

Tariffs and Their Effects on Personal Auto Insurance Costs: An Actuarial Perspective

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Key Points

- Tariff volatility throughout 2025–2026 has created substantial economic uncertainty. The rapidly shifting tariff environment—characterized by frequent pauses, reductions, and changes in effective dates—has contributed to significant uncertainty for the insurance industry.
- Direct cost increases from tariffs on imported cars and parts are expected to materially raise auto insurance claim costs, resulting in a rise in premiums. Indirect economic effects—such as recession risk, inflationary pressure, and supply chain disruption—may further distort auto insurance experience.
- Tariffs are not mentioned in the actuarial standards of practice, but actuaries should reference them and consider them carefully when assessing and disclosing tariff related risks and uncertainties.

Background/Introduction

With discussion of the potential impact of tariffs first raised in 2025 following their imposition by the Trump administration, the United States and global economies continue to face significant uncertainty as we enter 2026. Tariffs—defined as taxes on imports that are typically charged as a percentage of the price a buyer pays a foreign seller for an imported product¹—vary by importing country and began to take effect for certain countries and products in February 2025. Since that time, the tariff landscape has evolved rapidly, and many imposed tariff increases have seen either nearly immediate reductions in their amounts or delays in their effective dates. Examples of early 2025 tariff activity include^{2,3} the following:

- Tariffs of 10% on imports from China and 25% on imports from Mexico and Canada were initially announced on February 1, with an effective date of February 4. On February 3, the Trump administration agreed to a 30-day pause on the tariffs against Mexico and China, which were postponed again in early March.
- Tariffs of 25% were placed on automobile imports, effective April 3. On April 14, the administration announced a temporary exemption from previously imposed tariffs on the auto industry to allow carmakers to adjust their supply chains in preparation. On April 29, President Trump signed additional executive orders that relaxed or further reduced the tariffs on automobiles and related parts.



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¹ [What Is a Tariff and How Does It Work?](#); Charles Schwab (Schwab Brokerage); May 20, 2025.

² [Trump's tariffs have launched global trade wars. Here's a timeline of how we got here](#); MSN/The Associated Press (AP); June 2025.

³ [Current Tariff Announcements Under Trump Administration](#); USA Customs Clearance; Feb. 24, 2026.

Tariff activity continued throughout 2025 and into 2026. Canadian imports are subject to a 35% tariff and Mexican imports are subject to a 25% tariff (excluding goods covered by the United States-Mexico-Canada Agreement). Most imported automobiles and auto parts are subject to a 25% tariff, though European Union (EU) automobiles and auto parts are subject to a lower 15% tariff, effective August 1, as part of a trade agreement between the U.S. and the EU. Further, in February 2026, the U.S. Supreme Court ruled that the president lacks the authority under the International Emergency Economic Powers Act (IEEPA) to impose sweeping import tariffs without clear Congressional authorization. The Court held that tariffs are a form of taxation reserved to Congress under the Constitution and that IEEPA's grant of authority to "regulate" commerce during national emergencies does not extend to imposing duties. As a result, most tariffs imposed under IEEPA—including broad reciprocal tariffs (discussed below) and certain country-specific tariffs—were invalidated, while tariffs imposed under other statutes were unaffected. The decision significantly curtails unilateral executive trade powers, reinforces Congressional control over tariff policy, and has led lower courts to recognize importers' entitlement to seek refunds of unlawfully collected duties, with potentially substantial fiscal and trade implications.⁴

In response to the tariffs imposed by the U.S., many countries have retaliated with plans to reduce or eliminate shipments to the U.S. Some have also responded with reciprocal tariffs, which are tariffs that one country places on another in response to similar actions taken by that country. These tariffs range from 10% to 41% and apply to most U.S. trade partners, including China, Mexico, and Canada. These actions have significant implications for the U.S. economy and the cost of a wide range of goods and services, from groceries to medicines to auto parts. Companies' existing inventory may help delay price increases, but as inventory dwindles, costs are expected to be passed from businesses to consumers. Neither insurers nor insurance consumers should expect to be immune.

⁴ [The Supreme Court Clipped Trump's Tariff Powers—and Opened New Trade Battlefronts](#); Council on Foreign Relations; Feb. 23, 2026.

