Managing uncertainty: A practical guide for building resilience through effective risk management

A practical guide for building resilience through effective risk management

The current global landscape is fraught with uncertainties, and Canadian businesses are at a critical juncture where enhancing risk management is no longer optional but essential. Trade tensions, geopolitical conflicts, and economic volatility present significant risks that demand immediate attention and action.

Building resilience across all aspects of the business is imperative. This involves not only addressing immediate risks but also preparing for long-term challenges. Conducting 'what if' scenario analyses, investing in enterprise risk management frameworks, and developing contingency plans will help businesses navigate uncertainties, enable business continuity, and emerge stronger from upcoming disruptions, including U.S. tariffs.

In this practical guide, we offer key considerations and actions for Canadian organizations to bolster their risk management across the enterprise in order to stay agile and resilient in the face of our changing business dynamics and shifting trade tensions.

Get the latest insights and learn more about how our KPMG Advisory, Tax and Legal specialists can help provide comprehensive support on tariffs and key considerations for navigating the path ahead:

Navigating tariffs

Key steps to boost resilience and risk management

As organizations work on improving their ability to anticipate, prepare for, and adapt to challenges in their operating environment, it is important to align risk management and resilience with strong compliance and an adaptable strategy.

Organizational resilience is about thriving under uncertainty. Businesses must proactively assess their exposure to rapidly changing risks and develop strategies to mitigate their impacts. They should conduct critical assessments of their enterprise risks, including operational, strategic, financial, technological, organizational, and reputational risks. This includes:

Conducting a dynamic enterprise risk assessment, including assessing the effectiveness of enterprise risk controls on supply chains, cash flow, and profitability.

Given the current uncertainty and vulnerabilities introduced by potential changes in supply chains and third-party interactions, it may be necessary to review and update internal controls. For instance, engaging new third-party suppliers could increase both fraud and cybersecurity risks, especially with new suppliers that have an unproven track record.

Assessing third-party risk trigger points and dependencies, and performing a scenario or "what-if" analysis of different variables.

This requires considering various scenarios and their potential impacts, as well as financial modeling to understand outcomes and their implications. As businesses increasingly rely on global supply chains, managing risks associated with third-party vendors and suppliers becomes crucial.

Reviewing and refreshing contract obligations and assessing compliance with term renegotiations and price adjustments.

The dynamic nature of the current environment means that contracts with third parties may need to be renegotiated to reflect new realities. Companies should closely monitor regulatory developments and ensure they remain compliant with evolving requirements. This proactive approach will help mitigate legal risks and avoid potential disputes.

Performing rigorous and continuous contingency planning.

Organizations should revamp their business processes to enhance resilience and continuity in the face of trade disruptions. While some sectors, such as banks, typically manage contingency planning well, others may not be as proactive in doing so. This also includes managing working capital effectively, which ensures that businesses have the necessary liquidity to continue operations despite increased costs of operations.

Using data and analytics and AI-powered platforms and tools to monitor key or new risks and support financial modelling to provide critical inputs to scenario options and decision making.

By leveraging advanced analytics, businesses can quantify the impact of various risks, identify vulnerabilities, and develop data-driven strategies to bolster financial resilience. This includes using AI and analytics to assess the resilience of their supply chains, evaluate business continuity plans, and optimize cost structures.

With the support of our multi-disciplinary KPMG specialists including in risk, trade and customs, tax, transfer pricing, and supply chain, you can be well-prepared to navigate the complexities of evolving geopolitical and business risks, as well as trade tensions. From addressing enterprise risks, to evaluating strategic tax structures and policies, optimizing supply chains, mitigating tariff impacts, and ensuring both compliance and competitiveness, we offer the latest insights, specialized advice, actionable strategies and tools to help you build enterprise resilience.

