

ARTIFICIAL INTELLIGENCE AND THE FUTURE OF INSURANCE

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INTRODUCTION

Welcome to the first edition of the Global Insurance Law Connect *Artificial Intelligence* report.

The report is a compilation of the expertise and opinion of members from 18 countries and provides compelling insight into the state of AI in their respective markets as the so-called Fourth Industrial Revolution changes the way business of all sizes in all sectors operate and interact with their customers and other stakeholders globally.

Our network members explore regulatory aspects, potential claims challenges, and the opportunities presented by embracing the power of AI to improve processes and the risk parameters in the insurance business model. GILC members provide reflections on how AI will affect policyholders, insurance companies, along with the legal and regulatory implications of this fast-developing technology. The insights shared by our members raise interesting questions about regulation, liability, insurance product design, recruitment, training, and the future of the insurance industry.

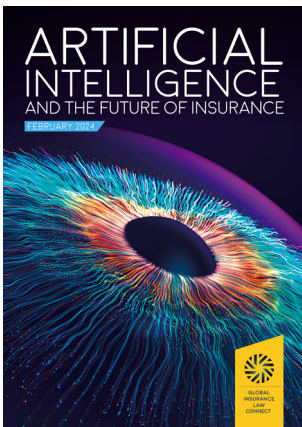
The challenges that policyholders and their insurers will face are interconnected and evolving rapidly. This report aims to stimulate discussion and encourage engagement with members and clients about the topics raised and the questions posed. Global Insurance Law Connect will keep a keen watch on the AI landscape and I look forward to sharing further insights on this the continuing evolving area with you.

Best wishes

Gillian Davidson

Global Insurance Law Connect – Chair

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ARTIFICIAL INTELLIGENCE – AN EXECUTIVE SUMMARY

So much has been written about AI in the last 15 months since we first heard about Chat GPT that it is sometimes difficult to see the wood from the trees. What is AI? Is it new? Is it just the latest in a long line of tech innovations that we will seamlessly adopt into our workplace environment or is the real deal that will cause massive disruption to the way we work and global capitalism is organised. Or both? This report looks at how AI is impacting the global insurance industry today and in the future.

We begin with an overview of where we are with **AI regulation** across the world with an analysis of the recent EU plans in this area. Will other countries follow a similar path? Politicians and regulators have a habit of being behind the curve when dealing with innovative ideas and tech developments. Similarly, the insurance sector is not always renowned for being enthusiastic and early adopters of new thinking, but our members have plenty of evidence of their clients embracing rather than rejecting change. So, what has been that impact of AI? In this report, we highlight 12 areas.

We discuss **risk prediction and analysis**. The ability of AI to quickly analyse vast quantities of data is a powerful tool for insurers in predicting and assessing risks, particularly when there is a significant data source – such as the risks associated with climate change. AI also allows insurance to become more personal as the improved analysis and enhanced actuarial data that AI can provide for insurers enables them to offer more **tailored, personalised coverage** across auto insurance, life and health and home insurance, as well as large, commercial lines of business.

AI can and will help to **improve the customer service** that insurers offer their clients. Chatbots will become genuinely helpful rather than (sometimes) an irritant. Digital techniques such as smartphone apps – often involving AI – will enhance and allow the ability of

insurers to offer **policies in new and underserved markets** around the world.

One powerful use of AI we are already seeing in action is the ability to improve the accuracy of claims assessments and **uncovering fraudulent claims**, given AI can process and analyse large volumes of data so that unusual patterns can be more easily detected. It's not all plain sailing for insurance and other sectors. AI is all about data and lots of it. We analyse how **data bias and data privacy** are potential challenges to the way insurance gets the best out of AI.

We have a deep dive into how and where AI is being used in the **management of claims** in insurance markets around the world. The potential for increased efficiency in claims handling, notably for low-value, high-volume claims is clear, but AI will also help with complex cases such as those associated with natural catastrophes. We also look at **new claim areas** that might appear because of AI and the automation of traditional manufacturing processes as well as **Cyber**.

AI is already having an impact on the **recruitment processes** and strategies of insurance companies around the world, and this looks set to increase. And there is no doubt that the **skills** needed to be a successful employer and employee in a post AI world will evolve, particularly in those areas of the sector that lend themselves more towards automation. And finally, some thoughts on **what happens next**.

LEGAL DEVELOPMENTS AND REGULATORY CHANGES IN AI

AN OVERVIEW FROM GILC MEMBERS

The EU is leading the way in AI regulation

Most parts of the world do not currently have specific AI regulations; instead, a patchwork of data protection laws that touch on the potential risks and exposures related to the use of AI. The European Union, however, is set to pass a more comprehensive AI Act later this year, following a political consensus being reached by the EU institutions. Lawmakers in other parts of the world are keeping a close eye on the EU AI Act. Whether they will follow the exact same path as Brussels remains to be seen.

THE EU AI ACT – SETTING THE STANDARD?

The European Union is leading the way in developing a wide-ranging set of regulations to oversee the use of AI systems and the potential risks they pose. The European Commission, Council and Parliament have been in discussions since 2021 about the creation of an *Artificial Intelligence Act*, which would be the world's first comprehensive AI law.

