differentiation requires us to deliver custom-tailored solutions whether our customers reside in Geneva, Switzerland, Geneva, USA, or Lugano for that matter. Our service centers must ensure that our customers are served with a local touch and the correct local accent. I know that the people of the Ticino speak an Italian that makes them sound distinctly different. Zurich respects and cultivates such differentiation.

Returning to the bigger picture, I believe a globally integrated enterprise requires a different perspective on business. Decisive is not whether it will outsource certain activities in the elusive search for cheap labor. Much more important is whether it has developed a global understanding of its markets and is delivering customer value in new ways and across a broad range of operations.

This puts a big premium on innovation. Not only does innovation shape the way we conduct our business, the access to and the mastery of innovation defines the competitive advantage. Let me be clear that this is about more than bringing new products to market. It is rather about finding different ways to serve the customer. It is about decomposing the value chain and reassembling it from scratch, and it is about how we develop, transfer and incorporate new insights across our operations.

Just one example: today, we are celebrating the 10th anniversary of HelpPoint. I am sure you have seen one in your neighborhood. HelpPoint was developed by our Swiss operations and we have successfully exported it to our US-based Farmers business division, showing that it went global faster than many other equally good Swiss ideas. In fact, it was also copied by our competitors. But I take this as a compliment, because imitation is, as they say, the sincerest form of flattery.

When thinking about innovation we must recognize that its creation and spread occurs on a global scale. We are very proud about bringing innovation to emerging markets that are in the process of developing their own insurance industry. A good example is the Greater China region where risk management is seen as a tool to provide for stable economic development. That's why we are investing in knowledge transfer, building risk awareness and establishing a dialogue in cooperation with the Chinese regulator. We are convinced that it will enhance the overall governance and transparency of the Chinese insurance industry and encourage the implementation of sound global standards.

But innovation is also important for propelling Zurich forward. To benefit from innovation, we depend on three preconditions – technology, talent, and tolerance. Our company's leaders must be open to new ideas. We must have the talent to incorporate them into our businesses, and we must have access to the technologies facilitating new processes. These topics are high on my agenda as CEO.

So much for a history of Zurich and an overview of our global capabilities. What I have tried to convey is that we positioned our group to better reflect the changing global environment. Our strategy is forward-looking, and it has served us well. Our balance sheet is strong. We are leaders in important markets around the world, and we have achieved 17 successive quarters of increasing profitability. The fact that Zurich is stronger than ever and that we are poised to grow in the global economy is also good news for the Swiss job market. In the current year we expect to create about 200 jobs in this country alone, and our prospects continue to be bright.

Let's see what the Zurich experience implies for the Swiss economy.

There can be no doubt that Switzerland is in an excellent position to harness the “three T's” of innovation – technology, talent, and tolerance. Swiss universities are recognized for their quality, particularly in life sciences and high-tech. The labor market has recently been opened for the inflow of talent from the European Union, and I am sure that Switzerland's traditional openness not only to trade but also to new ideas will continue to serve this country well.

But again, complacency would be the wrong prescription. Our competition is not asleep. Other countries can easily copy the institutional framework and economic environment that has served Switzerland so well in the past. This brings me to the recommendations of the Chamber study.

One lesson of the recent period of globalization is that the mobility of capital and the potential for relocating production facilities through foreign direct investment has constrained the ability of governments to pursue onerous tax policies or stifling regulation. Luckily, Switzerland continues to enjoy a competitive tax system and the regulatory burden is comparatively light. But we should be mindful that for multinational corporations, taxes can be a knockout factor at the start of every location screening. Consequently, and this is the first recommendation made by the study, Switzerland cannot afford to become non-competitive on the tax front.

As I said before, access to skilled and specialized labor is a condition for maintaining the quality and speed of innovation. At Zurich, we made recruiting top talent one of our top priorities. Given the small size of the country, the talent pool of Switzerland can be limited. That is why we must make it easier for skilled foreign labor also from non-EU countries to work in Switzerland. Of course, immigration policy requires a holistic approach. Finding ways that address both the economic and humanitarian sides of immigration will be a key factor in the future. In addition, we must define major education efforts to improve the domestic pool of knowledge, as we at Zurich are doing with St. Gallen University or our Global Associates Program.

The Chamber's third recommendation refers to critical amenities and infrastructure, including airline connections and international schools. Globalization is driven by the need of multinational corporations to have seamless connections among key locations. Providing preferably non-stop connections out of our three international airports will be an asset. Better access to good international schools for both foreign nationals and internationally mobile locals would also undoubtedly contribute to keeping Switzerland an attractive location for global businesses.

The Chamber also recommends breaking out of the parochial mold that often seems to permeate into Swiss thinking. I know that the Swiss are first and above all proud citizens of their home town and home canton before defining themselves as Swiss nationals. But seen from abroad, Switzerland is one country. Foreign investors will often have a hard time to understand the home-grown peculiarities of whether they should set up shop in one canton or another.

Hence, there is room for cantons and regions to collaborate even closer. They should provide a consistent Swiss interface. Cantons should ensure that foreign corporations are not confronted with inconsistent messages when bidding for new industry settlements. At the same time, cantons should be encouraged to leverage their decentralized and highly personalized services. The successful tourist-focused campaign for “Heidi Land” is an excellent example. It suggests how the public sector could create a different, coherent message in its marketing of the business location Switzerland.

So much for a few recommendations. Our message is positive. Globalization is a big opportunity for Switzerland and Swiss multinationals. Widespread fears that we may lose jobs to low cost countries are, on balance, not justified. But it is also clear that the institutional framework is playing a big role in determining whether our country will continue to be competitive in the face of globalization. Just as corporations are shaping their future through appropriate strategies, countries can choose the right policies and provide a growth-conducive framework.

Having had the privilege of serving at the helm of a Swiss blue chip, I can attest that, by and large, Switzerland has made the right choices. While the purpose of Zurich is global, my colleagues and I are proud of our group’s Swiss heritage, and we are very happy with our home base in Switzerland. In many ways, the microcosm of this country reflects other markets and cultures. Drawing on Switzerland’s talent and infrastructure is a decisive competitive advantage. We will exploit this advantage to the benefit of all stakeholders – employees, shareholders and ultimately you, our customers.

To sum up: I believe Switzerland is in an excellent position to meet the challenges of globalization. The potential to remain attractive as a place to do business from and provide gainful jobs is enormous. The opportunity is real. Let's continue on the path forward.