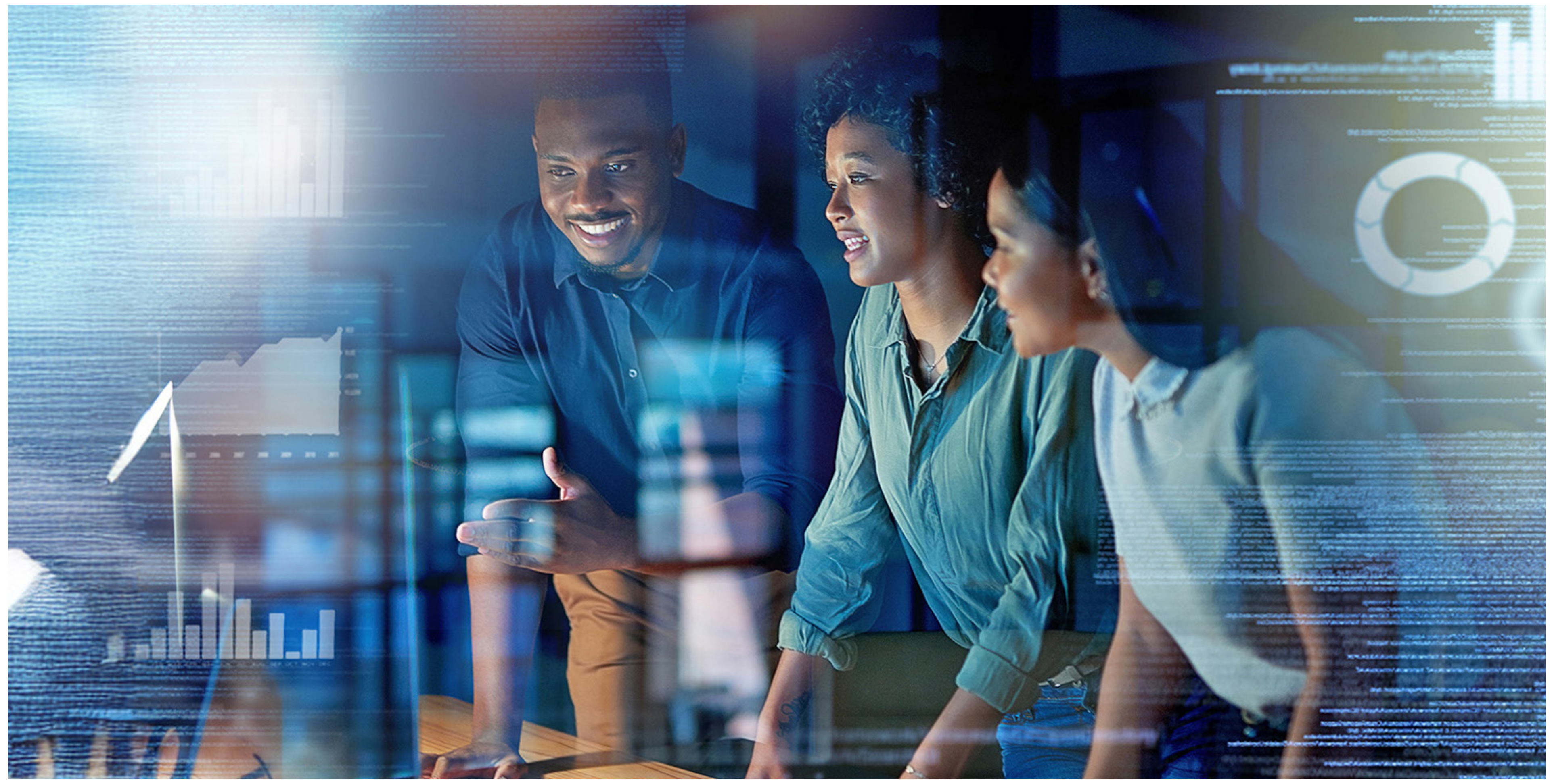
Our risks professionals can work with your teams on strengthening your organization's risk posture across various areas such as financial risk management, supply chain and operational risk, regulatory compliance and contract obligations, cybersecurity, data analytics and AI use, and business continuity planning, among others.

Continue reading to gain insights into essential risk considerations and steps to prepare your business effectively.

Risk considerations and recommended actions to prepare, adapt and thrive

Understanding the interconnectedness of risks is crucial, especially today. This requires integration of data, systems, and teams across siloed business units.

In this section, we outline factors affecting Canadian businesses during these uncertain times and recommend actions to manage and mitigate these interconnected risks.



Embedding Enterprise Risk Management

Given the current market uncertainties, the complex geopolitical environment, and more recently heightened volatility in trade relations, organizations across sectors are exposed to significant disruptions in their operating environment. Managing risks and their impacts in a holistic way will enable them to respond proactively using data and insights to make critical, if not transformational decisions such as potentially adjusting pricing strategies, renegotiating contracts with suppliers, and/or considering shifts in production locations or trading partners.

Actions to consider:

- Assess the organization's sensitivity and exposure to changes in trade relations, including tariffs.
- Identify key vulnerabilities such as critical dependencies, financial constraints, and contractual obligations.
- Evaluate and quantify the short to long-term impacts, both direct and indirect, through scenario and sensitivity analysis to prepare for different plausible outcomes on varying tariff rates and trade policies.
- Set mechanisms to continuously monitor and review trade risk exposures to ensure the businesses remain responsive to changes in the trade landscape.
- Ensure stakeholders (e.g., Board, customers, vendors) are confident that trade tariff-related risks are diligently and appropriately being anticipated and managed effectively.

We're ready to help.

Implementing an Enterprise Risk Management (ERM) program can provide that necessary holistic and integrated approach to identifying, assessing, managing, and monitoring a wide range of risks and vulnerabilities.

