

INTELLECTUAL CAPITAL

Value- Creating Processes

SUPPLEMENT TO SKANDIA'S 1995 ANNUAL REPORT

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Glossary

“The ability to convert matter to momentum and momentum to matter at the right time is one of the most wonderful characteristics of chess.”

RUDOLF SPIELMANN



Emergence of a New Balance

The future is in creating new work methods, competencies and value-creating processes, not just in following the beaten path. The future is also in supporting the staff in the development work on building the Skandia of tomorrow.

Future- and knowledge-oriented leadership within Skandia must embrace a broader view and take into account more than the purely financial dimensions, namely, the hidden values in the balance sheet. In doing so, a new balance emerges – a balance between the organization's financial and intangible capital, but also between accounting ratios for follow-up and control, and indicators for renewal and development.

Within Skandia, processes that create value for customers, shareholders and the staff are carried out on a daily basis. Many of these are of an imaginary character – that is, they are invisible. Nevertheless, they are innovative and they create value. Through these processes emerges an accelerated growth of hidden, intangible value. This is Skandia's intellectual capital – a combination of human and structural capital.

To provide greater insight into intellectual capital and its various components, Skandia published two documents in 1995 as supplements to its traditional financial reports. This pioneering work has attracted keen interest and a growing sense of appreciation around the world, from the financial as well as the academic communities.

Skandia is continuing its work on developing a taxonomy for intellectual capital reporting. The Skandia Navigator management and reporting model is being used more and more. This model comprises a number of parallel focus areas and is designed to provide a balanced, overall management perspective, over both the short and long term.

Through Skandia Future Centers (SFC), Skandia is now also focusing on a strategic renewal process across generations, cultures and functions. Among other things, SFC stands for a concept of working and a process that will capitalize on and build upon the intellectual capital, and turn the future itself into an asset.

BJÖRN WOLRATH, PRESIDENT AND CEO



Highlighting Value Creation

A company's value consists of more than what is shown in the traditional income statement and balance sheet. Hidden assets, consisting of the employees' competence, computer systems, work processes, trademarks, customer lists, and so on, are obtaining increasing importance in assessing the value of a company.



For a knowledge-intensive company like Skandia, it is important that these hidden assets are highlighted and taken into account when assessing the company's total value.

A report on Skandia's intellectual capital was presented for the first time in connection with the 1994 Annual Report, based on the Skandia Navigator management and reporting model. The objective of this reporting model is to provide a balanced, overall management perspective of the company's financial as well as its intellectual capital. The ratios and indicators of intellectual capital are arranged in the Skandia Navigator according to four areas of focus: Customer Focus, Process Focus, Human Focus and Renewal & Development Focus.

Value-Creating Processes

This year's intellectual capital report primarily illustrates the Process focus within Skandia, describing the daily renewal and development activities and how value-creating processes are currently being carried out. These structured work methods, consisting of systematized and packaged competencies and experience, form part of the organizational capital. These value-creating processes are of key strategic, immaterial importance. This is put in context by the model on page 5, which illustrates the

building blocks that together form the foundation of the company's intellectual capital. It is a structure which can be further developed in greater detail. In time, the internal relations between each category will also be tangibilized. In addition to human capital, intellectual capital includes structural capital. Simply stated, structural capital is what's left at the office when the employees go home for the day. It includes customer and organizational capital. Organizational capital contains the systematized, structured and packaged competencies and systems for converting the company's innovative strength and value-creating work processes.

Organizational capital enables faster and more effective sharing of knowledge by making it more easily accessible. This, in turn, leads to enhanced future earnings capability, as competence and experience can be multiplied or leveraged through increased internal or external cooperation.

Development of Structural Capital

Sustained growth is created through the interplay of human capital and the structured systems that exist within the organizational capital. It is here that innovative application of information technology (IT) and network organizations can create competitive advantages and a



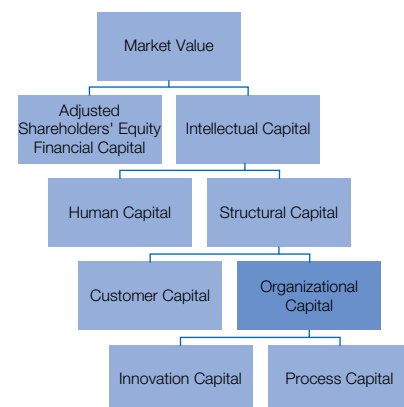
long-term structural capability to create value. The Global Area Network (GAN) created by Skandia's AFS unit is one such example. The value-creating potential in the processes is often a hidden value in the traditional accounting. However, this financially intangible development and renewal work generates value growth for Skandia's stakeholders.

Within Skandia there are many such strategically important processes that create value. In order to transform process experiences into structural capital, a Learning Controller position was established at American Skandia in 1995.

Value-Creating Leadership and Organizational Capital

Organizational capital is generated by packaging competence and increasing the use of information and communication technology. This organizational capital contributes to long-term sustainability. The dynamics of value creation lie in leadership that makes competence multiplicative. By linking this structured, organizational capital with innovative human capital, the company increases its organizational capabilities to be able to anticipate and interpret expectations, needs and demand in the market. This further enhances the dynamics of value creation. Therefore, leadership is needed that will build structural capital with this in mind. To be able to make this value

creation of processes – such as those found in organizational capital – more tangible for shareholders, a complementary reporting is needed. These processes themselves are examples of systematized and packaged competence, as well as how such packaging is conducted. Examples like these are also shown in last year's supplements and illustrate parts of the daily development work being carried out within Skandia. This publication is complemented by a CD-ROM, which further illustrates processes and the work surrounding Skandia's intellectual capital.



A COMPANY'S VALUE CONSISTS OF MORE THAN WHAT IS SHOWN IN THE TRADITIONAL INCOME STATEMENT AND BALANCE SHEET. IN RECENT YEARS, HIDDEN ASSETS HAVE OBTAINED INCREASING IMPORTANCE IN ASSESSING COMPANY VALUE.

Processes for Profitable Customer Relationships

Vesta's Commercial Division offers non-life insurance and savings products to private businesses and the public sector in Norway, with group responsibility for distribution of savings products. It is Vesta's largest division, with 1995 premium volume of MSEK 2,066 and 374 employees.

The Skandia Norden operating unit has a matrix organizational structure. The Commercial Division is part of the Property/Commercial product unit, which provides property, liability, motor, transportation, accident and occupational injury insurance to small and medium-sized companies.

Systematized Risk Assessment

The Commercial Division's strategy is to make business decisions as close to the customer as possible and to achieve a claims ratio that is below the Norwegian market average. To support this endeavour, a compilation of customer risks to be avoided – so-called no-risks – has been prepared, as well as of risks where special selection procedures are required (so-called observation risks). An authorization system that sets risk assessment guidelines for the different employees has been established. To implement this strategy, it has been necessary to first provide the staff with solid insurance knowledge, primarily through the division's own training unit, and to provide information on customer profitability.

Past experience of the Commercial Division shows that the HES (Health, Environment and Safety) profile of the individual customer-companies – for soft as well as hard risks – has a major bearing on their overall risk profile.

Duration of Customer Relationships

The Commercial Division regularly gauges the Satisfied Customer index,

quality assurance project was started at both the local and central levels. This quality work is expected to further increase customer loyalty.

Work Methods, Support Systems and IT

Changed work procedures, development of IT-based support systems, and competence development have been key tools in implementing the strategy and achieving the Division's objectives. Activities are being carried out to adapt customer service, increase customer loyalty and work more uniformly with Skandia Norden in utilizing the collective structural capital. These work

customer profitability and customer loyalty, among other things. In 1995 a major survey was conducted of the customers' views on the Commercial Division and its products. In all more than 7,000 customers were contacted. In response to customers' views, a



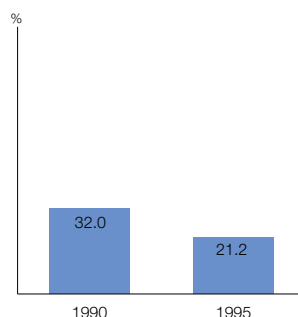
methods lead to a more impactive work form and greater opportunities for knowledge sharing.

