



REIMAGINING SOCIAL CHANGE

Skandia Group—Case Study

Creating Shared Value in Sweden's Financial Sector

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Foreword

When performing at its best, the financial sector enables societal progress by helping individuals and organizations build and protect their assets or by providing new financial solutions to environmental or social challenges.

Offering solutions that focus on early prevention of the risks a company insures against, or financing affordable healthcare models or the transition to clean energy, represents just a handful of the opportunities for the financial sector to drive societal progress, not just out of obligation, but as a source of new growth and competitive differentiation.

Shared value business models increase revenues, reduce costs, and enhance competitiveness by solving social problems. Shared value is a management strategy used to create economic value by improving societal conditions through innovation and partnership. Shared value opportunities are found at the intersection of societal needs, business priorities, and corporate expertise (see Figure 01).

Skandia has a long social legacy, and as a mutual company, it cares deeply for the welfare of its customers and Swedish society. The concept of shared value offers Skandia a powerful approach for identifying the societal needs it can best address through new and existing business models across all of Skandia's business units.

Pursuing a shared value approach can

provide a unique point of differentiation for Skandia in Sweden, as no other Swedish insurance firm has yet fully embraced this concept. But to do so, Skandia must move beyond ordinary solutions to employee healthcare, personal savings, real estate development, or impact investing, and find its own unique social value proposition. Fortunately, Skandia's Ideas for Life Foundation has paved the way with research and innovative solutions around many of these issues. That legacy is a unique source of legitimacy and knowledge.

Moving ahead, Skandia should identify the key needs it will address and consider which ones are ripe for broad rollout versus piloting or experimentation.

"Creating richer lives for customers and society" can become a license to innovate for each business unit, turning an aspirational corporate purpose into reality and measurable shared value creation.

FIGURE 01



Shared value (SV) opportunities lie at the intersection of societal needs, business interests, and assets.

Skandia Group

Skandia, a major provider of products for long-term savings and investments in the Nordics, began as a life insurance firm in Sweden in 1855. Since then, Skandia had diversified its portfolio, offering pensions, mutual funds, and health insurance. It also boasted a real estate arm and operated a telephone- and internet-only bank. It was a leader in the corporate insurance and pensions business and sought to double its volume in the private savings market. In 2014, Skandia became a mutual company owned by a large share of its 2.5 million customers. Insurance premiums paid amounted to SEK 39.3 billion (\$4.7 billion) in 2014, total assets under management (including funds) to SEK 547.9 billion (\$65 billion), and profits before tax from all operations to SEK 20.4 billion (\$2.4 billion).¹

In line with its mutual structure, Skandia's purpose was to create richer lives for its customers and society. As Skandia's outgoing CEO Bengt-Åke Fagerman reflected: "We help our clients and communities invest in the early phase of a problem. We play an important role complementing the public systems." Skandia's new CEO Frans Lindelöw added: "The time is right for business to step up and offer innovative solutions to solve the challenges the welfare state is grappling with." As Sweden faced a number of societal challenges, leadership needed to decide how best to move forward with this vision.

The Swedish Context

Sweden and its Nordic neighbors were considered model societies, combining high quality of life with strong economies. Sweden was recognized for creating an innovative knowledge-based economy underpinned by transparent and efficient institutions, good infrastructure, and low public debt.² On the Social Progress Index—a framework for measuring multiple dimensions of social wellbeing—Sweden ranked just second after Norway.³ It was also one of the world's most gender-egalitarian countries,⁴ and it scored well in the Global Happiness Index.⁵

Sweden's public debt had fallen from 70% of GDP in 1993 to 37% in 2010, while an 11% budget deficit turned into modest surplus.⁶ Often referred to as the "Nordic Model," the Swedish system combined a free-market economy with a welfare state.⁷ Examples of innovative public-private models included: replacing a defined-benefit pension system with a defined-contribution one, adjusting for longer life expectancy; encouraging private sector competition to provide state-funded health services and care for the elderly; and introducing a universal system of school vouchers to allow private and public schools to compete on equal terms. However, suspicion of the private sector and making profit on

such public goods as education and healthcare provision ran deep in Swedish culture, and the notion of benefiting from addressing social problems was not widely embraced. Sweden had a heritage of a clear division of the responsibilities of the public sphere and the private sphere, coming from the formation of the Swedish welfare state. Companies were supposed to focus on industrial matters and exports, while the state would focus on the social sector.

However, despite decades of achievements, Sweden faced a number of new societal challenges.

At an aggregate level, Swedish households appeared to have a significant net wealth buffer of more than 200% of disposable income.⁸ However, wealth distribution was very uneven. As many as 30% of Swedish households had negative, or zero, assets, while another 20% had asset levels corresponding only to one month's salary.⁹ Low savings were partially attributed to the welfare state legacy. Recent cuts in the annual tax subsidies for pension savings from SEK 12,000 (\$1,423) to SEK 1,800 (\$213)¹⁰ created further disincentives. Several experts agreed that Swedes tended to overestimate the amount of public pension they could expect at retirement age. Meanwhile, household debt levels grew, fuelled by favorable credit conditions, putting youth and other low asset populations particularly at risk.¹¹

