

Exploring the benefits, risks, and regulatory implications of AI in insurance

Article

The trend: Artificial intelligence (AI) has the potential to bring a range of benefits to the insurance industry, but also creates new risks as providers and regulators adapt to evolving

technology, according to UK financial regulators.

The **Bank of England, Prudential Regulation Authority (PRA)**, and **Financial Conduct Authority (FCA)** published their [Artificial Intelligence and Machine Learning discussion paper](#) in October, which closed for comments earlier this month. The paper asked for feedback from those with an interest in AI in financial services. Here are three talking points from the paper.

The benefits:

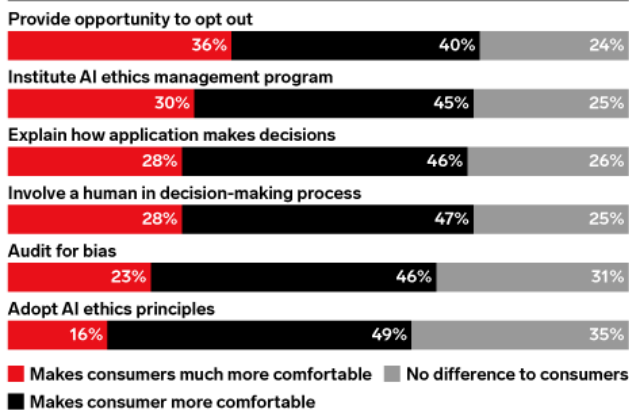
- AI in the insurance sector can **improve the efficiency of data processing and decision-making** for underwriting and claims.
- For life insurance, **firms can use AI to enhance investment choices**.
- AI can help **automate claims** management.
- And insurance providers can use AI to better analyze data, to provide more **personalized products** and pricing.

The risks:

- AI focused on historical data can lead to **mispriced policies**, as it may ignore new factors impacting products, like breakthrough medical treatments or environmental changes.
- The tech may **struggle to explain policies clearly** compared to human advisors, which can hurt policyholders' ability to claim.
- Insurance providers may also have to rely more on third parties to fully realize AI's advantages. That creates risks tied to cyberattacks on partner firms.

Approaches That Companies Can Use to Make Consumers More Comfortable With AI According to IT Security Professionals Worldwide, Summer 2022

% of respondents



Source: Cisco, "2023 Data Privacy Benchmark Study: Privacy's Growing Importance and Impact," Jan 24, 2023

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Regulatory implications: One of the biggest challenges to AI's use in insurance is the lack of clarity surrounding rules and what that means for firms. The paper queried whether AI can be managed by extending existing regulations, or whether new rules are needed. Particular areas for watchdogs to consider include:

- Consumer protection
- Potential bias and risk of discrimination
- Consent and privacy

The **rapid rise of AI** is expected to lead to **surging investment by insurance firms** as they seek out the tech's benefits to give them an edge. Expect the regulatory framework to evolve as regulators are forced to adapt legislation in response.

*This article originally appeared in **Insider Intelligence's Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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