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Global trade redefined: Insurance

Dealing with tariff uncertainty

April 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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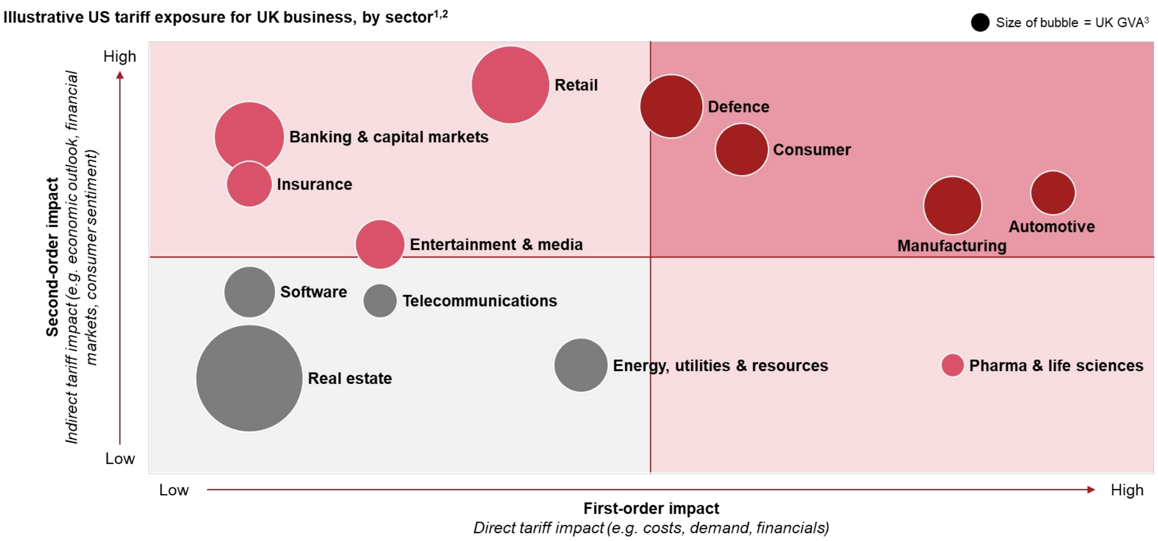
Introduction

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

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930. The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The Executive Order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain South-East Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely. The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

Looking ahead

Recent US statements suggest further restrictions may be introduced in select product categories. Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind.

Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

> "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

Three scenarios to plan for the short term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To help clients better understand how tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes happening, we've chosen to limit these to tariff policy. However, we are mindful that the current changes to US tariff policy is likely to spill over into second- and third-order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, including Canada, Mexico and China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July 2025). These come into force by the end of the calendar year. In the interim, the "baseline" tariffs continue to apply for most economies, including China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8 July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the "baseline" tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the 2 April 2025 announcement.
- For China, tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down. The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes "reciprocal" tariffs by 8 July 2025. With this in mind, the EU, Japan, China and other economies retaliate in equal measure. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium run, the ex-US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South-East Asian economies forging closer trading relations with China. These changes are also rapidly reflected in investment flows.

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.	

"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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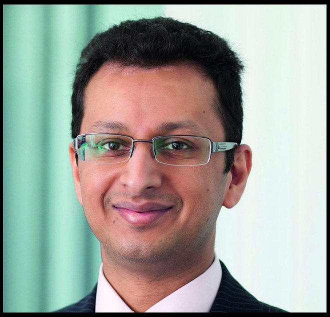

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