

The Dbriefs Risk Intelligence series presents:

Benefits of Effective Scenario Planning: Are You Ready for Anything?

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Agenda

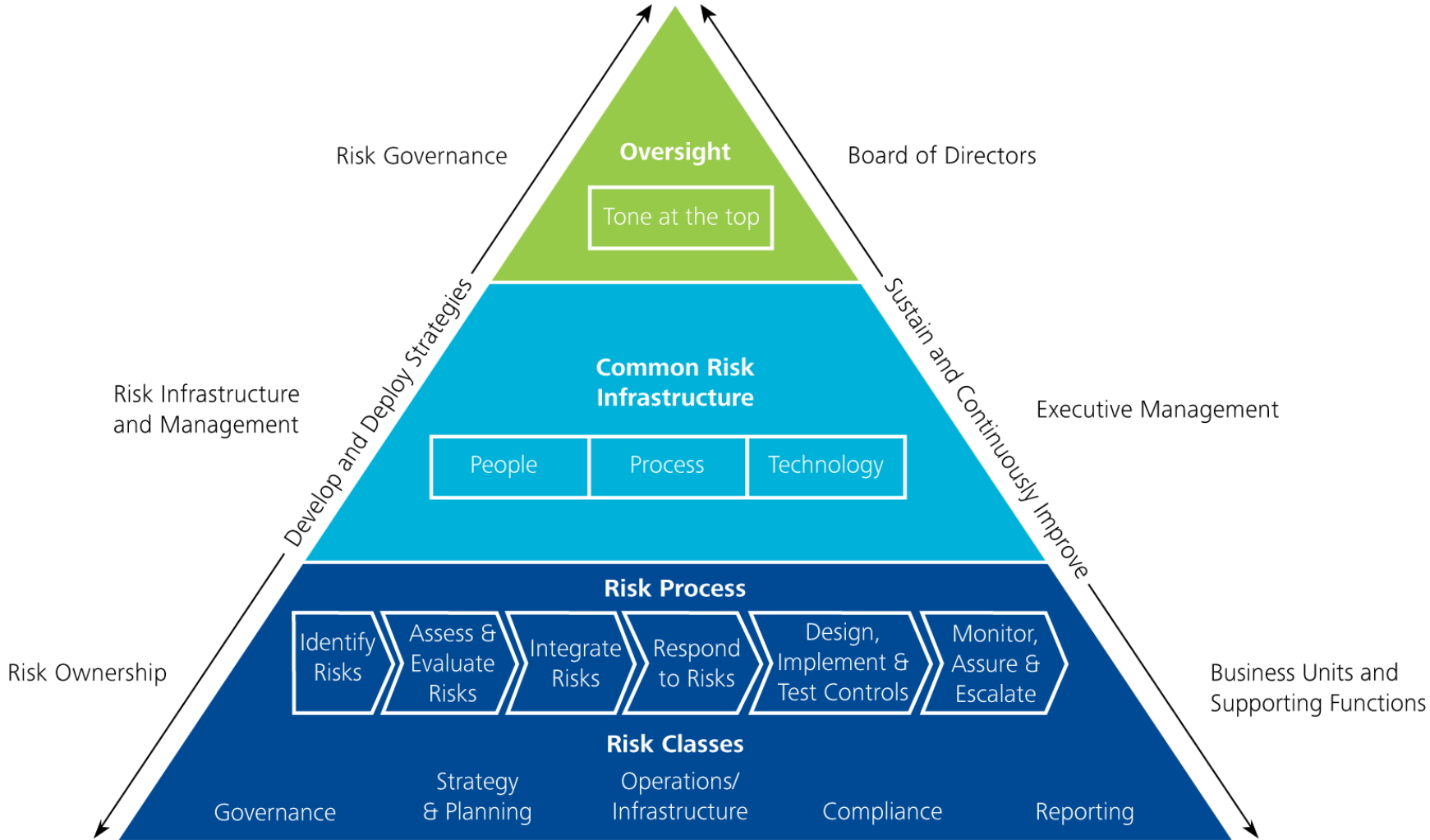
Why do scenario planning?

Example scenario development tools

Case study: Visa, Inc

Q&A

The Risk Intelligent Enterprise™



Why do scenario planning?

The Risk Intelligent Enterprise utilizes risk information to influence strategic planning in three key ways:

1. Risks are identified and analyzed when considering strategic alternatives and developing business/organizational strategy
 - Risks **of** the strategy
2. Risk appetite serves as a guidepost in setting strategy and allocating resources.
3. Once business/organizational strategy has been selected, risks that might affect the organization's ability to implement key strategies are identified and managed
 - Risks **to** the strategy

Polling question 1

Do you yourself participate in scenario planning for your organization?