Routine handbooks that describe work procedures for sales, customer care, customer renewal, operations and claims handling have been produced.

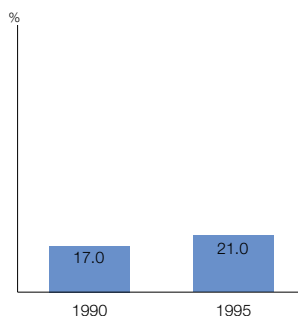
Benchmarking of business processes has been implemented and deviation analyses have been carried out – internally between different units as well in comparison with other companies.

Competence development of the staff is carried out continuously. Further education is conducted internally through the Division's own educational institute, which conducted a total of 750 course-days in

Operating Expense Ratio



Market Share



1995. The institute puts particular emphasis on examining customer needs and underwriting. In addition, training in customer service is carried out. Leadership training is conducted under Vesta's management, while complementary training is conducted within the Commercial Division and tailored for the Division's needs.

IT support systems – The Commercial Division has been very successful in its use of Information Technology to help it monitor efficiency-improvement and profitability. In addition, emphasis is being placed on developing IT systems as the central element in process improvement. The Commercial Division has IT solutions that are tailored to the needs of the various users. Profitability analysis and quotation systems have been developed to assist sales representatives.

Process Effects

By identifying the critical success factors and their associated value-creating processes, the Commercial Division has succeeded in achieving the following, balanced objectives:

- The claims ratio – which is a measure of risk – has been kept at a steady level better than the market average, despite greater sales.
- The market share for non-life insurance has grown from 17 per cent in 1990 to 21 per cent in 1995.
- Improved distribution effectiveness has been achieved. New sales per salesperson have risen by 125 per cent since 1990.
- The expense ratio has decreased and is below the industry average.

Skandia Navigator

	1995	1994
Premium income, gross (MSEK)	2,066	1,960
Insurance result (MSEK)	159	136
Satisfied Customer index (max.value=1,000)	603	551
Customer loyalty (years)	9.3	8.7
Market share, non-life, excl. group life	21.0%	20.9%
Market share, group life*	9.2%	4.5%
Number of employees	374	379
Average age (years)	45	44
Empowerment index (max.value=1,000)	702	681
Operating expense ratio	21.2%	21.7%
Premium income/salesperson** (MSEK)	14.7	13.4
Claims ratio, net	79%	78%
Training expense/employee (SEK 000s)	17.4	13.9
Sales-oriented operations (SEK 000s)***	10,093	9,345

* Group life is part of non-life business, since it is viewed by Vesta as a risk insurance.

** Excluding brokers.

*** Marketing directly with customers and through indirect channels.

Processes for Risk Management

Skandia International, the group's international reinsurance operation, has been active in Mexico for nearly 40 years. Business has been very profitable during the past 10 years. Skandia International is part of IDR (International Direct Insurance & Reinsurance), one of Skandia's four operating units.

Twenty-five people work in Mexico with non-life reinsurance, mainly of fire risks. As a condition to reinsure fire risks in the market, the company is required to accept some earthquake risks as part of the business. These risks are carefully analysed and business is mainly written on a facultative basis. Due to the risk exposure, it is crucial that Skandia sets the right rate level and keeps its total risk exposure controlled.

Net premium volume for 1995 was MSEK 222 in the facultative book of business.

Competition in the reinsurance market is fierce, and the market is global, with few restrictions. The ability to create sustained profitability over the longer perspective requires a clearly defined business strategy

that is communicated to the market. In addition, effective process management is required to support external contacts as well as to minimize the company's own administration.

Risk Selection – Risk Competence

A clearly defined business strategy lets the staff focus on a limited number of risk types and thereby develop their competence in these areas. The strategy for risk assessment and selection is outlined in the Underwriting Guidelines. These are updated continuously based on claims experience and future risk anticipations. The risk assessment and risk handling process involves staff on all levels at the Mexico office and is conducted in close cooperation with the Skandia International head office in Stockholm.

Reinsurance – Specialists in Cooperation

A clearly defined business strategy, which is effectively communicated both internally and to the market, is decisive in efforts to develop effective processes. It makes it possible to concentrate the business in those areas defined as the core business. Skandia International's customers then know what type of business Skandia specializes in and have an opportunity to adjust their offers and business proposals to Skandia's risk strategy. This form of competence cooperation leads on the whole to lower costs and a better sharing of costs throughout the value chain.



Good Customer

Contacts – Customer Care

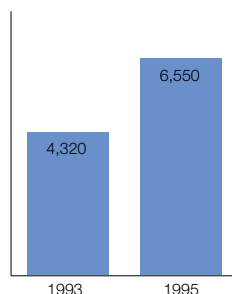
The build-up and development of a broad, high-quality customer base is decisive for a reinsurer in a competitive market. Skandia International's Mexico office has a strong position and a solid reputation in the Latin American markets. Skandia International has been active in Mexico for nearly 40 years and has extensive confidence built up in the market. But this isn't enough. It is also important to meet customers regularly and conduct technical discussions on risks, rates and so on.

The Mexico office's customer base comprises a large number of companies, brokers, cedents, claims adjusters, reinsurers and authorities. The contact area with these involves some 350 persons. The office has made it a policy to meet these people at least once a year. The most important contacts are visited three times a year. These meetings are limited to about seven persons from the Mexico office and entail an average of 65 meetings per person and year. The extent of this activity has been constant for the past five years. It is a time-consuming endeavour that also puts sizeable pressure on the other parts of the organization. This is why a focused business strategy is so important.

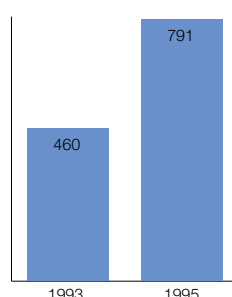
Increased Business Efficiency

One way of measuring the value of regular contacts with customers is to analyse the number of contracts renewed by the office. Coupled with information on profitability, it is possible to calculate the value of the customer portfolio. The renewal rate also affects internal efficiency, since a customer who returns year after year requires less work from the second year onwards.

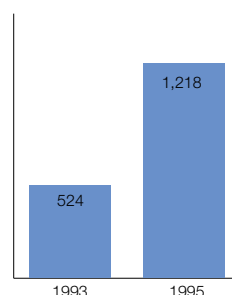
Number of Offers and Endorsements Handled



Number of Accepted Offers



Number of Declined Offers



Customer loyalty and the quality of customer relationships are shown in the contract renewal rate. During the past five years this has been very high, amounting to approximately 90 per cent, with an average duration as customers of 4.5 years.

The increased business efficiency at the Mexico office can also be seen by examining the number of offers and endorsements handled by the facultative department during the past three years. This number has risen by 51 per cent. During the same period, the number of accepted offers has risen by 72 per cent, and the number of declined offers by 132 per cent. These increases have been achieved with an unchanged number of employees. What is decisive is that the customers know how the offers are analysed and assessed. This creates cost-effectiveness not only for the customers, but also for Skandia International.

Another way of showing the internal efficiency is to put administrative costs in comparison to net premium income. In 1993 they amounted to 9 per cent, while in 1995 they had decreased to 3 per cent. Administrative costs in relation to the insurance result decreased during the same period from 34 per cent to 22 per cent.

Skandia Navigator

	1995	1994	1993
Insurance result, net (MSEK)	66	56	35
Claims ratio, net	48%	37%	63%
Premium income, net (MSEK)	222	185	121
Number of visits/underwriter & year	65	65	65
Number of alliances	130	130	130
Number of employees	25	24	24
Insurance result/employee (MSEK)	2.6	2.3	1.5
Number of offers and endorsements handled	6,550	n.a.	4,320
Adm. costs/premium income, net	3%	n.a.	9%
Repeat ratio*	98%	98%	98%
Increase in net premium	20%	53%	38%

* Number of renewed contracts in relation to total number of contracts.

