

## Two versions of the Strategic Decision Making (SDM) Exam

For Fall 2013 and Spring 2014 there will be two versions of this exam. Note that in the transition effective July 1, 2013 candidates who have passed either the AFE exam or **both** the ERM and AdvF exams receive credit for this exam.

### **Part B**

Candidates who do not have transition credit for the SDM exam but have passed the Advanced Finance (AdvF) transitional exam must take this version. It is a three-hour exam given in the morning and will have the same questions as the morning session for those taking the complete exam. Starting in Fall 2014 only the complete SDM exam will be given. Hence, candidates who do not pass Part B by then will lose the transition credit and must take the complete exam.

### **Complete**

All other candidates must take the complete five-hour SDM exam. The exam will be passed or failed in its entirety. That is, candidates whose total score for the exam is below the pass mark but whose score for the morning questions is above the pass mark set for candidates taking only Part B will not receive any credit.

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### **Important Exam Information:**

<a href="#">Exam Date and Time</a>	A read-through time of 15 minutes will be given prior to the start of the exam.
<a href="#">Exam Registration</a>	Candidates may register online or with an application.
<a href="#">Order Study Notes</a>	Study notes are part of the required syllabus and are not available electronically but may be purchased through the online store.
<a href="#">Introductory Study Note</a>	The Introductory Study Note has a complete listing of all study notes as well as errata and other important information.
<a href="#">Case Study</a>	A copy of the case study will be provided with the examination.  Candidates will not be allowed to bring their copy of the case study into the examination room.
<a href="#">Past Exams</a>	Past Exams from 2000-present are available on SOA website.
<a href="#">Updates</a>	Candidates should be sure to check the Updates page on the exam home page periodically for additional corrections or notices.

<b>1. Topic: Capital Management and ERM Process</b>
<b>Learning Objectives</b>
The candidate will understand best practices for ERM processes and Capital Management and their use in setting a risk-return strategy.
<b>Learning Outcomes</b>
The Candidate will be able to: <ul style="list-style-type: none"><li>a) Explain ERM principles and frameworks<ul style="list-style-type: none"><li>• Describe the best practices and frameworks for ERM processes under various industry forums and regulatory guidelines and standards.</li><li>• Explain the principles driving the direction of new regulation and industry standards in risk governance.</li><li>• Describe the components of a risk appetite statement. Design and develop a risk appetite statement and risk-return strategy.</li></ul></li><li>b) Explain ERM and capital management concepts to evaluate and recommend corporate financial and ERM decisions.<ul style="list-style-type: none"><li>• Apply capital allocation models to a multi-line organization.</li><li>• Compare and contrast various ERM and Capital Management frameworks as to their ability to assess value and articulate the risk-return strategy of an organization.</li><li>• Evaluate the value-added for an organization by jointly evaluating risk measurement and capital allocation.</li><li>• Assess how an ERM process can improve capital efficiency and articulate the risk-return strategy.</li></ul></li></ul>
<b>Resources</b>
<ul style="list-style-type: none"><li>• <i>Corporate Value of Enterprise Risk Management: The Next Step in Business Management</i>, Segal<ul style="list-style-type: none"><li>○ Chapter 6 – Risk Decision Making</li><li>○ Chapter 7 – Risk Measuring</li><li>○ Chapter 8 – Risk Governance</li></ul></li><li>• SDM-101-13: Oliver Wyman: Hidden Hedge Fund in Insurers</li><li>• SDM-103-13: A Market Cost of Capital Approach to Market Value Margins</li><li>• SDM-105-13: The European Insurance CFO Forum Market Consistent Embedded Value Principles</li><li>• SDM-109-13: Managing the Invisible: Measuring Risk, Managing Capital, Maximizing Value, Panning</li><li>• SDM-110-13: ASB ASOP 46 Risk Evaluation in Enterprise Risk Management</li><li>• SDM-111-13: <i>Quantitative Risk Management</i><ul style="list-style-type: none"><li>○ Chapter 2.2 (Risk Measurement) background</li><li>○ Chapter 6.1 (Coherent Measures of Risk)</li><li>○ Chapter 6.3 (Capital Allocation)</li></ul></li><li>• SDM-112-13: Risk Measurement, Risk Management and Capital Adequacy in Financial</li></ul>

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Conglomerates (exclude appendices)