Widening socio-demographic disparities could also be observed in health outcomes.¹² In 2014, 622,000¹³ of the more affluent Swedish population (less than 7% of the total Swedish population of 9.8 million) had private health insurance, while everyone else relied on the public system. Under increased pressure from a growing—and aging—population, the public system was struggling to cope. Waiting times were among the highest in Europe despite ever-increasing health care costs to government.¹⁴ Furthermore, an increasing number of employees were taking sick leave from work due to mental illness associated with depression and burn out. In 1999, 18% of sick leave cases were attributed to mental illness. By 2014, this had grown to 35%. Total expected costs for sickness benefits in 2015 were SEK 31.5 billion (\$3.7 billion), SEK 10 billion more than just three years earlier.¹⁵

While social inequality was at a low level compared to other countries, the gap in educational outcomes, employment, and income was widening between rich and poor, and between Swedish and foreign born. In 2014, Sweden had accepted the highest volume of asylum applications per capita of all European countries,¹⁶ which had led to much public debate as to whether Sweden's societal model was truly prepared to effectively integrate this increasing influx of migrants. Sweden's performance in international

educational assessments, for instance, deteriorated significantly between 2000 and 2012,¹⁷ and, in the view of some experts, augmented social and ethnic segregation, particularly in relation to schools in deprived areas.¹⁸ While to some, the introduction of the publicly funded voucher system for private schools fostered healthy competition between schools, others argued that the voucher system had proved susceptible to information asymmetries and geographical segregation. In addition, non-Swedish citizens often found themselves excluded from the prosperous commercial cities of Stockholm, Malmö, or Göteborg, largely due to the complex rental market regulations and their lack of social networks. Instead, they would reside in what were originally well-intended publicly driven “Million Program” (Miljonprogrammet in Swedish) suburban neighborhood developments. Many of these developments, built between 1965 and 1974 to address the nation’s housing shortage, had floundered, becoming spill-over towns that lacked employment opportunities and connections to Swedish society.¹⁹ On the employment side, in 2015, the employment rate among native Swedes was 84%, while for non-Europeans it was just 51%.²⁰ Furthermore, youth unemployment continued to be significantly higher than the Eurozone or US average (see Exhibit 07), fueling costs for the Swedish public sector in the form of unemployment benefits, social service provisions, and, increasingly, the cost of violence in communities.

The Role of the Financial and Insurance Sectors in Addressing Sweden’s Challenges

By its very nature, the “Nordic Model” offered innovative firms the opportunity to be involved in addressing social welfare needs. In 2015, however, the financial sector was still struggling to regain the public trust ravaged during the 2008 financial crisis and its aftermath, and pressure from external stakeholders for greater transparency was growing. For Swedish financial and insurance firms, classic corporate philanthropy sought to demonstrate “giving back” to society. Yet many firms were only engaged in basic financial literacy initiatives for children, for example, at arm’s length from the business.

Meanwhile, internationally, many companies embraced the concept of “creating shared value.”²¹ Shared value recognized that the health of any business was inextricably linked to the long-term prosperity of its clients and communities.²² Some financial institutions recognized that the short-term pursuit of profit, often at the expense of their own customers, had not only caused enormous harm to society but also failed to create long-term shareholder returns. They now pivoted to finding unique ways to increase the wealth of individuals, companies, or entire business ecosystems, or focused on providing financial solutions to environmental or social challenges. Insurance

companies, on their side, realized that preventing risks rather than asking customers to pay for existing risks presented enormous opportunities for improving both quality of life as well as their own competitive advantage. In the process, companies discovered entirely new avenues for growth at the intersection of social needs, their business priorities, and their unique assets and expertise.²³ When all these conditions aligned, firms executed these strategies within the core business as major strategic bets. When they lacked expertise, they found space to pilot new business models in lead business units, and when the business case was still unclear, they used a shielded vehicle, such as a social business unit or internal philanthropic funds, to research, subsidize, and experiment with future models.

With the welfare system undergoing significant restructuring, many experts from across Sweden's social sector looked to business to drive innovation and pave the way for the creation of new solutions, yet few were satisfied with the efforts of the majority of actors within the finance and insurance sectors. Based on its legacy, however, they singled Skandia and its Ideas for Life Foundation out as a pathfinder for the industry.

Skandia's Social Legacy

Skandia's social legacy dated back to the mid-1800s. During the rise of the industrial revolution, Skandia pioneered early forms of insurance via employers, including accident insurance and life insurance. As household fires began to rise in the late 1800s, rather than raise customer premiums, Skandia helped municipalities and town planners gain knowledge about fire prevention—e.g., through training on the use of less flammable materials in town and housing constructions. As early as 1945, Skandia was championing occupational healthcare and introducing office gymnastics and a library for its own employees. In the 1970s, Skandia invested in research on the negative impacts of stress on health.²⁴

In the late 1980s, large-scale youth riots broke out across Sweden, shocking the nation. Significant property damages were inflicted and Skandia took a big loss. In a bid to mitigate future civil unrest, Skandia created the Ideas for Life Foundation, focused on tackling social exclusion. Ideas for Life sought to value preventive interventions to social ills as a more cost-effective approach, demonstrated through rigorous measurement and demonstrable results. By the early 2010s, Ideas for Life supported a series of local NGOs working on social inclusion with grants. Together with Uppsala University and the Copenhagen Business School, it had placed a monetary value on the cost to society of social exclusion. Research showed that effective interventions to social exclusion could generate a 100% return to municipalities in just a single year. To better understand the

risk factors leading to ill health specifically, Ideas for Life developed an “ill health calculator” that demonstrated how lifestyle interventions, such as improved diet and increased physical activity, could lower the costs of illness and disease. Ideas for Life had developed strong relationships with over 90 municipalities across the country, empowering them to use such measurement tools.²⁵ The Foundation’s research and tools provided significant insights into new target populations, which, if leveraged effectively, could inform product innovation on the business-side. It also served as a beacon of Skandia’s values when the company traversed difficult times.

