

**PERSPECTIVES OF CORPORATE AND DEFENSE COUNSEL:
UNDERSTANDING & MITIGATING THE RISK OF DISRUPTION**

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Tariffs and policy changes have emerged as a significant source of uncertainty in the global economy, with the insurance industry feeling the effects. Recent shifts in U.S. trade policy, including steep import tariffs on steel, aluminum, automobiles, and a broad range of other goods, have sent ripple effects through supply chains and markets. Insurers, much like construction firms and manufacturers, are grappling with rising costs and disrupted logistics. For claims professionals, adjusters, and coverage attorneys, these trade disruptions pose evolving risks to insurance coverage and claim outcomes. Policymakers and industry leaders have flagged the issue: the American Property Casualty Insurance Association (APCIA) has warned that broad tariffs aimed at key trading partners are likely to hurt families, businesses, and insurers alike by driving up the cost of claims. Industry economists compare the situation to other systemic disruptions like the COVID-19 pandemic; while the cause is different, the challenges of sudden cost inflation and project delays are remarkably similar. Just as the pandemic revealed gaps in contracts and coverage for unforeseen delays, the current tariff turmoil is exposing vulnerabilities in insurance policies and risk management practices that had not anticipated novel trade policy disruption.

From an insurance coverage perspective, tariffs function as an external shock that can undermine the assumptions under which policies were underwritten. When import duties raise the price of building materials, auto parts, and other critical goods, the cost to repair or replace insured property increases accordingly. If those tariffs change suddenly—imposed, rescinded, or altered in scope—they create a fluctuating environment that is difficult for insurers to predict. The past several months was particularly tumultuous. Insurers have witnessed an initial round of tariffs, then temporary rollbacks, followed by new rounds of tariffs with varying rates and target countries. This volatility forces constant reassessment of exposure. Coverage attorneys and claims departments must quickly analyze how these government actions might affect ongoing claims and obligations. For example, a claims adjuster on a large commercial property loss may need to revisit the estimate if the cost of structural steel spiked 25% due to an import duty. A coverage lawyer might be asked whether such a cost surge could trigger any policy provisions or exceptions. However, in most cases, standard property and casualty policies were not drafted with tariff scenarios in mind, meaning they contain no explicit clauses to address sudden inflation from trade policy. As a result, both insurers and insureds are operating in a legal gray area, attempting to apply general policy language to an unprecedented situation.

Tariffs Driving Claims Costs and Supply Chain Challenges

One immediate way tariffs impact insurance is through claims cost inflation. By design, tariffs raise the prices of imported goods and often allow domestic suppliers to raise their prices as well. In the construction and property insurance realm, materials like steel, lumber, aluminum, and copper are basic components of rebuilding damaged property. A tariff on imported steel, for instance, gives U.S. steel makers room to increase their own prices, meaning the cost to repair a

collapsed building frame or replace a roof suddenly climbs. Industry associations in construction have been vocal about this dynamic. The Associated General Contractors of America (AGC) has cautioned that tariffs on metal imports will boost material costs and squeeze contractors, especially those locked into projects at fixed prices. Those same higher costs affect insurers when they pay property damage claims. And with notoriously thin profit margins in construction, unplanned cost increases can be devastating for builders. Similarly, unplanned claim inflation can devastate insurers who did not price their policies for a trade war environment.

Consider the auto insurance sector, which is highly sensitive to parts prices. Approximately 60% of U.S. auto replacement parts are imported from tariffed countries such as Mexico, Canada, and China. If new tariffs make those parts more expensive or harder to obtain, the average severity of auto insurance claims will rise. Insurers are already observing this trend. The APCIA estimated that the U.S. personal auto insurance market could see an annual increase of \$30 to \$60 billion in claims costs attributable to the tariff-driven jump in parts prices and repair expenses. Many auto insurers only offer six-month policies, and within a single policy period, the cost of repairs can surge unpredictably. Claims professionals report that common replacement components such as body panels and electronic sensors now carry higher price tags. Additionally, repairs are taking longer when parts shipments are delayed by trade restrictions, which in turn forces insurers to pay more days of rental car coverage for claimants. In commercial auto lines, similar issues arise with specialty parts for trucks and heavy equipment. The cumulative effect is a broad uptick in claim payouts that may outpace the premium collected for those risks.