Competence Centres

Since its establishment in 1855, Skandia has had a prominent role as the insurance company of choice for large industrial companies. This business is organized within the Industry Division, which was formerly a joint-Nordic unit. As of 1996 the Industry Division is part of the International Direct Insurance and Reinsurance (IDR) operating unit. The market segment is defined as the 600 largest corporations in Sweden, Norway and Denmark. The Division is responsible for fulfilling these companies' insurance needs all over the world, mainly in the areas of property, liability and transportation insurance.

Gross premium income in 1995 amounted to MSEK 2,400, with 230 employees.

Competence Centres

Various professional categories, such as sales managers, fire engineers, claims engineers and underwriters in the property, liability, transportation, aviation and motor insurance segments, have been organized into separate competence centres. This has been done in an effort to preserve and develop a high degree of professional competence – and to utilize these competencies effectively through knowledge sharing. A natural element in this focus on competence centres has been to continuously improve and streamline the handling of non-Nordic industrial insurance business. This is being accomplished by gathering the company's foreign competence at one place at the home office, and by continuously reviewing decisions on whether to establish or cut back on own offices outside the Nordic countries.

Competence Networks

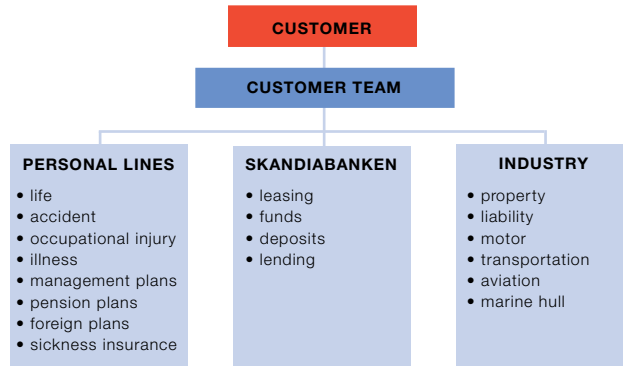
By developing reciprocal cooperation with selected, non-competitive partners, it is possible to obtain coverage of key geographical areas, to complement the company's own competence, and to increase volume and thereby achieve economies of scale. This cooperation is an important source of external competence for Skandia. The company has own offices for the UK, France/Luxembourg, the Netherlands/Belgium and Germany, with local staff providing technical service, claims adjustment, marketing and administration. In

addition, a network has been established for other countries in cooperation with Royal Insurance (Global) Ltd. in the UK, The HDI Group in Germany, Employers' Insurance of Wausau in the U.S., and Pohjola Insurance Company Ltd. in Finland. Through this form of cooperation, the companies' offices in the respective countries provide service to the Industry Division's customers. This service is comparable to what the Division provides to its partners' customers in countries where they have no offices.



Customer Teams – Coordination of Skandia Resources

In 1995 the Industry Division began working according to a refined customer team concept. A customer team consists of a number of specialists from Skandia's various business units. Who is included on a given team is determined by the customer's needs. In addition to staff from the direct non-life insurance units, a team can include specialists in loss-prevention, reinsurance, liability, business interruption, foreign insur-



system, a computer system designed for the particular needs of industrial insurance, a segment characterized by relatively few customers whose insurance needs are often complex. Based on client/server technology, the system handles integrated insurance and claims for property, liability and transportation insurance in Sweden, Denmark and Norway.

INDRA will also be developed to handle global liability insurance. Customers will be brought on line through the Division's own offices in the UK, France, the Netherlands and Germany. The system has major development potential for other functions, such as storing documentation like blueprints and photos of industrial facilities and damage.

Process Effects

The INDRA computer system provides an overall customer view, shorter lead times after changes and

renewals of policies and, combined with more efficient work methods, major savings in labour. Today 20 people work in administrative functions that required the work of 50 people in 1990, despite a near doubling of net premium volume since then.

Expansion of Swedish industry abroad has been immense in recent years through investment and acquisitions. Through the formation of Competence Centres and networks, the Industry Division has managed to stay abreast of its customers and insure their foreign-based interests. It can now provide service to Nordic industrial companies in more than 90 countries. Of total premium volume, a rising portion – about 30 per cent from more than 40 countries – is paid outside the Nordic countries.

The objective of the customer-team effort is to generate an additional MSEK 100 in sales to existing Skandia customers through cross fertilization between different Skandia units, and an additional MSEK 50 per year in new sales through the redistribution of work tasks, which allows a reallocation of resources for market penetration.

ance, retirement-pension and group insurance, sickness insurance and pension insurance. A team can also include staff from SkandiaBanken, Skandia Real Estate or other units. One objective of the customer teams is to provide a tailored, uniform service to customers, regardless of which resources in Skandia are employed. This benefits both the customers and Skandia.

INDRA

INDRA is a four-armed Indian god, but here it stands for the Industry Division's Rational Administrative

Skandia Navigator

	1995	1994	1993
Insurance result (MSEK)	82	97	209
Premium income, gross (MSEK)	2,477	2,099	1,822
Premium income, net (MSEK)	1,185	915	745
Quality index, market (max.value=7)	5.5	5.7	n.a.
Customer time, incl. customer-team time/ total reported time (max.value=50%)	34%	n.a.	n.a.
Quality index, claims (max.value=7)	6.03	5.86	5.98
Number of employees	230	230	258
Empowerment index (max.value=1,000)	626	527	n.a.
Phone accessibility (answer in 3 signals)	86.8%	88.1%	83.1%
Operating expense (1992 index=100)	59.9%	66.8%	70.5%
Increase in net premium	16.0%	8.0%	n.a.

Learning Processes

SkandiaLink was part of the Savings product unit of Skandia Norden in 1995. In 1996 it became part of Assurance & Financial Services (AFS).

Established in January 1991, SkandiaLink provides unit linked assurance with a focus on the Swedish market. At year-end 1995 the company had 153,000 policyholders with combined savings of nearly MSEK 5,700. Premium income totalled MSEK 2,087, with 48 employees.

Customer Centre Programme

The Customer Centre Programme is a pilot project for computer-assisted telephony. As part of this work, the insurance administration was reorganized in order to create generalist competencies. The aim is that all of the Customer Centre's representatives will be able to take care of most items of business. Preferably they will be able to solve these directly with the customers by phone. The goal is to minimize paperwork. This reduces processing times and cuts costs, while improving the degree of service.

Customer-Care Group

The Customer-Care Group is responsible for contacting customers who want to change their unit linked policy in any way. Such changes can entail:

- utilization of the Satisfied Customer Guarantee
- surrenders
- premium reductions
- suspension of premium payments for a period of time.

The goal is to study the reasons for the desired changes and create a basis for sustained fruitful customer relationships.