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The rapidly changing nature of the tariff environment during 2025 created significant economic uncertainty and made it difficult to fully understand and quantify the potential implications for the insurance industry. While many insurance lines of business will feel the effects of tariffs, personal auto insurance is expected to be among the most significantly impacted, given the material damage component of coverage and the specific tariffs on vehicles, auto parts, and related materials, such as steel and aluminum.

In this issue brief, we explore the potential impacts of tariff activity and associated uncertainty on the personal auto insurance industry, including key considerations for actuaries and regulators as they perform their day-to-day reserving, ratemaking, and regulatory duties. In addition to the direct effects on insurers from cost increases, we will also examine the indirect impacts on the auto insurance industry, many of which relate to the broader economic uncertainty and the possibility of an economic downturn. We also reference some of the key actuarial standards of Practice (ASOPs) that actuaries and regulators might rely upon for guidance as they navigate these uncertain times. We note that this issue brief is not intended to be prescriptive, exhaustive, or to provide any quantification of the potential impacts of tariffs, particularly given the significant uncertainty regarding the timing and amount of the tariffs, as well as the variability by importing country and product.

Potential Direct Impacts

The most significant impact on the auto insurance industry is likely to arise from increases in the cost of goods and services directly resulting from changing tariff rates (i.e., the “direct” costs). Such cost increases include the costs of imported automobiles and parts and materials, all of which will ultimately drive up the cost to purchase and repair both new and used vehicles. Liability insurance costs will also increase due to the coverage’s property damage component, which pays for any damage to a third party’s vehicle. In turn, we can expect to see a resulting increase in the dollar amounts of auto insurance claims (for insurers) and insurance premiums (for insureds). In fact, the American Property & Casualty Insurance Association has estimated that the potential increase in personal auto insurance claims could be anywhere from \$7 billion to \$24 billion annually.⁵ Some of the key considerations for actuaries and regulators, with respect to these cost increases and how they might influence various aspects of actuarial analyses, include:

⁵ [Trump’s auto tariffs could raise repair and insurance costs, AP analysis finds](#); The Associated Press; March 18, 2024.

Policy and Insurer Characteristics and Considerations

- **Coverage**—A standard personal auto policy covers bodily injury, property damage, medical payments/personal injury protection, collision, and comprehensive coverages. Direct cost increases from tariffs on imported car parts and materials will likely have a greater impact on property coverages (property damage, collision, and comprehensive) than on bodily injury and medical coverages. The underlying coverage distribution and any historical changes therein should be taken into consideration when analyzing personal auto books of business, particularly when property and liability coverages are considered and analyzed on a combined basis.
- **Origin of Vehicles and Related Parts**—The country of origin for any given vehicle and associated repair parts will play a significant role in the impact on an insurer's expected claim costs for that vehicle's policy, given the varying tariff rates by country. Companies insuring a greater proportion of vehicles manufactured overseas may see higher cost increases than those insuring more domestic vehicles. To better understand the potential impact of tariff changes on any given vehicle, consumers and insurers should refer to reports issued under the American Automobile Labeling Act by the National Highway Traffic Safety Administration (NHTSA), which provide useful information regarding the originating country of various key vehicle parts.⁶

Potential Impact(s) to Actuarial Analyses and Assumptions

- **Loss Development**—Property coverages tend to settle relatively quickly. Still, it is important to consider whether historical development patterns may be different with tariffs, particularly as there has been fluctuation in their timing and amount. Rising tariffs may cause loss development factors to increase as claims mature, and the costs of parts and materials grow. This includes the potential for higher rental replacement costs that may result from supply chain disruption and increased repair time, as noted in the indirect impacts section.
- **Loss Trends**—Tariffs have a direct impact on the average claim cost (claim severity) and the average loss relative to premium (pure premium). Actuaries often look to the past to project the future, but it is important to consider that historical severity and pure premium trends may understate future loss trends if they were observed during a period of lower and/or stable tariffs. The opposite is true as well. Also, while claim frequency and resulting trends could be impacted by tariffs, those impacts would likely be the result of indirect effects as well, such as an economic downturn.

⁶ [Part 583 American Automobile Labeling Act Reports](#); National Highway Traffic Safety Administration; 2026.