Skandia, by the mid-2010s, had undergone significant change as a business. Breaking away from its parent company, Old Mutual, in early 2012, Skandia switched from being part of a multinational firm listed on the global stock market and converted into a fully mutually-owned Swedish company in 2014. At the beginning of the new millennium, a scandal involving excessive executive pay had tarnished Skandia’s legacy, and the new managers who orchestrated the subsequent spin off of the new mutual company also worked hard to reaffirm its values. Skandia’s leadership had symbolically eliminated bonuses as part of compensation. Similar risk-taking in favor of customers continued in 2015, when Skandia eliminated upfront commissions to brokers to make sure financial products sold to customers lived on their merit alone and not on fees paid up front to intermediaries. Moving ahead, Skandia considered how both its main product lines and its asset management investments could fulfill its purpose of creating a richer life for customers and society.

Skandia’s Products

1.) Occupational Pension Products

Skandia had long provided a suite of savings offerings for corporate, public, and private customers in the forms of pensions backed by mutual funds and life insurance. While many public clients could have benefitted from pension debt restructuring through Skandia, margins were low in this segment. Hence in 2013, the vast majority of Skandia’s paid insurance premiums originated with corporate clients.

Corporate “occupational pension packages,” which often contained classic pension savings plans, a pension premium waiver, and insurance for continued salary payments in the case of long-term sick leave, accounted for a substantial portion of Skandia’s portfolio. In 2002, Skandia was at risk of suffering significant losses of up to SEK 2.6 billion (\$308 million) as a result of an unprecedented volume of claims against its employee long-term sick leave insurance product component. The drivers behind this

highly worrisome trend were unclear.

Skandia supported research into how healthy organizations work. For example, a health diagnostic tool for Skandia's corporate customers accumulated a wealth of data across companies in different sectors. The tool asked 40 questions of each employee, leading to research findings that resulted in a new business model for Skandia's corporate health insurance through which Skandia could now drive behavior changes and reduce future claims: A premium differentiation model was applied to each client company which linked the underwriting pricing to the health status of each client firm. If a company had fewer people at risk of sick leave, Skandia reduced the premium by as much as 40% and surcharged for opposite cases. The health-based premiums were adapted over the lifetime of Skandia's contract on a rolling three-year basis. However, deeper work had to be done to prevent future claims and understand root causes, especially for the surcharged companies. From 2004 to 2006, Skandia conducted a pilot with 150 long-term absentees from different companies with a non-profit health provider, Sophiahemmet. Skandia contacted all absentees individually and offered consultation, a service that was later on developed into a "rehab hotline." This anonymous consultation covered the person's private situation (both family- and career-related) beyond physical medical needs. The coordinator then referred the person to the appropriate therapists within the Sophiahemmet Rehab Network, which ranged from physiological and psychological support through to career advice services. At the end of the pilot, a third of absentees had returned to work full-time, a third on a part-time basis, and only one third remained on sick-leave. The pilot had cost SEK 5 million (\$593,000) and saved Skandia SEK 240 million (\$28 million).

In 2009, Skandia was presented with the opportunity of introducing a rehab package onto the market based on the pilot experience. Faced with the challenge of differentiating itself from other players in the market in a large tender situation, Skandia committed to offer the rehab package free of charge as part of its broader "occupational pension package." This represented a unique value proposition and led Skandia to win the tender. Encouraged by this success, Skandia proceeded to also offer the rehab service to other corporate clients. The business case was strong for Skandia and its customers. Break-even for covering the cost of rehab services required reducing sick leave claims by 20%, and Skandia targeted 50%.

Skandia's clients' sick leave rates declined over the following five years, outpacing the nationally decreasing statistics. In 2014, Skandia clients' percentage of sick-leavers to overall employees stood at 2% compared to a national average of 7%. By 2015,

Skandia was giving away the wellness insurance (which by then included not only rehab but also many prevention elements) for free to 135,000 employees insured through the “occupational pension package.” Claim ratios were far better than expected. Unused reserves had piled up over the five year period and asset management had achieved such good investment returns on these reserves that Skandia chose to “pay back” customers in the form of reduced premiums. An “occupational pension package” client that had joined Skandia before 2008 would actually see its annual premium reduced by 75% on top of any other applicable rebate.

Skandia, despite early success, was facing challenges in scaling the wellness insurance business. The ever-growing uptake among existing customers was easily associated with increased costs for rehab and prehab services use, but the connection to reduced claims was less obvious and needed exact tracking. Selling the long-term benefits of the product, and doing so consistently across client segments, was proving a challenge to Skandia’s salesforce, and even more so for external brokers. Some believed that the proposition had not been sufficiently “productized” and marketed as a key differentiating feature of the overarching occupational pension package product. Little action had been taken to move beyond data collection that profiled client health status to a full-blown strategy to drive behavior change at scale. In parallel, there was a risk that Skandia would lose its competitive edge on sick leave prevention. Notably, Generali, one of the largest European insurers outside of Sweden, had entered into a joint venture with Discovery Insurance as part of its vision to protect and enhance people’s lives and expand its reach into Europe. The partnership would bring Discovery’s Vitality program, a unique behavioral-based shared value insurance model that encouraged and rewarded customers to improve health and wellbeing—creating powerful health and protection offerings—to Europe. In South Africa, the Vitality program had driven down risk-adjusted hospital costs by as much as 40% for Discovery’s clients.

