THE IMPACT OF AI ON THE INSURANCE INDUSTRY

SIDLEY

Artificial intelligence (AI) will fundamentally transform the global (re)insurance market. It will reshape traditional practices and create new avenues for innovation. In order to reap the benefits, (re)insurers must navigate a complex landscape of legal, regulatory, and ethical considerations.

HOW AI TECHNOLOGIES ARE DISRUPTING THE INSURANCE INDUSTRY

$1.1T POTENTIAL ANNUAL VALUE OF AI IN INSURANCE

— **$400B** FROM PRICING AND UNDERWRITING
— **$300B** FROM AI-DRIVEN CUSTOMER SERVICE[1]

77% OF INSURANCE C-SUITE EXECUTIVES INDICATE THEY ARE ADOPTING AI AS PART OF THEIR VALUE CHAIN[2]

65% OF INSURERS EXPECT A REVENUE UPLIFT OF MORE THAN 10% FROM GENAI[3]

WHAT'S FUELING AI DEMAND?

- Enhanced operational efficiency
- Improved customer service — and satisfaction
- Greater customization
- Reduced costs
- Optimized claims processing and fraud detection
- Faster decision-making capabilities
- Financial process automation
- Quality compliance and risk mitigation

TRENDS TO WATCH

- Data analytics and AI will enable companies to create highly tailored and value-rich insurance products
- AI will further enhance the accuracy of policy premium pricing
- With AI tools, businesses will more accurately predict trends and identify potential risks
- Insurers will leverage GenAI to extract insights from complex and diverse datasets

CHALLENGES FACING THE INSURANCE SECTOR

- Ethical considerations surrounding accountability and transparency
- Inaccurate data and biased decision-making in critical areas
- Increased risk of data breaches and reputational damage
- Shortage of AI talent
- Legal and financial consequences due to regulatory non-compliance
- Navigating varied regulatory frameworks and guidelines

AI IMPACTS THE ENTIRE INSURANCE VALUE CHAIN

Product Development → Sales and Marketing → Underwriting and Risk Management → Policy Administration and Servicing → Claims Management → Finance and Accounting

[1] *Insurer of the future: Are Asian insurers keeping up with AI advances?*, McKinsey & Company (May 2023).
[2] *Transformative AI Technology: Insights*, Conning (March 2024).
[3] *How to revolutionize the insurance value chain with generative AI*, EY (May 2024).

As AI technology has evolved — and especially with the rapid progress of the last couple of years — a number of these challenges have become increasingly apparent. Regulators have taken note, and are now introducing or considering new rules in jurisdictions such as the EU, UK, and U.S.

Some of the issues they are seeking to tackle include:

- **Bias and fairness:** AI models and their underlying assumptions risk perpetuating inherent biases (whether through claims handling decisions or underwriting considerations). Active consideration of the potential biases that may arise will be essential.

- **Privacy concerns:** An assessment of the lawfulness of training and validation data sourced from third parties will be crucial to ensure any value created by new solutions is built on strong foundations. Among other things, consideration also should be given to meeting transparency requirements and how, in practice, the exercise of data subject rights will be facilitated at each stage of the AI lifecycle.

- **Data quality and consistency:** The input of inaccurate or incomplete data can lead to flawed analyses and outputs.

- **Intellectual property (IP) rights and data ownership:** Both the input and output data of AI systems have the potential to infringe on IP rights, and licensors and/or builders of AI systems should consider data ownership rights and how IP rights and trade secrets are being sufficiently protected.

AI is reshaping the global (re)insurance market, and its potential is immense. However, as insurers, reinsurers, brokers, MGAs, and service providers navigate this new technology, it seems clear that regulators will want to see responsible implementation in three particular areas:

- **Ethical guardrails:** Transparency, fairness, and accountability are key — the need to ensure that AI decisions are explainable and devoid of bias.

- **Privacy and responsibility:** AI systems have the capacity to process vast amounts of data, meaning that existing laws such as the General Data Protection Regulation will likely apply and, in turn, impose various requirements on those utilizing data as part of their AI systems. Consideration of applicable privacy laws at each stage of the AI lifecycle is therefore crucial when both deploying or developing any AI system.

- **Human-AI synergy:** While AI has the capability to streamline processes, human oversight remains essential to ensure appropriate systems and controls are in place. Companies will also have to be able to demonstrate that such oversight is effective.

Firms must weigh the benefits of AI adoption against the risks and complexities. It may be worth considering the establishment of a formal AI governance framework for the company to help structure these considerations.

AI innovation offers fantastic promise for (re)insurers, but it must align with privacy and other regulatory requirements. Thoughtful implementation and ongoing ethical awareness will be key.

SIDLEY: AN INDUSTRY LEADER

Sidley is one of only a few global law firms with a large, multidisciplinary practice group devoted to the insurance industry. Our multifaceted experience in the insurance industry spans from leading insurtech startups to established, global insurance organizations. With one of the preeminent insurance regulatory practices, and close working relationships with many insurance regulators, we provide nuanced, forward-looking guidance on the rapidly evolving role of AI in insurance. The firm's AI and data analytics lawyers provide comprehensive guidance to companies looking to capitalize on the vast potential of AI and respond to its impact on their business. Our dedicated team offers in-depth experience, a multidisciplinary approach, and practical solutions to the diverse legal and business challenges arising from AI, as well as the analysis, collection, and use of the massive data sets required for AI tools and generated by AI.

70+ INSURANCE LAWYERS

FOUR DECADES OF EXPERIENCE

STRONG PRESENCE IN MAJOR **INTERNATIONAL INSURANCE & TECH HUBS**

TALENT. TEAMWORK. **RESULTS.**