Political agreement between the three institutions was reached in December 2023 and the wording of the final text is now being finalised. The EU AI Act is likely to be passed later this year, with Member States then having two years to enact it into their national law.

The EU AI Act aims to ensure that AI systems are safe and respect existing law on the fundamental rights of individuals and uphold EU values, while also encouraging AI innovation and facilitating investment in AI. It is intended to create a single market for lawful and trustworthy AI applications – and prevent market fragmentation.

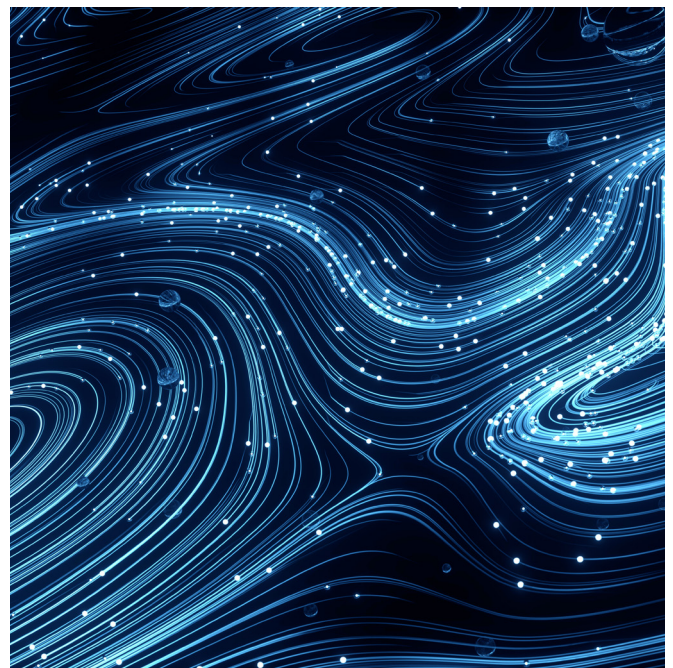
The EU AI Act will take a risk-based approach, classifying AI systems into three risk bands: unacceptable risk; high risk; and limited risk.

'Unacceptable risk' AI systems will include, for example, biometric categorisation systems that use sensitive characteristics, such as race or sexual orientation, in the untargeted scraping of facial images or emotion recognition in the workplace.

'High risk' according to the legislators are AI systems that are deemed to pose potential significant harm to health, safety, fundamental rights, the environment, democracy, or the rule of law. That includes AI systems used in critical infrastructure sectors, medical devices, or those used by educational establishments and in recruitment.

The Act will introduce a set of mandatory compliance obligations for AI systems in this 'high risk' category. These will include requirements around risk mitigation, data governance, detailed documentation, human oversight, transparency, accuracy, and cyber security.

'High risk' AI systems will also be subject to conformity assessments to evaluate their compliance with the new rules. The Act will also create a mechanism to enable EU citizens to assess whether their fundamental rights as citizens have been adversely

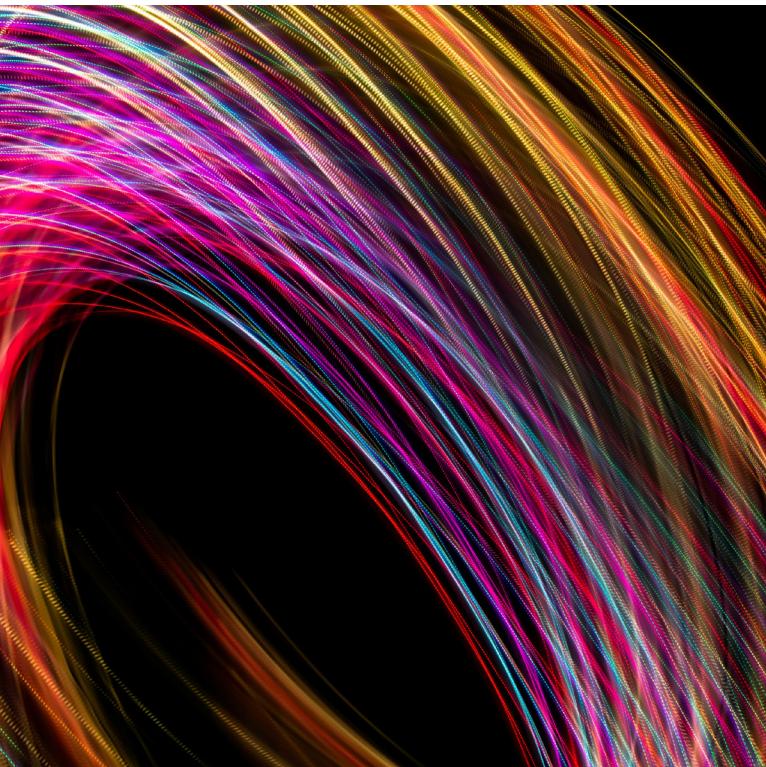


impacted by decisions based on AI and enable individuals to launch complaints if they believe they have.