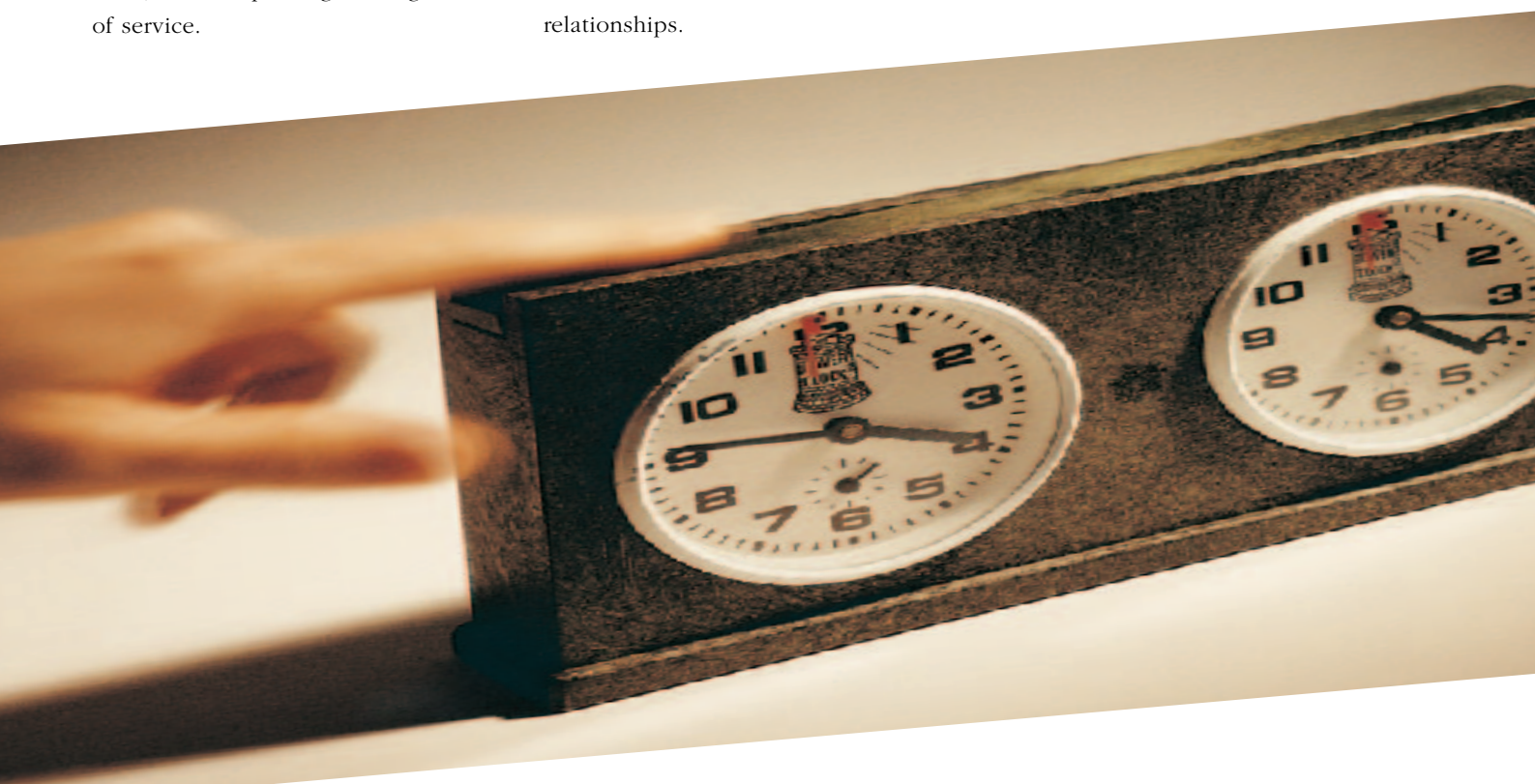
Telelink

Work on the Telelink automated fund-switching service was begun in 1994, and already in the first year more than 20 per cent of all fund switches were conducted entirely automatically through Telelink. This share then increased every month in 1995, and at the end of December 40 per cent of the more than 45,000 fund switches had been conducted through Telelink.

This has increased accessibility for the policyholders, while avoiding delays caused by the postal system. Moreover, use of Telelink is resulting in a lower work load for SkandiaLink through a higher degree of self-service.

Investment Analysis, SIA

In autumn 1995 SkandiaLink introduced SkandiaLink Investment Analysis (SIA). Through this system, policyholders answer a series of questions pertaining to their preferences on risk level, investment horizon and the amount they are interested in investing. SIA then creates a recommended portfolio as part of the company's investment advisory service.



Reward System

To ensure quality in the administrative routines and to support the work in developing an ongoing action programme, SkandiaLink has spent a number of years further refining the FLINK Index, its own quality control model. The focus in the ongoing process is on:

- new business
- processing of business matters
- handling of errors in new applications
- fund switches
- telephone accessibility.

To stimulate greater involvement and a broader base of support among the staff and management, a reward system has been linked to parts of this index, combined with a number of performance targets for SkandiaLink. The entire staff is rewarded when various quantitative and qualitative goals are met.

Process Follow-Up

To establish a "continuous improvement" culture, a control model has been introduced which uses operational indicators that are coupled to the daily work performed by the customer service organization. These indicators measure the parameters that customers – according to surveys – consider to be essential for meeting their quality standards. In addition, through changed work methods, customers should also be able to directly impact these indicators. The responsible departmental heads

regularly monitor changes in the indicators through an information system. This enables the company to take corrective measures at an early stage. The following areas are followed up on a regular basis:

- telephone accessibility – the number of calls answered within three signals
- processing times for various types of business
- assignments per representative – productivity
- the number of assignments completed within three weeks
- "sour milk" ratio – that is, the number of assignments left unfinished for more than 60 days.

Work on process improvements and knowledge sharing is being conducted within the customer service organization. The objective is to disseminate knowledge throughout the organization through application of "best-in-class" principles.

Each year Activity Based Costing is used to examine processes and determine the amount of time spent on each activity, as well as the cost, and to follow up changes compared with earlier periods. Productivity has improved substantially since this control model was introduced.

Balanced Follow-Up

The Business Navigator was developed to improve efficiency and productivity in the customer service organization, as well as to enhance control and follow-up of key customer processes. The Navigator has been used for over a year in the ongoing business follow-up. Indicators are substituted as needed, such as when a ratio has remained stable at a desired level for a long period.

Process Effects

The table below lists a few of the key indicators of SkandiaLink's process focus. By continuously investing in IT as a complement to improved administrative routines, SkandiaLink is striving to achieve ambitious goals concerning quality and customer service, while maintaining profitability.

Process Focus

	1995	1994
Processing time, number of days	8	14
Number of assignments per representative	1,399	883
Time devoted to IT (hours)	27,000	20,300
Number of fund switches	45,800	13,500
Share of fund switches through Telelink	40%	22%

Skandia Navigator

	1995	1994	1993
Premium income, gross (MSEK)	2,087	1,874	1,145
Management operating result (MSEK)	176	132	136.5
Funds managed (MSEK)	6,641	4,257	n.a.
Number of contracts	153,104	114,919	74,253
Surrender rate*	1.1%	1.0%	n.a.
Number of employees	48	51	52
Empowerment index (max.value=1,000)	464	534	n.a.
Administrative expense/premium income, gross	5.0%	4.5%	5.7%
IT expense/administrative expense	29.7%	28.0%	26.0%
Number of contracts/employee	3,180	2,253	1,439
Fund switches through Telelink	40%	22%	n.a.

