



Pekka Korhonen – Lasse Koskinen – Raimo Voutilainen

A CUSTOMER VIEW ON THE MOST PREFERRED
ALLIANCE STRUCTURE BETWEEN BANKS AND
INSURANCE COMPANIES

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HELSINGIN KAUPPAKORKEAKOULU
HELSINKI SCHOOL OF ECONOMICS
PL 1210
FIN-00101 HELSINKI
FINLAND

Pekka Korhonen
Helsinki School of Economics
Runeberginkatu 14-16, 00100 Helsinki, Finland
Email: pekka.korhonen@hkkk.fi

Lasse Koskinen
The Finnish Insurance Supervisory Authority
Mikonkatu 8, 00100 Helsinki, Finland
Email: lasse.koskinen@vakuutusvalvonta.fi

Raimo Voutilainen
WM-data Plc Karvaamokuja 2, 00380 Helsinki, Finland
Email: raimo.voutilainen@wmdata.fi

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Abstract

In this paper, we have studied alternative alliance structures between banks and insurance companies from the point of view of Finnish customer representatives. Seven criteria were introduced for the evaluation of six alternative structure models for such alliances. The evaluation was carried out by an expert panel consisting of customer representatives. As a supporting tool, we used the Analytic Hierarchy Process (AHP). The alliance models based on plain cross-selling agreements were considered most preferred.

We also studied how familiar the customer representatives were with the alliance problem from the point of view of the bank and insurance executives and that of the supervisory authorities. We observed that the customer representatives did not recognize the problem as well from the point of view of the supervisors as that of the executives. In addition, it was interesting to note that the customer representatives did not consider a risk aspect in the control by ownership alternatives as critical as the executives.

Comparing the results in this study to our previous studies, we may conclude that the best compromise model from all three points of view could be the financial conglomerate on the condition that certain supervisory and customer criteria are satisfied to a sufficient degree.

Keywords: Financial alliances, financial conglomerates, multiple criteria decision making, Analytic Hierarchy Process, customer perspective

1. Introduction

Alliance formation in the financial industry has been a growing trend during the last decade. Insurers in an alliance between banks and insurance companies are most often life insurance companies, but also non-life companies can be found. Financial alliances often include units like mutual fund managing companies, asset management companies, securities brokerages and corporate finance companies. In most European countries, banks are allowed to be "universal". It is customary that they include the above mentioned functions. The same holds more and more often for insurance companies as well (see eg. Skipper [2000]). That's why the various types of alliances on the retail market between banks and insurance companies are of special interest.

In our previous papers (Voutilainen [2005], Korhonen and Voutilainen [2005] and Korhonen, Koskinen, and Voutilainen [2005]), we have studied alliance structure alternatives from different perspectives. In Voutilainen [2005], we introduced six different alliance structure alternatives and nine criteria relevant for evaluating those alternatives from the perspective of the executives of the banks and insurance companies. The alternatives and the criteria were introduced together with bank and insurance experts. Each expert was

interviewed individually. The experts were representatives of the top management of Finnish banks and insurance companies.

In the second paper (Korhonen and Voutilainen [2005]), the same group of experts were used as a panel to find the most preferred model for a financial alliance. As a decision support system we used the Analytic Hierarchy Process (AHP) developed by Saaty [1980]. The problem was a typical AHP-problem: few alternatives and few qualitative criteria. The use of the AHP focused the discussions on the relevant aspects of the choice problem. The final solution was found in two meetings. The second meeting was the initiative of the panel. The panel felt that the problem required more considerations. The panel preferred the Control by ownership models. On the other hand, a risk-averse manager might also prefer looser alliance alternatives.

In the third paper (Korhonen et al. [2005]), our aim was to find the best financial alliance compromise structure between the executives of the banks and insurance companies and the bank and insurance supervisory authorities in Finland.¹ First, we searched for the best alliance structure from the point of view of supervisory authorities. Together with leaders and experts of the supervisory authorities, we introduced eight criteria for the evaluation of the previously defined six alternative alliance structures. The evaluation was carried out by an expert panel consisting of the representatives of the supervisory authorities.

The alliance alternatives based on plain cross-selling agreements received the highest ranks in the evaluation of supervisory authorities. Under certain conditions, the financial conglomerate might be an acceptable compromise alternative for the supervisory authorities as well.

In this paper, we have approached our problem from the point of view of customers. The importance of this perspective has been emphasized by e.g. Belth [2000]. Customer perspective to mergers is taken in Bank Marketing International [2004]. We did not take a sample from the population of customers, because most customers are not familiar with the problem at all. We were interested in the opinions of "advanced or well informed" customers. To represent those customers, we used leaders and experts of Finnish customer organizations and labour market organizations (see, Acknowledgements at the end of the paper). As before, each customer representative was interviewed individually. Based on the interviews, we initially introduced seven relevant criteria. The final evaluation was carried out with four criteria. In the evaluation meeting, three out of those seven criteria turned out to be insignificant.

We have also studied how well the customer representatives know the alliance problem from the point of view of the bank and insurance executives and that of the supervisory authorities. We asked them to play the role of

¹ The role of supervisory authorities is very significant in the financial industry. All banks and insurance companies in Finland are constantly supervised. No structural decisions concerning the financial industry can be made without involving the supervisory authorities in the decision process.

executives and supervisory authorities and to make the evaluations by using their most important criteria. We also asked them which they would think were the most important executive and supervisory criteria. This provided us with interesting information about the knowledge of the problem of the customer representatives from the perspectives of the other parties. The analysis revealed us which aspects are not yet well known to the customer representatives. Finally, we compare the prioritizations of all three decision maker groups considered in this and the earlier papers.

The paper is organized as follows. Section 2 reviews our main previous results. In Section 3, we provide a brief introduction to the theory of the AHP. The decision criteria from the customer point of view are given in Section 4, and in Section 5, the results are given and discussed. In Section 6, we present the results obtained when asking the experts to assume the roles of executives and supervisors. In section 7, we compare the criteria and the prioritizations of all three decision maker groups. Finally, in Section 8, we conclude the paper with general remarks.

2. Review of our earlier research on alliance structures

Since this paper is founded on our earlier research on alliance structures, we summarize here our key results.

2.1. Structuring the problem

Voutilainen [2005] studied alliances between banks and insurance companies. His perspective was that of the top management of a financial enterprise in the retail market. Alliance structures were classified into three main categories depending on the degree of co-operation of the partners. These categories were derived together with representatives of the executive management of Finnish banks and insurance companies. The categories in the increasing order of closeness of the partners were

Cross-selling agreements. The parties agree to sell each other's products to their own customers. The cross-selling is frequently one-sided. Most often a bank sells an insurance company's products to its customers. In principle, it could be vice versa as well. The alliance category can still be divided into two subcategories depending on whether the parties' service channels are overlapping or not. Non-overlapping service channels can be achieved, for example, if the parties actively try to organize cross-selling in such a way that there is no competition between the parties.

Here a service channel can be a branch office network, but also a contact center, website etc. Especially in the case of overlapping branch networks one easily faces channel conflict: the alliance members do not co-operate effectively in the fear of losing their customers to the other party and consequently the sales provisions etc. Non-overlapping service channels often means that the other party has no service channel at all.

Thus the two different sub-models are

- Cross-selling agreement, no overlapping service channels (abbreviated CSA1)
- Cross-selling agreement, overlapping service channels (CSA2)

Alliance of independent partners. The alliance type is a special case of a cross-selling agreement where the alliance is tightened by cross-ownership and/or joint ownership in third parties. Cross-ownership means a minority stake of the other party's shares. If the ownership were one-sided, it would probably be a sign of asymmetry and one party's dominance of the alliance. An example of joint ownership is a mutual fund management company owned jointly by a bank (banks) and an insurance company (insurance companies). One could also think about cross-ownership/joint ownership without a cross-selling agreement, but such a model seldom occurs in practice.