- **Loss Adjustment Expenses**—Tariffs may lead to delays or shortages of vehicle parts, which could extend the time and effort needed to settle claims. Disputes with repair shops about costs may increase, in turn increasing the amount of time adjusters spend working on claims.
- **Premium Trends**—Tariffs can impact costs differently for different manufacturers. As noted above, one vehicle manufacturer may be impacted more than another, depending on the location of its manufacturing plants by country. Future premium trends could be different than those observed in the past to the extent that tariffs impact the competitiveness of certain models, or force changes in the quantity or type of models a manufacturer produces.
- **Profit and Contingency Provision**—Projecting future costs inherently comes with uncertainty. As was the case in 2025, tariffs imposed on individual countries were paused and delayed, increased for some countries, and decreased for other countries. This creates additional uncertainty that can lead to increased volatility in future costs. In response, insurers may consider whether adjustments to the profit provision are necessary to compensate for the additional risk and capital requirements. Another consideration for insurers is whether to reflect a higher margin through the contingency provision to cover potential adverse developments.

Potential Indirect Impacts

Direct impacts, such as the increased cost of auto parts and the resulting rise in material damage claim values discussed above, tend to be the focus in assessing the potential impacts of tariff changes on the personal auto insurance industry and will likely cause the most significant impact to insurer and insured costs. However, in addition to these direct impacts, there are also potential indirect impacts that could affect the industry, particularly through changes to the economic outlook, economic inflation, and supply chain disruption. These potential indirect impacts, examples of which are discussed below, are likely to disrupt loss development, claim frequency, claim severity, and loss cost metrics for personal auto insurers across the industry. Any such disruption should be taken into account by actuaries, regulators, and other users of auto insurance company data and financial results during this period of heightened tariff activity.

Economic outlook: Tariff activity has driven an increase in overall economic uncertainty. According to research directors from Northwestern University and Stanford University, and based on the Economic Policy Uncertainty (EPU) index, economic uncertainty reached its highest point since the beginning of the COVID-19 pandemic in March 2025.⁷ Economic uncertainty increases the risk of a potential recessionary economy, as consumers and businesses are less likely to spend, invest, and hire during such times. The potential impacts of an economic downturn on the personal auto insurance industry include, but are not limited to, the following:

- Companies experiencing higher costs may see reduced profitability, resulting in workforce reductions and higher unemployment rates. While conditions are unlikely to be as extreme as those observed during the COVID-19 pandemic, with shelter-in-place orders and increased work-from-home arrangements, a workforce reduction could result in less commuter traffic and corresponding changes in driving patterns, such as a shift towards higher-speed, higher-severity crashes.
- Consumers may consider reducing the type or amount of auto insurance coverage purchased to save money on premiums, including removing collision coverage from a policy or reducing insured limits to state minimums. While unlikely to impact auto insurance as drastically as other optional insurance coverages, given state requirements for drivers to carry a certain amount of insurance protection, certain consumers may elect to cancel or non-renew their policies if they are unable to afford the premiums. These coverage changes could result in decreased insurance premiums and slowed premium growth for insurance companies, thereby driving changes in historical data trends and behaviors. Further, to the extent that drivers electing to reduce or remove coverage in these times are “better” drivers with a history of fewer accidents and claims (who might therefore view the insurance coverage as unnecessary), this could lead to a variation of adverse selection for insurers, potentially impacting overall portfolio frequency, severity, and loss ratios.
- Insurance claims filed and insurance fraud often increase during times of recession.⁸ With this in mind, we might expect that consumers facing financial hardship as a result of tariffs and any related economic downturn could turn to dishonesty (through fraudulent insurance claims) as a means to generate funds. This may include exaggerating the extent of damages from an actual auto accident or staging an auto incident entirely, which could result in increases to both claim frequency and claim severity.

⁷ [The Economic Effects of President Trump's Tariffs](#); Penn Wharton Budget Model; April 10, 2025.

⁸ [Why does insurance fraud increase during a recession?](#); Insurance Business; Oct. 21, 2020.

