Possible Insurance Coverage Options for Tariff and Trade Risks

May 13, 2025

Insurance Recovery

Substantial and widespread tariffs and disruptions in international trade have caused significant economic instability, which may result in major losses for many businesses. In these circumstances, companies should not forget to look to their insurance programs for potential coverage of such losses. While a search for the word “tariff” in a company’s insurance policies is unlikely to find the word, protection against losses related to tariffs and other international disruptions does exist. Many insurance policies may seem a poor fit for such coverage, but coverage extensions in some common insurance policies, as well as tailored “niche” policies, may respond to such losses. Further, losses that arise *indirectly* from tariffs or trade policies also may be covered. This article provides guidance on where a company can look for such coverage and when to seek coverage advice.

I. Specialized Insurance Products

A. Trade Disruption Insurance

Trade disruption insurance, also known as supply chain insurance, typically focuses on covering losses (including lost profits, costs, expenses, liquidated damages, and contractual penalties) due to unexpected occurrences that disrupt trade operations, like supply chain interruptions, regulatory changes, or political events. Companies in diverse industries—including manufacturing, energy, pharmaceuticals, technology, and many more—purchase trade disruption insurance to protect against such potential losses. Unlike many traditional insurance policies, trade disruption insurance policies do not require physical loss or damage for coverage. These policies are highly specialized, tailored to specific business needs, and are typically not written on standard forms.

Coverages that are sometimes included in trade disruption insurance and that may be relevant to tariff-related losses include, among others:

1. Supply Chain Interruptions: Losses incurred due to unforeseen delays in the policyholder’s supply chain caused by transportation breakdowns, infrastructure failures, sanctions, supplier insolvency, or political interference affecting the timely fulfillment of trade obligations. Such losses may arise if a company’s supply chain is adversely impacted by trade tensions or if a supplier goes bankrupt from the imposition of trade tariffs, which causes business interruption losses.

2. Regulatory and Governmental Actions: Losses arising from sudden and unexpected regulatory changes, including import/export restrictions or mandatory compliance requirements, which impede the insured’s ability to perform contractual obligations. Such

losses may arise if tariffs result in broader political actions that disrupt the normal flow of trade operations or trigger additional restrictive measures that prevent contracts from being fulfilled as agreed.

B. Trade Credit and Political Risk Insurance

Trade credit insurance typically covers the risk of non-payment by customers due to either (1) their financial insolvency or (2) specific commercial risks associated with credit extension, and typically offers protection against political risks in international trade. A typical coverage grant for a trade credit insurance policy might provide coverage for:

1. Buyer Insolvency: Losses resulting from the buyer's bankruptcy or insolvency that prevents them from fulfilling their payment obligations. Such losses may arise if tariffs cause market instability and fluctuations in demand for certain goods.

2. Protracted Default: Losses arising due to the buyer's failure to pay within the period specified in the sales contract, where attempts to collect the debt have been exhausted. Such losses may arise if tariffs increase costs for a buyer, especially if the buyer cannot pass the tariff costs onto its customers.

3. Political Risks: Losses incurred due to nonpayment attributable to political events in the buyer's country, including government actions, such as export bans, or civil disturbances, such as protests of tariffs, which prevent contract fulfillment. Such losses may arise if tariff regulations create volatility in international markets.

4. Contract Frustration: Losses resulting from unforeseen events that render the completion of a sales contract impossible or impracticable. Such losses may arise if tariffs cause rapid changes in demand and market conditions that render the completion of the contract more costly.

While direct losses from tariffs may not necessarily be covered by trade credit or political risk insurance, the "knock on" effects of tariffs – such as those listed above – may well be covered.

C. Accounts Receivable (A/R) Insurance

Accounts Receivable (A/R) insurance is designed to protect businesses against losses resulting from the non-payment of debts owed by customers. Although tariffs generally are not expressly identified as covered risks in A/R insurance, tariffs can lead to customer insolvency, protracted default, or political risks that prevent overseas debtors from paying—and those risks are often expressly covered by A/R insurance. This coverage applies to "Receivables" that are typically specified in a policy schedule, and is subject to the applicable credit limits established for each buyer. An A/R policy might provide coverage for non-payment that arises from:

1. Buyer Insolvency: Losses incurred when a buyer is declared bankrupt or insolvent and unable to fulfill their payment obligations.

2. Protracted Default: Losses due to the buyer's failure to make payment within a specific period after the due date, despite reasonable efforts to collect debt.