2.) Private Savings Products

Skandia, for many years, was in large part a “behind-the-scenes” actor, securing a high-volume of clients through the corporate market and external brokers. In 1994, Skandia went direct and launched Sweden’s revolutionary first telephone bank, Skandiabanken, aimed at the retail market. Offering simple and affordable terms, it soon pioneered award-winning Internet and mobile banking services. Skandia was committed to offering simple-to-understand products and increasing levels of transparency on banking fees, which in turn delivered business value. In 2014, Skandia saw a 45% increase in home mortgage applications from the previous year, supported by the

introduction of a transparent home mortgage model. Most importantly, Skandia also aimed at complementing the public pension system with its long-term savings offerings, originated in the insurance part of the business. Life insurance and private pension savings with Skandia were financially secure through a guarantee for the capital deposit and a guaranteed minimum return. In fact, Skandia's asset management results always exceeded the minimum return guarantee: actual returns through traditional Skandia management averaged at 8% between 2010 to 2014. Since Skandia was a mutual company, further corporate surpluses also went back to the customers and, for example, could help them to improve their financial situation at retirement age. Skandia's strategy was to transition from being perceived as a pensions firm to become a leading savings company that thinks long term so it could create richer lives for its customers and society, seeking to maintain its leading position in the corporate market while doubling its volume in the private market.

Skandia's innovations on the retail banking side, however, did not remain market differentiators for long. SMART account features that helped customers manage their personal finances were quickly replicated by other banks, and commitments to ensure transparent average interest rates were quickly translated into official regulation at the national level. Skandia's retail savings products, including the guaranteed pension savings, despite best efforts, had also failed to change Sweden's social problem of poor personal savings. New thinking was needed for Skandia to meet its own ambitious savings growth target. International examples offered some inspiration. Bausparen in Germany, for example, had developed a contractual savings scheme to drive up savings. It linked an initial savings achievement to the right to receive a mortgage lower interest loan in the future. Initiatives to drive up savings by incentivizing and therefore changing behavior had been trialed by some banks with some degree of success. First National Bank in South Africa, for instance, linked new customers' savings to a monthly "million rand prize" lottery to increase the volume of deposits. To be successful, new schemes needed to provide both fair terms to those most in need of savings and incentives to encourage saving behavior.

Skandia now more than ever wanted to capture the largely untapped personal savings market by providing understandable and transparent savings products. Yet the key to unlocking this market lay in understanding how to change potential private saver's perceptions, habits, and behaviors, and to incentivize them to save. "Fair" products were often not enough to drive such behavior change. Behavioral economics research had demonstrated time and again that consumers often struggle to make rational decisions, even when all the relevant material is available to them.²⁶ Skandia's strategy

manager Carl Olsson pointed out that changing savings habits in Sweden was a worthy area for innovation: “There is an interesting proposition for an overall education on personal economy that could drive better behavior, increase savings, enable bigger and better investments, and grow our business.” Ideas for Life Foundation was well positioned to lead research into how to achieve this behavior change in Sweden, among other topics, and help catalyze innovation in the sector.

The next step was to translate this vision into new initiatives that addressed specific savings needs in Swedish society.

Skandia's Asset Management

In 2014, Skandia had SEK 350.2 billion (\$41.5 billion) assets under management to ensure competitive returns for its pension and life insurance customers (excluding funds and strategic assets, including real estate). In 2014, its asset management unit was voted the world's 38th biggest investor in private equity²⁷ and ranked as the 9th most influential investor in Europe. While most of Skandia's asset allocation was classic for the industry (i.e., ~85% of investments were tied up in bonds, shares, and other secondary market investments) and its top metric was return on capital, it also applied responsible investing (ESG – Environmental, Social, and Governance) criteria throughout its portfolio. While Skandia's asset management team sought to primarily create richer lives for customers and society in financial terms, it also selectively focused on societal needs. Many at Skandia believed that it was through less traditional/direct investments (~15% of assets under management in the traditional life insurance business) that the greatest societal impact could be achieved while generating an attractive return.

Skandia's real estate business, Skandia Real Estate (formerly Diligentia), made up the largest share of Skandia's direct investment portfolio and accounted for ~10% of Skandia's assets under management in the traditional life portfolio. By 2014, it was the eighth largest real estate company in Sweden with investments split across commercial (40%), retail (35%), residential (23%), and public properties (2%). Real estate was a prime example of a long-term investment that has been a good deal for savers in Skandia's life company; the return was 10.8% in 2014, just over 2% higher than the industry average.

Skandia identified that significant efficiencies based on energy sustainability could realize significant costs savings, and the company was one of many companies in Sweden investing in energy-efficient buildings and technologies. Skandia Real Estate, for instance, launched the Swedish Property Federation industry standard for green rental

agreements, enabling the firm to work with its clients to drive down the environmental impacts of their premises. Skandia also upheld environmental classification of properties and sustainability certification of urban environments before such activities became compliance measures (e.g., BREEAM).

In 2012, Skandia had begun to sense how its real estate projects could benefit society more widely. With the long-term investment outlook, Skandia Real Estate understood that it was well-structured to work with local municipalities to solve their pressing public infrastructure needs. Municipal budgets were insufficient for developing new and refurbishing old public facilities, such as schools, hospitals, or elderly care institutions. Vast differences in the quality of these facilities existed across Sweden and it was increasingly understood that factors such as community inclusion or educational or health outcomes were affected. Skandia Real Estate's new social real estate arm developed these social properties, renting them out on long-term contracts.²⁸ Skandia Real Estate had embarked on one such cutting-edge community-wide development in Malmö. The objective of the project was to create a sustainable and "green" urban environment with workplaces, homes, and commercial services. How these investments linked to future benefits to the municipalities—such as higher levels of livability, improved educational outcomes, and healthier communities—however, was not yet tracked by the business.