Property insurers are encountering analogous challenges. Tariffs on construction materials like lumber have caused the price of rebuilding a home or commercial building to climb steadily. The Insurance Information Institute's economists have noted that changes in trade dynamics directly impact the availability and cost of goods crucial to the insurance world. If lumber from Canada or steel from China becomes 15–25% more expensive, the next wave of homeowners' claims (say, from a hailstorm or fire) will be significantly costlier to settle. For claims under a fixed policy limit, there is a risk that the limit may no longer be sufficient to cover the full cost of repair if inflation outpaces expectations. Coverage attorneys are keenly aware of the potential friction: an insured may argue that they should be indemnified for the full cost of repairs even if it exceeds policy limits, pointing to the extraordinary government-induced price surge as an "external" reason, while the insurer must hold the line on the contracted limit.

Beyond cost inflation, supply chain disruption is another byproduct of tariffs that affects insurance. Tariffs can cause certain foreign suppliers to withdraw from the U.S. market or shift their distribution, leading to a scarcity of parts or materials. From the perspective of an insurance claim, scarcity most readily translates to delays. A factory fire claim, for example, could be prolonged because replacement machinery is stuck in customs or now needs to be sourced from a non-tariffed country. Moreover, business interruption coverage typically requires direct physical damage and may not respond to pure supply chain delays due to tariffs. And even when coverage is not in question, delays can increase the loss. For instance, if a property cannot be repaired promptly due to a lack of materials, the insurer potentially owes additional months of business interruption indemnity or additional living expenses for homeowners in temporary housing. Such knock-on effects can quietly amplify what started as a moderate claim into a very large one.

Lines of insurance that specialize in trade and credit are also exposed. Surety bonds, which guarantee a contractor's performance on construction jobs, are facing a wave of concern that contractors will default on obligations as costs skyrocket. If a contractor locked into a fixed-price contract is confronted with 20% higher costs and no contractual relief, bankruptcy or abandonment of the project becomes more likely, triggering claims on performance bonds. Trade credit insurance, which protects sellers against non-payment by buyers, could similarly see more claims if tariff-related financial stress causes insolvencies down the supply chain. Industry experts have pointed out that even directors and officers (D&O) liability claims may arise in this climate: publicly traded companies that suffer significant losses due to tariff impacts might face shareholder lawsuits alleging that management failed to adequately warn investors or mitigate the known risk of trade disruptions. Thus, the tariff issue extends beyond property and casualty claims into the financial and liability lines, making it a truly enterprise-wide concern for insurers.

Underwriting Uncertainty and Market Volatility

For underwriters and insurance executives, tariffs present a moving target that complicates risk evaluation and pricing. The traditional underwriting process relies on a stable outlook for loss costs, using historical data and predictable inflation trends to set premiums. Tariffs undercut that stability. According to an analysis published in *Insurance Business America*, the new tariffs introduced in 2025 are expected to introduce further volatility across property, auto, life, and health insurance lines. Insurers are finding that assumptions baked into their pricing models no longer hold, at least not without wider error margins. Ratings agencies and industry analysts have emphasized the need for scenario planning in this volatile environment. AM Best, for example, has advised that insurers should be looking at hypothetical "what-if" scenarios to test their resilience against tariff-driven outcomes. These scenarios include examining what happens if certain key costs spike 20% or if supply shortages last for a year or more. Interestingly, as of mid-2025, AM Best had not observed major shifts in insurers' investment or underwriting strategies, indicating that many carriers were still adopting a "wait and see" approach. However, the agency cautioned that the indirect impacts of tariffs could be meaningful and might emerge. Underwriting in an age of tariffs thus requires both nimbleness and prudence.