- Yes
- No
- Don't know / not applicable

Common risk management challenges include

Failure of modern risk management

Information filtering

Mental models

Risk scenario development tools include

Frameworks

- COSO
- 9 Principles of Risk Intelligence

Maps

- Enterprise value maps
- Enterprise risk maps
- Risk impact matrices

Models and simulations

- Event tree risk tool
- Risk workshops
- "Black swan" workshops

Desired results may include

Better understanding of risk

- to the strategy
- of the strategy

Shared commitment and approach to:

- manage key risks to within risk appetite
- exploit risks where the organization has a strategic advantage

Leading indicators of risk include

Risk strategy

Risk management process

Key risks

Board consideration

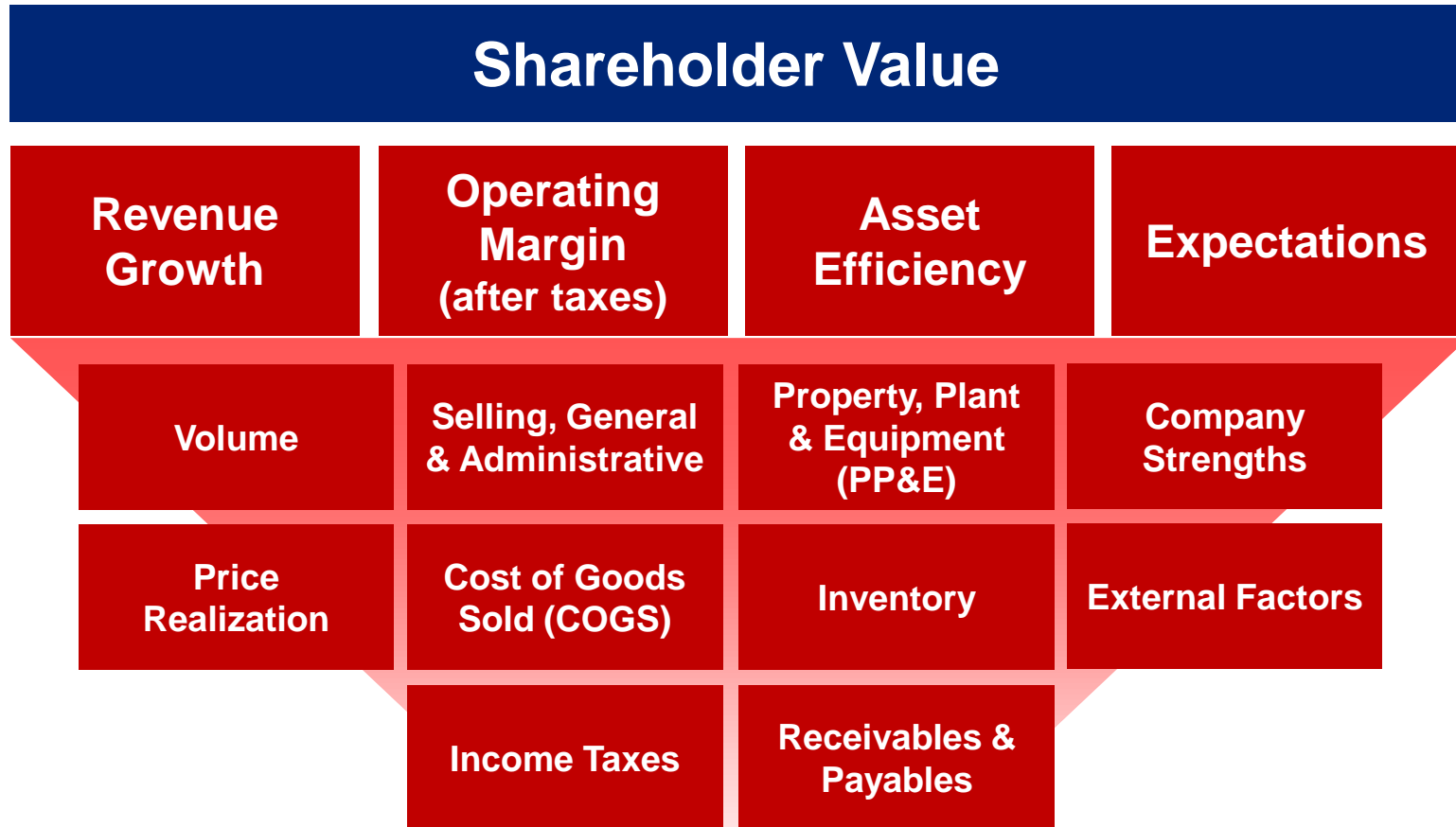
Polling question 2

To what extent does your company currently integrate risk analysis tools into strategic planning and development?

