

INSTITUTE OF ACTUARIES OF INDIA

Subject CB3 - Business Management

May 2026 Examination

INDICATIVE SOLUTION

Introduction:

The indicative solution has been written by the Examiners with the aim of helping candidates. The solutions given are only indicative. It is realized that there could be other points as valid answers and examiners have given credit for any alternative approach or interpretation which they consider to be reasonable.

Sol.1 B — Sensitivity analysis tests how outcomes change when assumptions vary; it informs decision robustness rather than eliminating uncertainty.	[2]
Sol.2 E — The doctrine of privity means that, generally, only parties to the contract can enforce contractual obligations.	[2]
Sol.3 C — Professional standards require extreme caution where success-related or contingency fees may threaten objectivity.	[2]
Sol.4 A — Convenient, quick hunger-satiation with minimal time/effort	[2]
Sol.5 A — Customer value-focused strategy centres on understanding and responding to customer needs effectively.	[2]
Sol.6 B — A sunk cost has already been incurred and cannot be recovered.	[2]
Sol.7 D — A company is a separate legal person distinct from its members.	[2]
Sol.8 E — Conflict of interest should be disclosed at the earliest opportunity and its nature and extent considered.	[2]
Sol.9 B — A trust differs from a contract because it imposes equitable obligations over identified property for beneficiaries, who may enforce those obligations even without being parties or providing consideration.	[2]
Sol.10 C — Functional excellence (being highly efficient internally) is often easy for competitors to copy, so on its own it rarely creates a lasting competitive advantage. And it may not create sustainable customer value unless that efficiency improves outcomes customers care about (e.g., service quality, convenience, clarity, relationship with the customer), not just internal processing speed.	[2]
Sol.11 C — The insurer should re-examine rating factors, claims assumptions and repair network design for EV-specific risks.	[2]
Sol.12 B — A director acting without authority may incur personal liability for breach of warranty of authority.	[2]
Sol.13 A — Prompt escalation, containment and formal handling of the confidentiality breach is the proper professional response.	[2]
Sol.14 C — The firm should revisit relationship strategy, product design and delivery channels around evolving customer behaviour.	[2]
Sol.15 D — A direct channel can create channel conflict if introduced without proper design and alignment.	[2]

Solution.16 : Case Study 1: Embedded EV Insurance Launch

i) Three key analyses

- Market attractiveness analysis: size and growth of EV segment, target customers, competitive positioning, expected demand and channel reach.
- Unit economics / profitability analysis: expected premium adequacy, acquisition costs, claims frequency/severity, repair cost inflation, battery exposure, expense assumptions.

- Operational feasibility analysis: claims handling capability, repair network readiness, service standards, turnaround time, complaints risk, integration with the marketplace.
- Scenario / sensitivity analysis: subsidy withdrawal, claims inflation, low conversion, high lapse/cancellation, repair shortages.
- Cannibalisation / channel impact analysis: effect on existing agents, customer ownership, commission structures, conflict risk.

[6]

ii) Legal / contractual issues

- Clear contractual allocation of responsibilities between insurer, marketplace and repair network: customer communication, quote acceptance flow, premium collection, claim notification, service levels and dispute handling.
- Authority / agency clarity: the marketplace must not appear to bind the insurer beyond agreed authority; roles and representations must be defined.
- Disclosure and wording clarity: the insurance contract terms, cover limits, exclusions and add-ons must be clearly communicated.
- Service agreements with repair partners should include quality obligations, turnaround expectations, escalation, liability and performance standards.
- Termination / variation clauses should address underperformance, changes in pricing assumptions, or service failure.

[4]

iii) Customer needs and value creation

- Protection / security need: customers want protection against uncertain repair costs, roadside breakdowns and battery-related expenses. The cover provides financial protection and peace of mind.
- Convenience / service need: embedded purchase, digital onboarding and access to a preferred repair network reduce friction and improve customer experience.
- Trust / confidence need: clear cover design and reliable claims servicing can reduce anxiety around adopting newer EV technology.
- Life-stage / affordability need: some customers may value bundled, simple, transparent products that reduce complexity and support budgeting.

[6]

iv) Professionalism / fairness concerns

- Fairness / transparency in product design: customers must understand what is and is not covered, especially battery-related cover and exclusions.
- Appropriate use of assumptions and evidence: actuaries should not overstate confidence where EV claims experience is immature.
- Incentive conflict: distributor incentives should not encourage mis-selling or poor disclosure.
- Objectivity and public interest: pricing should be evidence-based and not structured in a way that is misleading or unfair to customer segments.

[4]

v) Distribution recommendation

- A hybrid model is likely to be strongest.
- An agents-only model may underuse the digital and embedded opportunity available at the point of vehicle purchase.

- A platform-only model risks channel conflict, overdependence on a single distributor, weaker advisory support, and possible alienation of the existing agency channel.
- A hybrid approach allows the insurer to capture embedded demand while preserving advisory capability for more complex customers and retaining strategic flexibility.
- The insurer should define channel roles clearly, avoid duplicative pricing structures that create internal conflict, preserve customer experience consistency across channels, and ensure agent incentives and platform economics are aligned.