Our **ERM services team** can help you identify and assess the range of risks affecting your business, such as supply chains, revenue, costs, and market access. We can assist in deep-dive risk and vulnerability assessments, quick risk diagnostics, scenario and sensitivity analysis, as well as contingency planning to help better prepare for and mitigate high-risk areas.

Making risk management an integral part of your corporate culture and decision-making processes will enable your business to better adapt to ongoing changes.

Contact:

Edouard Bertin-Mourot
edouardbertinmourot@kpmg.ca

Ensuring compliance with regulations and contracts

Many organizations are reevaluating their operational strategies and considering supply chain diversification to counter tariffs/trade risks and geopolitical volatility.

This calls for businesses to systematically understand and evaluate contractual and legislative compliance requirements to avoid potential fines and litigation while also exploring opportunities to access new markets and negotiate contracts.

Actions to consider:

- Review supplier and buyer contracts to ensure compliance and assess the ability to minimize and/or transfer the impact of tariffs.
- Assess potential compliance issues and prepare strategies for remediation.
- Understand legislative and regulatory compliance requirements for new jurisdictions and assess business readiness for compliance.
- Leverage technology and machine learning to efficiently perform contract compliance reviews and contracts analyses.

We're ready to help.

Keeping up with changes in the trading environment while ensuring compliance with jurisdictional rules, regulations, and standards is challenging.

Our **Governance, Risk, and Compliance team** can assist by conducting compliance assessments to identify areas of exposure and readiness for potential requirements.

We review existing contracts to assess opportunities for reducing the impact of trade tariffs, and we remediate business issues to mitigate compliance risks, enabling you to confidently adapt to the shifting landscape.

Contact:

Pedro Medeiros
pedromedeiros@kpmg.ca

Boosting financial risk management and economic modeling

The Canadian economy engages in approximately $900 billion of trade annually with the United States, covering a wide range of sectors such as agriculture, steel, automotive, and mining.*

Current trade tensions have raised significant concerns regarding the impact of varying tariff rates (e.g., 25%, 10%, or 5%) on these sectors. Key issues include potential effects on cash flows and working capital, supply chain disruptions, and credit exposure, among other factors.

Actions to consider:

- Run scenarios involving various tariff levels, including full retaliation, partial retaliation, and no retaliation, to understand their impact on business and exposure risk.
- Develop a comprehensive credit risk assessment and monitoring of borrower exposure to tariff related risks.
- Conduct a thorough concentration risk assessment.
- Review and refine hedging strategies to mitigate tariff-related risks, such as currency and commodity volatility.

We're ready to help.

Our **Financial Risk Management** (FRM) professionals are well-equipped to work alongside your organization across several key areas including identifying and executing potential scenarios, conducting cash flow modeling, developing effective hedging strategies, and assessing segment and business portfolios to mitigate risks.

Contacts:

Paul Lech
plech@kpmg.ca

Akber Merchant
akbermerchant@kpmg.ca

* Source: https://www.statcan.gc.ca/o1/en/plus/3250-canada-and-united-states-numbers-unique-relationship

Strengthening Third-party Risk Management (TPRM) modeling

Trade tensions and tariffs significantly impact supply chains, particularly when applied on essential industries such as steel and aluminum, which can create second order impacts across various other sectors. Companies increasingly depend on global third and fourth-party suppliers, making them more susceptible to disruptions in the supply chain. As a result of tariffs, larger third-party suppliers may experience first and second-order disruptions that could compromise sustainable supply chain practices, while smaller suppliers may find it challenging to absorb additional costs, increasing their risk of insolvency. It is pressing for organizations to reevaluate their Third-party Risk Management strategies.

Actions to consider:

- Reassess your dependence on critical third and fourth-party suppliers. Understanding the concentration of these strategic relationships can help identify potential vulnerabilities.
- Clearly outline how third-party systems and services are linked to your critical operations. This mapping will provide insight into areas that are most vulnerable in the event of a disruption.
- Review the due diligence responses for critical third parties, focusing on specific risks such as geopolitical factors and financial stability. This will help in identifying potential threats that could impact your supply chain.
- Evaluate the contingency plans and exit strategies for critical third parties. This proactive approach will prepare your organization to manage both short- and long-term disruptions effectively.
- Conduct scenario testing analysis to assess the resilience of third parties and potential impact on your business operations and stakeholder obligations. This will help determine how your organization can respond to different disruption scenarios.
- Leverage AI-enabled solutions to provide real-time data feeds and monitoring of third-party risks and events. These solutions can significantly enhance your ability to respond swiftly to emerging risks.

We're ready to help.

A January 2025 **survey** by KPMG in Canada revealed that 83% of executives believe it is crucial to enhance the resilience of their supply chains in light of tariff threats.

KPMG's **supply chain** and **third-party risk** specialists use data analytics to examine critical supply chain trigger points, identify systemic trends and dependencies, and assess concentration risks across various geographies, service types, and fourth-party entities.

