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Global trade redefined: Insurance

Dealing with tariff uncertainty

July 2025

This report has been developed in collaboration with the Strategy& team, PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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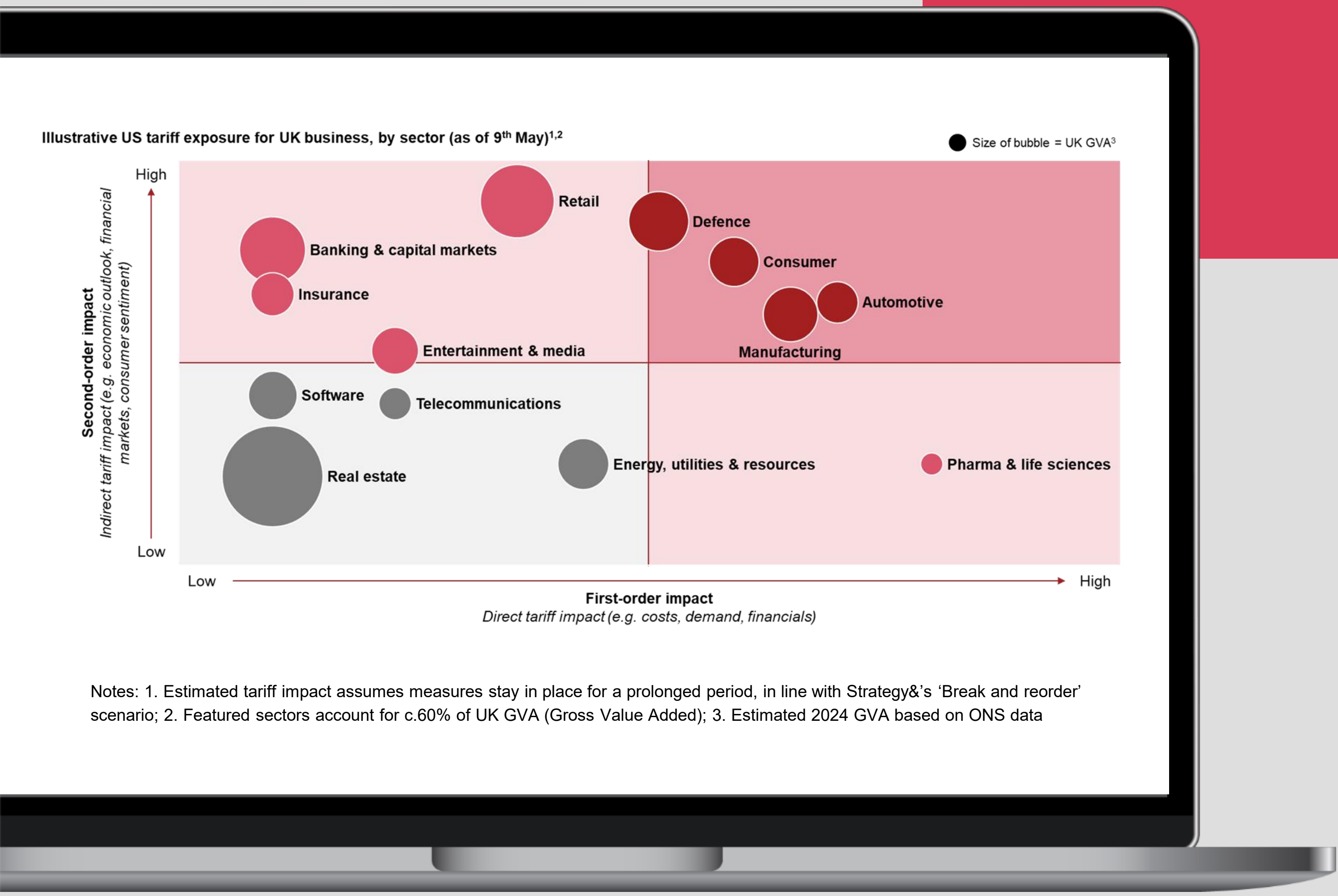
Introduction

The introduction of the US administration's tariffs is expected to indirectly affect the UK insurance sector, primarily through the impact of tariffs on economic growth and insurance claims supply chains. Insurers, particularly those with international / US exposure, face decreased insurance demand in trade-sensitive industries like manufacturing and transport, alongside increased claims volatility and disrupted supply chains. Financial market volatility has also affected insurers' balance sheets, with potential impacts to investment performance and income.