The degree of overlapping is also used to divide this category into two different sub-models:

- Alliance of independent partners, no overlapping service channels (AIP1)
- Alliance of independent partners, overlapping service channels (AIP2)

Control by ownership. In both the previous models, earnings and costs are divided. The third category means the model, where all the control is in the hand of one party: a bank can simply own (a control of) an insurance company or vice versa, or a third party owns the both ones.

This category is divided into two sub-models depending on the controller:

- Control by ownership, when a bank owns an insurance company or vice versa (CBO1)
- Control by ownership (financial conglomerate): a holding company owns one or several banks and one or several insurance companies (FC)

We can notice that the classification of the different alternatives is based on the closeness of the alliance and the degree of the overlapping of the service channels.

Criteria. The alliance models were compared and eventually prioritized according to the following criteria (the choice of the criteria was also based on the management views).

1. Product development (maximize efficiency),
2. One-door-principle (implement as effectively as possible),
3. Earnings logics (avoid conflicts),
4. Customer relationship management (maximize efficiency),
5. Cost and revenue synergies (maximize),
6. Channel conflicts (minimize),

7. Required solvency capital (optimize the balance),
8. Investor power (maximize),
9. Sales management (maximize efficiency).

According to the interviews the overall importance of earnings logics, synergies and channel conflicts was the greatest.

2.2. Evaluating with management criteria

Korhonen and Voutilainen [2005]) studied the above defined six different possible structure models for alliances and the nine criteria. Searching for the most preferred alliance model is a multiple criteria decision making (MCDM) problem. To solve the problem, the Analytic Hierarchy Process (AHP) was used, see Saaty [1980].

The use of the AHP focused the discussions on pairwise comparisons. The panel (the same members as in Voutilainen [2005]) was also willing to consider its evaluations in case the inconsistency was too high. The second meeting was the initiative of the panel. The panel members felt that the problem required more considerations.

During the second meeting the panel first evaluated critically the original criteria and revised some of them. The resulting criteria were

1. Earnings logics (avoid conflicts),
2. Customer relationship management (maximize efficiency),
3. Cost and revenue synergies (maximize),
4. Channel conflicts (minimize),
5. Required solvency capital (optimize the balance),
6. Sales management (maximize efficiency).
7. Economies of scale (maximize)
8. Economies of scope (maximize)
9. Risk

The panel preferred the Control by ownership models. Actually, the Financial conglomerate was the most preferred. On the other hand, a risk-averse manager might also prefer Cross-selling agreement with no overlapping service channels or even Alliance of independent partners with no overlapping service channels to Financial conglomerate.

2.3. Compromise with supervisors

In the third paper, Korhonen et al. [2005] broaden the analysis to include the search for the best alliance compromise structure between the executives of the banks and insurance companies and the bank and insurance supervisory authorities. First, the alternative alliance structures were studied from the point of view of supervisory authorities. The leaders and experts of the supervisory

authorities introduced eight criteria for the evaluation of the above presented alternative alliance structures.

1. Equality of the member companies of the alliance,
2. System risk management,
3. The capability of the authorities to supervise the alliance as well as possible,
4. The flexibility of the alliance with respect to changes in its environment,
5. Optimal functioning of insurance and finance markets,
6. Synergies brought about by the alliance,
7. Sufficiency of capital,
8. Dependency of the alliance on the competence of executive management.

The ultimate goal was to search for the alternative which bank and insurance supervisory authorities and bank and insurance executive management might accept as a solution to the alliance problem. The Analytic Hierarchy Process (AHP) was again used.

The loosely connected alliance models Cross-selling agreements received the highest overall priorities largely because they got very high priorities according to the important criteria *System risk management* and *The capability of the authorities to supervise the alliance as well as possible*. The control by ownership models were not considered desirable with respect to these criteria.

The result differs sharply from the prioritization made above by the bank and insurance executives. They favoured very clearly the control by ownership models (if the risk factor was not specially emphasized). The executive point of view is in many ways opposite to the supervisory point of view. Also the criteria were different in seven cases out of eight.

Business-driven consolidation seems to be in conflict with the supervisory interests. Supervisors seem to think that brought synergies do not outweigh the risk that enters into large and complex financial institutions.

However, the differences between the priorities of the different alliance models in this study were essentially smaller than in the previous study with the executives. Therefore it would be definitely interesting to obtain a compromise solution acceptable for both the executives and the supervisors.

Korhonen et al. [2005] conclude that Financial conglomerate could be a possible compromise for the insurance supervisors if *System risk management* and *Capability to supervise the alliance as well as possible* could be improved in that alliance model in a credible way.

They also conclude that the condition for the financial supervisors to approve FC is that *System risk management* and *Capability to supervise the alliance as well as possible* should be improved relatively more than in the case of the insurance supervisors.

3. Analytic hierarchy process

Choosing the most preferred alliance structure is a typical multiple criteria evaluation problem. Six alternatives described in Section 2 are compared using seven criteria to be introduced in section 4. We shall use the Analytic Hierarchy Process (AHP) by Saaty [1980] as a decision support system to assist the customer representatives to compare those alternatives. The AHP provides us with a simple tool first to evaluate the mutual importance of the criteria, then to compare the alternative alliance structures on each criterion, and finally to synthesize the results onto one scale.

The basic assumption in the Analytic Hierarchy Process (AHP) is that a human being makes comparisons between objects on a ratio scale (see, e.g. Saaty [1980]). For instance, the expression: A is “twice better” than B means that the utility (value) $v(A)$ of A is two times higher than the utility (value) $v(B)$ of B. Even a “softer” expression like A is “much better” than B is interpreted in the AHP to mean that $v(A) = kv(B)$, where $k \gg 1$. The concept “better” can be replaced e.g. by the concept “more important”. Then function v describes the intensity of focus. A is more important than B means that we have to pay more attention to A than B. In the AHP, the objects to be compared can be concrete or abstract.

A central element in the AHP is a full set of $n(n - 1)/2$ pairwise comparisons, where n is the number of objects. Because it is difficult for a person to distinguish simultaneously more than 7-9 different levels of preference, Saaty (see, e.g. Saaty [1980, p. 54]) has proposed the use of the following verbal descriptions and the corresponding scores in making comparison:

Table 1: Verbal descriptions and the corresponding original numerical scores

| Score | Description | Explanation |
|---------|---------------------------------------------|---------------------------------------------------------------------------------------------------|
| 1 | equal importance | Two activities contribute equally to the objective |
| 3 | moderate importance of one over another | Experience and judgement slightly favour one activity over another |
| 5 | essential or strong importance | Experience and judgement strongly favour one activity over another |
| 7 | demonstrated importance | An activity is favoured very strongly over another; its dominance is demonstrated in practice |
| 9 | Extreme importance | The evidence favouring one activity over another is of the highest possible order of affirmation. |
| 2,4,6,8 | Intermediate values between adjacent values | When compromise is needed |

If object i has one of the above nonzero numbers assigned to it, when compared with object j , then j has the reciprocal value when compared with i . Intermediate scores of 2, 4, 6, and 8 are used, if a person thinks that for example object i is at least moderately better than object j , but (s)he is not comfortable with saying that i is strongly better than j . Then his or her view

might be represented by the score 4. If object j is at least moderately but not necessarily strongly better than object i , then the score $1/4$ would be assigned to the comparison of i with j . As a result of pairwise comparisons, the following matrix is obtained:

$$A = \begin{pmatrix} 1 & a_{12} & \dots & a_{1n} \\ 1/a_{12} & 1 & \dots & a_{2n} \\ \dots & \dots & \dots & \dots \\ 1/a_{1n} & 1/a_{2n} & \dots & 1 \end{pmatrix}$$

Having recorded the quantified comparisons on pairs i and j as numerical entries in the matrix A , the problem now is to find numerical value scores w_i , $i = 1, 2, \dots, n$, for objects such that $a_{ij} \approx w_i/w_j$. However, in practice, it is unrealistic to expect this relation to be exact. Part of the deviation is caused by the score used for a_{ij} , but the main part of the deviation is caused by the inability of a human being to be precisely knowledgeable and consistent. For example, if one prefers object 1 to object 2 by 2:1, and object 2 to object 3 by 3:1, consistency means that one should prefer object 1 to object 3 by 6:1, otherwise the comparison is inconsistent. Saaty [1994] provides some measures for evaluating the degree of inconsistency.