Internationally, real estate firms and investment banks were enjoying early successes in comprehensive community development ventures. Stockland, for example, was one of Australia's leading diversified property groups that aimed to increase their customers' satisfaction through a livability index. Stockland discovered differences in the level of socio-economic development and community happiness and linked these to specific design choices covering accessibility to education, services, green spaces, safety, mobility, and local employment. Stockland was now winning contracts through this unique social value proposition. In the United States, the investment bank Goldman Sachs had committed \$2 billion to over 100 projects across Staten Island, New York. Projects supported included affordable housing, community and healthcare centers, and a capital investment of \$130 million toward the construction of Empire Outlets, a 350,000 square foot retail facility that sought to serve as a catalyst for economic development in the community.²⁹

In 2012, Skandia began to expand its investment portfolio to include social infrastructure investments. It lent SEK 750 million (\$89 million) on a 20-year term for the development of Skandionkliniken, the first clinic in the Nordic countries to offer proton radiation therapy. And in 2014, in line with other major efforts around the world to finance green

bonds, Skandia was the first Swedish pensions company to invest directly in Swedish wind power. Skandia entered into a joint venture with Vattenfall, a Swedish energy company, investing nearly SEK 2 billion (\$237 million) in four wind farms across the country. Skandia had the freedom to engage in more progressive investments beyond the regulatory boundaries otherwise imposed to insurances thanks to its high solvency.

Skandia's ambitions were to grow total infrastructure investments to SEK 15 billion (\$1.8 billion), or roughly 4% of its portfolio, although social infrastructure specifically only accounted for a small proportion of this. "In recent years, we have been increasing our investments in infrastructure, which generates a stable and long-term return for our savers. Our customers will benefit from this return over time through their pension payments. Moreover, the capital is being used to build sustainable value in society here and now through an increase in renewable energy," said Bengt-Åke Fagerman, outgoing CEO of Skandia, when commenting on Skandia's investment into Swedish wind farms.³⁰

While the financial instrument used to invest in Skandionkliniken was a classic bond, Skandia also started looking into Social Impact Bonds (SIB). This type of pay-for-success (PFS) instrument first piloted in the UK in 2010 allowed private investors to finance social prevention work (such as preventing criminal recidivism) and committed public authorities to sharing the benefits of avoided costs of social services, for example with private investors (see Exhibit 11). Celebrated as a promising social finance idea especially in the United States, UK, and Australia, over 40 PFS contracts had been set up globally by mid-2015,³¹ focused on social integration, improving educational outcomes, or connecting youth to employment. Early financial and social results of PFS contracts were uneven. A US-based PFS targeting prisoners' recidivism backed by Goldman Sachs had failed, while a UK Career Connect program for 4,000 young people had successfully repaid all of the \$2.3 million capital plus interest to investors at the end of the three-and-a-half year contract period.³² Recent analysis of this emerging field³³ highlighted two requirements for realizing such PFS contracts. The first was the ability to deliver and measure social outcomes for each target beneficiary. The second was the ability to translate these into financial benefits affecting the budgets of specific government agencies. In addition, almost all deals leveraged philanthropic funds to cover structuring and transaction costs and to invest as junior lenders minimizing loss potential for senior lenders in the capital markets (e.g., banks, pension funds, private investors). Experts believed this would limit the expansion of PFS contracts, while noting that the potential for impact investing from foundations and high net worth individuals was still largely untapped. Progressive municipalities were clearly interest-

ed; at a minimum, PFS contracts transferred the risk of failure of social services to the market, and in the best case, they helped achieve future budgetary savings. They also enticed both public agencies and NGOs to be more accountable for results.

For Skandia, finding alternative ways to invest in social challenges presented an opportunity to combine the asset management team's investment expertise with the work of the Ideas for Life Foundation. The Foundation had supported research that quantified the financial benefits of preventing social exclusion and the respective value of specific preventative interventions. As a result, Skandia's Head of Sustainability, Lena Hök, saw the potential for "the Ideas for Life Foundation to offer shielded incubation space to innovate, help test, and refine models for social impact." In strategy, Carl Olsson echoed this sentiment: "We have a massive opportunity to differentiate our offering with what we are doing with the Ideas for Life Foundation, but we have not cracked how to fully integrate it with our offering."

In the meantime, several organizations that had the potential to lend themselves as partners to establish PFS models had started to become aligned in the Nordic SIB Network, while Fryshuset, a Swedish organization that supported youth, had even obtained a first funding from the Swedish Postcode Lottery fund to pioneer SIBs in Sweden.

Skandia's management was committed to the company's purpose with its twin promise to deliver competitive differentiation and helping Sweden advance as a society. The corporate pension and savings market was being commoditized, and price pressure was also growing in the private pension market. While the company took care to reduce costs and embarked on a wide efficiency campaign, leadership understood the limits of winning long-term on the basis of cost reduction in commoditized markets. Sweden's social needs clearly offered a wide field of differentiation opportunities, particularly at a time when the role of the welfare-system was changing. Yet leadership also recognized that creating such shared value would require making choices. Considering Sweden's future challenges, Skandia's strategic priorities and business models, and its unique legacy in addressing social needs, it was time to decide where to focus and how to align activities. Screening each opportunity area and anticipating what results could be achieved for Skandia and society seemed like the logical next step.