- A great deal – risk is forefront in evaluating strategic scenarios
- Somewhat – risk is an important, but not dominant, consideration
- Very little – consideration of risk is an afterthought
- Not at all
- Don't know / not applicable

Value creation: Enterprise value maps

Identify potential opportunities to create business value



Illustrative

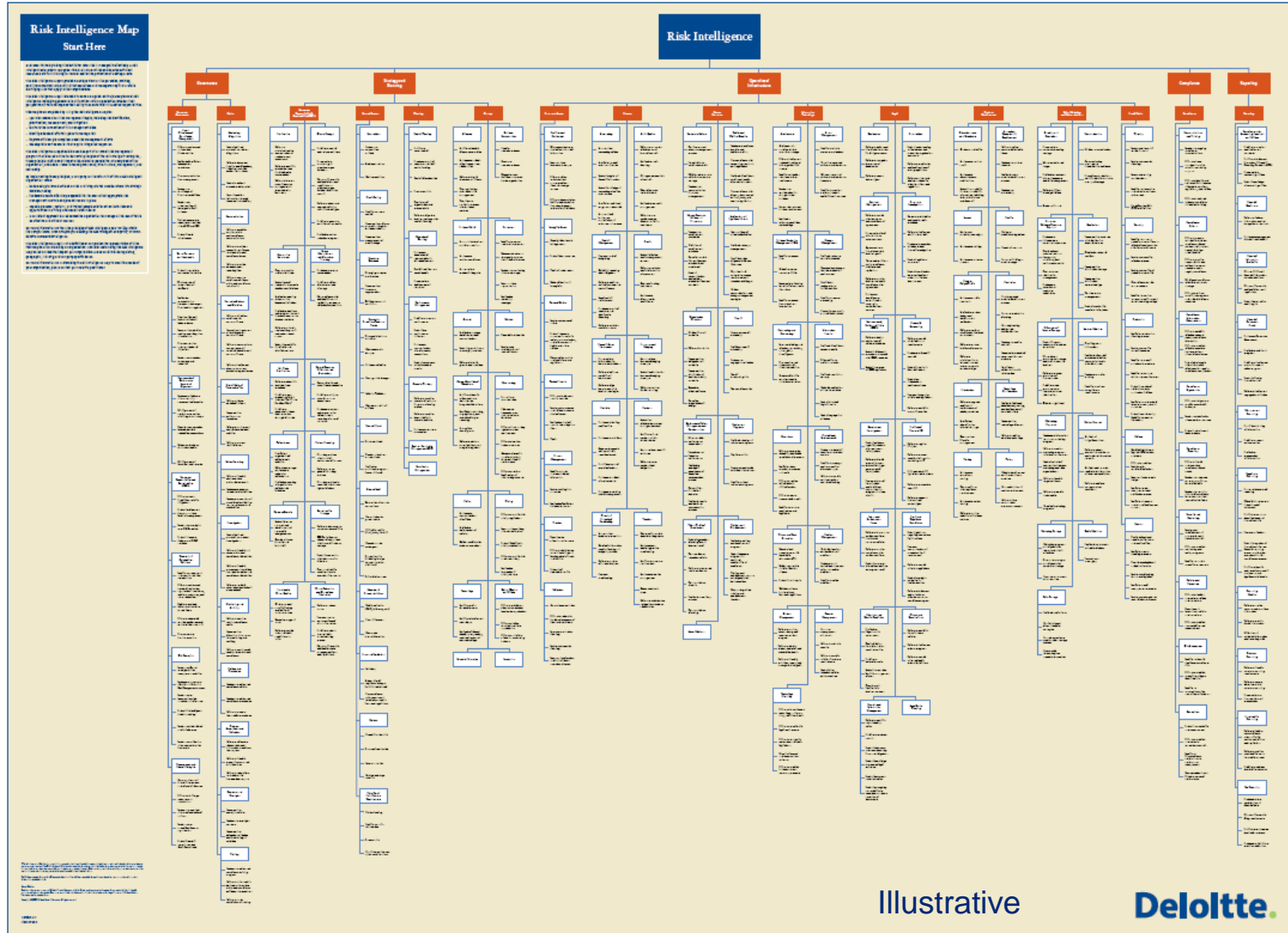
Risk identification: Enterprise risk maps