3. Contract Frustration: Losses due to unforeseen events that render the completion of a sales contract impossible, making the debt uncollectible.

II. Insurance Policies Commonly Held by Businesses

A. Business Interruption Insurance

Business interruption coverage is a standard feature (and commonly, the most valuable feature) in most commercial property insurance policies. It is designed to cover the loss of income that a business suffers after a major event (like an accident or natural disaster) that disrupts business operations, typically arising from *physical damage to or loss of property*. Tariffs, as financial and regulatory measures, do not inherently cause physical damage or property loss. However, business interruption coverage may be triggered if escalating trade tensions lead to such damage or loss. Policies providing business interruption coverage also sometimes include coverage extensions that bring even non-physical damage into coverage, including specialized business interruption coverages.

B. Cargo or Warehouse Insurance

Cargo insurance primarily covers physical loss or damage to goods *during transit or in storage* due to events like theft, accidents, or natural disasters. Coverage under some such policies may not respond to financial risks such as tariffs, duties, or other regulatory charges imposed on goods. However, some policies may contain broader terms providing coverage for "loss or destruction of, or damage to goods, or delay in delivery, *howsoever caused*."

Further, some specialized insurance products or endorsements may be designed to manage certain shipping risks in broad terms, so it is important to look at the policy language and how tariffs might be implicated, particularly where "physical loss or damage" is not required.

Cargo and warehouse insurance is typically purchased by companies that are heavily involved in the transportation, storage, and distribution of goods. For such industries, rising prices due to tariffs could disrupt the supply chain and may result in losses due to mishandling by warehouse or transport personnel arising from rerouted shipments.

C. Representations and Warranty (R&W) Insurance

Representations and warranties insurance (R&W insurance) is typically purchased in the context of merger and acquisition (M&A) transactions. This type of insurance provides protection to either buyers or sellers against breaches of representations and warranties made by counterparties in transaction agreements.

R&W insurance is particularly valuable in situations where parties want to move quickly, minimize risk of post-closing disputes, or enhance the competitiveness of bids in auction processes. It can be procured by buyers and sellers, depending on who seeks protection and assurance during the transaction.

R&W insurance covers breaches of the representations and warranties made in a transaction agreement, not economic risks such as tariffs. But companies engaged in M&A might use R&W insurance to safeguard against certain risks that could be indirectly affected by tariffs. For example, if a tariff impacts (a) representations about the supply chain, operational stability, financial health, or compliance, or (b) warranties related to sales projections, business performance or cost stability, then R&W insurance could provide coverage for unexpected breaches of such assurances.

D. Directors & Officers (D&O) Insurance

Directors and Officers (D&O) insurance is primarily designed to protect both company executives and the companies they work for from liabilities for claims made against management executives and board members for alleged wrongful acts in their managerial roles.

D&O insurance might be relevant if a company's alleged response (or lack of response) to tariff-related activity leads, directly or indirectly, to claims against individual directors or officers, or government investigations. Further, D&O coverage may respond if a regulatory body or government entity investigates the company for compliance with international trade laws.

* * *

The essential point is that, while an insurance policy may not *expressly* cover the economic burden of tariffs, a wide range of insurance policies and coverages may be implicated and able to mitigate indirect, if not also direct, consequences of tariffs and other trade-related disruptions. To effectively utilize these insurance assets, it is important for companies to identify relevant coverages, carefully review and interpret their policy language across coverage lines, and promptly and accurately notice possible claims. Companies should also consider proactively reevaluating their insurance coverage programs to ensure that they continue to address foreseeable needs in the current, rapidly evolving business climate. By understanding and leveraging the breadth of available insurance products, companies can more effectively manage risk, maintain operational resilience, and safeguard their long-term sustainability.

If you have any questions concerning the material discussed in this client alert, please contact the following members of our Insurance Recovery practice:

Washington

Alexis Dyschkant	+1 202 662 5944	adyschkant@cov.com
Benedict Lenhart	+1 202 662 5114	blenhart@cov.com
Allan B. Moore	+1 202 662 5575	abmoore@cov.com
Kevin Glandon	+1 202 662 5003	kglandon@cov.com
Quyên Truong	+1 202 662 5339	qtruong@cov.com

London

Sonia Campbell	+44 20 7067 2249	scampbell@cov.com

New York

David Luttinger	+1 212 841 1134	dluttinger@cov.com
Seth Schafler	+1 212 841 1027	sschafler@cov.com

San Francisco

Sabrina McGraw	+1 415 591 7082	smcgraw@cov.com