The third, **'limited risk'**, category will include chatbots and certain emotion recognition and biometric categorisation systems and will be subject to less stringent transparency obligations. Although as a minimum, the Act will require users to be informed that they are interacting with an AI system.

In some EU countries, rules already exist that regulate certain uses of AI and associated risks. In Germany, for example, the federal financial supervisory authority Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) requires insurers to have a compliance and management framework that includes all decisions based on algorithms and clearly designed roles and processes.

In Poland, meanwhile, a national soft law in the form of Polish Financial Supervision Authority (PFSA) guidelines regulates, among other things, cloud computing.



BEYOND THE EU

Outside the EU, no jurisdiction has a comprehensive legal framework specifically related to the use of AI. Most, however, are taking steps towards the establishment of rules about the responsible and ethical use of AI. And many already have regulations in place that touch upon the use of AI in certain areas.

In **Australia**, the Government in January 2024 published its response to public submissions to a discussion paper on 'Supporting Responsible AI', which examined the need for a combination of general regulations, sector-specific regulations, and self-regulation initiatives to support safe AI practices. Australia established the world's first eSafety Commissioner in 2015 to safeguard Australian citizens online and was one of the earliest countries to adopt a national set of AI Ethics Principles. The Government has also said it was considering implementing mandatory guardrails for the use of AI in high-risk settings, either by amending current laws or creating new laws specific to AI.

In addition, from March 2024, a new online safety code will be introduced, covering search engines, and providing protection against generative AI-related risks.

China currently has a series of regulations that are aimed specifically at managing some of the risks associated with AI use and it requires compliance by companies engaged in AI-related activity.

These include the *Administrative Provisions on Algorithm Recommendations for Internet Information Services*, the *Administrative Provisions on Deep Synthesis for Internet Information Services*, and the *Interim Measures for the Management of Generative AI Services*. These regulations mandate compliance in areas including data security, algorithmic transparency, ethical standards, and risk management.

In **Mexico**, a bill was proposed before Congress in 2023 that would regulate the ethics of the use of AI in robotics and create a decentralised body and national network of states to monitor the use of AI. This bill, once passed, is expected to lead to the creation of official standards to regulate the use of AI in Mexico.

The regulatory bodies in close neighbours to the EU like **Norway** and **Switzerland** are keeping a close eye on events as they develop in Brussels.

In 2018, the **United Arab Emirates** created the UAE Council for Artificial Intelligence and Blockchain, which is intended to propose policies related to AI. No specific legislation has yet been implemented. In 2023, the **Dubai International Financial Centre (DIFC)**, the offshore freezone jurisdiction of the UAE enacted amendments to its data protection laws to include companies using AI or generative, machine-learning technology. This is the first piece of legislation regulating AI use in the Middle East.

The **United Kingdom** currently does not have specific legislation regarding the use of AI. The UK Government, however, set out guidelines on AI and data protection following the March 2023 publication of its whitepaper '*A pro-innovation approach to AI regulation*'. The Government has put forward an AI framework containing regulatory guidance conforming to the Organisation for Economic Cooperation & Development (OECD)'s principles for ethical use of AI.

In November 2023, the UK published a set of global guidelines on the secure development of AI technology, which were developed by the UK National Cyber Security Centre and aim to help developers ensure that cyber security is a precondition of AI development. These guidelines were endorsed by agencies from 17 other countries, including the United States.

President Biden had previously issued his own *Executive Order on the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence in the US* on 30 October 2023. The American authorities have already indicated that they will want to pursue a more decentralised and sector-specific approach to AI regulation with non-binding recommended actions in comparison to the binding legislation of the proposed EU legislation.

It seems clear that each country will pursue different paths in regulating AI and this will be dependent on their history and different regulatory philosophies, for the moment at least it appears there is wide agreement among countries on the foundational principles. In the future it will be important to monitor whether regulatory arbitrage is being brought into play. That is, whether corporations will seek out jurisdictions that have less stringent regulatory frameworks.

HOW AI WILL TRANSFORM INSURANCE ACROSS THE INDUSTRY

There is broad consensus from leading industry commentators including GILC member firms that AI will play an ever-increasing role in the full lifecycle of the insurance process - from initial customer interactions to better risk prediction and analysis, to the underwriting and designing of tailored insurance solutions, and improvements in the efficiency and speed of claims management.

As Virginie Liebermann, lawyer at Molitor Legal in Luxembourg, explains: "Major players in the insurance sector often emphasise the transformative and innovative potential of the technology, as well as the benefits it can bring for the market, such as efficiency and time savings."

According to Sakate Khaitan, partner at Khaitan Legal Associates in India: "AI is an opportunity to provide quicker claims service, better underwriting, innovative products, and better insurance administration. We are of the view that the use of AI for repetitive and non-value-adding, or low-value-adding transactions can increase efficiency and save costs. AI is also likely to be used by market participants as a competitive advantage. The race is on – we wait to see who the winners will be."

