



RISK INSIGHTS

THE IMPACT OF TARIFFS ON THE COMMERCIAL INSURANCE MARKET

Tariffs refer to taxes on goods traded internationally. When imported goods reach a country's border, its government collects tariffs, also called customs duties, based on the type and amount of commodities being traded and the nation they originated from. Tariffs may be introduced for a range of reasons, such as to help countries better control global trade practices, accomplish foreign policy goals, boost their local economies, exert leverage over political adversaries or retaliate against other nations' financial sanctions.

Tariffs imposed by the United States can fluctuate over time depending on the latest geopolitical developments and global trade negotiations. While tariffs are intended to safeguard U.S. companies by making foreign goods less competitive in price, thereby encouraging increased domestic production and sales, they may lead to higher expenses for raw materials. This, in turn, could get passed along supply chains, driving up costs for businesses and individuals alike.

Complicating matters, economic experts assert that tariffs can have various consequences on the commercial insurance sector. It's imperative for businesses to understand these implications and take steps to limit their exposures. This article further explores how tariffs influence the commercial insurance sector and outlines strategies to help companies mitigate related risks.

HOW TARIFFS INFLUENCE THE COMMERCIAL INSURANCE SECTOR

Tariffs may impact the commercial insurance market in a variety of ways, including the following:

- + **Elevated Premiums**—Tariffs could affect premiums across multiple lines of coverage, primarily commercial property and auto insurance and business interruption insurance. Here's a breakdown of these premium concerns:
 - + **Commercial property and auto insurance**—Because tariffs can elevate raw material costs, they may result in higher prices for certain construction inventory (e.g., steel and lumber) and auto parts, thus contributing to increased building and vehicle repair and replacement expenses. In response, commercial property and auto insurers may be pressured to offset the likelihood of large-scale payouts by raising policyholders' rates or tightening underwriting standards to manage their heightened risks.
 - + **Business interruption insurance**—If tariffs inflate raw material costs, this could create uncertainty across supply chains. Therefore, businesses may be more vulnerable to supply chain breakdowns and related operational delays. Upon identifying this growing exposure, business interruption insurers could be more inclined to hike up policyholders' premiums.
- + **Exacerbated claim expenses**—As previously mentioned, tariffs can lead to higher raw material costs and, consequently, drive up expenses associated with property and vehicle repairs and auto part replacement. This issue, coupled with rising labor costs in the construction and auto repair sectors due to ongoing worker shortages, could compound claim expenses throughout the commercial property and auto insurance markets. When large claims occur, policyholders could face substantial underinsurance concerns and hefty out-of-pocket costs.





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- + **Insurance-to-value (ITV) considerations**—ITV calculations are critical, as they help insureds determine the appropriate amount of property coverage by assessing an asset's actual, market and replacement value. Securing an accurate ITV calculation has been challenging; a property's value is often affected by factors like inflation and material costs, both of which have been volatile in recent years. An accurate ITV calculation represents as close to an equal ratio as possible between the amount of insurance a business obtains and the estimated value of its commercial building or structure, thus ensuring adequate protection following potential losses. Common approaches to accurately estimating this value include getting a property appraisal from a thirdparty firm, leveraging fixed-asset records that have been adjusted for inflation or relying on a basic benchmarking tool (e.g., dollars per square foot).
- + **Greater market volatility**—Shifting global trade dynamics brought on by tariffs may create widespread economic challenges, ultimately motivating insurers to reassess their existing risk models and underwriting guidelines and make necessary changes to limit their exposures. Amid this increasingly volatile insurance market, policyholders may experience fluctuations in coverage availability, policy costs and underwriting scrutiny.

RISK MITIGATION STRATEGIES

- + **Diversify supply chains**—First and foremost, businesses should perform detailed risk assessments to detect potential vulnerabilities in their supply chains, particularly pertaining to international trade and tariffs. Upon identifying their unique risks, companies may benefit from diversifying their supply chains to limit trade-related exposures. This may entail selecting alternative suppliers in locations with more favorable trade practices or shifting production operations through methods such as nearshoring or reshoring. The former method involves moving production facilities from overseas countries to regions located near a company's headquarters or primary markets, whereas the latter method centers around relocating these facilities to a company's home country. Both methods can help limit dependencies on tariff-heavy imports and promote supply chain resilience.
- + **Make operational movements**—In addition to diversification, certain technology-driven operational improvements could help businesses strengthen their supply chains and reduce trade-related risks. This may include investing in digital solutions (e.g., artificial intelligence) and data analytics to bolster supply chain visibility as well as developing in-depth contingency plans to address different supply chain disruption scenarios resulting from tariffs. Furthermore, companies should work with legal professionals to ensure compliance with ongoing shifts in global trade policies.
- + **Modify contracts**—When establishing contractual agreements with suppliers and other vendors, businesses should carefully evaluate the wording in these documents and include specific clauses regarding international trade. Such clauses should allow for cost sharing, which divides the responsibility of paying tariff-induced expenses from imported goods among multiple parties.
- + **Leverage tariff mitigation measures**—In conjunction with supply chain adjustments and contractual modifications, businesses can incorporate several tariff mitigation measures in their operations. Specifically, companies can focus on sourcing raw materials from regions that have fair trade agreements with their home countries. These agreements aim to minimize global trade barriers by limiting tariffs and other restrictions between certain nations. Additionally, businesses can participate in foreign-trade zones (FTZs). These zones are designated locations in the United States—often near key ports of entry—deemed outside the territory in which tariffs are enforced. By operating in FTZs, companies can defer or reduce tariffs applied to imported goods. Businesses can also use tariff engineering tactics, which entails altering key production processes (e.g., swapping raw materials, changing product designs and assembly, modifying packaging or reclassifying products) to cut import costs.





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- + **Review insurance policies**—Businesses should clearly document their tariff-related risk management strategies for insurers, as this can help create a more accurate projection of their exposures and lead to better coverage options. As global trade practices continue to evolve, companies should reach out to trusted insurance professionals to review their policies, maintain adequate coverage and identify any cost-saving opportunities. Depending on their exposures, businesses may also need to adjust their deductibles or explore self-insurance options for specific risks. Some companies may even benefit from purchasing specialized coverage, including trade credit and supply chain insurance.

CONCLUSION

Shifting global trade practices and tariffs can have serious ramifications for U.S. companies, consumers and the commercial insurance sector. By identifying their related exposures and implementing effective mitigation strategies, businesses can successfully navigate this ever-changing risk landscape.

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