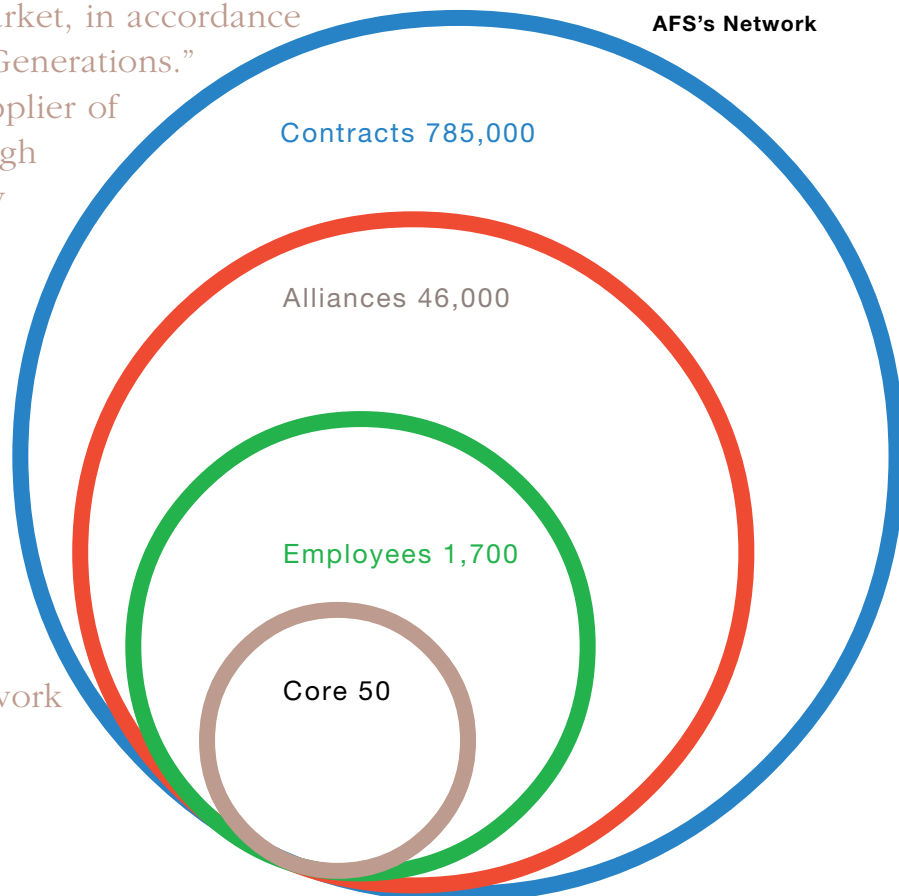
* Number of surrenders in relation to opening portfolio of contracts.

Specialists in Cooperation

Skandia AFS offers cost-effective financial solutions for long-term savings in the international market, in accordance with Skandia's motto, "Security for Generations."

AFS's objective is to be a global supplier of long-term savings solutions, with high demands on quality, technologically advanced service and innovative products.

Premium income has grown on an annual basis by 45 per cent during the past five years, totalling approximately SEK 24 billion in 1995. The unit has approximately 1,700 employees and some 46,000 alliances, resulting in a leveraging ratio of approximately 27 engaged persons per employee in AFS's network organization.



Core Processes in Skandia AFS

AFS's process objective is to have cost-effective, flexible system solutions and to develop work processes for product development, packaging and administration. Finding links between investments in business processes and Economic Value Added (EVA) is a strategic objective. By clarifying and refining its core processes, AFS acquires a competitive edge and the opportunity to be a market leader.

With the help of partners considered to be "best-in-class" and the support of IT networks, this estab-

lishes the foundation of a federative organization that AFS calls "Specialists in Cooperation."

This, in turn, incorporates the rapidly growing structural capital and substantial resources into AFS's network. It also makes AFS a so-called imaginary organization with a wealth of intangible resources that cannot be quantified by traditional metrics.

AFS's Process Focus



These vital resources have developed strongly in recent years, as shown in the table below.

	1992	1993	1994	1995
No. of alliances	15,000	21,000	25,000	46,000
No. of contracts	400,000	470,000	500,000	785,000

In this supplement, AFS has chosen to present the process work being conducted in three different AFS units:

- Process Development Center, Berlin
- Skandia Life UK Group
- American Skandia.

Common Process Platform

At the beginning of 1996 AFS formed a service company for its three German-speaking companies in Austria, Germany and Switzerland. The Process Development Center (PDC), will be responsible for development and maintenance of work processes for the three Skandia Leben companies. The formation of PDC marks the creation of a new way of discovering and developing business opportunities through the use of information systems, information technology, and process development

The company will have about 30 employees in 1996, with IT expenditures in excess of MSEK 20.

PDC's objective is to create a common process platform for selected business and support processes, and thereby achieve:

- economies of scale
- larger critical mass
- augmented development quality
- applications closer to the market
- lower cost exposure.

Process Development

PDC will be supporting the companies by:

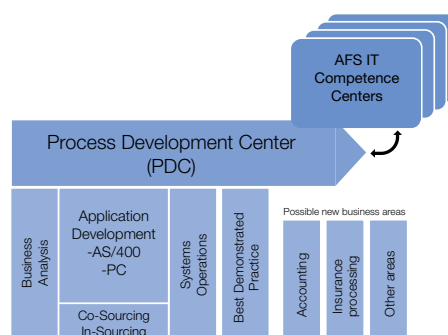
- Improving and developing all business processes through the development and implementation of IT solutions. The business processes are dependent on customers' preferences, competition developments, etc.
- Conducting certain support processes for the companies. Examples of conceivable support processes are accounting, reporting and insurance processing.

Process Toolbox

PDC will be providing a "toolbox" to handle, analyse and maintain the operations' entire process portfolio. Conceivable tools that PDC would offer include:

- process cataloguing
- quality planning
- process cost analyses
- process benchmarking
- process reengineering
- navigator design.

Process Development Center



Process Portfolio

By using the tools described above, a common process portfolio can be shaped for the Skandia Leben companies, which is in line with Skandia's strategic intentions. This portfolio provides a greater yield on the work processes.

Effects

A few examples are provided below to illustrate the positive effects of this process development.

- All of the Skandia Leben companies have introduced the concept of managed fund portfolios to the market. By using existing structural capital in the form of IT solutions, the companies have been able to rapidly introduce this process service in their respective markets. This provides decision-making support to brokers when selecting funds, as well as to the policyholders, who can hand over decisions on asset composition to the experts. Administrative work associated with fund switches is reduced in the companies' own organizations.
- Skandia Leben sells administrative services to a Swiss insurance company. A number of processes which have traditionally been viewed as background processes – such as insurance processing, letter printing and financial statistics – have been identified as assets and create value added for third parties. Sales of these process services generate revenue which helps cover infrastructure expenditures by Skandia AFS.
- PDC has developed a concept for managing processes in cooperation with banks. This concept will also be used in other markets in 1996.

Commitment to Service – ‘Clearly First’

Skandia Life UK Group began operating in 1979 and is today one of the oldest and largest units in Skandia AFS. During the past five years, annual growth in premium volume has averaged 25 per cent, compared with roughly 4 per cent growth for the rest of the market.

Skandia Life provides a range of unit linked assurance products, from strictly savings-oriented products, to contracts with varying degrees of insurance protection. The group's products are sold primarily to customers in the UK, exclusively through Independent Financial Advisors (IFAs). The group also has substantial sales outside the UK in the Far East, the Middle East and the EU.

The basic idea is to provide the best savings alternatives in cooperation with the world's best fund managers, including Barings, Fidelity, Framlington, Gartmore, HTR, Invesco, Morgan Grenfell and Perpetual. In 1995 there were 797 employees, with premium volume of MSEK 8,736.

Market Trend

In contrast with the rest of the market, growth in premium volume has been spectacular for the Skandia Life UK group during the past five years. Premiums did fall, however, from 1994 to 1995. This was mainly due to changes in Swedish tax laws, which resulted in a drop in offshore sales to Sweden.

A conscious effort to boost sales of pension products yielded results in 1995, when 23 per cent of new sales were derived from pension products, compared with 13 per cent a year earlier. Funds managed amounted to more than SEK 37 billion in 1995.

Service Processes

Skandia Life's success in the IFA market can mainly be credited to its process-oriented approach and commitment to high quality service. The company continues to take steps to uphold its reputation as a five-star provider in the eyes of its customers – the IFA's and other independent brokers.

Service standards are referenced continuously to match market expectations for superior service delivery. All key aspects of the administrative process are measured for quality and timeliness on a weekly basis. Skandia Life also regularly solicits objective views from its customers on areas for improvement. As part of the continuous

process of review and improvement, high priority is given to reengineering and refreshing key elements of the process infrastructure. Skandia Life invested more than MSEK 33 in these projects in 1995.

Service Awards

During the past five years the magazine *Financial Adviser*, published by the *Financial Times*, has conducted independent market research in order to rank the level of service provided by Britain's life assurance companies to IFA's. The highest score is five stars. Only two companies in the UK – out of a total of some 80 – have collected 25 stars in five years. Skandia Life is one of these companies. Ten companies achieved five-star status in 1994 and eight in 1995. *Financial Adviser* ranks the companies according to the following five service criteria:

- administration of new contracts
- product support
- service support from the head offices
- sales support from the branch offices
- administration of commissions.