RISK PREDICTION AND ANALYSIS

The ability of AI to quickly analyse vast quantities of data is a powerful tool for insurers in predicting and assessing risks, particularly where there is a significant source of data – such as the risks associated with climate change.

One of the biggest challenges faced by insurers and insureds in the United States or Australia and New Zealand, for example, is natural catastrophe hazards, while in Brazil the giant agriculture sector is also exposed to weather-related risks. The use of AI to model those hazards based on historic data enables insurers to better understand which locations might be at greater risk, and to design and price coverage accordingly.

For types of risk that do not have lengthy loss histories, the use of AI in rapidly digesting large volumes of data and producing more precise analytics can enable insurers to enter markets that might otherwise be challenging, such as designing coverage for large-scale cyber incidents.

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VIRGINIE LIEBERMANN, LAWYER,
MOLITOR LEGAL, LUXEMBOURG

For personal lines insurance, the use of telematics and tools that monitor a customer's health or driving habits, can – providing they have the agreement of the policyholder – provide more accurate data for insurers, enabling them to better understand, assess and price risks.

Ultimately this improved risk analysis will only benefit consumers as it allows insurers to offer more relevant, tailored coverage to their customers.

TAILORED COVERAGE AND MORE ACCURATE UNDERWRITING

As we have already highlighted, the improved analysis and enhanced actuarial data that AI can provide for insurers enables them to offer more tailored, personalised coverage across many lines, including auto insurance, life, health, and home insurance, as well as large, commercial lines of business. Justus Könkkölä, partner at Socrates in Finland, explains: "AI facilitates product personalisation by analysing individual customer data. This allows insurers to tailor insurance products to meet specific needs, creating a more personalised and relevant offering for policyholders."

For example, when underwriting life insurance coverage insurers are able to provide intermediaries with a holistic view of a customer, which enables them to offer hyper-personalised advice.

Insurers are also exploring ways in which AI technology can streamline certain underwriting processes for specialty risk. In December 2023 Hiscox announced in the UK the successful conclusion of a proof of concept with Google Cloud to create an AI-enhanced lead underwriting model for use in the London subscription insurance market. The project used AI to extract key data and insights from emails to enable underwriters to make a quotation in less than three minutes. This was focused on Hiscox's Sabotage & Terrorism line of business, but the principles could be applied elsewhere and beyond 'big-ticket insurance'.

The use of AI by companies in other sectors will require insurers to design and underwrite new cover to address emerging risks. As well as an expansion of cyber exposures, customers that use AI in their own business will face new risks, outside the scope of the coverage of their existing indemnity policies.

CUSTOMER INTERACTIONS

AI can and will help to improve the customer service that insurers offer their clients. In many areas, AI is already being used for initial



interactions with customers either at the beginning of their insurance-buying journey or during the claims process. Chatbots, for example, are widely used by many insurers for initial conversations with customers when policies are being issued. Their user-friendliness will only improve as they 'learn' more about the process.

AI can also provide a first point of contact for insureds making a claim as we discuss in detail later in the report. It can collate required information and documentation quickly and ask basic questions that enable claims assessors to make decisions more swiftly and efficiently.

Sandra Lodewijckx, partner at Lydian in Belgium, comments: "Insurers who succeed in promoting engagement with policyholders and strengthening customer relationships by simplifying and personalising the onboarding process and getting a holistic view of the customer by modernising their technology infrastructure, can drive future growth and secure key assets."

DISTRIBUTION AND INSURANCE PENETRATION

In many markets, AI is being used, or is likely to be adopted, to optimise distribution models. The COVID-19 pandemic accelerated a shift by many insurers towards the use of digital and online tools as a replacement for traditional distribution models. We are likely to see a similar rapid expansion in the use of digital techniques such as smartphone apps – often involving AI – to distribute insurance policies.

According to Giorgio Grasso, partner at BTG Legal in Italy: "AI is revolutionising the insurance industry by enabling automation, optimising claims, and developing effective customer engagement strategies."

In Switzerland, the insurance industry has been using AI to develop personalised insurance plans and to identify effective distribution strategies. Online-only coverholders and brokers are also becoming a more common phenomenon as well.

These changes won't just be in more advanced economies. In Mexico while insurance cover remains relatively low among the general population there is a high overall digital penetration rate; more than 75% of the population had internet access in 2023 and this is forecast to reach 98% by 2029. Digital platforms and the use of AI on them is vital in the drive for insurance uptake.

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GIORGIO GRASSO, PARTNER, BTG LEGAL, ITALY

FRAUD DETECTION

One powerful use of AI we are already seeing in action is the ability to improve the accuracy of claims assessments and uncovering fraud given AI can process and analyse large volumes of data so that unusual patterns can be more easily detected.

Suzanne Bordewijk, partner at WIJ Advocaten in the Netherlands, explains: "In the Netherlands, AI is used for fraud detection, external databases and often machine learning techniques, especially anomaly detection. Fully automated processes are not used (yet). It is expected that in the coming years such analyses will be used more and more. Apart from fraud detection for handling and managing claims, AI is being used to try to classify claims more accurately or predict characteristics of claims."

