



## RISING PREMIUMS

# HOW TARIFFS AFFECT CONSTRUCTION, INSURANCE COSTS

**P**RESIDENT TRUMP'S far-reaching tariffs are starting to bleed into building costs as many of the main materials used in construction are now subject to import taxes.

And as construction costs increase due to tariffs, so does the cost of repairing or replacing materials if damage occurs during construction.

Rising repair and replacement costs make claims more expensive, and, in turn drive up the cost of property and casualty insurance for contractors.

Inputs for construction have already been on the rise for the last six years — particularly in 2020-2022, when the COVID-19 pandemic devastated global supply chains — and now many materials used in building or to build equipment and tools have been hit with hefty tariffs.

### Recent material tariff hikes

- **Aluminum** – 25% tariff as of March 12.
- **Lumber and timber** – There is a 14.58% tariff on Canadian lumber, a rate that could rise to nearly 35% in the coming months. The administration is studying whether to impose a 25% tariff on lumber from all nations.
- **Steel** – 25% as of March 12.

Prices for building inputs may rise even higher if tariffs start snarling supply chains, which is a possibility.

Higher tariffs can make imported goods harder to source and more expensive, forcing contractors to find new suppliers or wait longer for deliveries.

That can slow down a construction project, which costs money and increases exposure to a number of risks, including:

- Fire,
- Weather damage,
- Theft, and
- Vandalism,.

### Effects on insurance

These policies' premiums are tied to the cost of materials and the length of a project. If building materials like lumber and steel cost more due to tariffs, the insured value of the project increases.

Example: A contractor is constructing a \$25 million office building. If the tariff on imported steel and lumber increases the project cost by 10%, the insured value would increase by \$2.5 million. The insurer accounts for that higher replacement value in its premium calculation, which will result in a larger premium.

Another factor that could result in higher claims costs is snarled supply chains — builders will have to wait longer for materials. That, in turn, can increase the building timeline, requiring the contractor to extend their builder's risk policy.

That will cost more as well, as the insurer will charge for the extension due to the longer exposure it will face.

**General liability coverage extension** — If delays occur, so will the exposure to increased worksite injuries, damage or third party claims. For each additional day a project takes to complete, the risk of an accident also increases.

Example: If a project extends past its deadline, the general liability policy would need to be extended for the additional time. And it's unlikely that extension will be priced at the same rate as the original liability policy. Insurers will often reprice the policy extension based on the extended exposure and the kinds of subcontractors or equipment that will be on site.

### The takeaway

Higher cost of materials and insurance costs will make their way into project budgets, bids and profit margins. Another risk is that insurance certificates may be delayed or found to be noncompliant, which can slow down payments, result in expensive work stoppages and breaches of contract.

With all this in mind, you will need to work closely with your broker well in advance of new projects to ensure that your coverage reflects the reality of higher material costs, the possibility of delays due to procurement issues and more.