When the objects i and j are compared in a pairwise manner, one hopes that the final values derived from the paired comparisons of the objects are better than those obtained by direct assignment of numbers to all objects at once. How good the estimates are for value scores depends on the scale used to interpret verbal descriptions referring to the ratios of the value scores.

To estimate the value scores w_i , $i = 1, 2, \dots, n$, on the basis of the pairwise comparison matrix, Saaty [1980, pp. 49-53] proposed the use of the eigenvalue method. As discussed in Saaty and Vargas [1984], other estimation criteria, such as least squares or logarithmic least squares, are also proposed in the literature.

An ultimate goal in the AHP, is to estimate a vector $w = (w_1, w_2, \dots, w_n)$, $w_i > 0$, $i = 1, 2, \dots, n$, which usually is scaled so that $\sum_i w_i = 1$ whereby w_i represents the relative value score of object i . The positivity condition $w_i > 0$ on the components of the vector w require that the objects be comparable on a ratio scale.

The objects to be compared may be for instance forces, actors, criteria (objectives) or alternatives (scenarios). In the AHP, the evaluation problem is presented in a hierarchy. At each hierarchy level, we have the objects of the same type. For instance, at the criterion level, we compare the criteria. At the lower level in the hierarchy, we may have the alternatives which are compared on each criterion.

4. Customer view on the alliance problem

4.1. Evaluation criteria

Here the evaluation criteria for assessing the alliance models were introduced by co-operating with the leaders and experts of Finnish consumer organizations and labour market organizations. All the persons in the “Acknowledgements” section were interviewed for this purpose. To find the relevant criteria is an important task and crucial for the success of the decision making. Keeney and Raiffa [1976, p. 50], present the following desirable properties of the set of criteria:

- complete, it covers all the important aspects of the problem,
- operational, it can be meaningfully used in the analysis,
- decomposable, all aspects of the evaluation process can be simplified by breaking it down into parts,
- non redundant, so that the double counting of impacts can be avoided, and
- minimal, so that the problem dimension is kept as small as possible

Keeping these properties in our minds, the following seven criteria were introduced:

1. Equal treatment of customers,
2. Sustainability and reliability of the operations,
3. Transparency and comparability of the products,
4. Understandable division of risks between a customer and the financial corporation,
5. System risk management,
6. Economies of scale,
7. Availability of services.

A brief explanation of the criteria is given as follows:

1. *Equal treatment of customers*

One should be worried about, for example, whether a regular customer in an insurance company receives better treatment in claims handling than ordinary customers. By denying such a claim the company has, obviously, more to lose in the form of a lost customer relation.

2. *Sustainability and reliability of the operations*

The interviewed experts' opinion was that changing domicile of a financial enterprise is problematic in this respect. Quarter-thinking typical in publicly listed companies also contradicts sustainability. Sufficiency of capital, and, more generally, solvency and solidity are very important factors from a customer's point of view.

3. *Transparency and comparability of the products*

Product brand often overshadows product properties in marketing and this does not promote comparability. Benefits for regular customers may also prevent competition and comparison. Bundling products and tie-in sale

prevent transparency and comparability. Lack of transparency is a besetting sin in insurance and, for example, in mutual funds business.

4. Understandable division of risks between a customer and the financial corporation

Customers often do not recognize the risks associated with the products they are offered. In Finland, they may think, for example, that insurance products are covered by a security similar to deposit insurance. For example, in unit linked pension insurance risks are transferred to the weaker party who is the customer. An idea has been presented about "green products" where the capital is guaranteed, and "red products" with typically large fluctuations of return without any capital guarantee. Some of the interviewed experts referred to the Modigliani principle according to which risks should be loaded on the party which is specialized in bearing risks. However, it should be remembered that without risks it is generally impossible to receive good returns.

5. System risk management

It is characteristic to system risks that if one business operator fails, so happens to a second and a third one, etc. It was stated that efficient supervision is the way to prevent the realization of system risks.

6. Economies of scale

Efficient and proper functioning of a financial business operation requires a critical mass. It will ultimately show in better quality. In an alliance it is possible, for example, to rationalize service network.

7. Availability of services

Does the customer reach the services he/she needs conveniently through different channels? There were different opinions whether this criterion separates the models well or not. Alliances are needed because they are a way to keep the branch network as large as possible.

4.2. Evaluation hierarchy of Alliance structure

The hierarchy of our problem is simple. In addition to the top level "Attractiveness", we have only two levels. In many problems, the criteria have a hierarchical structure as well, but in our problem, the criteria C1, C2, ..., C7 are all at the same level. In the hierarchy below the alliance structure alternatives are at the lowest level in the order CBO1, FC, AIP1, AIP2, CSA1, and CSA2.