Market volatility tied to trade disputes also affects the asset side of insurers' balance sheets. The threat of tariffs and trade wars tends to spook financial markets, leading to swings in equity prices, bond yields, and currency values. Insurers, being large institutional investors, can suffer investment losses or reduced investment income in such turbulent times. A sudden drop in the stock market or a rise in corporate bond defaults (for example, if heavily tariff-exposed companies struggle financially) can hit insurers' surplus capital. This, combined with rising underwriting losses, puts a squeeze on profitability and solvency. Industry leaders have voiced alarm at this collision course, noting that if tariff conflicts are not resolved, the outcome could be a broader economic downturn. While advocacy is one tool, insurers know they must also prepare internally for choppy waters. This preparation includes reexamining reinsurance programs (to ensure they are robust against higher severity claims), possibly adjusting catastrophe models (if supply issues could delay recovery from CAT events), and keeping regulators informed about emerging risks to pricing adequacy. Underwriters are increasingly incorporating tariff considerations into their risk factors; for example, asking large commercial clients about their supplier diversification and

contingency plans as part of underwriting due diligence. A client heavily dependent on imported components might be seen as a riskier bet unless they have plans to mitigate that exposure.

Coverage and Legal Exposure Considerations

From a legal and coverage standpoint, the tariff situation raises several important issues. First and foremost, insurance policy language is being tested against scenarios it was never originally intended to address. Most property and casualty policies do not have clauses that directly address government trade policy or tariff-induced losses. Traditional property insurance, for instance, requires physical loss or damage to trigger coverage. Higher costs or delays due to tariffs, absent any physical damage, do not fit neatly into the insuring agreement. Coverage attorneys anticipate that some insureds may attempt creative arguments to obtain coverage for losses stemming from tariffs, perhaps invoking provisions like “sue and labor” (which obligates insurers to pay for reasonable expenses to protect property from further loss) or claiming that tariffs qualify as a form of government action that should be covered under certain extensions. However, such arguments face an uphill battle. Many property policies contain exclusions for governmental action, and insurers could assert that the broad intent is to exclude losses arising from government policy decisions rather than physical events. Likewise, business interruption coverage unequivocally requires insured physical damage—courts have consistently held that economic loss from external events like market shifts or regulatory changes does not activate business interruption coverage. Coverage counsel are advising their clients to be prepared to explain this to policyholders and clarify coverage limits and exclusions related to tariff scenarios.

On the claims handling side, legal exposure can arise if insurers are not proactive and transparent in dealing with tariff-related issues. Bad faith claims could be a concern if an insurer unreasonably delays a claim or denies payment while citing increased costs or lack of parts. For instance, say an insurer knows that a certain car part is indefinitely backordered due to import restrictions, causing a customer’s vehicle to be in the shop for months. If the insurer quietly waits, hoping costs will come down or parts will arrive, without updating the policyholder or offering alternatives, they might face accusations of not acting in the insured’s best interest. To mitigate such legal exposure, claims professionals should document the reasons for any delays and actively communicate with insureds about the steps being taken. Many insurers are establishing internal guidelines for tariff-related claims, such as when to consider settling a claim if materials are unavailable, or when to allow exceptions for using more expensive domestic parts to speed up repairs. The key is to remain fair and consistent, as regulators and courts will examine whether the insurer treated the customer fairly under these challenging circumstances.

Coverage attorneys also counsel insurers to review their policy forms in light of tariff risks. While mid-term changes to existing policies are generally not possible, future policy wordings could be refined. Insurers might consider introducing sublimits or clarifications for losses indirectly caused by government trade actions. Some commercial insurance contracts now include price escalation clauses or index-linked coverage limits (much like inflation guard endorsements) to account for unexpected cost jumps during the policy period. From a legal drafting perspective, adding an endorsement to address material cost fluctuations can prevent disputes later. Conversely, insurers must be careful with how they apply any co-insurance or value reporting penalties. If an insured’s property values were scheduled before the tariff surge and are now undervalued due to