Identify potential risks

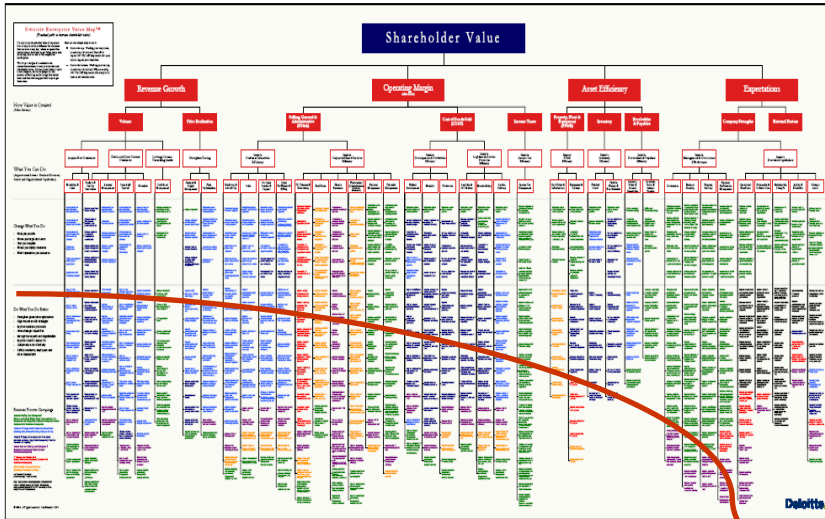


Illustrative

Risk Identification: Risk Intelligence Map



Linking value and risk

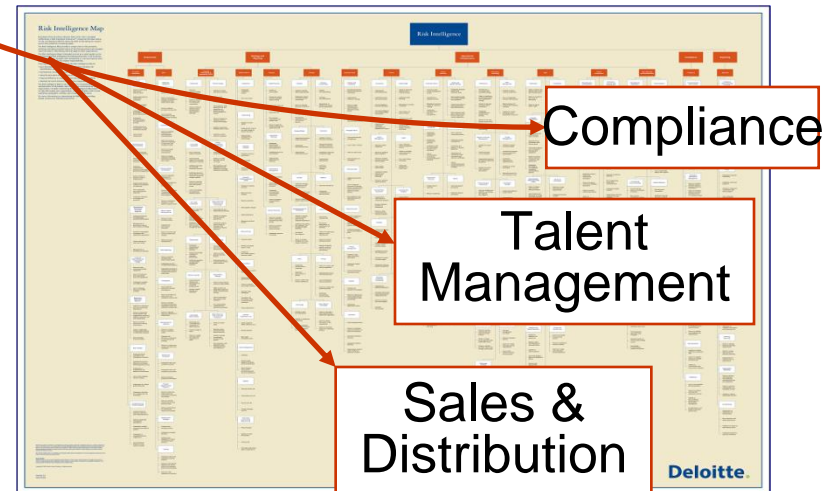


Sample project to create value

The organization wants to venture into M&A to increase market presence and margins

Risk Intelligent approach

The organization could consider risks and risk interactions to realize synergies from the strategic initiative, and to identify and capitalize on the opportunities



Polling question 3

Does your company stress test its ability to execute on contingency plans?

- Yes
- No
- Don't know / not applicable



Risk Modeling Workshops

*Enterprise Risk
Management:
Risk Advisory Services*

Workshop objectives

Facilitate improved understanding of key risks:

- Understand internal and external factors impacting likelihood and severity
- Identify most likely trigger and intermediate events
- Share similar risk experiences from other business units, if appropriate

Quantify impacts to Visa's business:

- Focus exercise on understanding impacts of most likely outcomes
- Project long-term impacts on our market value

Rationalize mitigation alternatives:

- Mitigation What can we do today to reduce probability?
- Reaction What can we do today to be better prepared if it does happen?
- Diversification What new strategies can we employ to reduce the impact on our business?
What existing strategies need to be revisited?

Scenario analysis approach

Implemented scenario-based analysis to facilitate a deeper understanding of risks and drive mitigation

