

The price of marginalisation and the Skandia model

Social investment

**– a key contribution to the
human bottom line and socio-
economic balance**

A collaboration between:

skandia :

CBS  **CEBR, CENTRE FOR ECONOMIC
AND BUSINESS RESEARCH**
COPENHAGEN BUSINESS SCHOOL

Skandia focusing on social investment

In Denmark, more than half a million people live marginalised lives. While we will never be able to quantify the human consequences in the form of reduced quality of life and opportunities for these individuals and their families, we can measure the cost to society at large. This means that we can also quantify the economic potential to society of investing in social and preventive measures to reduce the number of marginalised citizens.

Unfortunately, social initiatives and preventive measures are often considered an expense in a budget and not an investment in the future. Skandia would like to do away with this kind of thinking, and that is why we have developed the Skandia model.

As a pension and insurance company, Skandia has life-long obligations to our customers, and we therefore form an integral part of the welfare society. Our corporate responsibility (CR) strategy involves contributing to both the human and the economic bottom lines; for individuals, for businesses and for society at large. We believe that a bottom line partly expresses the personal gains of thriving and living a good life, and partly expresses the economic gains of reducing problems, preventing them from growing too big or preventing them from arising altogether.

As a business, we are used to looking at the long-term benefits of preventive measures and social investment rather than merely focusing on short-term costs. This is a mindset dating back to Skandia's origins in Sweden in 1855, when Skandia not only offered fire insurance but also became involved directly in the efforts to safeguard residential buildings in Stockholm against major fires. In much the same way, we know that when we offer assistance to our customers today with respect to preventing lifestyle diseases, for example, it may involve costs in the short term, but longer term it means that fewer customers will need to make use of their healthcare insurance and more people can live longer and enjoy a better quality of life. In other words, short-term costs produce long-term gains both for us and for our customers.

The same applies in the Danish society, whose citizens are a valuable asset worth investing in. That is why Skandia has developed a model that shows the potential economic effects of investing in social and preventive measures. We call it the Skandia model.

The ultimate goal is to reduce the number of people in Denmark who live their lives as or are at risk of becoming marginalised citizens.

Potential of DKK 45.1 billion annually

Skandia has asked the Centre for Economic and Business Research (CEBR) at Copenhagen Business School (CBS) to develop the Skandia model and calculate the price of marginalisation.

According to CEBR, marginalisation cost the Danish public sector and, by extension, Danish society, DKK 34.7 billion in 2012. To this comes the additional loss of tax revenue: if every marginalised person instead was placed in the comparison group, they would have paid DKK 10.4 billion in tax revenue in 2012. In other words, there was potential socio-economic gain from reducing marginalisation in Denmark of DKK 45.1 billion in 2012. So these are the figures to consider in terms of investing in social and preventive measures.

Calculating the price of marginalisation

The price of marginalisation has been calculated by the Centre for Economic and Business Research (CEBR) at Copenhagen Business School using the target groups of the Skandia model.

The price of marginalisation consists of the costs to the public sector of people being marginalised due to social, health or work-related issues, plus the gain from the tax revenue that these people could potentially generate.

The sum of these two factors is the overall economic potential of investing in social and preventive measures.

Method

Using the definition set out below, CEBR has looked at data from sources such as Statistics Denmark, the Danish register of drug abusers and the Danish National Patient Registry, and has come to the conclusion that 542,000 people in Danish society are socially marginalised. The enclosed CEBR report shows the full calculation of the price of marginalisation and the methodology applied in the calculation.

The Skandia model defines that a person is socially marginalised if he or she falls within one of the five following groups:

- Substance abusers
- People placed in fostercare as a child
- People with mental disorders
- People with lifestyle diseases (certain diseases)
- People receiving long-term public benefits

The calculation of costs in the model is based exclusively on recorded direct costs for the above-mentioned groups. In other words, no assumptions about add-on costs or impacts are included in the calculation. As such, the Skandia model is based on a conservative estimate of the public costs associated with marginalisation.