inflation, rigidly enforcing a co-insurance penalty could spark litigation, with the insured arguing that the underinsurance was not due to their negligence but an unforeseeable external shock. In sum, the legal dimension of tariff-related insurance issues revolves around contract interpretation and good-faith claims handling. Precedents from past market disruptions (such as wartime price controls, or more recently, pandemic shutdowns) illustrate that when insurers and policyholders end up in court over coverage gaps, the outcomes can be unpredictable and often costly. It is in everyone's interest to mitigate these disputes through clear policy terms and proactive engagement as the government's tariff policy evolves.

Best Practices Under Tariff Uncertainty

Insurance professionals can draw lessons from other sectors, like construction, that have been navigating tariff risk from the get-go. In the construction industry, savvy contractors have begun adjusting their bidding and contracting strategies to account for sudden cost escalations. Likewise, insurers and coverage experts should adopt tailored best practices to mitigate the uncertainty that tariffs introduce. The following recommendations mirror the structured approach of risk mitigation seen elsewhere, but are geared toward insurance coverage and claims:

First, factor in tariff-driven cost inflation when pricing and reserving insurance policies. Just as a contractor adds a contingency to a bid for potential steel price increases, underwriters should add a margin to loss cost projections in lines exposed to material or part costs. While overestimating costs could impact competitiveness, it is safer than underestimating and suffering unexpected underwriting losses. Additionally, actuarial teams may consider developing alternative pricing scenarios to present to management. This stress-testing can justify the need for rate increases or broader underwriting margins. By building in these contingencies, insurers create a financial buffer against volatile repair and replacement costs.

Second, avoid long-term fixed pricing commitments in a volatile tariff environment. In construction contracting, firms have started shortening the validity of their bids (for example, keeping quotes open for only 30 days instead of 90) to limit exposure to rapid price changes. Insurers can take a similar approach by limiting the duration of rate guarantees and being cautious with multi-year policy agreements. Under current conditions, it is wise to include provisions that allow for adjustment if costs inflate beyond a certain threshold. For instance, an insurer could add an endorsement on a two-year policy that permits a premium increase in year two if a defined cost index rises dramatically due to tariffs. Similarly, when providing quotes, underwriters should clearly communicate reduced validity periods: a quote might expire in 30 days, after which the terms may need revision. This protects insurers from being bound to inadequate rates while also signaling to insureds the reality that the market is highly uncertain.

Third, take proactive measures in claims and supply management to get ahead of tariff impacts. Contractors facing potential tariffs have learned to secure critical materials in advance, even stockpiling items before a price hike hits. Insurers are not buyers of raw materials, but they can expedite claim decisions and encourage fast action to mitigate rising costs. In property claims, adjusters could be authorized to make advance purchases of materials (through contractors) when they know a claim will need that material in the coming weeks, essentially locking in the current price. Some insurers have formed strategic partnerships with suppliers and vendors as well. By

leveraging these networks, an insurer might negotiate bulk purchasing or reserved inventory for frequently needed items (like common roofing materials or automobile windshields) at a fixed price. The overarching principle is loss mitigation: spending a bit more effort or money now to avoid a much larger expense later. Claims managers should also revisit their catastrophe response plans with an eye on supply chain vulnerability. After a natural disaster, materials are in high demand; if tariffs are also restricting supply, the traditional surge in demand could be exacerbated by trade constraints. Forward-thinking carriers have begun pre-arranging alternative supply lines.

Fourth, utilize alternative products, vendors, or methods to reduce tariff exposure in claims. In adjusting claims, flexibility can lead to significant savings and faster resolutions. For example, auto insurers have long used aftermarket or reconditioned parts to lower costs; *e.g.*, if OEM auto parts from overseas are exorbitant due to tariffs, an adjuster might source a high-quality aftermarket part from a domestic manufacturer. So too in property claims—if imported ceramic tiles have become scarce and expensive, the insurer could work with the policyholder to agree on locally made tiles of similar quality. The key is maintaining the quality and function while finding a cost-effective substitute. Underwriters, for their part, can encourage this adaptability by writing policies that permit the use of equivalent materials or repairs. Some insurance policies rigidly mandate “like kind and quality” replacements, which could be interpreted as the exact same imported item, but this language can be tweaked to allow for pragmatic solutions in extraordinary times. Additionally, diversifying the panel of vendors and service providers is crucial. Just as companies diversify suppliers, insurers should not rely on a single contractor network that might itself be dependent on imported inputs.