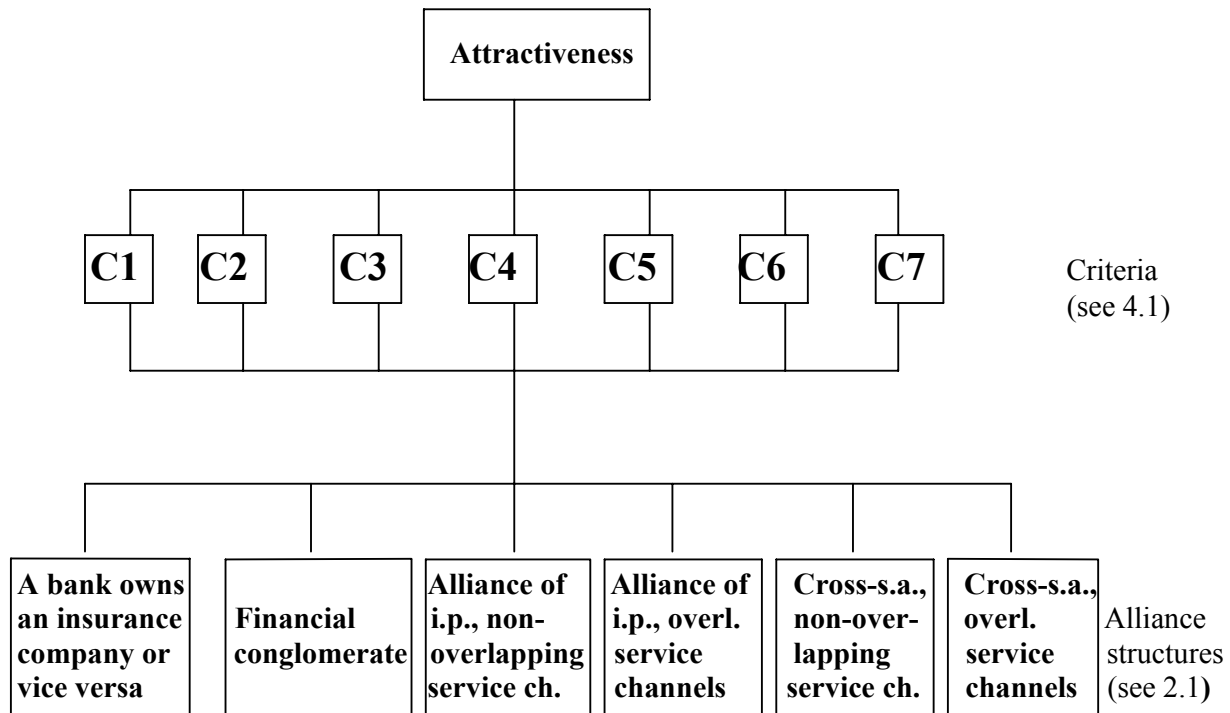


Figure 1: The evaluation hierarchy

5. Evaluation Process and Results with the Customers' Criteria

In the final evaluation meeting, the expert panel consisted of three experts from Finnish labour market organizations. The participants did not know the method beforehand. Therefore a brief introduction to the AHP was provided. Next, we discussed the decision making process. When a group is a decision maker, there are two different methods to be applied. Each group member can make his/her own evaluations, and then an external facilitator or a model makes a synthesis of the evaluations. Another way is to ask the group to make comparisons as a group. To find the joint opinion, the group may apply a majority rule or a consensus principle. Our group decided to try to negotiate until reaching a consensus.

The group had a preliminary discussion about the semantics of the criteria to ensure a common perception. In that occasion the initial interpretation of certain criteria was adjusted. As mentioned above, we discussed the criteria beforehand with each member. The group started the evaluation process by comparing pairwise the mutual importance of the criteria. The importance was interpreted as a strength of the focus.

Table 2: The pairwise comparisons of the criteria

| Criteria | C1 | C2 | C3 | C4 | C5 | C6 | C7 |
|-------------------------------------------------------|----|-------|-------|-------|-------|-------|-------|
| C1 <i>Equal treatment of customers</i> | 1 | 0.167 | 0.167 | 0.200 | 0.167 | 0.200 | 0.143 |
| C2 <i>Sustainability and reliability of the oper.</i> | 6 | 1 | 1 | 5 | 3 | 7 | 4 |
| C3 <i>Transparency and comparability</i> | 6 | 1 | 1 | 3 | 0.250 | 5 | 4 |
| C4 <i>Understandable division of risks</i> | 5 | 0.200 | 0.333 | 1 | 0.200 | 3 | 1 |
| C5 <i>System risk management</i> | 6 | 0.333 | 4 | 4 | 1 | 5 | 5 |
| C6 <i>Economies of scale</i> | 5 | 0.143 | 0.200 | 0.333 | 0.200 | 1 | 0.200 |
| C7 <i>Availability of services</i> | 7 | 0.250 | 0.200 | 1 | 0.200 | 5 | 1 |

By solving the eigenvalue problem (Saaty [1980, pp. 49-52]) of the matrix consisting of the pairwise comparisons to evaluate the mutual importance of the criteria, we will find the value score (priority) vector for the criteria. We standardize the vector by summing its elements to one:

$$w = (0.023, 0.309, 0.186, 0.075, 0.276, 0.042, 0.089)^T.$$

The consistency ratio CR (cf. Saaty [1994], pp. 84-85) was 0.128. If the consistency ratio is below 0.10, it is fully acceptable. However, the value 0.128 is clearly less than the unacceptable level 0.20.

Next the group compared the various alliance models on each criterion. The value scores of the criteria C1 (*Equal treatment of customers*) and C6 (*Economies of scale*) are so low (0.023 and 0.042) that their effect to the final composite score is insignificant. Therefore we drop them from further analysis.

The results of the pairwise comparisons and the corresponding value scores for the various alliance models are given below:

| C ₂ | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|----------------|-------|-------|-------|-------|-------|------|
| CBO1 | 1 | 2 | 4 | 4 | 7 | 8 |
| FC | 0.500 | 1 | 4 | 4 | 6 | 7 |
| AIP1 | 0.250 | 0.250 | 1 | 2 | 4 | 5 |
| AIP2 | 0.250 | 0.250 | 0.500 | 1 | 3 | 4 |
| CSA1 | 0.143 | 0.167 | 0.250 | 0.333 | 1 | 2 |
| CSA2 | 0.125 | 0.143 | 0.200 | 0.250 | 0.500 | 1 |

$$v_2 = (0.394, 0.302, 0.133, 0.095, 0.044, 0.031)^T, \text{ CR} = 0.043.$$

| C_3 | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|-------|------|----|-------|-------|-------|-------|
| CBO1 | 1 | 1 | 0.200 | 0.200 | 0.143 | 0.143 |
| FC | 1 | 1 | 0.200 | 0.200 | 0.143 | 0.143 |
| AIP1 | 5 | 5 | 1 | 1 | 0.333 | 0.333 |
| AIP2 | 5 | 5 | 1 | 1 | 0.333 | 0.333 |
| CSA1 | 7 | 7 | 3 | 3 | 1 | 1 |
| CSA2 | 7 | 7 | 3 | 3 | 1 | 1 |

$$v_3 = (0.036, 0.036, 0.139, 0.139, 0.325, 0.325)^T, CR = 0.021.$$

| C_4 | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|-------|------|----|-------|-------|-------|-------|
| CBO1 | 1 | 1 | 0.250 | 0.250 | 0.167 | 0.167 |
| FC | 1 | 1 | 0.250 | 0.250 | 0.167 | 0.167 |
| AIP1 | 4 | 4 | 1 | 1 | 0.333 | 0.333 |
| AIP2 | 4 | 4 | 1 | 1 | 0.333 | 0.333 |
| CSA1 | 6 | 6 | 3 | 3 | 1 | 1 |
| CSA2 | 6 | 6 | 3 | 3 | 1 | 1 |

$$v_4 = (0.043, 0.043, 0.135, 0.135, 0.322, 0.322)^T, CR = 0.017.$$

| C_5 | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|-------|------|-------|-------|-------|-------|-------|
| CBO1 | 1 | 0.500 | 0.200 | 0.200 | 0.125 | 0.125 |
| FC | 2 | 1 | 0.250 | 0.250 | 0.143 | 0.143 |
| AIP1 | 5 | 4 | 1 | 1 | 0.167 | 0.167 |
| AIP2 | 5 | 4 | 1 | 1 | 0.167 | 0.167 |
| CSA1 | 8 | 7 | 6 | 6 | 1 | 1 |
| CSA2 | 8 | 7 | 6 | 6 | 1 | 1 |

$$v_5 = (0.028, 0.039, 0.095, 0.095, 0.372, 0.372)^T, CR = 0.064.$$

| C_7 | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|-------|------|----|------|------|------|------|
| CBO1 | 1 | 1 | 1 | 1 | 1 | 1 |
| FC | 1 | 1 | 1 | 1 | 1 | 1 |
| AIP1 | 1 | 1 | 1 | 1 | 1 | 1 |
| AIP2 | 1 | 1 | 1 | 1 | 1 | 1 |
| CSA1 | 1 | 1 | 1 | 1 | 1 | 1 |
| CSA2 | 1 | 1 | 1 | 1 | 1 | 1 |

$$v_7 = (0.167, 0.167, 0.167, 0.167, 0.167, 0.167)^T, CR = 0.$$

When using the criterion C2, the most preferred models were CBO1 and FC, whereas the CSA models were strongest according to the criteria C3, C4 and C5. The criteria C3 and C4 were found to be strongly overlapping, and they yield very similar model priorities. Understandable division of risks between a customer and the company is clearly a consequence or an aspect of transparency of products. Thus, the criterion C4 was considered redundant (cf. the recommendations for criteria in section 2.2), and it was deleted. When considering the criterion C7, the group could not differentiate the alliance models at all.