RISK FACTORS IN AI USE

Although the use of AI will continue to bring greater efficiency to many areas of the insurance process, this does not come without risk.

It is known that there is likely to be bias present in historical datasets. It follows that when the subsequent design and then algorithms take on those biases, there is a risk that decisions made by AI using that data could be shown to reproduce the bias, and unfairly discriminate on whatever the bias may be, and it could include age, race, gender, or sexual orientation.

Li Jiao, partner at Buren Legal in China, comments: "AI algorithms may lack fairness and transparency, raising concerns about data privacy and ethical issues. The insurance sector must establish effective risk control mechanisms when using AI, including data management, transparent algorithmic review processes, and solid ethical standards."

A recent landmark ruling in the European Court of Justice (ECJ) underlined that consumers may bring actions if they believe decisions about them have been made entirely automatically, without human input.

The decision handed down by the ECJ in December in the case of *OQ v Land Hessen (SHUFA Holding)*, determined that SCHUFA, a German credit scoring company, had breached Article 22 of the EU General Data Protection Regulation (GDPR) which protects the rights of individuals not to have decisions about them made without human input. Despite SHUFA's argument that it had not itself made the decision about an individual, but rather had supplied a lending bank with information on which it based a decision, the ECJ ruled it had breached the rights of an individual who was denied a loan.

Lawyers commenting on the case agreed that this decision could have far-reaching implications across all sectors that use AI in their business models, and insurers in the EU and beyond will recognise the need to ensure that they can demonstrate that decisions about customers have been made fairly.

There are additional ethical concerns about the use of AI more widely in society and in insurance in particular. Insurers need to ensure



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LI JIAO, PARTNER, BUREN LEGAL, CHINA

they maintain the trust of their customers – an important element of the insurance promise – when automating processes that otherwise would have been carried out by humans.

Data privacy, already a big risk issue for insurers, could be exacerbated by the widespread adoption of AI. The processing of vast quantities of personal and often sensitive data will mean that insurers need to have robust procedures in place to ensure they are compliant with national and international standards on data protection.

Insurers are also mindful of the need to have measures in place to safeguard against data breach, and processes to handle the reporting and management of any breaches should they occur.

João Marcelo Santos, partner at Santos Bevilaqua in Brazil, comments: "One concern that has been expressed is the control of the use of this technology in fields such as the use of personal data and the analysis of risk profiles. In these cases, the risk of misuse of personal data, resulting in actions and omissions that materialise in unfair discrimination and abuse, must be the subject of discussion, along with the construction of ethical standards and vigilance."

CLAIMS: AN EVOLVING GLOBAL PICTURE



AI USE IN CLAIMS AROUND THE WORLD

AI is being used, to a greater or lesser degree, in the management of claims in most insurance markets around the world. The potential for increased efficiency in claims handling, notably for low-value, high-volume claims, will mean that the uptake of AI in the claims process will continue to increase in the coming months and years.

In **Australia**, certain domestic insurers are using AI in innovative ways to reduce the time taken to assess claims and to enhance the process. For example, AI is being used by insurance carriers to evaluate whether a motor vehicle is a total loss after an accident. This assessment has been shown to reduce the claims processing time to just a few days from as much as three weeks. Other insurance companies are using machine learning in workers' compensation claims to identify those claims that require early attention, and to collect quality data perception, at scale, including psychological flags, that can lead to better decisions about how to route claims. Life insurance companies are using AI to 'triage' claims, determining whether they are 'easy' or 'complex' within just seconds of a claim being lodged.

In **Belgium**, insurance companies are using AI techniques to identify fraudulent claims. It should be noted, however, that there is no legal provision in Belgium that would allow companies to make judgements based solely on automated decision-making.

In **Brazil**, AI has been used by insurers in the claims process for auto

insurance among others, including agriculture – a hugely important cog in the Brazilian economy and the insurance sector.

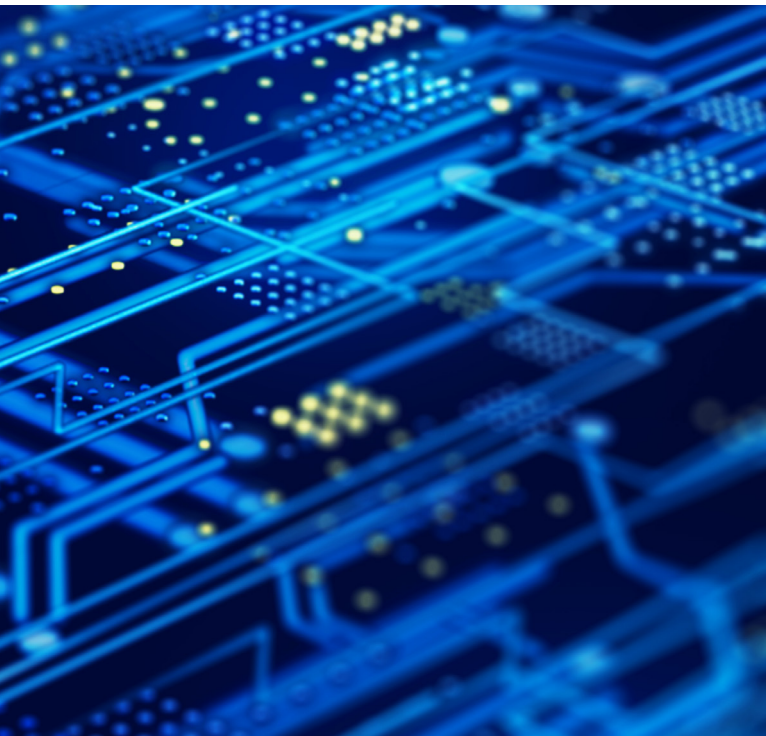
In **China**, insurance companies are using AI to improve the claims process both in terms of analysing data and raising flags about potentially fraudulent claims, but also by providing instant updates on claims status, via chatbots and virtual assistants.