Further model development

During the pilot phase, a number of municipalities have stated that the Skandia model could be developed to include a number of the municipal costs associated with social marginalisation. These could include costs of fostercare, substance abuse treatments or certain expenses as stipulated in the Danish Consolidation Act on Social Services.

Skandia's ambition is to develop the model in an ongoing process to ensure that it will provide an even more complete picture of the economic potential of social and preventive measures.

I hope you will find this an interesting read!

Peter Holm
Communication Director, Corporate Responsibility, Skandia

Introduction to the Skandia model

The Skandia model is a tool used to calculate the economic potential for the public sector of implementing social measures. The model has been developed for Skandia Danmark by the Centre for Economic and Business Research (CEBR) at Copenhagen Business School.

The Skandia model is designed on the basis of Swedish experience but adapted to a Danish setting, among other things by using register data and by following the recommendations of the Danish National Board of Social Services for socio-economic evaluations. The main purpose of the Danish version of the Skandia model is to create common references for how to calculate the economic potential for social measures and, not least, create a common understanding of social evaluations across public bodies.

Social measures are an investment

The objective of social measures is to help marginalised citizens to a better life. However, a better life is not always the only benefit to be had from social measures; often, it will also lead to reduced costs (e.g. public benefit payments) for the citizen longer term, provided the social measures have a successful outcome. It is the value of this potential cost reduction that the Skandia model is able to estimate. The basic idea behind the Skandia model is that, although the measures involve an immediate cost to the public sector, there is a potential long-term benefit from cost reductions if measures are successful – in addition to the increased quality of life etc. for the individual person. Generally, the Skandia model is a calculation tool that compares the costs of social measures with the potential cost reductions to the public sector to estimate the long-term benefits of implementing such measures.

In other words, the model is a cost-saving analysis of the benefits purely from a public sector perspective. Focus is on the public sector as it is often difficult to identify and estimate private-sector consequences of social measures (e.g. it is difficult to quantify concepts such as “quality of life” and “more free time”). The economic gains of the model are triggered by two components: a reduction of costs associated with the target group for the public sector of completing successful measures (cost reduction) and an increase in tax revenue from the target group resulting from social measures.

For example, if measures can successfully help a certain proportion of people receiving public benefit payments to become employed for part of the year, the public sector will reduce its costs of cash benefits in that period, while increasing tax revenues at the same time. The longer the effect of the measures lasts (i.e. the longer the people involved remain active in the labour force), the greater the economic gain to the public sector. In simple terms, the Skandia model is thus an investment calculation that takes into consideration the time horizon and effect of the measures implemented, and also a declining effect over time. The model follows the recommendations on socio-economic evaluations set out by the Danish National Board of Social Services.

A tool for developing dialogue

The Skandia model is a tool that allows municipalities to calculate the economic effects of social measures for the public sector, and it may be used to systematise the approach to implementing social measures. If the model is used to calculate the expected gains of specific measures *before* they are implemented, it may provide an indication of what drives the economic gains of a social investment and how large the effect of the measures must be in order to be economically feasible (and what would happen in case of relapse).

The Skandia model may also be used to help establish a dialogue between municipalities and/or government services. By using the same approach to calculate the economic potential of social measures, the Skandia model may help to establish dialogue and collaboration between the parties involved. Also, it will be possible to compare the assumptions for the economic gains across all stakeholder groups. In addition, the model can be used to calculate the benefits of the measures on a longer-term horizon.

Training to use the model

The Skandia model (November 2015 version) is a calculation tool made available by Skandia free of charge to municipalities and other public bodies provided the employees involved participate in a 3-day training seminar (which is also free).

In 2015 (as of 6 November), 14 municipalities had received training in using the Skandia model, and more will commence training in 2016. Employees with the Danish Agency for Labour Market and Recruitment and the National Board of Social Services have also attended the training seminar. One of the key points of the training sessions has been the municipalities' own data and interdisciplinary collaboration, focusing on which input to provide to the model.

To learn more about the Skandia model, please write to udenforskabetspris@skandia.dk or go to udenforskabetspris.dk.