A composite value scale for the alliance structure alternatives is found by computing the weighted sums for each alternative. The separate value scores are multiplied by the re-scaled scores of the criteria. After dropping three criteria (C1, C4 and C6), the remaining elements are scaled to sum up to one.

Table 3: The composite priority vector for the alliance structure models for the customer representatives

| Models | C2 | C3 | C5 | C7 | |
|--------|--------------|--------------|--------------|--------------|--------------|
| | 0.401 | 0.200 | 0.339 | 0.060 | Σ |
| CBO1 | 0.394 | 0.036 | 0.028 | 0.167 | 0.185 |
| FC | 0.302 | 0.036 | 0.038 | 0.167 | 0.152 |
| AIP1 | 0.133 | 0.139 | 0.095 | 0.167 | 0.123 |
| AIP2 | 0.095 | 0.139 | 0.095 | 0.167 | 0.108 |
| CSA1 | 0.044 | 0.325 | 0.372 | 0.167 | 0.219 |
| CSA2 | 0.031 | 0.325 | 0.372 | 0.167 | 0.213 |

It can be observed that the differences between the value scores of the alliance models are much smaller than in the study with the executives (Korhonen and Voutilainen [2005]). Here the relation between the highest and the lowest score is 2.03, while in the executive study it was 15.8 in the first meeting and 8.63 in the second meeting with the revised criteria. In the supervisory study (Korhonen et al. [2005]) the ratios were 1.89 for bank supervisors and 1.96 for insurance supervisors. There is no such absolute favourite here as FC was in the executive study (if the risk was not strongly emphasized).

The scores in table 3 resemble considerably the scores of the supervisory study. The CSA models were most preferred, but the difference of scores between CSA models and CBO1 is not very significant. In comparison with the earlier studies, it is perhaps somewhat surprising that CBO1 received a higher score than FC. The reason is that it was preferred to FC with respect to the sustainability criterion C2. The AIP models were considered least attractive. It does not make much difference whether the alliance partners have overlapping service channels or not.

When analyzing the sensitivity of the optimal solution for a change of the weight (=value score) of each criterion, it turns out that the new solution is always CBO1 instead of the currently best solution CSA1, if the optimum changes in the first place. The following list gives the best solution when

every criterion in turn is given all the weights from the interval [0;1] and the change in its weight from the optimal situation (see table 3) is added to/subtracted from the weights of the other criteria proportionally:

C2: [0;0,47] : CSA1, [0,47;1] : CBO1
 C3: [0;0,10] : CBO1, [0,10;1] : CSA1
 C5: [0;0,27] : CBO1, [0,27;1] : CSA1
 C7: [0;1] : CSA1.

If the weight of the criterion C2 is increased sufficiently, or the weight of any of the criteria C3 and C5 is decreased sufficiently, CBO1 becomes the most preferred solution.

6. Customers in the roles of the management and the supervisors

When the customer representatives accomplished the evaluation of the alliance models by using their own criteria, we were interested to study how well they know the alliance choice problem from the perspectives of the executives and supervisors. In case we recognize a big gap in the evaluations of the executives and/or supervisors, it indicates that there is a communication problem between those parties and customers. The analysis may also point out, where the communication problem appears.

6.1. Evaluation in the executives' role

The customer representatives were asked to evaluate the alliance models by the most important executive criteria (see Korhonen and Voutilainen [2005]) :

- C1. Economies of scope
- C2. Economies of scale
- C3. Cost and revenue synergies.

The group compared pairwise the mutual importance of the criteria:

| | C1 | C2 | C3 |
|----|----|-------|-------|
| C1 | 1 | 0.333 | 0.333 |
| C2 | 3 | 1 | 0.500 |
| C3 | 3 | 2 | 1 |

$w = (0.140, 0.333, 0.528)^T$, CR = 0.052.

It is worth noticing that these priorities differ very clearly from the priorities given by the executives: (0.538, 0.233, 0.228). The executives emphasized

the important strategic criterion *Economies of scope*, but the customer representatives' view was more operational.

The results of the pairwise comparisons and the corresponding value scores for the various alliance models are given below:

| C ₁ | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|----------------|-------|-------|-------|-------|------|------|
| CBO1 | 1 | 3 | 5 | 5 | 7 | 7 |
| FC | 0.333 | 1 | 4 | 4 | 5 | 5 |
| AIP1 | 0.200 | 0.250 | 1 | 1 | 3 | 3 |
| AIP2 | 0.200 | 0.250 | 1 | 1 | 3 | 3 |
| CSA1 | 0.143 | 0.200 | 0.333 | 0.333 | 1 | 1 |
| CSA2 | 0.143 | 0.200 | 0.333 | 0.333 | 1 | 1 |

$$v_1 = (0.454, 0.262, 0.098, 0.098, 0.043, 0.043)^T, CR = 0.037.$$

| C ₂ | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|----------------|-------|-------|-------|-------|------|------|
| CBO1 | 1 | 1 | 5 | 5 | 7 | 7 |
| FC | 1 | 1 | 5 | 5 | 7 | 7 |
| AIP1 | 0.200 | 0.200 | 1 | 1 | 4 | 4 |
| AIP2 | 0.200 | 0.200 | 1 | 1 | 4 | 4 |
| CSA1 | 0.143 | 0.143 | 0.250 | 0.250 | 1 | 1 |
| CSA2 | 0.143 | 0.143 | 0.250 | 0.250 | 1 | 1 |

$$v_2 = (0.361, 0.361, 0.102, 0.102, 0.036, 0.036)^T, CR = 0.040.$$

| C ₃ | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|----------------|-------|-------|-------|-------|-------|------|
| CBO1 | 1 | 3 | 5 | 5 | 6 | 6 |
| FC | 0.333 | 1 | 4 | 4 | 5 | 5 |
| AIP1 | 0.200 | 0.250 | 1 | 3 | 4 | 4 |
| AIP2 | 0.200 | 0.250 | 0.333 | 1 | 3 | 3 |
| CSA1 | 0.167 | 0.200 | 0.250 | 0.333 | 1 | 2 |
| CSA2 | 0.167 | 0.200 | 0.250 | 0.333 | 0.500 | 1 |

$$v_3 = (0.434, 0.262, 0.135, 0.083, 0.048, 0.038)^T, CR = 0.081.$$

The composite priority vector for the alliance structure models and the corresponding vector from the executives' study (Korhonen and Voutilainen [2005]) (using the same three criteria) are given in Table 4:

Table 4: Comparison of the views of customers and executives on the executives' problem

| Models | Customers | Executives |
|--------|-----------|------------|
| CBO1 | 0.413 | 0.343 |
| FC | 0.295 | 0.371 |
| AIP1 | 0.119 | 0.132 |
| AIP2 | 0.091 | 0.062 |
| CSA1 | 0.043 | 0.063 |
| CSA2 | 0.038 | 0.030 |

Although the customer representatives gave totally different weights to the criteria compared to the executives' assessment, the model priorities according to each criterion were very similar. The overall assessment was roughly the same: The control by ownership models were most preferred, and the CSA models were considered least attractive. The comparison is illustrated in Fig. 2. We may conclude that the holistic view of the customer representatives on the management problem was quite good.

