

Artificial intelligence (AI) in insurance

Insurers' use of AI

- ✓ The insurance business model is based on the extensive use of data and algorithms. Insurers have been using AI to improve customer service, to increase efficiency and to fight against fraud more effectively for many years. AI can also help insurers to better monitor and anticipate risks, leading to **greater risk prevention** throughout the economy.
- ✓ Using AI, as well as other advances in risk assessment, makes it possible to **enhance insurability** and allow insurers to provide cover against certain risks that were previously uninsurable. For example, the increasing availability of data and the further development of analytical methods, in combination with medical progress, now makes it possible to offer insurance for carriers of the HIV virus under certain conditions.
- ✓ Nevertheless, uptake of AI in the insurance sector is relatively slow and focuses on simple use cases that are low risk in nature.

Why the use of AI in insurance should not be classified as high risk

- ✓ Insurers are already subject to a **robust EU financial services regulatory framework** (prudential, conduct rules), complemented by national frameworks and by EU legal requirements in a wide range of different areas (fundamental rights, data protection, privacy), as well as strict supervision by supervisory authorities. This comprehensive regulatory framework already addresses the potential risks stemming from the use of AI in insurance.
- ✓ Insurers also address the wider implications of their AI use to ensure fairness and good consumer outcomes through their **internal governance mechanisms**. This is further strengthened by the governance principles for ethical and trustworthy AI in the European insurance sector that have recently been developed by the consultative expert group on digital ethics of the European Insurance and Occupational Pensions Authority (EIOPA).
- ✓ Article 7 of the proposed AI Act introduces a **methodology** to define and update the list of "high-risk" AI systems that pose significant risks to the health and safety or fundamental rights of persons. AI systems used in insurance do not meet the relevant requirements and were therefore not included in the list of high-risk AI systems in Annex III.
- ✓ In addition, paragraph 134 of the European Parliament report on Artificial Intelligence in a Digital Age ([2020/2266\(INI\)](#)) specifies that *"the classification of AI systems as 'high-risk' should be based on their concrete use and the context, nature, probability, severity and potential irreversibility of the harm that can be expected to occur in breach of fundamental rights and health and safety rules as laid down in Union law"*.
- ✓ Regardless of whether AI systems are used or not, there are always **human control** processes to verify and challenge the outcome of decisions in the insurance sector. As a result, any outcome produced by an AI system is **reversible** (Article 7(2)(g) of the EC proposal), as customers always have the possibility to question the outcome of a decision (eg claim settlement). For example, if an AI system is used to assess damage on the basis of photographic evidence, a customer would have the possibility to challenge the outcome and ask for a physical inspection of the damage to be carried out by a loss adjustor.

Why risk assessment is inherently different to credit scoring

- ✓ Risk assessment in the insurance sector is not comparable to AI systems used to evaluate creditworthiness or establish credit scores. Credit scoring or creditworthiness assessments involve assigning a score to a particular individual that can then be accessed and used by a range of third parties as a basis for granting or declining credit, mortgages, etc. Thus, it may lead to the denial of "access to and enjoyment of private services" as referred to in Annex III. A credit score therefore represents a value judgment about an individual's financial situation and their likelihood of making future payments.
- ✓ In contrast, insurers use mathematical procedures to calculate the probability of a certain loss occurring to determine a risk-adequate premium. There is no single score assigned to an

individual. Each insurer has their own, specific underwriting process to assess the individual risk to be covered and determine a risk-adequate premium based on their own procedures and parameters. If an individual is not satisfied with one insurance offer, they have the possibility of applying to a different insurer.