Best Fund Performance

Micropal, one of Europe's leading, independent analysis companies in the business, presents awards for investment performance over one-, five- and ten-year periods. These are an important recognition of the investment credentials of any life and pension insurance company. In 1995 Skandia received a full 48 awards from Micropal, up from 41 awards in 1994. Skandia Life's market-leading record of fund returns and performance can be credited to its unique approach of using external investment managers and thereby providing its customers a wide range of flexibility and choice. Through these fund links, policyholders in Skandia Life have access to "an investment

department" of more than 6,000 specialists around the world.

'Clearly First'

Further building upon its commitment to first-class service, Skandia Life started a company-wide programme in 1993, entitled "Clearly First." This programme continues to yield superb results by focusing the minds of all staff on the prime objective in order to meet the needs of their customers, internal as well as external. The company is striving to be "clearly the first choice provider for the IFA market."

The Skandia Life UK group consists of the following trading companies:

- **SKANDIA LIFE ASSURANCE COMPANY**

Sells life, investment, savings and pension products in the UK and the EU.

- **PROFESSIONAL LIFE ASSURANCE COMPANY**

Sells pension products for UK fee-based advisors.

- **ROYAL SKANDIA LIFE ASSURANCE LIMITED**

Is based on the Isle of Man and provides products for intermediaries worldwide.

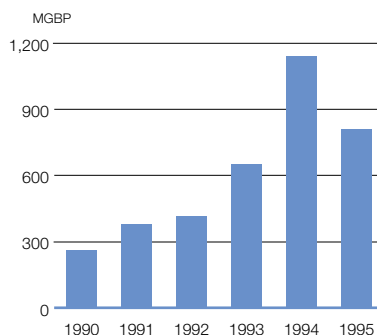
- **SKANDIA LIFE PEP MANAGERS LIMITED**

Sells only one product, the innovative "Multi-Pep," which can be compared with a fund investment without life protection, although within the framework of the unit linked concept.

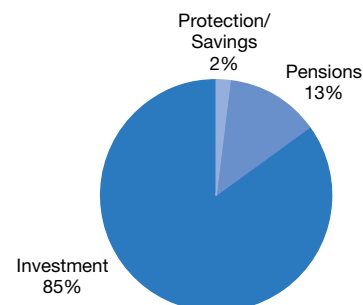
- **SKANDIA ADVISORY COMPANY**

Operates the Skandia SICAV based in Luxembourg.

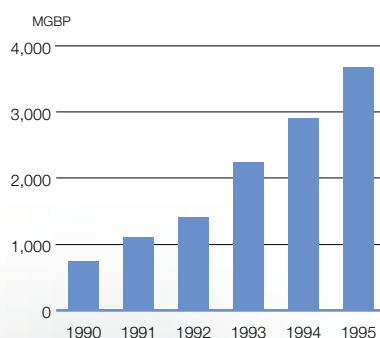
Gross Premium Income



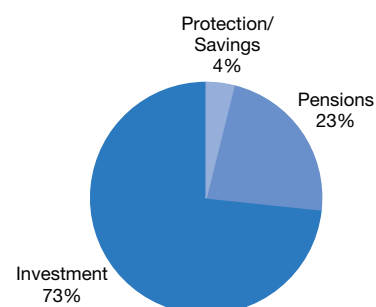
New Sales, 1994



Funds Managed



New Sales, 1995



Skandia Navigator

	1995	1994	1993
Return on net asset value	22.5%	33.2%	21.8%
Management operating result (MGBP)	36.8	41.5	22.5
Funds managed (MGBP)	3,675	2,942	2,249
Number of contracts	250,807	228,397	189,076
Savings/contract (GBP 000s)	15.0	12.8	11.9
Service Awards (max.value=5)	5	5	5
Number of employees (full-time)	797	720	566
Number of contracts/employee	315	317	334
Increase in net premium, new sales	-34%	95%	92%
Pension products, share of new sales	23%	13%	24%
Increase in funds managed	25%	31%	58%

From Process Focus to Core Competence

American Skandia began operating in 1989. Today it has over 300 employees and works through four entirely separated sales channels and market segments:

- regional broker dealers, as well as companies and individuals who offer various types of financial planning
 - national wirehouse firms that sell various types of financial products throughout the U.S. and internationally
 - banks with own brokers
 - financial institutions.
- Sales in 1995 exceeded SEK 11 billion, generated by more than 12,000 brokers throughout the U.S.

American Skandia views it as a matter of strategic importance for the future to continuously focus and refine its business processes. The strategic intent is to take charge of change by creating and sustaining a "process edge" as its competitive advantage.

Process management is aimed not only at improving today's processes. Rather, it is an instrument for referencing and improving existing as well as new processes that provide value added to customers.

'Wider Range, Closer Focus'

The mission of American Skandia is to create secure, innovative, easy-to-use savings products that help financial professionals customize solutions for the long-term investor. American Skandia provides the investor with a wide range of quality alternatives. Since each investor is motivated by a unique set of goals and concerns, the company focuses closely on the individual and emphasizes a custom-tailored approach to investing. Wider range and closer focus have been instrumental to marketplace success.

Systematic Process Work

A systematic approach is applied to the process of managing business processes. This approach is broken down into the following steps:

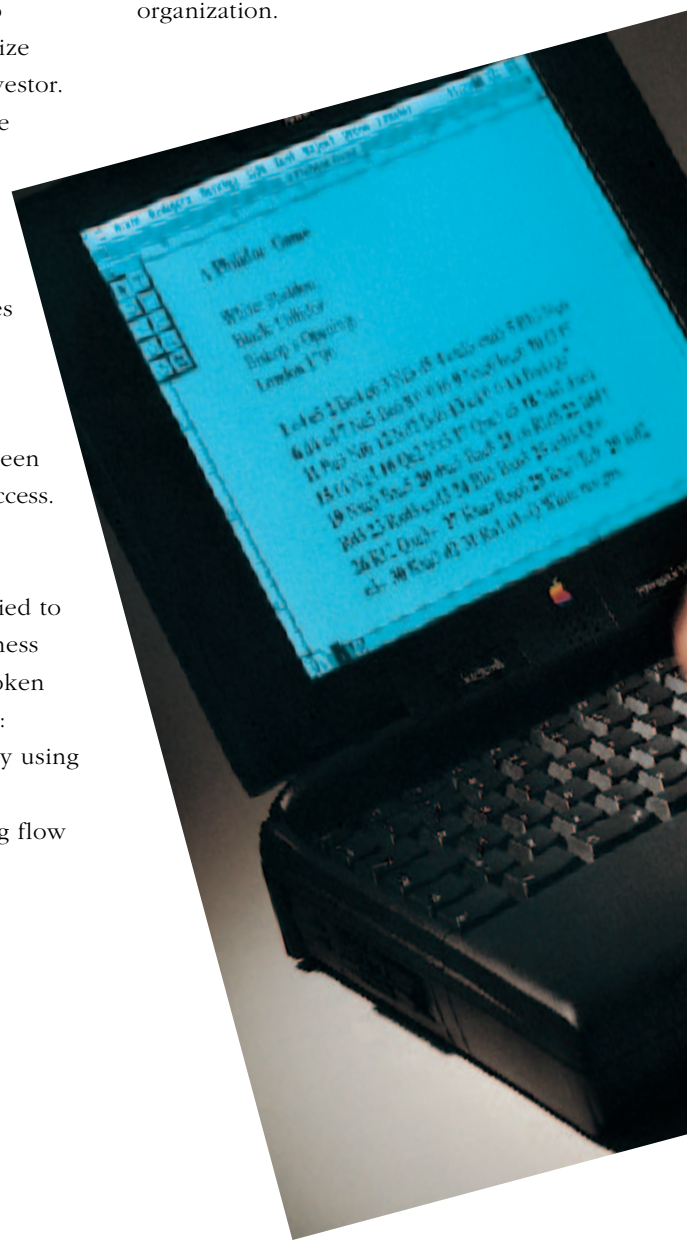
- identify current processes by using a process hierarchy view
- describe the processes using flow charts
- evaluate whether or not the processes create value
- decisions and treatment.