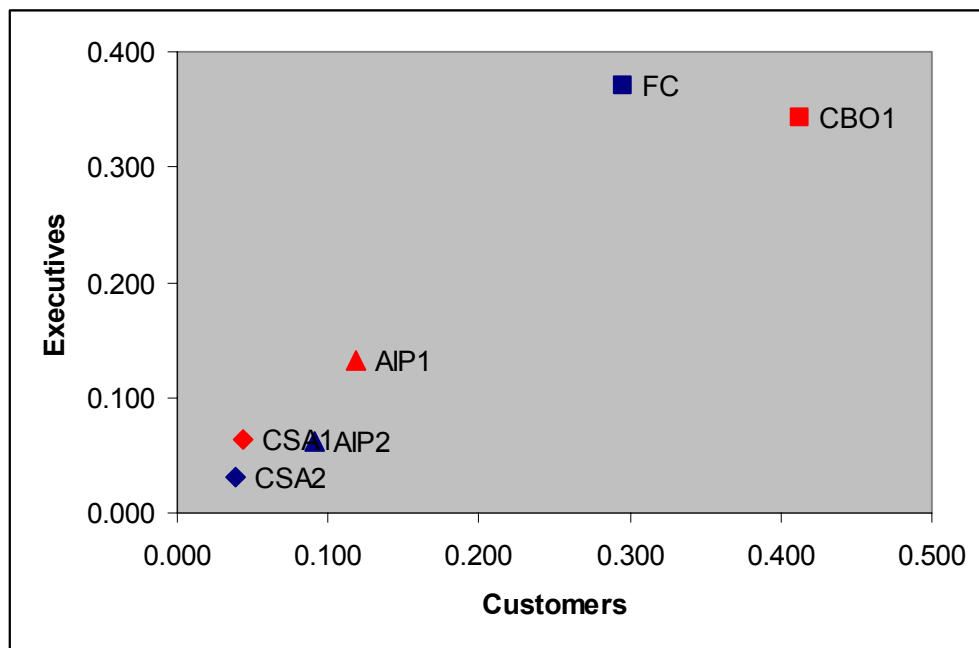


Figure 2: Illustration of customers' and executives' views on the executives' problem

The group was further asked to consider the risk from the executives' perspective. The customer representatives gave the following pairwise comparisons:

| | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|------|-------|-------|-------|-------|------|------|
| CBO1 | 1 | 2 | 3 | 3 | 5 | 5 |
| FC | 0.500 | 1 | 3 | 3 | 4 | 4 |
| AIP1 | 0.333 | 0.333 | 1 | 1 | 3 | 3 |
| AIP2 | 0.333 | 0.333 | 1 | 1 | 3 | 3 |
| CSA1 | 0.200 | 0.250 | 0.333 | 0.333 | 1 | 1 |
| CSA2 | 0.200 | 0.250 | 0.333 | 0.333 | 1 | 1 |

$$v_5 = (0.362, 0.270, 0.129, 0.129, 0.054, 0.054)^T, CR = 0.024.$$

The model priority vector for the risk differed from the vector obtained from the executives': $(0.052, 0.052, 0.129, 0.129, 0.318, 0.318)^T$. The vectors almost provide mirror images. Unlike executives, the customer representatives believed that tight ownership helps in avoiding various alliance risks. It is probable that the executives have considered mostly concentration risks, whereas the customer representatives have taken into account e.g. risks resulting from inefficiency. This is an interesting result.

6.2. Evaluation in the supervisors' role

Next, the customer representatives were asked to evaluate the alliance alternatives in the supervisors' role by using the three most important supervisory criteria (see Korhonen et al. [2005]):

- C1. Capability to supervise the alliance
- C2. System risk management
- C3. Optimal functioning of the insurance and finance markets.

The group compared pairwise the mutual importance of the criteria:

| | C1 | C2 | C3 |
|----|-------|-------|----|
| C1 | 1 | 5 | 4 |
| C2 | 0.200 | 1 | 4 |
| C3 | 0.250 | 0.250 | 1 |

$$w = (0.672, 0.230, 0.098)^T, CR = 0.283.$$

The priorities given by the bank/insurance supervisors were $(0.376, 0.312, 0.312) / (0.172, 0.442, 0.386)$ scaled to sum up to one. The customer

representatives have given C1 a much higher and C3 a much lower weight than the supervisors.

The results of the pairwise comparisons and the corresponding value scores for the various alliance models are given below:

| C ₁ | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|----------------|------|-------|-------|-------|-------|-------|
| CBO1 | 1 | 0.333 | 0.200 | 0.200 | 0.125 | 0.125 |
| FC | 3 | 1 | 0.250 | 0.250 | 0.143 | 0.143 |
| AIP1 | 5 | 4 | 1 | 1 | 0.200 | 0.200 |
| AIP2 | 5 | 4 | 1 | 1 | 0.200 | 0.200 |
| CSA1 | 8 | 7 | 5 | 5 | 1 | 1 |
| CSA2 | 8 | 7 | 5 | 5 | 1 | 1 |

$$v_1 = (0.027, 0.044, 0.105, 0.105, 0.360, 0.360)^T, CR = 0.059.$$

| C ₂ | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|----------------|------|-------|-------|-------|-------|-------|
| CBO1 | 1 | 0.333 | 0.200 | 0.200 | 0.125 | 0.125 |
| FC | 3 | 1 | 0.250 | 0.250 | 0.143 | 0.143 |
| AIP1 | 5 | 4 | 1 | 1 | 0.200 | 0.200 |
| AIP2 | 5 | 4 | 1 | 1 | 0.200 | 0.200 |
| CSA1 | 8 | 7 | 5 | 5 | 1 | 1 |
| CSA2 | 8 | 7 | 5 | 5 | 1 | 1 |

$$v_2 = (0.027, 0.044, 0.105, 0.105, 0.360, 0.360)^T, CR = 0.059.$$

| C ₃ | CBO1 | FC | AIP1 | AIP2 | CSA1 | CSA2 |
|----------------|-------|-------|-------|-------|-------|------|
| CBO1 | 1 | 3 | 5 | 5 | 6 | 6 |
| FC | 0.333 | 1 | 4 | 4 | 5 | 5 |
| AIP1 | 0.200 | 0.250 | 1 | 2 | 3 | 3 |
| AIP2 | 0.200 | 0.250 | 0.500 | 1 | 2 | 3 |
| CSA1 | 0.167 | 0.200 | 0.333 | 0.500 | 1 | 2 |
| CSA2 | 0.167 | 0.200 | 0.333 | 0.333 | 0.500 | 1 |

$$v_3 = (0.442, 0.265, 0.114, 0.083, 0.054, 0.041)^T, CR = 0.053.$$

The model priority vectors for criteria C1 and C2 are identical, because the customer representatives did not see any difference between comparisons. However, we used the both criteria in synthesizing the results, because those criteria are different.

The composite priority vector for the alliance structure models and the corresponding vectors for the bank and insurance supervisors (Korhonen et al. [2005]) (using the same three criteria) are in Table 5:

Table 5: Comparison of the views of customers and (bank and insurance) supervisors on the supervisors' problem

| Models | Customers | Bank Supervisors | Insurance Supervisors |
|--------|-----------|------------------|-----------------------|
| CBO1 | 0.068 | 0.123 | 0.147 |
| FC | 0.066 | 0.160 | 0.185 |
| AIP1 | 0.105 | 0.138 | 0.129 |
| AIP2 | 0.102 | 0.123 | 0.110 |
| CSA1 | 0.330 | 0.231 | 0.218 |
| CSA2 | 0.328 | 0.225 | 0.211 |

In all results, the CSA models are most preferred. It means that the customer representatives recognized, which alternative the supervisors preferred. Figures 3 and 4 illustrate clearly that the customer representatives did not see that the tight ownership models (CBO1 and FC) might be preferable to the supervisors. The priorities for the CSA models with respect to the most important criteria C1 and C2 are higher than in the supervisors' study. In the supervisors' evaluations, all criteria received almost the same weights. Instead, in the customer representatives' evaluations, the criterion C3 (*Optimal functioning of the markets*) favouring the tight ownership models, received a much lower weight than the supervisors assigned it. Thus FC as a possible compromise between the executives and the supervisors is not so understandable to the customer representatives.