In **Finland**, AI, predominantly in the form of chatbots, is being used in customer service operations, notably to free-up agents' time to carry out complex tasks, thereby speeding up the claims process for both simple and more complicated claims.

France has seen the emergence recently of a number of start-ups that specialise in the development of AI-based apps to assess damage to property and vehicles. In partnership with insurers, these apps can enable policyholders to appraise damage digitally. If a claims manager assesses that the nature of the claim qualifies for digital appraisal, the policyholder simply has to take photos that are uploaded on the app, along with an estimation of the cost of repairs, and a compensation payment is typically made within days.

In **Germany**, AI is being used in claims handling for such business lines as auto liability and property insurance. Likewise in **India**, it is used to assess damages in the case of auto claims, using photographs and so on. Some insurers and Third Party Administrators (TPA) in India are using AI to triage claims in order of severity and assign them.

In **Italy**, AI is at a nascent stage in claims management where it is being used to accelerate the speed of processes and analysis of



information to better manage certain claims. Many insurers in **Mexico** are using chatbots to give customers real-time advice about the steps they must follow to file and follow-up on the status of a claim.

AI is not yet in widespread use in the management of claims in the **Netherlands** but is being used extensively to classify claims and detect fraudulent ones. To predict more accurately the characteristics of certain claims, insurers in the Netherlands are frequently using external databases, and some are using machine learning techniques, like automatic analysis of photos or data from sensors to make claims estimates more quickly.

AI is increasingly being integrated into the claims management of non-life insurance in **Norway**, where about 50% of insurers are using automated assessment for claims and where some insurers have completely automated processes for the handling for certain categories of a claim. About a third of life insurers in the Norwegian market are using some form of AI in claims handling.

The use of AI in **Poland** to detect fraud and analyse those claims that might require further attention is widespread. Some insurers are also using AI in the loss adjustment process. In **Spain**, the adoption of AI in claims handling varies from company to company, but the general use of it is increasing to improve efficiency and enhance service to customers where possible.

In the **UAE**, the use of AI in claims is still in its infancy, but one health insurer has reported that the use of an AI tool to automate claims processing has reduced processing costs by 70% and shortened turnaround times by 90%.

CLAIMS PROCESSES WILL BECOME MORE EFFICIENT

GILC members around the world see huge potential for AI to dramatically improve the claims assessment and management process, for both simple, high-volume claims and for more complex losses.

Tanya Wood, partner at Duncan Cotterill in New Zealand, comments: "As people become more comfortable dealing with AI bots, they can be increasingly utilised to manage queries around claims status, payments, and other updates that require a quick turnaround, with simple systems checks."

AI can be used to analyse claims data to speed up decision-making. Some insurers use Optical Character Recognition (OCR) techniques to help read documents and assess damages, for example. In some cases, claims are almost or entirely processed using AI – and this is a trend that is likely to continue to gather pace.

In the more complex risk areas, AI can be a powerful tool to help to determine the scope of damage and begin to make assessments about the size of a loss. And it can be used to give human loss adjusters insights and data-driven recommendations, in real time.

If a large-scale disaster, such as a natural catastrophe, occurs, the volume of claims can be overwhelming for insurers. AI can help here, in the initial stages, to ensure that policyholders receive prompt responses to queries and outline what information will be required for filing a claim. This can dramatically improve insurers' response times, against the backdrop of often stressful circumstances for both insured and insurer.

Improvements in the efficiency of claims processes, and the potential to weed out fraudulent claims more effectively will likely trickle through – eventually – to reduce costs for insurers, and this saving may be passed on to customers in the form of reduced premiums.

Since insurance is a product effectively sold on "the promise to pay valid claims", improvements to the claims handling process will have a positive impact on customer loyalty and retention.

In the **UK**, AI tools are helping insurers to streamline their claims processes and improve decision making. One example of this at work was the settlement of a claim by US-based insurtech Lemonade Inc., using its proprietary chatbot. The bot assessed the claim, reviewed the policy conditions, performed fraud detection, and settled the claim in two seconds.