Process Hierarchy

A simple and straightforward methodology is used to identify and codify all business processes. This is done through an analysis in which the operations' main processes are broken down into various levels of sub-processes, thereby creating a catalogue of all processes.

Process Description

Processes are flowcharted at different levels of complexity in order to gain a better overview and understanding of the whole process, including customer interactions, departmental interactions, procedures and policies. This approach fosters an understanding for the most detailed activities in the existing processes, as well as for how a specific process is related to the entire operational flow within the organization.



Value-Creating Processes

To avoid focusing on changing the wrong processes, it is important to identify which processes are the sources of value creation for the company – currently and prospectively – i.e., core processes, the processes considered to be of strategic importance for American Skandia.

Core processes are those which distinguish American Skandia from the competitors and make the company unique by virtue of the way it creates value for the customers. Other processes are those that do not directly create a strategic position. Investments should be made in

processes that position American Skandia in the market – that is, primarily in core processes.

In addition, it is important to evaluate whether core processes are assets or if they are conducted in a way that does not create value.

Assets are processes that generate value for the organization through satisfied customers, a high degree of efficiency, and so on. Processes that do not create value are liabilities.

A systematized evaluation matrix with various performance measures is used to assess the value of specific processes and determine if they are assets or liabilities.

Process Treatment

The evaluation phase provides data for decisions on how to utilize resources and prioritize investments. The simplified “action matrix” above provides guidance for the type of action that should be taken to create organizational capital.

Process Effects

- Most processes within American Skandia’s customer service unit

Action Matrix

	Assets	Liabilities
Core	Protect/Improve	Urgent
Non-core	Maintain	Improve Outsource

have been identified. In addition, work on evaluating competence within the IT department has begun.

- A process hierarchy inventory has been created and is available through AFS’s Global Area Network.
- Introduction of a process measurement system has begun; this is used to assign priority to the various development projects.
- A second phase of developing a workflow system has been initiated, which streamlines processes and work procedures, and entirely or partly eliminates the manual aspects of sharing and distributing information and job tasks via paper. The system is based on an IT environment in which information is stored digitally through image-processing techniques.

Skandia Navigator

	1995	1994	1993	1992
Return on net asset value	20%	12.2%	24.3%	16.5%
Management operating result (MSEK)	247	115	96	19
Value added/employee (SEK 000s)	1,639	1,666	1,982	976
Number of contracts	87,836	59,089	31,997	12,123
Savings/contract (SEK 000s)	360	333	371	281
Surrender ratio	4.1%	4.0%	3.6%	8.0%
Points of sale	18,012	11,573	4,805	2,768
Number of employees (full time)	300	220	133	94
Number of managers	81	62	n.a.	n.a.
of whom, women	28	13	n.a.	n.a.
Training expense/employee (SEK 000s)	2.5	9.8	10.6	4.0
Change in company’s IT literacy	+2%	+7%	n.a.	n.a.
Number of contracts/employee	293	269	241	129
Adm. expense/gross premium	3.3%	2.9%	2.6%	4.8%
IT expense/adm. expense	13.1%	8.8%	4.7%	13.3%
Processing time, new contracts (days)	8	6	n.a.	n.a.
Processing time, changes (days)	3	13	n.a.	n.a.
Premiums from new launches	49.2%	11.1%	5.2%	49.7%
Increase in net premium	29.9%	17.8%	204.8%	159.1%
Development expense/adm. expense	10.1%	11.6%	9.8%	3.0%
Share of staff under 40 yrs.	79%	72%	74%	n.a.

Organizational Capital

Systematic management of intellectual capital creates growth in shareholder value. This is accomplished, among other things, through the continuous recycling and creative utilization of shared knowledge and experience. This, in turn, requires the structuring and packaging of competencies with the help of technology, process descriptions, manuals, networks, and so on, to ensure that the competence will remain with the company when the employees go home.

Based on Skandia's model for development of indicators, critical value-creating work processes can be identified. Once packaged, these become a part of the company's structural capital – or more precisely, its organizational capital. This creates the conditions for the rapid sharing of knowledge and sustained, collective knowledge growth. Greater clarity, multipliative competence and rapid learning lead to a steeper knowledge growth curve. Lead times between learning and knowledge sharing are shortened systematically. Human capital will also become more productive through structured, easily accessible and intelligent work processes. Moreover, sustained share-

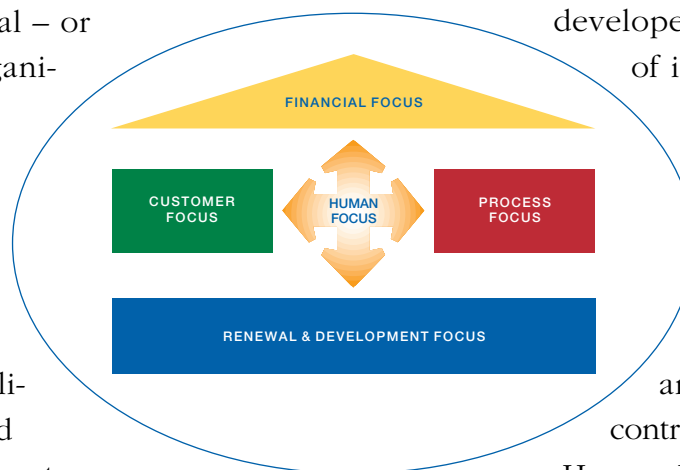
holder value is created. Increased accessibility to competencies is also adding to continued renewal and development. The dynamic human capital can be further leveraged by linking it into systematized organizational capital.

The effects on intellectual capital can be seen in the context of the overall Skandia Navigator model. The table opposite is an attempt to clarify some of the value-creating processes being carried out within Skandia and how they lead to organizational capital and business effects.

Next Move

Some of the areas that will be further developed within the framework of intellectual capital development at Skandia are:

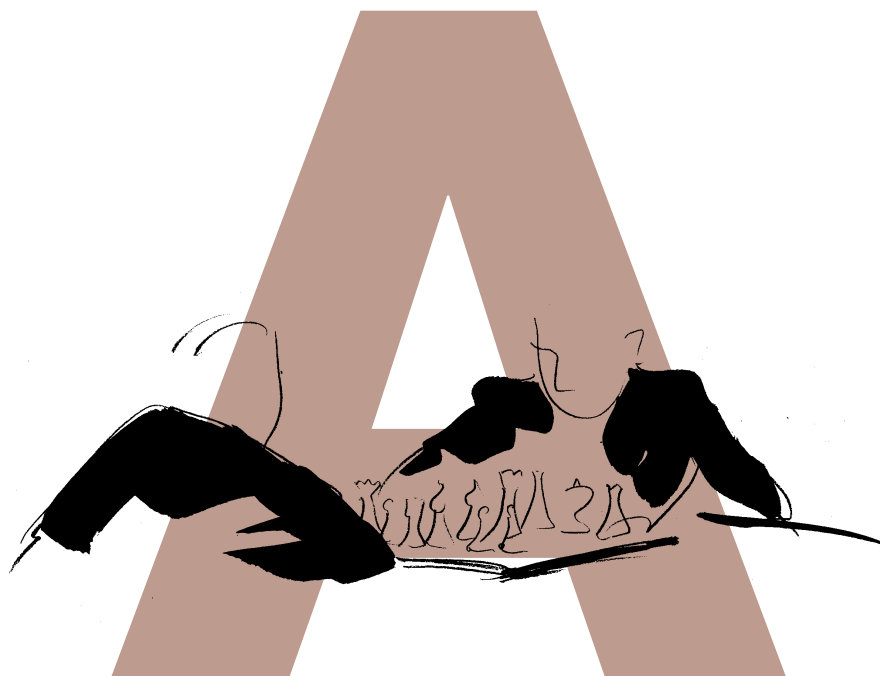
- Skandia Future Centers, SFC
- IT systems for intellectual capital
- Future Accounting and role augmentation for controllers
- Human Resource Accounting with a focus on personal Navigators
- Reward systems aligned with intellectual capital development
- Knowledge processing in global networks
- Intellectual Capital Interim Report.