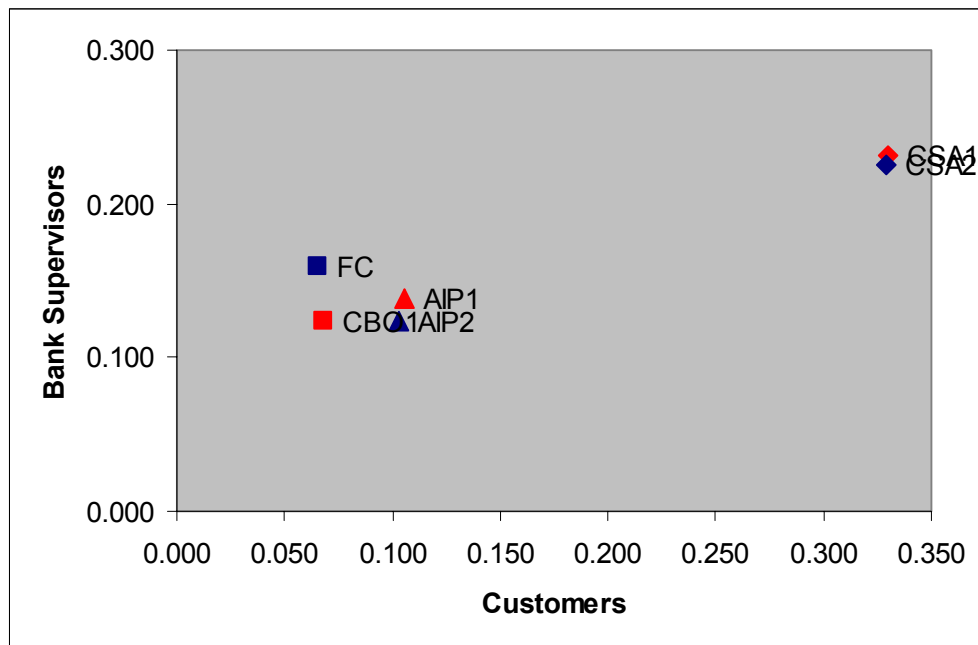


Figure 3: Illustration of customers' and bank supervisors' views on the supervisors' problem

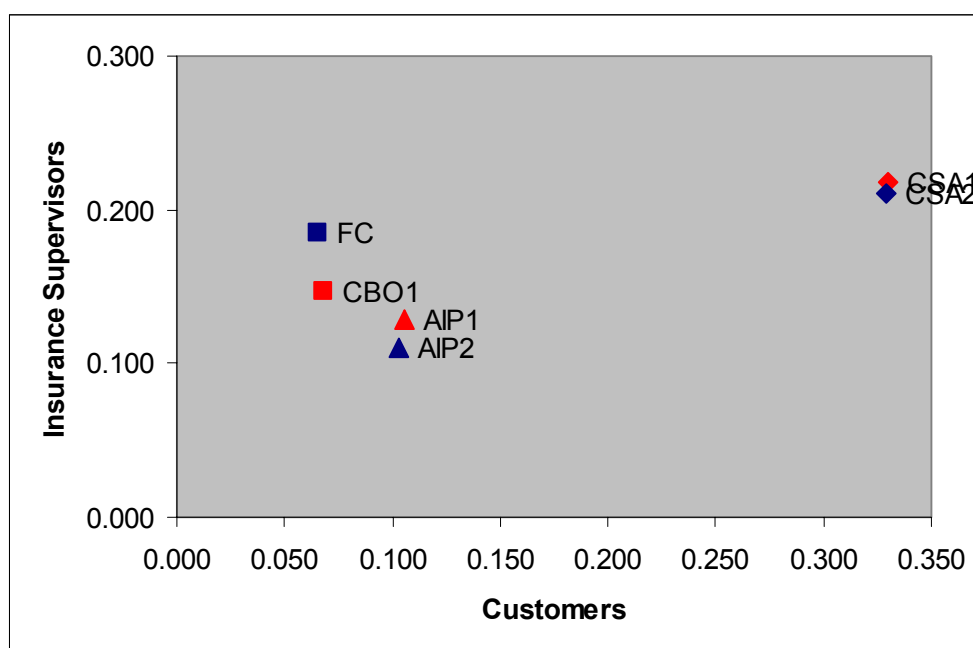


Figure 4: Illustration of customers' and insurance supervisors' views on the supervisors' problem

6.3. Inventing criteria for the management and the supervisors

In sub-sections 6.1 and 6.2, we asked the customer representatives attended the evaluation meeting to use in the evaluations the criteria, which the executives and supervisors considered the most important ones. However, during the interviews, all the customer representatives listed in the "Acknowledgements" section, were asked to think what criteria they considered most important from the executives' and from the supervisors' points of view. The complete lists are given in Appendix 1 and 2.

The list of the criteria for executives shows quite clearly that the customer representatives think that the executives prefer to use the criteria favouring tight ownership models. The criteria cover seven out of twelve actual executive criteria. The criteria which the customer representatives did not suggest were *Minimizing channel conflicts*, *Optimizing the required solvency capital*, *Maximizing investor power*, *Maximizing economies of scope* and *Minimizing risk*. These criteria are more or less technical or structural in nature. Only the *Economies of scope* criterion appeared to be very significant in the executives' evaluation. The customer representatives seem to understand quite well the problem from the perspective of the executives.

The list in Appendix 2 consists of criteria for supervisors invented by customer representatives. Even if the interviewed persons were asked to think about evaluation criteria for alliance models, many of the persons presented here more like opinions about the development of financial and insurance supervision in Finland. The only actual supervisory criterion which these criteria cover is *Capability to supervise the alliance*. That was touched by several above mentioned criteria. It seems to be more difficult for the

customer representatives to understand the views and perspectives of supervisors than those of the executives. The persons interviewed think a lot about transparency (a customer's point of view !) and keeping the money in the right place and make actively suggestions how to improve supervision. Even if supervisors express themselves in different terms most of these ideas are included in their criteria.

It seems to be more difficult for the customer representatives to adopt the supervisory role than the executives' role. One reason might be that labour market organizations communicate a lot with the representatives of executive management and are, therefore, aware of their attitudes and views. The objectives and preferences of the supervisors do not seem to be so well known, which may be a challenge for financial and insurance supervision as public authorities.

7. Comparison of the alliance structures from the executives', supervisors', and customers' perspectives

Among the three sets of criteria there are four pairs of criteria which are common to two decision maker groups. No criterion appears in all three sets of criteria. Of course, this is very understandable, because the different groups approach the problem from different perspectives.

Synergies appeared in both executives' and supervisors' criteria. The executives considered it as the third most important among the nine final criteria. Instead the supervisors did not regard it important at all, and dropped it from further considerations.

Solvency capital also appeared in both executives' and supervisors' criteria, although the groups had a slightly different formulation of the criterion: the executives wanted to optimize the capital while the supervisors were concerned about the fulfilment of the minimum capital requirements. However, it was not weighed high by the executives or the supervisors. The both groups ranked FC higher than CBO1 on that criterion.

Economies of scale was a criterion which appeared in both executives' and customer representatives' list. It was the second most important criterion of the executives among the nine final criteria. The customer representatives considered it insignificant and dropped it from further analysis.

System risk management also appeared on both supervisors' and customer representatives' criterion list. It was among two most important criteria for the both supervisor groups. It was the second most important one for the customer representatives as well. Both supervisors and customer representatives ranked CSA models the best ones on this criterion.