- SDM-113-13: Revisiting the Role of Insurance Company ALM within a Risk Management Framework by Goldman Sachs
- [Economic Capital: A Case Study to Analyze Longevity Risk](#), *Risk Management*, September 2010
- [US ORSA Developments](#), *The Financial Reporter* - Issue 87 December 2011
- [Report on Pricing Using Market Consistent Embedded Value \(MCEV\)](#) June 2012 (Appendices as background)
- [Solvency II and US Equivalence](#), *The Financial Reporter*, June 2011
- [Risk Appetite Statements: What's on your Menu?](#), *Risk Management*, June 2009
- [How is Your Risk Appetite These Days?](#), *Risk Management* March 2012
- [The Full Spectrum of Risk Attitude](#), *The Actuary* Aug/Sept 2010
- [Risk Appetite for Variable Annuities: Managing the "Three Headed Monster" Challenging Variable Annuity Writers](#), *Risk Management*, September 2010:

## 2. Topic: The Decision Making Process

### Learning Objectives

The candidate will understand organizational behavioral concepts and apply strategic management frameworks to corporate financial and ERM business problems.

### Learning Outcomes

The Candidate will be able to:

- a) Apply organizational behavior concepts
  - Describe the communication process and explain the strategic importance of communication to organizations.
  - Describe the fundamentals of decision making and explain decision-making styles and influences.
  - Describe common types and causes of organizational conflict and apply the elements of a basic negotiation process.
  - Assess how the behavior of individuals and groups in organizations drives organizational decisions and performance;
- b) Evaluate and apply the concepts of strategic management, recognizing the factors that affect the development and implementation of strategies:
  - Demonstrate the importance of analyzing the firm's external environment and the internal organization.
  - Define types of business-level strategies and recommend an appropriate business-level strategy for a given situation.
  - Explain the impact of competitive dynamics on strategic management.
- c) Use organizational behavior and strategic management concepts to evaluate and recommend corporate financial and ERM decisions.

### Resources

- *Organizational Behavior: A Strategic Approach*, Hitt, Michael, Miller, C. Chet, and Colella, John Wiley & Sons, 3<sup>rd</sup> Edition
  - Ch. 9, Communication
  - Ch. 10, Decision making by individuals and groups
  - Ch. 11, Groups and Teams
  - Ch. 12, Conflict, Negotiation, Power and Politics
- *Strategic Management: Competitiveness and Globalization, Concepts*, Hitt, Michael, Ireland, Duane, and Hoskisson, Robert, 10<sup>th</sup> Edition
  - Ch. 1, Strategic Management and Strategic Competitiveness
  - Ch. 2, External Environment: Opportunities, Threats, Industry Competition, and Competitor Analysis
  - Ch. 3, Internal Organization: Resources, Capabilities, Core Competencies and Competitive

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Advantages

- Ch. 4, Business-Level Strategy
- Ch. 5, Competitive Rivalry and Competitive Dynamics

### 3. Topic: Case Studies and Strategic Risk Management

#### Learning Objectives

The candidate will understand the decision making process and the lessons learned from the risk taking activities and experiences of other organizations. In particular, the candidate will be able to apply the learning objectives of all the prior sections of the syllabus to the risk management principles embodied within the case studies explored in this section.

#### Learning Outcomes

The Candidate will be able to:

- a) Critique financial models, assumptions and decisions including the impact of behavioral finance concepts.
- b) Evaluate the robustness and flexibility of the risk management framework and recommend approaches for continual improvement in the framework and processes.
- c) Assess the risk of the status quo alongside any other risky and or risk management decision.

#### Resources

- *Nudge: Improving Decisions about Health, Wealth and Happiness*, Thaler, Richard and Sunstein, Cass
  - Ch. 1-5
- SDM-115-13: Chapter 12 of *Investments*, 9<sup>th</sup> Edition
- SDM-116-13: Duckworth Asset Management Inc.
- SDM-117-13: Managing Risk in the New World
- SDM-118-13: The Six Mistakes Executives Make in Risk Management
- SDM-119-13: The Role of the Audit Committee in Risk Oversight
- SDM-120-13: Ping An's Overseas Expansion: Financial Uncertainties and Risk Management
- SDM-121-13: British Petroleum (PLC) and John Browne: A Culture of Risk Beyond Petroleum
- SDM-122-13: Enterprise Risk Management at Hydro One, Multimedia Case
- SDM-123-13: Understanding the Risk of the Status Quo
- SDM-124-13: Air Canada - Risk Management
- SDM-125-13: JP Morgan Private Bank: Risk Management during the Financial Crisis 2008- 2009
- SDM-126-13: Managing the Multiple Dimensions of Risk-Part II - the Office of Risk Management
- SDM-127:13: Nephila: Innovation in Catastrophe Risk Insurance