Rising costs from tariffs on Chinese exports will impact property and motor damage claims, leading to potential premium increases and / or new claims fulfilment solutions. Insurers must reassess risk appetite, adapt pricing and innovate to address these challenges. Short-term strategies include pricing adjustments and supply chain diversification, while long-term plans may also emphasise product innovation. Leveraging digital and data capabilities will support successful insurers' abilities to make the required strategic changes at pace amid this market uncertainty.

Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of 'no regret moves' in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&'s 'Break and reorder' scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

Assessing the situation

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. This marked the beginning of a tumultuous period, during which sector-focused tariffs have been implemented, pauses have been extended, and tariff letters have been issued. Businesses continue to face a materially more volatile and uncertain global trading environment as a result.

What happened on 'Liberation Day'?

An Executive Order introduced a dual framework of US import restrictions: (1) broad-based 'baseline' tariffs; and (2) targeted 'reciprocal' measures. The UK was subject to the 10% baseline rate, while other partners were subject to much higher rates.

These tariffs sat alongside a number of product-level distinctions (e.g. automobiles, steel, and aluminium), and exemptions (e.g. pharmaceuticals and critical minerals).

Activity in overdrive

On 9 April, reciprocal tariffs were paused for 90 days - creating a window for intense diplomatic engagement between the US and its main trading partners.

As only three 'agreements' were reached within the initial 90-day window, this pause has since been extended to 1 August. This extension was announced alongside the issuance of formal 'tariff letters' which confirmed and, in some cases, revised rates.

While these letters provided clarity, they have also sparked new complexities. Some countries such as Japan and Brazil saw steep increases, while others received conditional relief. Countries must now consider how to respond, either through acceptance, retaliation, or renewed deal-making efforts.

It remains unclear exactly what will happen next as we pivot from a predictable trading environment into uncharted territory, but it is evident that **global trade is being redefined**.

Extended fragmentation

While the initial focus has been on goods, trade disruption is likely to spill into other domains. For instance, some service sectors may see sharper regulatory divergence, while others trend towards regionalisation.

Labour mobility, too, is under pressure. Migration constraints and shifting geopolitical alliances are limiting access to global talent pools, while heightened restrictions on knowledge exchange and capital flows risk slowing innovation - particularly in sensitive areas like AI and tech.

These shifts may feel abstract for UK businesses, but they carry real implications. Fragmented capital markets could restrict cross-border investment, divergent data standards might hinder digital growth, and scaling innovation across borders may become more challenging.

Businesses that once optimised for cost and efficiency must now account for robustness and agility - embedding **resilience** as a guiding principle across supply chains, partnerships, and talent strategies.

Organisations must adapt to this redefined world, with success likely to belong to businesses that can bridge the divides that others can't yet see.

> Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake."
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

What could happen next

The contours of a new trading system

While US trade policy remains volatile, there are three defining themes which we expect will underpin the future path. Most notably, it is our view that stronger protectionism will be a guiding principle for the US - a stance which may continue to evoke retaliatory action across the globe.

As the direction of trade policy becomes clearer, businesses must shift from reactive decisions to long-term strategic planning. This means developing investment strategies, risk management frameworks, and supply chain designs that build resilience against potential future changes.

US protectionism is here to stay

Enhanced US protectionism is likely to remain for a number of reasons:

Political sensitivity – the White House has framed the tariffs as a national security issue, making it difficult to roll back policy.

Tax revenue – tariffs may generate up to 6% of total US federal income in 2025.[1]

Business backlash – businesses that have adapted operations in response to tariff announcements would be stung by policy U-turns.

New measures – even if the US decides to move beyond tariffs, other protectionist measures such as domestic subsidies or local content requirements, may be considered.

Shields will vary by sector

Policy specifics will evolve over time, but the US is likely to 'shield' particular sectors:

Tariffs will focus on industries where the US sees domestic opportunities, such as steel, automotives, and semiconductors.

Priority industries are likely to evolve over time, as the US administration better understands domestic capability and international reliance.

The US is open to carving out exemptions for partners who are willing to negotiate, as illustrated by the trade agreement reached with the UK.

Policy will remain dynamic and unpredictable

US policy will continue to evolve at pace, and is likely to remain somewhat unpredictable:

Dynamic – the US weighted average tariff rate has fluctuated through 2025, with continued volatility likely.

Unpredictable – ongoing Section 232 investigations into steel and aluminium hint that fresh measures could drop without warning.

Escalating – if threats towards trading partners such as Brazil, Mexico, and the EU materialise, the US weighted average tariff rate could climb to c.35% by 1 August 2025.[2]

Less credible – some Wall Street commentators have viewed US announcements as negotiation tactics rather than true policy direction, with policy credibility further eroded with each cycle of delay and de-escalation.

