

Insurance Industry Adjusts to Trade Wars

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The White House has kicked off what appears to be a global trade war. The near-term net effect is the growing reality that we are entering a higher-cost operating environment for most industries. Volatility is always a challenge for commercial interests. Now, the more acute near-term challenge for the insurance sector is accommodating the dramatic linear trendline in costs of tangible goods throughout the supply chain and navigating uncertainty in the global economy created by shifting trade policies. These emerging scenarios are putting downward pressure on capital commitments and delaying critical underwriting decisions in multinational and trade-dependent lines of business.

2025 Tariff Scoreboard

The current global trade environment is in many ways a moving target for United States businesses, but in other ways it is not. President Trump campaigned on wide use of tariff actions, and he has followed through on that promise. To date, varying ranges of additional duty rates have been threatened or imposed on a wide range of companies and commodities.

The running list is significant in size, scope, and the speed of change:

North America - Canadian and Mexican products briefly saw 25% ad valorem duties (except for certain limited exceptions) where previously there were zero duties under the USMCA free trade agreement. As of this writing those duties are paused for most USCMA goods. The legal basis for this change was the International Emergency Powers Act (IEEPA).

China - Chinese products now see a total of 30% ad valorem duties in addition to all previous duties imposed during the Trump 45 Administration ranging from 7.5% to 25%. The legal basis for this change was Section 301 of the Trade Act, similar to the 2018 and 2019 actions.

Most Other Countries - Imports from most other countries now face 10% ad valorem duties in addition to all other base duties that applied before the universal and reciprocal tariffs. The so-called “pause” will end on July 9. Indications suggest that the subsequent duty rate may range from the 10% baseline up to the higher reciprocal duties that were announced on April 2.

Commodities - All products globally sourced that are steel and aluminum, or their derivatives, will see 25% ad valorem duties in addition to all previous duties. This is again similar to the Trump 45 Administration, although special arrangements and exclusions that shielded some countries or industries are no longer allowed. The legal basis for this change was Section 232 of the Trade Act. Additional investigations have been announced for other commodities, such as timber, copper, pharmaceuticals, and semiconductors.

Tariff Impact on Values

One thing is clear as we close the books on First Quarter 2025-landed costs of foreign goods entering the United States are anticipated to rise substantially and in dramatic fashion. Tariffs result in customs duties that are paid by the domestic United States importer. That importer is typically either the user of the item (think of steel used by contractors in the construction business) or a party that will resell the item (think of toys sold by big-box retailers).

Either way, significant additional costs are now paid to the United States government that were previously non-existent. This is true regardless whether the end user, such as a homebuyer or a consumer, bears the burden or if a foreign supplier accepts lower charges to offset such costs, as was sometimes the case during the 2018 tariffs on Chinese goods. The reverse scenario is also true. Our three largest trading partners are Canada, Mexico, and China, each of which have readied retaliatory tariffs on United States goods entering their countries. The European Union is also signaling readiness for retaliatory tariffs.

We can all envision where this story leads. These facts to date and their trendline have an immediate and real impact on the value of insured assets. Items subject to tariffs will be more costly by any metric and those changes are happening seemingly overnight. Any item on any day may have higher market value, replacement value, manufacturing cost, or even repair cost than it did the day before.

Underwriting and Insurance Response Challenges

In the escalating global trade war where tariffs on critical imports have the potential to reach magnitudes of at least 25%, insurers face a rapidly evolving risk landscape that demands significant adjustments to their core operations. This new environment requires insurers to adapt their underwriting practices, pricing models, and coverage structures to manage escalating asset valuations, supply chain-driven claims inflation, and geopolitical uncertainty distorting traditional risk models.

Underwriting Practices - Underwriting practices are undergoing substantial changes. These 20% to 25% tariff spikes on \$1.2 trillion in annual imports create inflationary valuation shocks prompting insurers to implement more frequent valuation reviews. Carriers are moving to quarterly assessments directly tied to White House and Customs and Border Protection (CBP) tariff announcements to keep pace with the rapidly changing economic landscape. Insurers are also incorporating geopolitical risk scores and supply chain exposure metrics into their underwriting models, particularly for industries that are heavily reliant on international trade.

Pricing Models - Pricing models are evolving to address tariff-driven volatility. Insurers are implementing layered pricing structures that incorporate base rate increases and geopolitical surcharges. For example, builders risk and homeowners insurers have raised rates by 6% to 8% year-over-year to offset the impact of current lumber tariffs, while export credit insurers now apply surcharges for shipments involving tariff-affected corridors. Claims escalation clauses are becoming standard, with over half of all commercial property policies now including supply chain disruption riders that automatically adjust coverage limits based on monthly Producer Price Index inputs for key materials.

Coverage Offerings - Coverage offerings are expanding to address the complexities experienced during this most modern of trade wars. Progressive carriers have introduced new options such as Contingent Tariff Interruption, Supply Chain Velocity Insurance, and Trade War Liability Caps. These

innovative coverages utilize triggers such as customs duty increases, IoT sensor data from suppliers, and escalation clauses to provide quicker and more responsive protection.

The path forward for insurers in this volatile trade war environment demands a two-pronged approach: (1) improved data integration and (2) innovative policy design. Successful carriers will implement sophisticated models that leverage real-time customs data, detailed supplier tier mapping, and nuanced geopolitical risk scores to create and inform dynamic underwriting platforms. These tools will enable insurers to engage those two prongs when responding swiftly and accurately to the rapidly changing risk management landscape.

Insurers and their domestic United States insureds are quickly recognizing that the current trade wars are not a temporary disruption but rather the beginning of a permanent structural shift in global commerce and our country's role among the nations with whom we trade. This realization necessitates the appropriate integration of geopolitical tariff analytics into core operations, transforming how even domestic risks are assessed, priced, and managed.

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