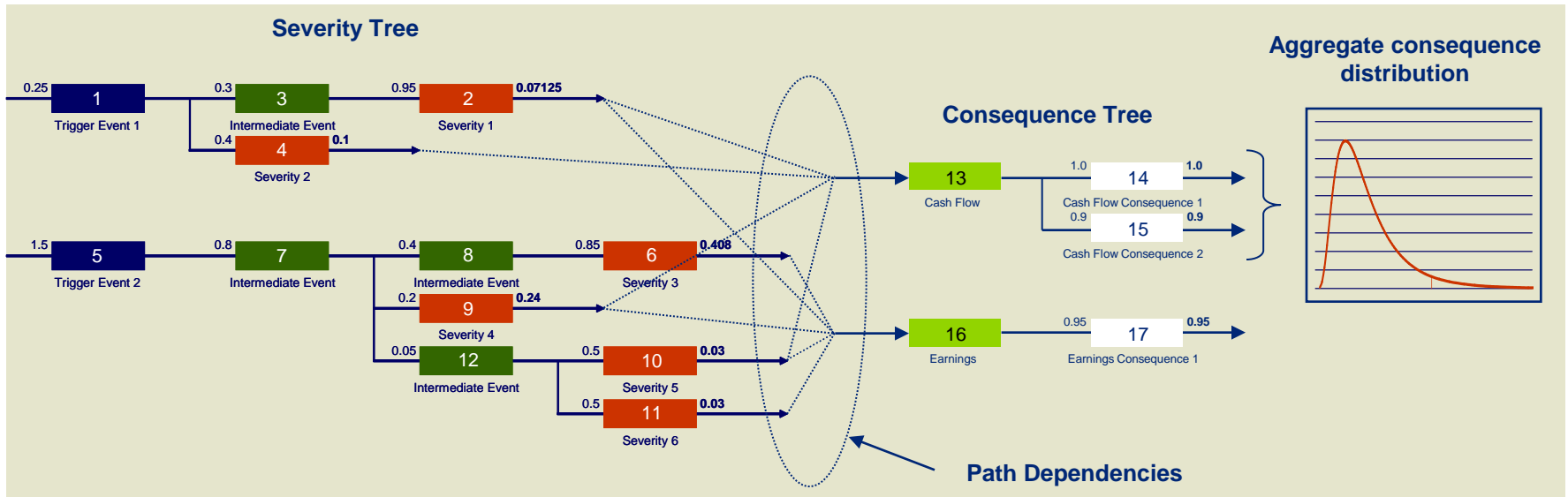
- Uses expert opinion to overcome a lack of historical loss data for risk modeling, but equally supports analysis of data-rich risks
- Adds transparency and improves understanding of risk impacts
- Provides a disciplined framework to rationalize risk management decisions
- Leverage external loss event database for research

Polling question 4

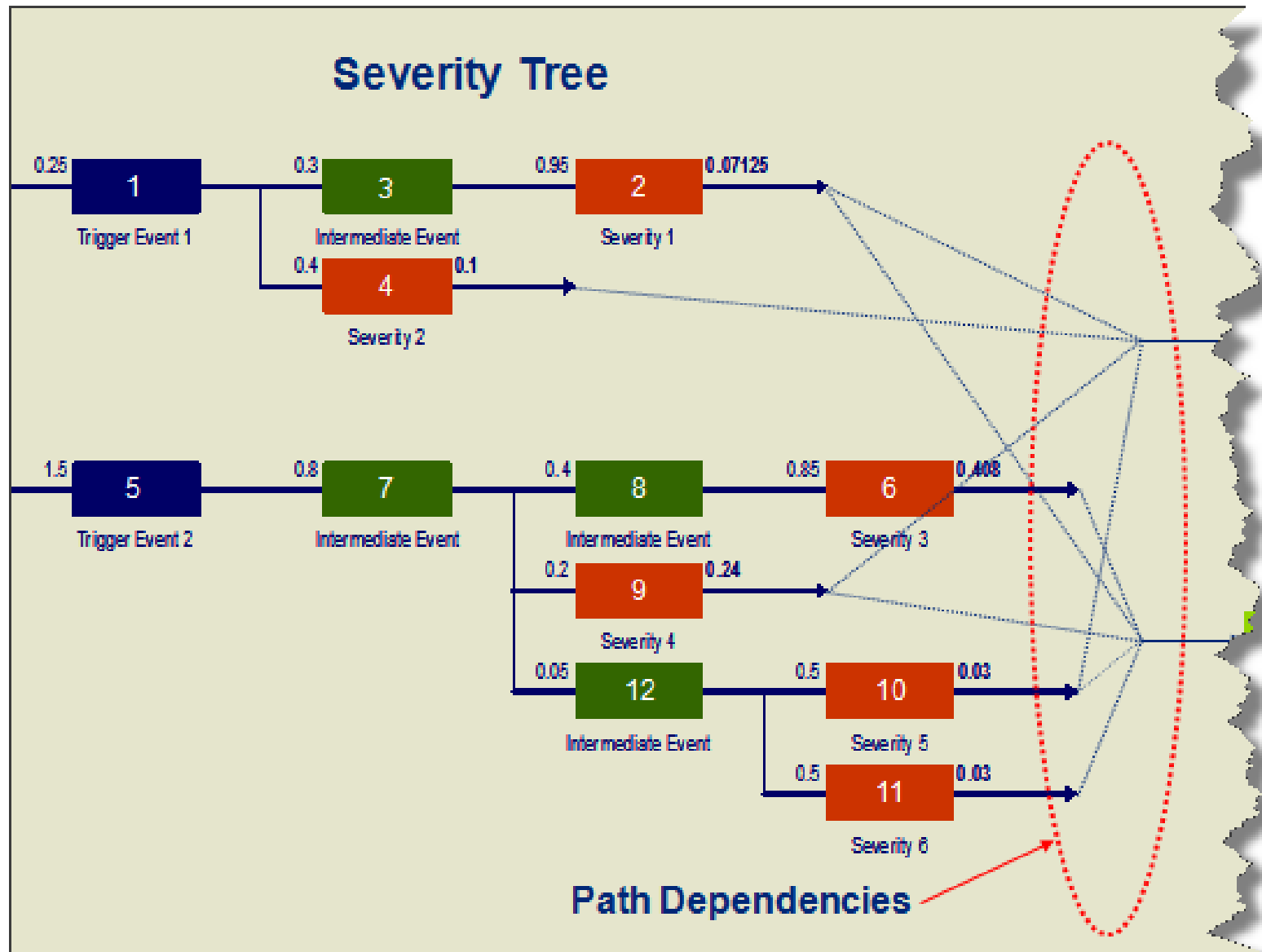
How heavily does your company rely upon software-based systems to support scenario planning efforts in identifying triggers and anomalies?

