National Insurance Alliance Limited

21st February, 2025

How Tariffs from the Trump Administration will Affect the Insurance Industry

With the Donald Trump administration truly well under way, markets have been quick to move in reaction to anticipatory tariffs slated to take effect in the coming weeks and months. Consequently, tariffs could have a significant impact on the insurance industry, particularly in areas such as underwriting, GDP, and cost management. Here's a breakdown of the potential effects:

Underwriting Headwinds

Geopolitical instability from tariffs may lead to hesitation from insurers, freezing capital commitments especially for multinational cross border coverage and industries like inland marine shipping and manufacturing. Many insurers may postpone major policy decisions until trade policies become clearer and the situation in the global geopolitical landscape stabilises. Since insurance growth is closely tied to GDP, a trade war-induced economic downturn could reduce the overall risk pool, negatively affecting underwriting. Consequently, tariff induced market volatility could potentially shift the focus of insurance executives to prioritise the bottom-line and implement steeper cost management strategies. Additionally, the auto insurance sector could be the hardest hit by the impending Trump 2.0 policies.

Unsurprisingly, tariffs on imports particularly from Canada (one of the largest trading partners of the United States), could disrupt the manufacturing sector which in turn causes a surge in the costs of auto parts and building materials. This would in turn drive up the costs of indemnity expenses as the notional value of claims will also be expected to rise. Moreover, supply chain disruptions could further raise claims-related costs which includes alternative living expenses, business interruption expenses, rental car fees, and storage costs. Should tariffs extend to imported vehicles and parts, personal auto insurance premiums are set to skyrocket by an estimated $3.4 billion, alongside significant increases in commercial auto insurance rates.

Rising Premiums and Broader Economic Impacts

Tariffs and the threat of trade restrictions could contribute to inflation especially in the auto sector, potentially leading insurers to increase premiums to offset higher vehicle and replacement part costs. Although the auto insurance sector is not representative of the entire industry, the magnitude of tariffs could potentially have a spillover effect into other sectors of the industry. To put it simply, by analysing just the rising prices of steel alone, it could potentially add about $1,500 to the cost of a new car in the United States. Additionally, if tariffs were imposed on all goods from Canada and Mexico, car prices are predicted to surge even further by an estimated $3,000, or even as much as $6,250 for a $25,000 vehicle. Insurers would likely have Hobson's choice but to pass on these increased costs on to consumers. Therefore, a second Trump administration is expected to foster a more business-friendly environment. If inflation can be curbed successfully, this could benefit insurers by lowering claims costs and overall operational expenses.

NIACE will closely monitor the developments in the global economic and geopolitical landscape. The company remains committed in helping our clients navigate the uncertain and increasing volatile global economy as we do our utmost to ensure the most relevant products offered while protecting the financial wellbeing of our clients.

Note: NIACE is an independent company and is not affiliated with any of the financial institutions (past and/or present) mentioned in our press releases unless otherwise specified. Views expressed in this article are purely for informational purposes only and do not act as nor constitute investment advice. Past performance does not guarantee future returns. Clients and readers are advised to conduct your own due diligence or consult your financial advisor(s) before making any investment decisions.

contact@niace.com www.niace.com P.O. Box 1085, 5th Floor, Queensgate House, 113 South Church Street, Grand Cayman KY1-1102, CAYMAN ISLANDS