

## **“Partnering for Security and Prosperity”**

**Summary of a speech held by  
James J. Schiro  
Chief Executive Officer, Zurich Financial Services**

**at the plenary panel discussion at conclusion of the  
World Economic Forum in Davos, Switzerland,  
on January 25, 2004**

"The biggest risk is the misperception of risk." This is how Zurich's CEO James J. Schiro summarized his assessment of the risk facing modern society today. Mr. Schiro participated in a plenary panel that was charged to provide a summary of a week's worth of debates at the 2004 World Economic Forum in Davos. Co-panellists were John T. Chambers, President and CEO of Cisco Systems (USA), Carlos Ghosn, President Nissan Motor Company (Japan), Walter B. Kielholz, Chairman of the Board, Credit Suisse Group (Switzerland), and Marilyn C. Nelson, Chair and CEO Carlson Companies (USA).

In his lead-in contribution, James Schiro asked, "What new risks to security and prosperity are there, and what risks and issues have merely been re-framed?" His answer was that mankind had always lived with risk, and it would need to re-learn how to cope with risk. "Entrepreneurial risk-taking is at the root of prosperity, and if we stifle it, we will do so at our own peril," he said. Of course, there are new dimensions of risks, and some of them with catastrophic outcomes. These risks are systemic, Mr. Schiro expanded, and they derive from the manifold connection between complex factors. Recent examples include the breakdown of power grids in the US and Europe; environmental catastrophes (large floods, devastating winter storms, possibly due to climate changes) that can, among other consequences, lead to severe supply chain interruptions as seen after 9/11; and the spread of diseases (example Sars or Asian chicken flu) due to changed migration patterns.

The good news is that we have new tools and processes to deal with most of these risks. “We see new approaches to a more systemic thinking that is aware of the many facets of interconnectedness. Scenario planning is back in fashion. In fact, the Basle process asks corporate risk managers to stress-test their assumptions under various scenarios,” Schiro told the Davos audience. “But the best tools will not suffice if we do not develop an understanding of how the public’s perception of risk is changing on us,” he warned. Obviously, the media should play a big role in delivering a nuanced picture, but the problem is an increasing lack of trust in the media, according to Schiro. They share this with lack of trust in governments, corporations and experts.

Misperception of risks and lack of trust in our ability to deal with the issue of risk entails the risk of ill-advised policy interventions not mindful of their systemic consequences, Mr. Schiro warned. More often than not, regulation is seen as the answer to the perception of new risks. “But regulation cannot eliminate all risk,” he said, and from this insight any working public/private partnership to address and possibly solve issues related with risks to security and prosperity would have to start from. In this partnership the private partner should become an integral part of the solution, but an essential question to be resolved would have to be how to define the appropriate forums and processes that would bring together the right stakeholders from civil society, governments, businesses and academia.

Mr. Schiro concluded his contribution with the call for “genuine leadership that is prepared to speak the truth, make tough choices and push through unpopular policies.” Such leadership would have to overcome myopia and muster the political will to act. Clearly, all actions would have to be based on the principles of ethical behavior. “But ethical behavior cannot be imposed through regulation. However, we can acknowledge the right behavior and we can reward it,” he recommended.