POTENTIAL NEW CLAIMS AREAS

The use of AI by different sectors is likely to lead to changes in risk profile for corporates with risks lessening in some cases, but potential new areas of claims opening up in others. Take the example of where policyholders are providing professional services and potentially making decisions based on AI-generated information, where there could be exposures for professional indemnity (PI) insurers if those policyholders do not have sufficient safeguards in place.

And those insurers that underwrite directors & officers (D&O) or PI coverages will be keen to check that data gleaned from AI sources and used by companies in making decisions or giving advice is properly audited or scrutinised.

Ross Baker, partner at Beale & Co in the UK, comments: "AI may offer the opportunity for new insurance products to be created, aimed at developers of AI technology or organisations that regularly use AI in their practice. These types of products may, for instance, provide cover for claims by third parties arising from AI-related practice, particularly where these types of risks are carved out of professional indemnity insurance."

In the construction sector, the use of technology such as robotics, drones, and 3D-printing, may mean a reduction in the volume of some claims relating to bodily injury, for example. But it might also expand new areas of exposure around defective design, to take another example, which will again be of concern to those insurers writing D&O or professional indemnity coverages.

For automotive insurers, the advent of autonomous vehicles opens up the possibility of new types of accident, and the questions that will arise in assigning liability. In the healthcare sector, where AI is used in areas like diagnostics, there could be new exposures for medical malpractice if incorrect diagnoses are made. Again, questions around liability may be thorny here.

There are also various ethical and privacy concerns about the use of AI in human resources decisions. And the potential for increased cyber-related events will also be top of insurers' minds.

"AI MAY OFFER THE OPPORTUNITY FOR NEW INSURANCE PRODUCTS TO BE CREATED, AIMED AT DEVELOPERS OF AI TECHNOLOGY OR ORGANISATIONS THAT REGULARLY USE AI IN THEIR PRACTICE. THESE TYPES OF PRODUCTS MAY, FOR INSTANCE, PROVIDE COVER FOR CLAIMS BY THIRD PARTIES ARISING FROM AI-RELATED PRACTICE, PARTICULARLY WHERE THESE TYPES OF RISKS ARE CARVED OUT OF PROFESSIONAL INDEMNITY INSURANCE."

ROSS BAKER, PARTNER, BEALE & CO, UK



CYBER IMPACT

There are concerns about the extent to which AI could impact the cyber risk landscape and give rise to new areas of exposure or serve to increase the sophistication of cyber attacks.

According to Fernando Blanco Gamella, partner at Blanco y Asociados in Spain: "AI is going to have a major impact in cyber risk policies, both in terms of risk assessment and threat prevention and response." The ability of generative AI to impersonate a business or individual, for example, could mean that attacks are more sophisticated and less easy to spot.

Jakub Pokrzywniak, partner at WKB Lawyers in Poland, comments: "For insurance companies, wide usage of AI may mean that more and more people will use it for trying to find security vulnerabilities by creating phishing e-mails or tricking customers into clicking a link. What is more, with the development of AI-powered voice changers, there is a high possibility of potential extortion (which is currently a very popular technique used in Poland). However, there are a lot of fields regarding cybersecurity which can benefit from AI development – especially pattern identification and large-scale analysis."

There are also liability questions that would surround an AI-driven act of cyber war or state-sponsored terrorism. Cyber insurers will seek clarity here about which exclusions might apply.

AI, however, may in many cases lead to the improvement of cyber risk profiles. It likely will be able to detect a malicious security breach more swiftly, for example, and set in motion controls to counteract.

Insurers will want to see that policyholders have robust controls in place to try to prevent, detect and manage cyber attacks carried out by AI, and they will want to ensure good lines of communication with policyholders.

AI may lead to more nuanced pricing for cyber policies as a better understanding of the risks and liabilities emerges.

Aldo Ocampo, partner at Ocampo 1890 from Mexico, comments: "There is no doubt that the advent of AI will be a double-edged sword. On the one hand, it is expected to create greater challenges for the cyber security of companies, with more sophisticated attacks. On the other hand, it will be AI itself that can help prevent this type of risk. The evolution of cyber risk insurance will have to play a fundamental role in creating customised products that adapt to new perils."

AI AND EMPLOYMENT IN INSURANCE

AI is already being used in many industries to help identify suitable job applicants, and insurance is no different. Along with many other areas of financial services that have coped with technological change in the last few decades AI is likely to have implications for the way we work and the need for new skills such as data science and machine learning will be particularly sought after.

Robert Byrd, partner at Byrd & Associates in France, explains: "It is important to recognise the dual potential of AI to both disrupt and enhance traditional workflows. As AI increasingly automates tasks and data processing, it may streamline operations in the insurance sector, improving efficiency and accuracy. This automation, however, also poses challenges and subsequent opportunities, with changes to working patterns and the need for workforce reskilling."

RECRUITMENT

AI is already having an impact on the recruitment processes and strategies of insurance companies around the world, and this looks set to increase. AI has created a demand for new skill sets within insurance companies, such as enhanced data analytics and data science, machine learning, cyber risk, and AI systems management expertise. Many insurance companies increasingly are looking to hire professionals in these areas to help them integrate AI into the day-to-day business model.