Increase in economic inflation: Increasing tariffs have the potential to drive economic inflation above historical (pre-COVID-19) levels, which would in turn increase costs across the insurance industry, including the personal auto industry. Through Q3 2025, economic inflation had not yet experienced a significant change from historical norms, likely due to the following, according to an article published by CBS MoneyWatch in August 2025:⁹

- Tariff increases to date had not been as high as initially anticipated;
- Many companies purchased a significant amount of inventory before anticipated tariff effective dates;
- Many companies absorbed the cost increases from rising tariffs rather than passing them along to consumers; and
- Tariffs generally impact inflation more gradually over time, rather than immediately after implementation.

With these considerations in mind, more substantial inflationary increases could be experienced later, particularly as tariff activity continues to evolve, stockpiled inventory is depleted and must be replenished at higher costs, and businesses can no longer sustain increased costs without raising their prices.

Supply chain disruption: Supply chains have already experienced disruption and are expected to continue to experience disruption from the recent and ongoing tariff activity. The disruption is in response to actual changes in the tariffs as well as the great degree of uncertainty associated with their timing and amount. Many businesses are making purchasing decisions in anticipation of future tariff activity. Expected impacts to the supply chain include:

- Potential changes in the availability of parts and materials, as well as increased prices from manufacturers;
- Sudden changes in supply and demand, particularly as businesses attempt to “get ahead” of cost increases from looming tariffs;

⁹ [“4 reasons why the Trump tariffs haven’t caused U.S. inflation to soar”](#); CBS News/CBS MoneyWatch; Aug. 21, 2025.

- Operational inefficiencies across trade routes due to the bottlenecks and delays that come with high shipping volumes; and
- Material shortages and production delays as manufacturers adapt to changing supply chains.

Overall, there are many similarities between the potential indirect impacts of tariffs and the indirect impacts experienced by the industry during and after the COVID-19 pandemic. As such, actuaries and regulators might find it useful to consider the data distortions and trends observed during that time period when performing analyses, setting assumptions, and analyzing overall data trends and results in 2025 and subsequent analyses. When doing so, consideration should be given to differences in timing and magnitude of impacts between tariff changes/uncertainty and the disruption experienced from COVID-19, and it should not be assumed that the environment will exactly mirror that of the COVID-19 pandemic. Additionally, any specific reliance upon pandemic-era data or any other deviation from standard methodologies and assumptions in response to data disruption, should be noted and explained in detail as part of the actuarial documentation in support of analyses and results.

Considerations in Actuarial Policy Documents

While the Casualty Actuarial Society’s (CAS) Statement of Principles on Property and Casualty Ratemaking and the ASOPs do not reference or provide guidance surrounding tariffs specifically, tariffs may nonetheless be relevant in several areas of consideration regarding actuarial work products. The following paragraphs outline some of the key standards and statements that an actuary or regulator might reference when considering the impact of tariffs on a given actuarial analysis or other work product:

CAS Statement of Principles on Property/Casualty Ratemaking¹⁰

The definition of ratemaking includes “the estimation of future costs associated with the transfer of risk... *such costs include claims, claim settlement expenses, operational and administrative expenses*, and the cost of capital.

PRINCIPLE 4: A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound *estimate of the expected value of all future costs* associated with an individual risk transfer.

¹⁰ [Statement of Principles Regarding Property and Casualty Insurance Ratemaking](#); Casualty Actuarial Society; May 1988.

CONSIDERATIONS

Other relevant data may supplement historical experience. *These other data may be external to the company or to the insurance industry and may indicate the general direction of trends in insurance claim costs, claim frequencies, expenses and premiums.*

The impact of external influences on the expected future experience should be considered. Such considerations include the judicial environment, regulatory and legislative changes, guaranty funds, *economic variables*, and residual market mechanisms including subsidies of residual market rate deficiencies.

The rate should also include a charge for any systematic variation of the estimated costs from the expected costs. This charge should be reflected in the determination of the contingency provision

Actuarial Standards of Practice

ASOP No. 13—Trending Procedures in Property/Casualty Insurance¹¹

3.3 Economic and Social Influences—*The actuary should consider economic and social influences that can have a significant impact on trends in selecting the appropriate data to review, the trending calculation, and the trending procedure. In addition, the actuary should consider the timing of the various influences.*

3.4. Selection of Trending Procedures—*The actuary may consider relevant information such as (c) procedures that predict insurance trends based on insurance, econometric, and other non-insurance data; and (d) the context in which the trend estimate is used in the overall analysis.*

Potential consideration(s) regarding tariffs: Are historical company or industry benchmark trend rates applicable in projecting future costs under higher tariff rates, particularly with the expectation that tariff impacts are likely to emerge in the underlying data set with a lag?

