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The Davos Barometer: Risks Ahead

By Erwann Michel-Kerjan

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Whether you attend the annual meeting of the World Economic Forum (WEF) this week in Davos, Switzerland or follow it from home, what happens there and who is invited to speak on what theme does matter a great deal. Indeed, over the years, looking at Davos' agenda has always provided a solid barometer of what is likely to matter most to the top leaders.

Clearly, this year's focus is about balancing economic recovery and sustainable value creation through much improved risk management strategies. For those of us who have been helping governments, large corporations, international organizations and families do a better job of assessing, managing and financing catastrophic risks and other extreme events, we hope to contribute effectively.

The world indeed seems to become more and more dangerous as time passes. During just this past year we've experienced a series of major fiscal crises, devastating earthquakes in Haiti and Chile, large-scale floods in China, Pakistan, and Australia, unprecedented fires in Russia, social unrest, and malevolent use of our own transportation networks (UPS/FedEx) into weapons of mass destruction by terrorist organizations... And I'm probably missing many. Still, again and again, many are caught off guard when another catastrophic event occurs.

Is it because we don't know the risks we face or because we don't want to act? Probably both. But past failures to be proactive can help us improve our capacity to do much better in the future. One should thus pay attention to what is on the agenda at Davos this year. Best is certainly to notice the focus of the 2011 edition of the Global Risks Report.

The Global Risk Network is a bold initiative launched by Klaus Schwab, founder and chairman of the World Economic Forum, in 2005. This innovative venture has been supported by a dedicated high-level team at the Forum and its partners (Marsh & McLennan, the Wharton Risk Management Center, Swiss Re and Zurich) for the past six years. For 2011, more than 500 leaders and experts around the world assessed 40 global risks in terms of likelihood and severity.

Notably, the Global Risks Report is not necessarily about what will happen tomorrow morning, but about what risks are most likely to materialize in the next 5 to 10 years, if not sooner. Further, we go beyond the usual silo approach of risk management by demonstrating how these risks interact with each other, with the potential to create a perfect storm.

It is actually quite amazing what you can see coming from very far when you allow yourself to look into the future with a longer time horizon than the usual next quarter lens, and really consider interdependencies across the globe. By doing so, you can move from Risk Management 1.0 to an upgraded 2.0 version. You start seeing things forming and interconnectedness building over time. As such, you better understand the seeds of future disaster to come and can better prepare your organization.

So what is on the top of the list this year? Fiscal crises; climate-related risks; extreme energy price volatility; economic disparity, and global governance failures. Global Risks 2011 highlights three risk clusters of particular concern: the relationship between illicit trade, crime, corruption and state fragility; a set of interconnected risks tied to water, food and energy; and risks related to global macroeconomic imbalances. Finally, noted are five other risks to watch (they did not make to top of the list this year, but could easily do so in the near future): cyber-security; demographic challenges; resource security; retrenchment from globalization; weapons of mass destruction.

Certainly, the success of this initiative can be measured over time by looking at previous editions. A good example is the Global Risks analysis that had been undertaken during the year 2007 and was presented in Davos in January 2008. Among our top risks that year was “asset price collapse.” It was still a time of great exuberance for all, so many felt we got it totally wrong. That feeling evaporated a few months later. But it was too late.

We might have more listeners this year. Davos 2011 opens Wednesday.

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