Exhibits

EXHIBIT 01

Overview of Skandia Group 2014

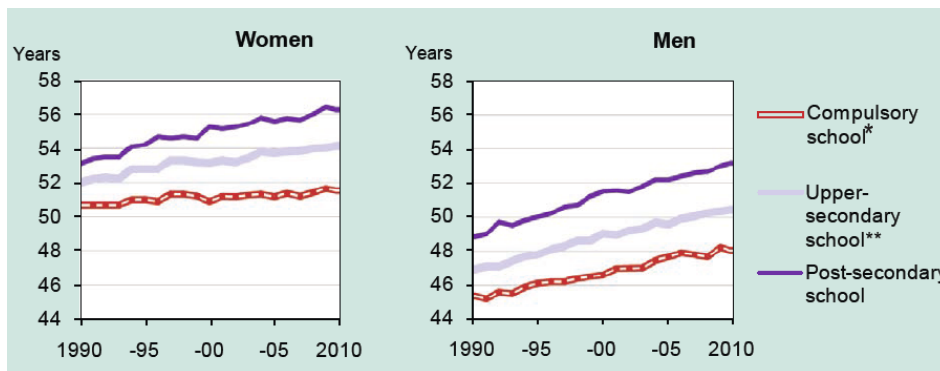
- The Skandia Group is engaged in traditional life insurance, risk insurance and unit-linked insurance activities in Sweden & Denmark and Banking in Sweden & Norway but currently closes/sells parts of the non-Swedish business
- The group also includes a fund management company, a real estate company, and an asset management company

Products			Investments		
Life Insurance & Pensions	Risk Insurance	Banking & Loans	Mutual Funds	Real Estate	Other Asset Mgmt
<ul style="list-style-type: none"> • Life insurance • Private pensions • Occupational pensions • Premium waivers • Long-term sick leave insurance • Capital insurance 	<ul style="list-style-type: none"> • Private health • Accident • Disability • Maternity • Children 	<p>Banking</p> <ul style="list-style-type: none"> • Accounts • Cards • Savings • <i>Cross-selling of insurance products</i> <p>Loans</p> <ul style="list-style-type: none"> • Mortgage • Customer lending • Bank overdraft 	<p>Skandia Scale</p> <ul style="list-style-type: none"> • 5 funds owned by Skandia <p>Evaluated Funds</p> <ul style="list-style-type: none"> • 100 pre-chosen funds <p>Open Fund Range</p> <ul style="list-style-type: none"> • 800 funds 	<ul style="list-style-type: none"> • Developer, owner, and manager of offices, shopping centers, residential and community buildings 	<ul style="list-style-type: none"> • Bonds • Shares • Private Equity • Alternative Investments • Infrastructure • Other
Premium paid: 4.3b\$	Premium paid: 324m\$	Interest income: 378m\$	Investments of: 23.4b\$	Property value: 4.3b\$	Managed assets: 37.3b\$

Source: Skandia internal documents

EXHIBIT 02

Period Life Expectancy at the Age of 30 (in Years) by Highest Level of Educational Attainment



*Compulsory school comprises 9 years.

**Upper-secondary school is free and non-compulsory. It is available for those aged 16–20.

Source: Scandinavian Journal of Public Health

EXHIBIT 03

Rising Costs of Primary Care in Sweden

Kostnaderna skenar

Prognos för sjukpenningens anslag

Källa: Försäkringskassan (Miljarder kr)