In the first instance, AI can be used to sift through applications to identify candidates more quickly with the requisite qualifications, skills, and experience for certain roles. And during the hiring process, AI-driven skills analyses can be used to help look at the competencies of candidates and assess their suitability for a role, possibly in a way freer from inherent bias than traditional processes.

That said employers will need to be aware to the concerns that over reliance on AI in the hiring process may give rise to moral hazard and ethical issues that insurers must be cautious about.

SKILLS SHIFT: THE MAKE-UP OF THE INSURANCE WORKPLACE WILL CHANGE

There is no doubt AI will change the traditional employment model of many sectors and insurance is no different. That said, many commentators, as well as our GILC members, have issues and concerns though with the 'robots are coming for my job' types of headlines. Good companies embrace change and leading insurance companies will have no issues about dealing with technological innovation as they have done with previous waves of significant transformation.

Different parts of the industry will be impacted in different ways. There is no doubt for some of the higher-volume, lower-complexity lines of business, like certain home, auto or life insurance offerings, there is a potential for policies to become more automated and AI-generated, although always with a degree of human oversight.

As insurers increasingly look to AI to undertake repetitive, administrative tasks, there will be a growing need to train, develop, and reskill or upskill employees old and new to work alongside AI to use the data insights it can provide.

Joachim Mikkelsen Skjelsbæk, partner at Riisa in Norway, comments: "We expect that the use of AI will increase drastically, requiring employees to do fewer standardised tasks. To be able to use these services, insurers will have to increase their knowledge and workforce within the technological profession."

In some markets, insurers have anticipated this change and are already training current staff in the new skills they will need for a workforce that includes AI and are recruiting new employees with the technical and data-driven skill sets that will be needed to reshape insurance companies to adapt to this shift. As Dominik Skrobala, partner at GBF Attorneys-at-law explains about his own country: "In Switzerland, progressive insurance companies are investing in training programmes to help their workforce adapt to the evolving AI-driven landscape, thereby aligning human expertise with the new technological paradigm."

This isn't a new phenomenon as such. As we have already seen in many parts of the world, AI has been used for many years to help with the sophisticated automation of standardised tasks such as reading and categorising emails and responding to them, registering claims, structuring, and archiving documentation and, in some cases, assessing claims. The difference in the future will be the speed and scope of these tasks.

Dr. Carolin Schilling-Schulz, partner at ASD in Germany, explains: "AI could be used in pricing, marketing, underwriting (including risk modelling), reservations of claims, risk assumption and the rationalisation of processes and offers, all of which would lead to significant efficiencies, but at the same time speed up processes. At the same time, this will also [require] a commitment, especially for management, to further develop compliance and risk management for the use of AI."

As we have reported, the biggest impact that AI is having and will continue to have is on the more transactional lines of business. By contrast, the nature of specialist insurance provision is typically becoming more complex rather than less, and many customers will continue to prefer a 'human touch' at least on the visible interaction with the providers.

Joachim Mikkelsen Skjelsbæk, partner at Riisa in Norway, comments: "Both the need for insurance and the complexity of claims is increasing, and we expect that employees will be needed to handle more complex underwritings and claims."

THE FUTURE OUTLOOK

There is little doubt that AI will play an ever increasingly important role in the way organisations in all sectors, around the globe do business. Insurers, like their policyholders, will continue to harness the power of AI and the opportunities it presents. It will help to make processes more efficient, to enhance risk analysis, to enable the development of more tailored and relevant products and services, and much more.

With opportunity, however, comes risk.

Insurers and their legal advisers will watch closely the development of regulations and legislation specific to AI; the EU's upcoming *AI Act* will be a marker in the sand. They will be keenly aware of the liability, privacy and cyber exposures that could arise with their policyholders' increased use of AI in their business models.

The insurance market will also be mindful that with the opportunity to improve its own processes and data capabilities, there comes a need to focus on the training and learning and development of insurance professionals. The way insurance companies are staffed and the way they interact with customers, be they individuals or corporates, will change, and this evolution must be carefully managed.

The development of insurance solutions specific to the risks posed by the use of AI is in its infancy. But as the technology and its adoption develop apace, and regulatory bodies sharpen their focus, we can expect more AI-targeted risk solutions to emerge.

The coming year will be a pivotal one in the use of AI, as the insurance industry more widely adapts to the emergence of risks and opportunities associated with its use. We will need to continually evolve our understanding of the exposures that corporations and their insurers may face and review the impact of regulatory changes.

Jehan Mata, partner at Sparke Helmore in Australia concludes: "AI and generative AI technologies present significant opportunities and associated challenges for the insurance industry. From an opportunity perspective, the insurance industry can transform itself, improving its processes, enhancing risk assessment and portfolio management, providing better customer experiences, and detecting fraud more efficiently. The use of predictive AI

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JEHAN MATA, PARTNER, SPARKE HELMORE, AUSTRALIA

will need clear parameters and overarching guidance and a preparedness to face the challenges across data privacy, ethics, and bias in order for insurers to avoid the financial, regulatory, legal, and reputational risks."

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