Notes: (1) January 2025 Congressional Budget Office projections – prior to the announcement of Liberation Day tariffs (2) US weighted average tariff rate reflects the average tariff imposed on goods imports to the US, considering both country-specific and sector-specific rates due to be implemented on 1 August. **Sources:** WITS, the Budget Lab at Yale, Reuters, Congressional Budget Office

Taking stock of tariffs

Understanding the impact on the Insurance sector

US tariffs, while not directly targeting the UK insurance sector, will have important indirect consequences for the sector through the wider economic ramifications. UK insurers, particularly those serving US / exposed geographies, are navigating a more complex risk landscape as a result.

The significant changes in global trade and potential dampening effect on global economic growth stemming from US tariffs is likely to translate into fluctuations in demand for insurance. More than 50% of global business written in London has US exposure, so in trade-sensitive industries such as manufacturing, transport (including marine cargo), and tourism, there are likely to be reductions in demand, similarly in volume-based coverages such as Employers' Liability (where employee numbers reduce). Conversely, there are likely to be increases in demand for trade credit insurance and coverages such as political risk.

In personal lines insurance, the impact of tariffs on global supply chains will drive up the cost of claims for motor and home insurance. With consumer confidence under pressure and household budgets tightening, discretionary insurance products such as travel and pet cover face demand-side headwinds, further challenging growth prospects.

In terms of claims impacts, tariffs on exports to the US have increased the cost of materials used in repairs, impacting all property and damage insurance lines e.g. US property damage in specialty markets and motor and property lines in UK domestic insurance markets. These inflationary pressures are likely to be passed through in the form of higher premiums.

Disrupted global supply chains have also heightened the risk of claims in specialist lines such as trade credit. For UK insurers underwriting these lines, the increase in claims volatility may necessitate stricter underwriting standards and a reassessment of risk appetite.

Alongside the above impacts on the liability side of an insurer's balance sheet, financial market volatility, triggered in part by retaliatory trade policies and investor uncertainty, can also impact the asset side. Here, portfolio performance has been pressured by widening credit spreads and poor returns, particularly in US equities and fixed income instruments. For insurers with material exposure to these asset classes, this has implications for investment returns and calculation of capital buffers. Fluctuations in foreign currency will also need to be carefully considered in the context of hedging strategies and mismatches between insurance and reinsurance coverages.

Increased market volatility can also complicate asset-liability matching for life insurers. While this is unlikely to create instability in the sector given the strength of the UK capital regime, firms will need to consider the impact on their medium to long-term investment strategy. In addition, infrastructure projects often rely on foreign investment and imports of materials and technology. Tariffs could increase the cost of imported goods, potentially raising the overall cost of infrastructure projects in the UK. This could impact the anticipated returns on investment for life insurers, making such projects less attractive.

Given the activity around tariffs, insurers should be alert to possible associated tax developments. For example, potential US tax changes negatively impacting non-US insurance groups operating in the US, and planned US tax cuts affecting US insurers. In the UK and elsewhere there will likely be increased pressure on governments to raise revenues through tax rises, with higher risk for sectors less impacted by the tariffs.

Navigating the potential fallout

Short and longer term actions you should take

There are several short and longer-term moves that insurance businesses can consider in responding to the evolving market situation.

Short-term ‘no regret’ moves	Moves to capture maximum value over the longer term
• Segment insurance portfolios by line of business (e.g. separating those focused on physical damage repair / remediation versus other forms of protection) and geography to understand those which are most likely to be impacted by tariffs.	• Diversify and optimise supply chains and sourcing strategies to mitigate cost increases, disruptions, and explore alternative sources of goods.
• For the more affected segments, assess likely impact from global supply chains and corresponding claims cost changes.	• Innovate and develop new products and services that cater to new emerging markets, changing customer needs and preferences, and that offer more stability and protection amid market uncertainty.
• Protect profits by monitoring and adapting supply chain models and recalibrating pricing.	• Expand and diversify into new markets and sectors that are less affected by the tariffs, or that offer growth potential (i.e. working out which companies / territories might be beneficiaries of growth / share gain from the tariff changes).
• Develop further contingency plans to respond in the event of further tariff changes and / or escalation.	
• Monitor and manage investment risks, regulatory requirements and potential tax changes, preparing for various scenarios and stress tests.	

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There is a definite impact of the tariffs on the insurance sector, and it is important to quickly assess the impact, scenario plan and adopt mitigating policies as soon as practicable.”

Alex Bertolotti, PwC UK Insurance Sector Leader

Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade.

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