With AI-based solutions to conduct scenario analyses based on financial modelling, environmental scanning and SOC reviews, we help implement proactive monitoring and optimizations of your third-party risks to enhance your organizational preparedness and resilience.

Contacts:

Sandeep Dani
sandeepdani@kpmg.ca

Tim Webb
timwebb@kpmg.ca

Protecting against cyber threats

As Canadian organizations navigate the challenges posed by increased tariffs, many find themselves needing to promptly replace specific third parties to prevent operational disruptions. This urgency may lead to a relaxation of onboarding processes, inadvertently heightening the risk of cyber breaches. The rising incidence of ransomware and other cyber-attacks poses a significant threat to organizations, particularly those in heavily regulated industries that handle large volumes of regulated and private data. Such data is highly sought after by both criminal and nation-state actors, who are increasingly driven by financial gain or geopolitical advantage amid escalating global tensions, including trade disputes.

Actions to consider:

- Consider diversifying your supplier base and investing in local alternatives to enhance supply chain resilience.
- Maintain rigorous vetting processes of new vendors to mitigate cybersecurity risks.
- Consider opportunities to gain efficiencies and reduce costs by automating cyber processes (e.g. security operations) or consolidating cyber technologies.
- Boost communication with partners and customers regarding changes in supply chain strategies and cost-sharing measures in order to preserve trust and loyalty.
- Strengthen cybersecurity frameworks where required, do so by engaging with Managed Security Service Providers (MSSPs) that can help identify and mitigate threats while ensuring compliance with cybersecurity standards.

We're ready to help.

Access our experienced **cyber specialists** to manage cybersecurity risks when onboarding new suppliers through comprehensive third-party risk services that evaluate vendors against strict security criteria.

We offer a Canadian-based Managed Detection and Response (MDR) service to detect, respond to, and contain threats. Also, our cyber cost optimization program can help identify automation opportunities to enhance accuracy and efficiency, and evaluate technologies to save on costs. Additionally, our incident response readiness and planning services also ensure your organization is prepared for any security incidents.

If you have experienced or have a question about a cyber incident, contact our team of incident response specialists:

Report a cyber incident

Contact:

Hartaj Nijjar
hnijjar@kpmg.ca

Adapting technology systems

Organizations' technology systems will need to be configured to handle disruptions in supply chains, pricing models, and regulatory compliance. There is an increased need for businesses to further focus on enhancing or updating their resilience and continuity programs as they pivot or explore new supply chain channels.

Actions to consider:

- Assess capabilities to ensure your IT/ ERP systems can integrate tariff changes, real-time cost adjustments, and regulatory reporting.
- Revisit your Enterprise Resilience structure, including business continuity and disaster recovery to ensure that the appropriate changes and nuances are identified and addressed to avoid any disruptions.

We're ready to help.

Adapting technology systems to manage disruptions and regulatory changes is crucial for maintaining enterprise resilience.

Our specialized **technology risk teams** can help you assess whether your systems are ready to address the relevant technology and compliance risks as you onboard new vendors and reconfigure your systems to effectively integrate new tariff requirements, real-time cost adjustments, and other regulatory requirements.

We can further help you enhance your supply chain monitoring and forecasting with artificial intelligence (AI) and analytics. Additionally, we can support update or develop your resilience and business continuity programs to ensure that your critical processes and systems remain secure and available when needed.

Contact:

Kareem Sadek
ksadek@kpmg.ca

Today, managing risk is riskier than ever.

Organizations used to manage risks separately. However, it is now clear that risks are interconnected. A single strategic risk can trigger others, with significant and rapid impact.

Proactive risk management requires a holistic view of data to detect changes in risk and use this information for mitigation, decision-making and business continuity.

Get the latest insights and learn more about how our KPMG Advisory, Tax and Legal specialists can help provide comprehensive support on tariffs and key considerations for navigating the path ahead:

Navigating tariffs

kpmg.com/ca

Contact us. We're here to help.

Risk services

Nancy Chase
nchase@kpmg.ca

Reach out to our network of risk management advisors for timely support:

Enterprise risk management

Edouard Bertin-Mourot
edouardbertinmourot@kpmg.ca

Compliance

Pedro Medeiros
pedromedeiros@kpmg.ca

Financial risk management

Paul Lech
plech@kpmg.ca

Akber Merchant
akbermerchant@kpmg.ca

Third-party Risk Management

Sandeep Dani
sandeepdani@kpmg.ca

Technology systems risk

Kareem Sadek
ksadek@kpmg.ca

Cybersecurity

Hartaj Nijjar
hnijjar@kpmg.ca

Supply Chain

Tim Webb
timwebb@kpmg.ca

AI and risk analytics

Ven Adamov
vadamov@kpmg.ca