[5]

[25 marks]

Solution.17 : Case Study 2: New Analytics Subsidiary and Governance Choices

i) Reasons and success measures

- Business reasons: clearer cost visibility and accountability; specialist focus and better resource discipline; scalable analytics capability across group entities; clearer service expectations between provider and user teams.
- Success measures: turnaround time and service quality; internal client satisfaction; cost-to-deliver / productivity; forecast accuracy / decision usefulness; retention of specialist talent.

[4]

ii) Director authority / governance issues

- A company acts through its proper organs; material decisions should be taken through correct governance processes.
- A director with a personal interest in the proposed vendor contract must disclose that interest.
- Interested-director transactions require careful board consideration; the interested director should not improperly influence the decision.
- Authority must exist for the contract; if entered into without proper authority, external and internal consequences may follow.
- The company is a separate legal person, but directors still owe duties in the management of company affairs.
- Good governance requires independent scrutiny of whether the contract is in the company's interest rather than the director's.

[6]

iii) Actuary's response

- Success-linked fee: should be treated with extreme caution because it can threaten objectivity; disclose and reconsider appropriateness.
- Data weaknesses: do not rely blindly on flawed data; report the weakness, seek clarification/correction, and qualify conclusions where necessary.
- Pressure to proceed quickly: professional judgement should not be overridden by commercial urgency.
- Competence and advice: the actuary should give advice only to the extent of competence and with proper regard to evidence.
- Public interest / integrity: the actuary's role is not merely to facilitate approval, but to ensure sound and fair advice.
- Documentation / escalation: concerns should be documented and escalated appropriately.

[6]

iv) Subsidiary vs internal team

- A separate subsidiary may be preferable if management wants clearer cost accountability, specialist identity, clearer service contracts and scalable shared capability.
- Keeping analytics inside the insurer may be preferable where collaboration speed, integrated decision-making and simplicity matter more.

- The better option depends on whether management's core strategic problem is lack of discipline and transparency or lack of integration.

[2]

v) Position in the value chain

- The initiative moves the insurer toward a more specialised internal service model within the wider financial services value chain.
- It can create value by improving decision support and operational capability, but only if the service unit genuinely improves quality, speed and relevance for end customers and internal stakeholders.

[2]

[20 marks]

Solution.18 : Case Study 3: Rebuilding Value Creation in a Mid-Sized Life Insurer

i) Why value creation is weak

- Customer needs not central enough: siloed products may not reflect evolving customer preferences for simple, integrated solutions.
- Weak channel fit: legacy branch-heavy model may be expensive relative to changing digital behaviour.
- Poor retention and multi-provider behaviour: customers increasingly compare and switch; relationship models based on passive loyalty are weaker.
- Misaligned success measures: focusing mainly on internal processing speed may ignore actual customer value and profitability.
- Fragmented systems / poor integration: weak coordination across products, channels and service delivery.
- Insufficient adaptability to market environment: changing competition, technology and customer expectations are not yet fully reflected in design.

[8]

ii) Three-year transformation plan

- Products: build a simpler retirement-plus-health proposition around real customer needs; rationalise low-value overlapping products.
- Channels: expand digital servicing and advice support; rationalise branches selectively rather than indiscriminately; use partnerships where they improve reach or customer convenience.
- Systems: improve data integration, service workflow and cross-channel consistency; upgrade customer service and claims / servicing architecture.
- Measures of success: add customer retention, value per customer, complaint trends, persistency, product usage, and profitability metrics; do not rely solely on internal speed measures.
- Business decision principles: use pilot testing, scenario analysis and post-implementation review; prioritise initiatives with best risk-adjusted value, not just lowest upfront cost.

[7]

iii) Governance / legal controls

- The Board must ensure decisions are taken through proper authority and governance channels, especially for major transformation contracts and partnerships.
- Directors should exercise oversight consistent with their duties and should manage conflicts and interested-party issues appropriately.
- Contractual arrangements with partners must clearly allocate obligations and performance standards.
- Governance should ensure that delegated authority remains controlled and reviewable.

[4]

iv) Fairness / professionalism issues

- Customer fairness in product redesign: the new proposition should be understandable, suitable and not structured in a way that obscures exclusions or value.
- Use of customer data: more data-driven targeting must still respect confidentiality, proper use and fair treatment.
- Objectivity in assumptions: transformation pressure should not lead to unjustified assumptions about persistency, health experience or customer behaviour.

- Public interest / integrity: commercial improvement should not override fair outcomes.

[4]

v) Effect of changing customer needs and market conditions

- The final business model should reflect the fact that customers are more informed, more price-sensitive, more digitally active and more willing to use multiple providers.
- That means the insurer should compete on relevant customer value, service quality, convenience and clarity ; not on legacy distribution inertia alone.

[2]

[25 marks]