¹¹ [Trending Procedures in Property/Casualty Insurance \(ASOP No. 13\)](#); Actuarial Standards Board; June 2009.

ASOP No. 36—Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves¹²

4.2 Required Disclosures in the Statement of Actuarial Opinion—

The actuary should disclose (h) the quantitative and qualitative factors underlying risks and uncertainties that the actuary considered in assessing whether there are significant risks and uncertainties that could result in material adverse deviation and (i) whether there are significant risks and uncertainties that could result in material adverse deviation.

Potential consideration(s) regarding tariffs: Are tariff changes a key consideration or uncertainty for this particular insurer? Does recent tariff activity and associated uncertainty influence the determination of whether there is a risk of material adverse deviation?

ASOP No. 41—Actuarial Communications¹³

3.4.1 Disclosures Within an Actuarial Report—Uncertainty or Risk—

The actuary should consider what cautions regarding possible uncertainty or risk in any results should be included in the actuarial report.

Potential consideration(s) regarding tariffs: Does recent tariff activity and associated uncertainty require explicit disclosure for this particular insurer?

ASOP No. 43—Property/Casualty Unpaid Claim Estimates¹⁴

2.8 Parameter Risk—*The risk that the parameters used in the methods or models are not representative of future outcomes.*

3.6.1 Method and Models—*The actuary should consider whether, in the actuary's professional judgment, different methods or models should be used for different components of the unpaid claim estimate. For example, different coverages within a line of business may require different methods.*

¹² [Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves \(ASOP No. 36\)](#); Actuarial Standards Board; March 2024.

¹³ [Actuarial Communications \(ASOP No. 41\)](#); Actuarial Standards Board; May 1, 2011.

¹⁴ [Property/Casualty Unpaid Claim Estimates \(ASOP No. 43\)](#); Actuarial Standards Board; Sept.1, 2007.

3.6.2 Assumptions—*Assumptions may be implicit or explicit and may involve interpreting past data or projecting future trends.*

3.6.6 External Conditions—*Claim obligations are influenced by external conditions, such as potential economic changes, regulatory actions, judicial decisions, or political or social forces..... However, the actuary is not required to have detailed knowledge of or consider all possible external conditions that may affect the future claim payments.*

3.6.7 Changing Conditions—*The actuary should consider whether there have been significant changes in conditions, particularly with regard to claims, losses, or exposures, that are likely to be insufficiently reflected in the experience data or in the assumptions used to estimate the unpaid claims.....Changing conditions can arise from circumstances particular to the entity or from external factors affecting others within an industry.*

Potential consideration(s) regarding tariffs: Are tariff changes expected to potentially impact this insurer's future costs to the degree that past experience may not be predictive of future experience? Are historical methods and models for estimating unpaid claims still appropriate with known and anticipated tariff activity in mind?

Conclusion

As detailed throughout this issue brief, the tariff landscape is rapidly changing, and the potential impact on the personal auto insurance industry is difficult to fully understand and quantify at this time. However, both actuaries and regulators can benefit from close monitoring of tariff changes and careful consideration of how this might impact reserving, ratemaking, other actuarial data sets, and any future expected development. Disruption is likely to be experienced across auto insurers' development trends, claim severities, claim frequencies, and loss ratios/loss costs, and such distortions should be considered when analyzing data trends, setting assumptions, and evaluating overall results.

In determining how to best analyze and adjust the data during this time of heightened uncertainty and disruption, consideration should be given to relevant actuarial statements and standards, such as ASOP Nos. 13, 41, and 43 (among others). Further, actuaries and regulators might consider the data and corresponding trends from the COVID-19 pandemic period as a useful reference point in cases where overlap between potential direct and indirect impacts is expected for any given insurer. Actuaries should fully disclose and explain their thought processes as part of any actuarial communications or documentation and should be clear and transparent regarding any increased uncertainty underlying their analyses.

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