It can be observed that in case of the common criteria (*Solvency capital* and *System risk management*) that two decision maker groups have included in the actual model evaluation the prioritization results have been very similar.

The overall priorities of the alliance models given by the executives, the bank and insurance supervisors and the customer representatives are given earlier in this article in sections 6.1, 6.2 and 5, respectively. The executives gave FC the highest priority, while the other decision maker groups preferred CSA1.

Searching for a compromise alliance model that could be accepted by both the executives and the supervisors was discussed in Korhonen et al. [2005], who concluded that FC could be a valid compromise provided that the criteria *System risk management* and *Capability to supervise the alliance as well as possible* could be improved in FC in a credible way.

If we compare the overall model priorities of all three groups and try to find a compromise model between them, we first see that the CSA models are most preferred by the customer representatives and the supervisors, but least preferred by the executives. FC is the most preferred alliance structure by the executives. If certain conditions are fulfilled, the supervisors and the executives may accept FC as a possible compromise solution, but the model CBO1 is more desirable for the customer representatives than FC. Obviously, more discussions between all parties are needed. The financial conglomerate model FC might be acceptable to customers as well provided that some conditions are fulfilled.

8. Discussion and Concluding Remarks

In this study, we have searched for the customers' view on finding the most preferred alliance structure between banks and insurance companies. The experts from labour market and customer organizations represented "advanced" customers who were supposed to be familiar with the alliance problem. As a group decision support system, we used the Analytic Hierarchy Process. It turned to be a successful approach in searching for the joint opinion of the whole group. In our earlier studies, we explored the opinions of the executives of Finnish banks and insurance companies (Voutilainen [2005], Korhonen and Voutilainen [2005]), and the representatives of the Finnish bank and insurance supervisory authorities (Korhonen, Koskinen, and Voutilainen [2005]). In this paper, we have synthesized all these three perspectives in the following way.

A) CUSTOMER REPRESENTATIVES - ALLIANCE

The customer representatives preferred the loosely connected *cross-selling agreement* alliance models CSA1 (*no overlapping service channels*) and CSA2 (*overlapping service channels*). The control by ownership models CBO1 (*a bank owns an insurance company or vice versa*) and FC (*a holding company owns one or several banks and one or several insurance companies*) were not so preferable. The *alliance of independent partners* models AIP1 and AIP2 were least preferred.

The rank order of these three groups of the models was the same as that of the *supervisors*. The only difference in the rank order of evaluations was that the customer representatives preferred CBO1 to FC.

The result differs sharply from the evaluations made by the bank and insurance *executives* who favoured very clearly the control by ownership models CBO1 and FC (if the risk factor was not specially emphasized). The other models were far behind. In their rank order, *no overlapping service*

channels principle was more important than the alliance model types: *cross-selling agreement* and *alliance of independent partners*. Business-driven consolidation seems to be in conflict with both the supervisory and the customer's interest.

B) PERSPECTIVE OF OTHER PARTIES - ALLIANCE

We also studied how well the customer representatives were able to recognize the alliance problem from the perspectives of the other parties. We asked them to evaluate the models by using the most important *executive criteria* the other party used. Although the criteria prioritizations differed from the executives' evaluations, the overall model assessment was roughly the same: The control by ownership models were most preferred. The group was further asked to consider the risk in the executives' study. Unlike executives, the customer representatives believed that tight ownership helps to avoid various alliance risks.

When the customer representatives evaluated the models from the *supervisors' perspective*, so the most significant difference was that they did not recognize that the control by ownership models – especially FC - might be quite an acceptable alternative to the supervisors provided some conditions could be fulfilled.

C) PERSPECTIVE OF OTHER PARTIES - CRITERIA

During the interviews, the customer representatives were asked to think what criteria they considered most important from the executives' and from the supervisors' point of view. The interviewed persons clearly think that tight ownership is beneficial from the executive point of view. It seems to be more difficult for them to understand supervisors than executives. The persons interviewed here think a lot about transparency and keeping the money in the right place and make actively suggestions how to improve supervision. This lays claim to supervisors since transparency and market discipline will play an essential role in the future banking and insurance regulation systems Basel II and Solvency II (see e.g. Basel Committee on Banking Supervision [2002] and European Commission [2004]). Hence there seems to be a need to inform customers more efficiently on regulatory aspects.

Finally, we compared the criteria and the model preferences between all three decision maker groups. Among the three sets of criteria there are four pairs of criteria which are common to two decision maker groups. In case of common criteria that two groups included in the actual model evaluation the prioritization results were very similar. By analyzing the overall priorities given by all decision maker groups we came to the conclusion that FC could be a possible common compromise on the condition that the criteria *System risk management*, *Capability to supervise the alliance as well as possible* and *Transparency and comparability of the products* can be satisfied to an acceptable degree. *System risk management* appears in both supervisors' and customer representatives' criteria and should be given special attention.

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|------------------|--------------------------------|---------------------------------------------------------------------------|
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| Kirsi Kovanen | Legal Council | Union of Insurance Employees in Finland |
| Erkki Lehosmaa | Secretary of Industrial Policy | SUORA – The Trade Union of the Finance and Insurance Sectors |
| Ismo Luimula | Chief Economist | SAK – Central Organization of Finnish Trade Unions |
| Irene Luukkonen | Director | The Finnish Insurance Ombudsman Bureau |
| Jari Mellas | Financial Manager | TEK – The Finnish Association of Graduate Engineers |
| Mikko Mäenpää | Chairman | STTK – The Finnish Confederation of Salaried Employees |
| Jarmo Mäntyharju | Third chairman | MTK |
| Mikko Paiho | Financial Manager | SAK |
| Pertti Parmanne | Director | SAK |
| Anja Peltonen | Director | Consumer Agency |
| Risto Piekkari | Chairman | AKAVA – The Confederation of Unions for Academic Professionals in Finland |
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Appendix 1

Executive criteria invented by customer representatives:

- As tight a model as possible;
- Steady income all the time (incl. nonlife insurance);
- Bank and insurance products close to each other (synergies);
- Synergies on personnel, IT, purchases;
- One-door principle (one stop shopping);
- Readiness to common investments in marketing, customer service and product development;
- Explicit profit division mechanism;
- Acting on a wide front in developing and selling financial products;
- Ability to utilize one's own customer base as much as possible in these sectors;
- Product development from various service providers' point of view;
- Fitting together earnings logics;
- Ability to sell with a higher price because of comprehensive customer relation;
- Ability to keep customers and protect customer relationship;
- Both insurance and financial business must be profitable – using scale benefits;
- It makes life easier to own! ;
- Comprehensive customer relationship;
- Efficiency, rationality, productivity;
- Cost savings (for example, personnel);
- Sales with lower costs;
- Customer must be reached as well as possible;
- What kind of foreign competition do I face ? ; and
- What kind of customers should I get from my partner ? .

Appendix 2**Supervisory criteria invented by customer representatives:**

- Transparency towards both customer and supervisor;
- Preventing cartels;
- A bank and an insurance company should not be entangled with each other too much, especially a bank and a mandatory pension insurance company;
- Clear responsibilities and roles of both supervisors;
- Keeping aside the earmarked money of mandatory insurance;
- The giant risks of insurance must not hit the banking sector;
- There should be only one supervisory authority ! ;
- The supervisor should have better resources ! ;
- Separation of the risks, risks and profits should not flow from one company to another;
- Transparency of products;
- Risk control;
- The products resemble too much each other, this causes accidental overlapping;
- It is not sensible to merge the supervisors ! ;
- Solvency control sufficiently early with sufficient resources;
- Transparency of the system;
- The insurance supervision has modest resources;
- More resources for the banking supervision ! ;
- The moneys must stay separate; and
- Internordic and –baltic supervision should be developed.