Fifth, design insurance contract terms that adjust for tariff risks. In construction contracts, one strategy to handle unpredictable costs is to use cost-plus or adjustable price contracts instead of pure fixed-price deals. In insurance, this concept can translate to policy features that provide more elasticity in coverage. One example is an inflation guard endorsement, which many property policies already have, automatically raising the insured value by a certain percentage over time. Another approach is offering endorsements for price escalation: for instance, a builder’s risk policy might include a clause that if material costs increase during the project due to tariffs, the policy limit for that material is adjusted accordingly (potentially with the insured paying an additional premium for the increased coverage). Commercial policyholders may be amenable to sharing this risk by paying for such flexibility. Insurers can also use margin clauses that allow some leeway above insured values, cushioning against valuation errors in volatile times. Additionally, if an insurer has already issued a long-term, fixed-rate policy and is now facing unforeseen tariff exposure, they should consider exercising any protective provisions in that contract. Many multi-year policies have clauses that allow cancellation or re-rating if there are regulatory changes. While invoking such clauses should be done judiciously (as it can strain client relationships), in extreme cases it may be better to renegotiate terms with the insured than to passively absorb a major loss. In all cases, communicate clearly; policyholders are more likely to accept a mid-term adjustment if they understand that it is a mutual safeguard against an external threat neither party can control.

Sixth, maintain open communication with policyholders and partners about tariff-related risks. Early and transparent communication is a cornerstone of risk management. In the construction sphere, contractors have found success in frankly discussing tariff concerns with project owners, sometimes convincing them to share in the risk of price increases. Similarly,

insurers should engage their clients, brokers, and reinsurance partners in dialogue about how tariffs could impact exposures and what can be done collaboratively. For example, insurers can issue advisory notices to commercial clients highlighting the importance of reviewing coverage limits. A business that renewed its property policy last year might not realize that its insurance limits are now inadequate. On the claims side, keeping the insured informed at every step when a tariff issue arises will build trust and reduce the likelihood of disputes. If a particular claim is subject to delay because a part is stuck in customs, explaining the situation and showing the insured the efforts being made to resolve it will assure them that they have not been forgotten. Insurers can also coordinate with industry associations and even government bodies. The insurance industry, through groups like APCIA and the Insurance Information Institute, actively monitors tariff developments. By relaying insights from these groups to frontline staff, insurers ensure that their teams have the latest information. Internally, underwriters and claim managers should share information with each other. In volatile times, silos can be harmful; a culture of open information exchange helps organizations react cohesively to the tariff challenge.

Conclusion

The resurgence of tariffs and trade barriers in recent years has introduced a complex risk landscape for the insurance industry. Claims professionals, adjusters, and coverage attorneys must translate macroeconomic turbulence into practical decisions on policy language, claim payments, and client advice. While tariffs pose significant challenges, the industry's response can be proactive rather than reactive. By recognizing the evolving risks early and adopting the best practices outlined above, insurance carriers and professionals can cushion the impact on their portfolios and customers. Much like a well-prepared contractor includes contingencies in a bid, insurers who build flexibility and foresight into their operations will be better positioned to weather the tariff uncertainty. Of course, trade policy is fluid, and tariffs may come and go with changing political winds. Through it all, maintaining clarity, fairness, and agility is key. The insurance industry's role as a risk manager has seldom been more visible, but by managing the tariff risk within contracts and claims, you can help ensure that individuals and businesses can continue to rely on the safety net the insurance industry provides.