Dear Readers,

At the start of this year we looked back with pride on a successful 2004. Not only were we able to announce the legal merger of Coutts Bank (Switzerland) Ltd and Bank von Ernst Ltd on schedule on 1 October, but the Bank’s financial results for 2004 were also extremely promising. Our Coutts International unit exceeded its stated objectives by 10%, this in spite of the restructuring costs associated with the process of integrating the two banks and the markedly fiercer competitive situation in Asia.

As you are well aware from your own experiences, however, “standing still is not an option!” There will be further challenges to overcome during the year ahead. In my opinion, we will need to focus our attention in particular on the three areas described below.

Firstly, we have to be aware that there will be only limited further growth in the traditional European markets – if indeed any at all. The trend clearly points to a shift from offshore to onshore banking. This means that while onshore private banking will enjoy increasingly rapid growth going forward, we will see a certain amount of stagnation in the area of offshore banking. With this in mind, our strategy is to develop solutions for our clients that take this trend into account.

Secondly, a number of international private banking markets – such as Asia, Eastern Europe, the Middle East and Latin America – will continue to record aggressive growth in the future. Coutts Bank von Ernst is firmly committed to pursuing an aggressive growth strategy in these markets, and as a result will be further expanding the relevant in-house teams. The fight for the best talents in these markets is the biggest challenge facing us in this area.

Thirdly, we are seeing continued market consolidation efforts both in Switzerland and in the private banking sector. There are still too many individual market participants who, in their current form, have little chance of survival over the medium to long term. Here too, our organisation is determined to play a key role in this process by actively pursuing potential acquisition targets and giving them careful consideration.

Prof. Bruno Frey, guest author of this issue of Focus, presents the global challenges currently facing the private banking industry. In his remarks, Professor Frey describes the results of a study he devised with a number of colleagues, four of whom are Nobel prize winners. The study, known as the “Copenhagen Consensus,” met with a great deal of interest throughout the world.

Dear readers, thank you very much for the trust you have placed in us. The employees of Coutts Bank von Ernst look forward to continuing to find the right solution for your financial needs.

Hanspeter Brunner
Chief Executive Officer

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Copenhagen Consensus

by Bruno S. Frey,
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The recent tsunami catastrophe demonstrates that mankind is confronted with huge problems. Most people are aware of these problems and would like to overcome them. Accordingly there is much discussion of what could be done. But little is actually done.

The Danish Environmental Assessment Institute under the leadership of Bjørn Lomborg undertook an initiative to seriously address the problems faced by mankind. In a novel and problem oriented approach leading scholars are to identify and agree what the major problems are and what can be done about them. In order to be as concrete as possible it is assumed that $50 billion are available for this purpose. This sum is substantial but not terribly large (waging a war swallows far higher sums). The goal is to inform political decision makers about the most pressing problems which can successfully be overcome. This involves a comparison of benefits and costs. The question is: How is money best used to advance global welfare?

This initiative has become known as the “Copenhagen Consensus”. It proceeded in several steps.

First, a panel of nine leading economists from the whole world—among them not less than three Nobel prize winners in economics—chose the ten most pressing “challenges” from a list of 30 problems contained in official documents of the United Nations. In a second step noted scientists specialised in the respective problems were asked to write an extensive evaluation of today’s knowledge in their field. In a third step younger scholars criticised these surveys and amended them.

The panel of nine scholars (of whom the author had the honour to belong) then met for a week in Copenhagen. The major task was to compare the results reached by the specialists across the various problems of mankind. Is it better to invest a larger part of the $50 billion in reducing the instability of financial markets (which in turn would raise the national income of some of the poorest countries, thereby helping to reduce hunger) or is it better to improve small scale water technology in developing countries (which improves hygiene and therewith health, and is quite cheap to do)? Obviously such comparisons across different problems of mankind is a daunting task—but it has to be done if the $50 billion are to be allocated in a reasonable way.

The panel of experts, after extensive and serious discussions, came up with the following ranking of the challenges:

The highest priority is assigned to prevent the further spread of HIV/AIDS. The scale and urgency of the problem is huge, especially in Africa where AIDS may provoke the collapse of entire societies. Extraordinary benefits from investing money can be expected, averting nearly 30
million additional infections by 2010. While the costs are substantial ($27 billion), they are small in relation to the gains.

The second highest priority is attributed to tackling hunger and malnutrition. Micronutrient deficiencies of iron, vitamin A and zinc are one of the major health risks worldwide and leads to poverty because it impairs the ability to work. Handing out food supplements has an extremely high ratio of benefits to costs.

Trade liberalisation is ranked the third highest priority. The elimination of tariffs and non-tariff barriers, together with the elimination of agricultural subsidies in the rich countries, was judged to yield very large benefits for developing countries and the world as a whole. The political opposition to trade liberalisation may be reduced by offering some compensation to the losers.

The expert panel also ranks very high the control and treatment of malaria. Unfortunately, malaria is still a major problem in developing countries. Spending money to combat malaria has an excellent benefit-cost ratio as it is quite cheap to widely distribute chemically-treated bednets.

The panel also considered proposals for dealing with climate change by reducing carbon dioxide emissions. All the members took the problem of global warming most seriously but had to acknowledge that a policy to even curb it slightly is very costly indeed. Compared to the high cost of reducing the average temperature by, say, 0.2 degrees Celsius in the far-off year 2100, the costs are enormous. If sufficient funds were available such a policy should nevertheless be undertaken. But the experts agreed that compared to the immediate catastrophe already happening due to HIV/AIDS it is more important to spend a large part of the $50 billion on that front. The panel urged increased funding for research into more affordable carbon-abatement techniques. With superior and cheaper techniques the challenge of global warming can more effectively be attacked in the future.

Other challenges were also looked at but not ranked, most importantly because the experts concluded that they cannot be remedied by spending money. An obvious example is the grave problem of corruption. It strongly reduces the development prospects of many countries. But spending money may even worsen corruption. The panel also agreed that the population in developing countries should be provided with better education. However, the sums expended for that purpose are almost invariably wasted. The panel called for a more efficient use of money for that purpose.

The general initiative and particular procedures of the "Copenhagen Consensus" are easy to criticise. Thus it has been argued that it wants to address the grand problems in the world, and that it would be appropriate to be more modest. But this should be compared to the activity many organisations and interest groups focusing solely on one issue and correspondingly neglecting all others. To gain an overall perspective of what specific global problems should be addressed is crucial given that the resources available are quite limited. This systematic comparison of alternatives constitutes one of the major strengths of the "Copenhagen" enterprise. It is to be hoped that political decision makers adequately respond to it.

The author
Bruno S. Frey is a Professor of Economics at the University of Zurich. He received an Honorary Doctorate in Economics from the University of St. Gallen and the University of Goeteborg. He is the author of numerous articles in professional journals and books, including Not Just for the Money (1997), Economics as a Science of Human Behaviour (1999), The New Democratic Federalism for Europe (1999), Arts & Economics (2000), Inspiring Economics (2001), Successful Management by Motivation (2001), Happiness and Economics (2002) and Dealing with Terrorism: Stick or Carrot? (2004).