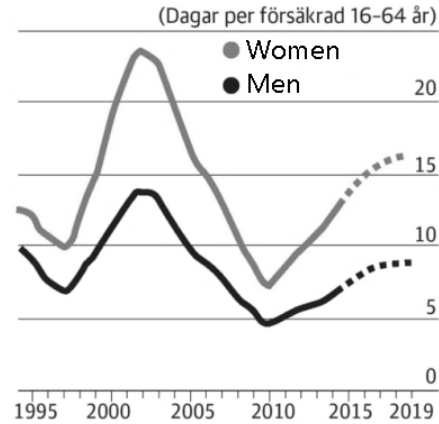
Source: Insurance Checkout

EXHIBIT 04

Rates and Forecasted Future Rates of Sick-Leave in Sweden

Sjukskrivningarna blir längre

Kvinnor värst drabbade



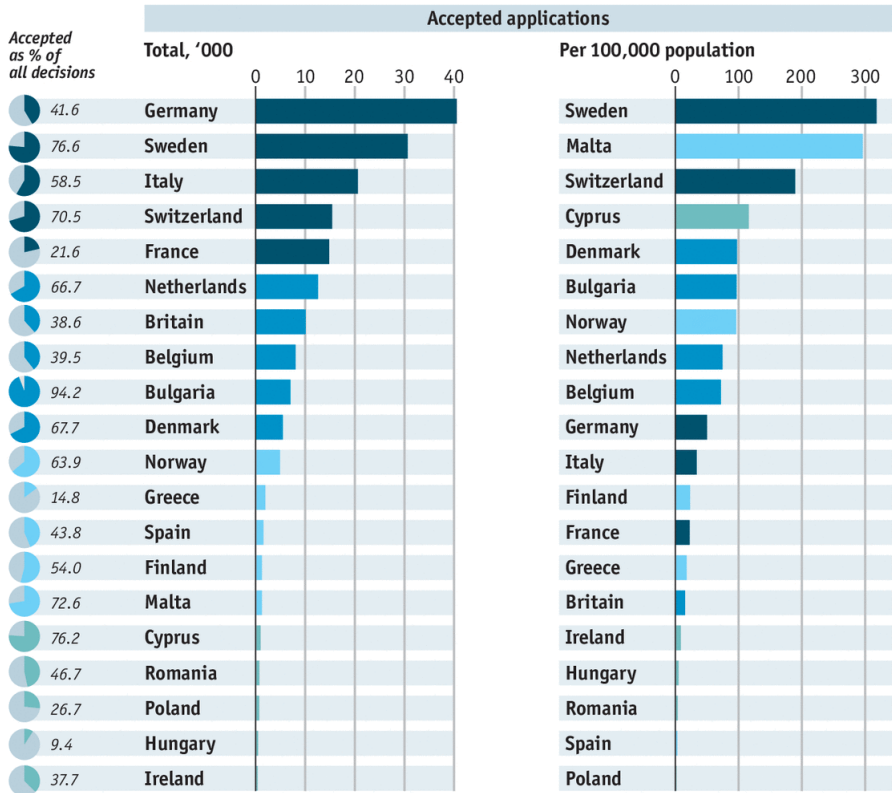
Source: Skandia internal documents

EXHIBIT 05

Europe's Migrant Acceptance Rates, September 2015

How much room at the inn?

European decisions on asylum applications*, 2014



Source: Eurostat

* First-instance decisions only

Economist.com

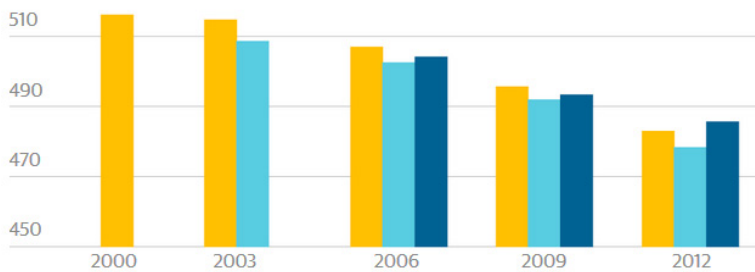
Source: Eurostat, quoted in The Economist (2014) Daily Chart: Europe's Migrant Acceptance Rates

EXHIBIT 06

Swedish Performance in Pisa International Education Examinations

Pisa scores

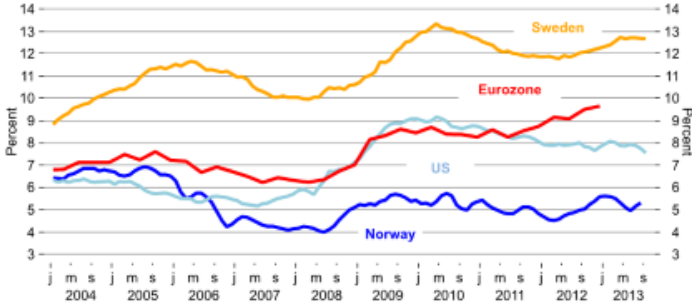
Reading | Mathematics | Science



Source: OECD

EXHIBIT 07

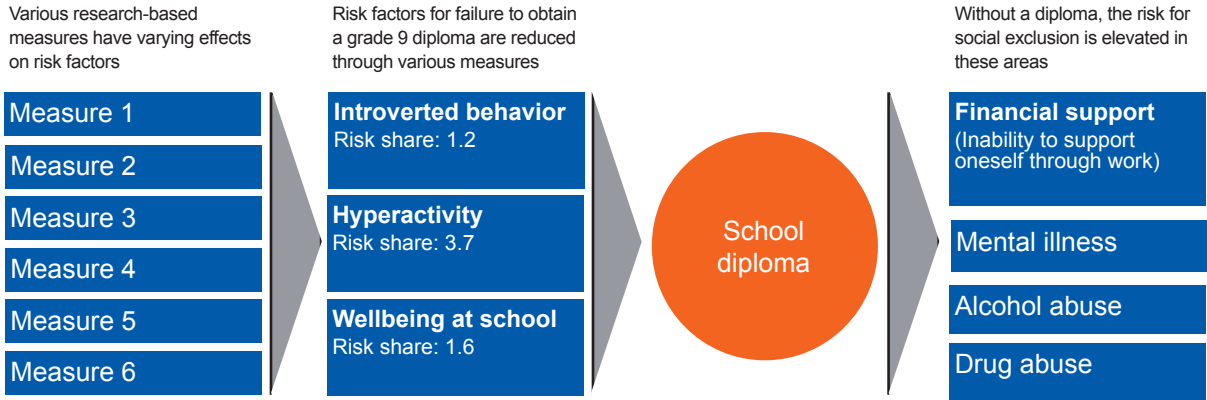
Percent of Population Aged 15 to 24 who are Unemployed



Source: SKAGEN

EXHIBIT 08

Ideas for Life Foundation: Evidence-Based Model for Calculating the Effects and Financial Value of Preventative Measures



Source: Skandia Sustainability Report 2014

EXHIBIT 09

Ideas for Life Foundation: Calculating the Cost of Various Forms of Social Exclusion