- Heavily
- Somewhat
- Not at all
- Don't know / not applicable

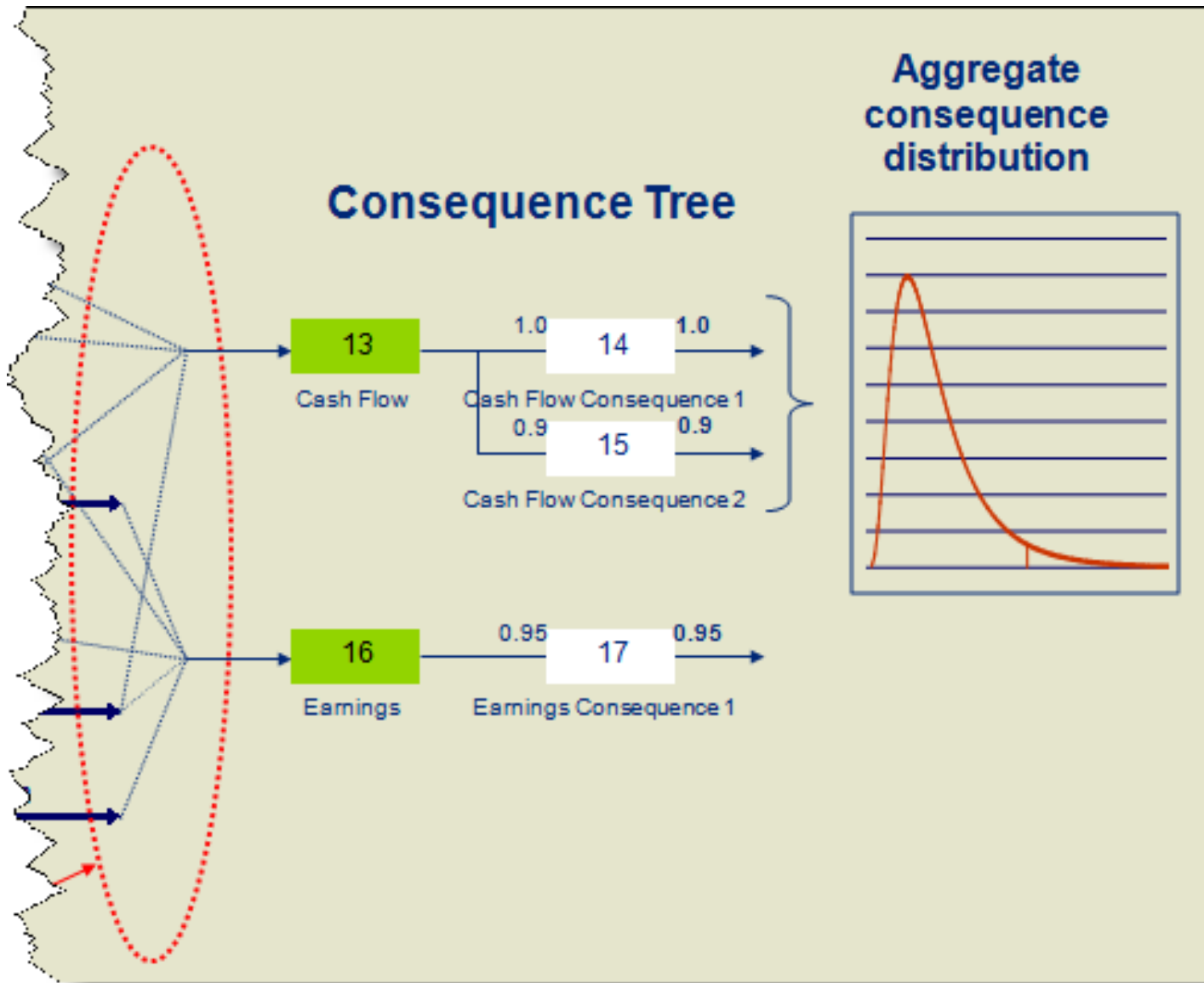
Scenario analysis approach



Scenario analysis approach (cont.)

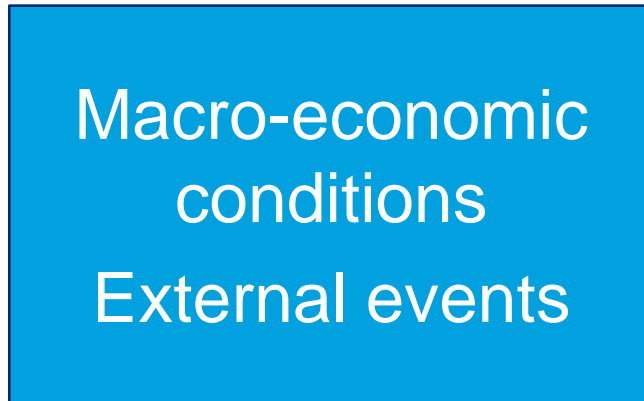


Scenario analysis approach (cont.)



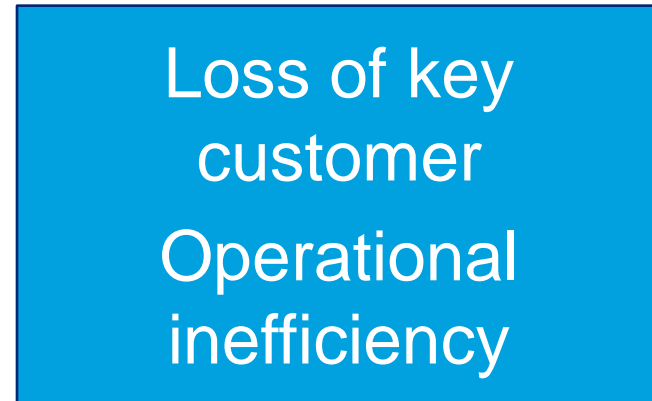
Risk impact quantification

Tactical impact
(short term)



Net Earnings

Strategic impact
(perpetual)



Earnings X Market Multiple

Structure of exercise

Advance preparation:

- Information gathering regarding risks, including history (if any) and future outlook
- Draft scenario analysis with select group of subject matter experts
- Gather relevant financial information regarding impacts
- Draft list of potential mitigation strategies

Workshop:

- Assemble relevant cross-functional group of SMEs to inform, debate and refine scenario and impact analysis
- Facilitate robust discussion on mitigation strategies, focusing on costs versus effectiveness

Follow up:

- Facilitate development of action plans and next steps, if appropriate
- Provide on-going support of scenario analysis, if there are material changes in expectations

Polling question 5

When your company engages in scenario planning, which groups are involved?

- C-suite and board only
- Risk department only
- C-suite, board, risk department and other groups
- We don't do scenario planning
- Don't know / not applicable

Applicability

Key risks in key markets:

- Improving understanding of key issues that could impact long-term growth
- Focusing strategic direction to support growth and minimize downside risk

Risks with cross-functional impacts:

- Driving consistent understanding of risks
- Aligning organizational priorities across business units

Large mitigation investments:

- Focusing mitigation discussions by improving identification of root causes and critical risk factors
- Rationalizing the costs versus effectiveness of mitigation strategies

Top enterprise risks:

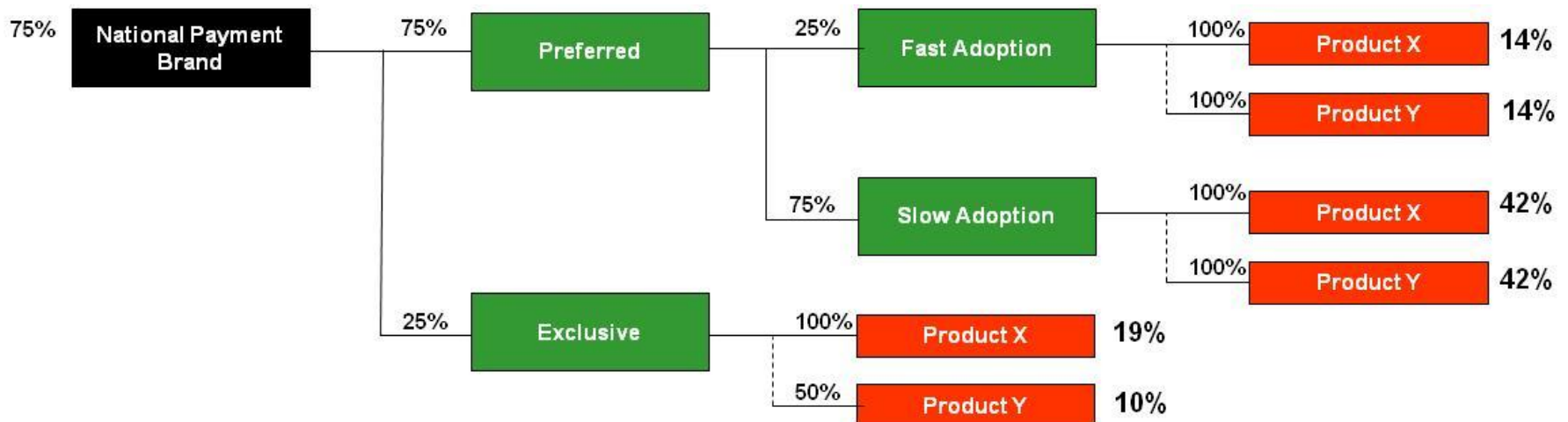
- Supporting Board and Senior Management's governance obligations
- Providing higher level of risk analysis for improved stakeholder reporting (SEC, rating agencies, etc.)

Marketplace barriers

Project summary:

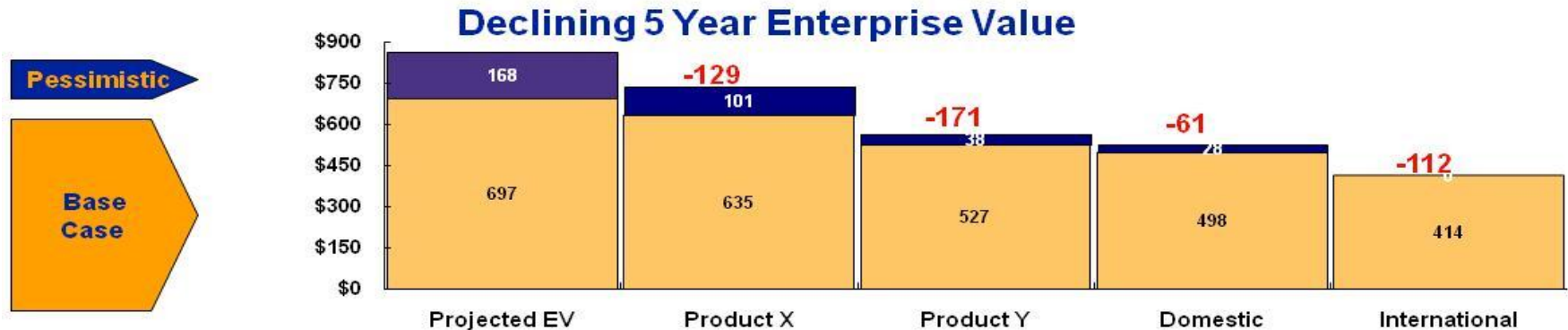
In various countries, certain government bodies have been given authority to establish state-sponsored and/or owned payment systems. These government activities and trends have led Visa to conduct risk analysis to better understand its exposure in these markets.

Scenario: National payment brand established



Marketplace barriers (cont.)

Impacts:



Note: EV calculated as 4yr NPV plus terminal value assuming 50% EBITDA margin

- The creation of National Payments System in country A could potentially lead to a XXX% loss in the franchise value of that market.
- Workshop participants agree that the probability of the creation of a National Payment System in country A currently stands at XX%.

Marketplace barriers (cont.)

Mitigation initiatives:

- Development of an action plan to address most likely outcomes
- Recommendation to executive management on key next steps, if necessary
- Agreement between key stakeholders on immediate and medium term mitigation efforts
- Establishment of a cross-functional task force to manage different aspect of mitigation strategies
- Ongoing monitoring of risks and mitigation effectiveness
- Periodic refreshing of event tree models

Question and Answer

Join us June 24th at 2 PM ET as
our Risk Intelligence series
presents:

Reducing Risk in the
Financial Close:
Effective Governance
in the Last Mile

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