Skandia Navigator



BUSINESS UNIT	VALUE-CREATING PROCESSES	ORGANIZATIONAL CAPITAL	BUSINESS EFFECTS
VESTA <i>Processes for profitable customer relationships</i>	<ul style="list-style-type: none"> • Systematized risk assessment and selection • Development of distribution channels to extend the duration of customer relationships • Development of IT-based support systems 	<ul style="list-style-type: none"> • Database with overview of customer categories, so-called observation risks, no-risks, authorization system • Routine manuals & systems for sales, customer care, customer renewal, operations, claims handling • Offer handling & analysis system 	<ul style="list-style-type: none"> • Risk level (claims ratio) better than average • Improved distribution effectiveness • Growing market share • Increasing customer loyalty • Decreasing overhead ratio • Growing sales via alliances
MEXICO <i>Processes for risk management</i>	<ul style="list-style-type: none"> • Risk assessment, management and selection • Relationship development, customer care • Competence cooperation 	<ul style="list-style-type: none"> • Guidelines, manuals for risk management • Work procedures for relationship development and customer care • Packaged, communicated strategy 	<ul style="list-style-type: none"> • Greater customer loyalty • Higher contract renewal rate • Greater number of offers handled • Falling administrative expense ratio
INDUSTRY DIVISION <i>Competence Centres</i>	<ul style="list-style-type: none"> • Development of IT-based support systems • Customer-care, customer-development teams • Knowledge sharing, competence cooperation 	<ul style="list-style-type: none"> • INDRA, computer systems • Customer Team manual • Competence Centres • Network of global competence through cooperation agreements 	<ul style="list-style-type: none"> • Streamlined, more effective work methods • Decreasing expense ratio • More satisfied customers • Doubling in premium volume through added and new sales
SKANDIALINK <i>Learning processes</i>	<ul style="list-style-type: none"> • Automated fund switching • Transaction processing & telephone accessibility • Staff reward system • Augmentation of customer care 	<ul style="list-style-type: none"> • SkandiaLink Investment Analysis (SIA) • Value development process • Automatic fund-switching service, Telelink • FLINK Index (administrative routines for business handling) • Routine handbook for transaction processing • Customer Centres • Customer Care groups 	<ul style="list-style-type: none"> • Shorter processing times • Decreasing expense ratio • Growing volume of assignments/representative • Increased number of automatic fund switches • Greater staff commitment
PROCESS DEVELOPMENT CENTER, BERLIN <i>Common process platform</i>	<ul style="list-style-type: none"> • Process benchmarking • Quality planning • Cost analyses 	<ul style="list-style-type: none"> • Process portfolio • Process toolbox • Platform for business processes 	<ul style="list-style-type: none"> • Sales of administrative services • Sales of process solutions for products • Documented IT solutions
SKANDIA LIFE UK GROUP <i>Commitment to service – “Clearly First”</i>	<ul style="list-style-type: none"> • Market referencing • Weekly measurement of administrative processes • Staff programme – “Clearly First” 	<ul style="list-style-type: none"> • Quality processes • Fund management concept • “Investment Department” with 6,000 specialists 	<ul style="list-style-type: none"> • Service Awards • Investment Performance Awards • Growth in market share
AMERICAN SKANDIA <i>From process focus to core competence</i>	<ul style="list-style-type: none"> • Streamlined processes and work routines • Model for identifying value-creating processes – process knowledge • Knowledge from fund managers and IT department 	<ul style="list-style-type: none"> • Process inventory and imaging system/workflow system • Process measurement system • On-line product and rule library (Lotus SmartText) • Sales support & electronic package (ASSESS) 	<ul style="list-style-type: none"> • Streamlining of paperwork flows through image-processing techniques • Structured processes in customer service unit • Assessment of company’s IT literacy • Process hierarchy inventory

**Adjusted shareholders' equity**

See adjusted net asset value.

Adjusted net asset value

Net asset value after deducting deferred tax in untaxed reserves and surplus values of assets.

Administrative expense ratio

Administrative expense excluding commissions in relation to gross premiums.

Administrative expenses

Costs for personnel, premises, computers, travel, etc.

Benchmarking

A continuous process of measuring and comparing products, services and processes with those that are "best-in-class."

Business processes

Term describing various related activities that create value which customers are cognizant of and are willing to pay for.

Cedent

A direct insurance company that cedes any part of its direct business to a reinsurer.

Claims ratio

The relation between claims incurred and premiums earned, expressed as a percentage.

Common process platform

Common platform for process development.

Competence development expense

Training expenses, including own costs for competence development (time spent times hourly rate) plus the cost for participation in development projects.

Contract

Insurance contract (policy) between Skandia and a policyholder.

Core processes

Strategically unique value-creating processes.

Customer capital

The value of the company's relationships with customers.

Economic Value Added (EVA)

Value added that an operation generates during a certain period after deducting all costs, including capital costs for all invested capital. Used here to define the contribution of intellectual capital to the result.

Empowerment index

From a recurring SIFO (the Swedish Institute of Public Opinion Research) survey, an index is created to measure employee motivation, support in the organization, sensitivity to quality demands, matching of responsibility and authority, and competence. The scale is from 0 to 1,000.

Fund assets

The amount at a given point in time that is managed on behalf of investors in funds.

Gross premium

The sum of premiums paid in during the financial year or reported as a receivable at year-end.

Human capital

The competence and capabilities of the employees.

Innovation capital

Renewal strength in a company, expressed as protected commercial rights, intellectual property, and other intangible assets and values.

Intellectual capital

The sum of human capital and structural capital.

IT expense/IT investment

Total costs for computer hardware and software.

IT literacy

The employees' competency in using information technologies. Assessed individually on a scale of 1 to 5. An average is then compiled for all the employees.

IT assets

The value of hardware, software and networks.

Laptop

Portable PC.

Managed assets

See fund assets.

Management operating result

The result of operations including unrealized changes in value.

Market value

Market capitalization.

Market Value Added (MVA)

The difference between the market value and invested capital; market capitalization less adjusted shareholders' equity. Equivalent to intellectual capital in this context.

Organization capital

Systematized and packaged competence, plus systems for leveraging the company's innovative strength and value-creating organizational capability.

Premiums from new products

Premiums from products launched during the year.

Processes

Business processes and support processes.

Process capital

The combined value of value-creating processes.

Reengineering

A radical redesign of business processes to achieve improved results.

Return on net asset value

Management operating result in relation to opening adjusted net asset value.

Savings

See fund assets.

Structural capital

Databases, customer lists, manuals, trademarks and organizational structures, to give a few examples.

Surrender ratio

Surrenders (during the year) in relation to the average mathematical reserve (net).

Training expense/training investment

Cost of courses, internal and external, excluding time, travel and similar.

Unit linked assurance

A form of life assurance in which the policyholder can choose from a number of investment alternatives offered by the insurance company for the savings portion of paid-in premiums.

Value added

Operating result after depreciation, plus wage/salary costs and payroll overheads.

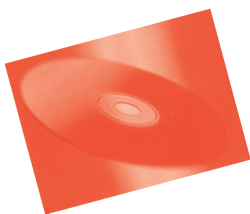
Value chain

A concept developed by Michael Porter to illustrate a company's value-creating ability, illustrated as a flow.

Value-creating processes

See business processes.

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