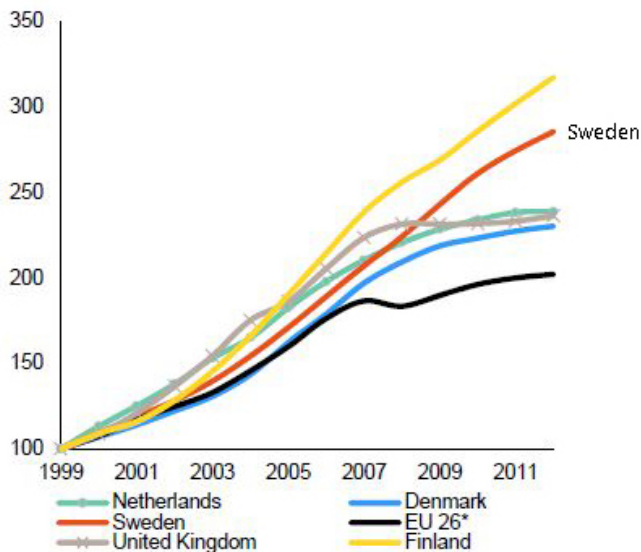
Social exclusion	Annual cost to society	Cost over five years	Payer	
Psychosocial work impediments	SEK 100,000	SEK 490,000	Labour market	SEK 24,000
			Försäkringskassan	SEK 81,000
			Municipality	SEK 84,000
			County Council	SEK 299,000
Mental illness	SEK 350,000	SEK 1,800,000	Labour market	SEK 68,000
			Municipality	SEK 824,000
			County Council	SEK 862,000
Alcohol abuse	SEK 620,000	SEK 3,100,000	Municipality	SEK 702,000
			County Council	SEK 320,000
			Legal system	SEK 727,000
			Other	SEK 1,353,000

The table shows the societal cost of various forms of social exclusion. The examples illustrate the long-term consequences of early behavioural problems. The compilation was put together by the research team at Uppsala University under assignment by the Skandia Ideas for Life foundation and was included in a research report published in 2014.

Source: Skandia Sustainability Report 2014

EXHIBIT 10

Household Debt* Growth (1999=100)



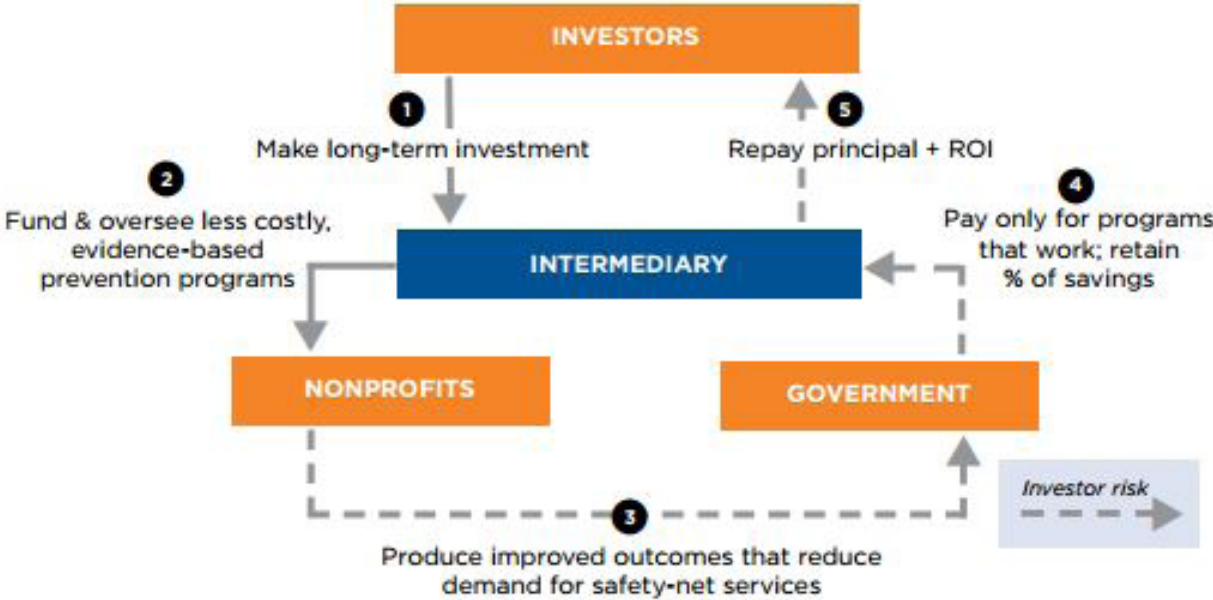
* Excluding Luxembourg and Malta
 Source: European Commission

*Household debt is defined as the amount of money that all adults in the household owe financial institutions. It includes consumer debt and mortgage loans.

Source: European Commission

EXHIBIT 11

Example Structure of a Social Impact Bond



- 1** An intermediary issues the SIB and raises capital from private investors.
- 2** The intermediary transfers the SIB proceeds to nonprofit service providers, which use the funds as working capital to scale evidence-based prevention programs. Throughout the life of the instrument, the intermediary would coordinate all SIB parties, provide operating oversight, direct cash flows, and monitor the investment.
- 3** By providing effective prevention programs, the nonprofits improve social outcomes and reduce demand for more expensive safety-net services.
- 4** An independent evaluator determines whether the target outcomes have been achieved according to the terms of the government contract. If they have, the government pays the intermediary a percentage of its savings and retains the rest. If outcomes have not been achieved, the government owes nothing.
- 5** If the outcomes have been achieved, investors would be repaid their principal and a rate of return. Returns may be structured on a sliding scale: the better the outcomes, the higher the return (up to an agreed cap).

Source: Social Finance

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