

The AI product boom: risks and opportunities for insurers

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UBS predicts that the artificial intelligence (AI) hardware and services market will be worth USD 90 billion in 2 years' time. Additionally, chip makers Nvidia, were valued recently at 940 billion dollars! [The FM Global Resilience Index 2023: underwriter risks](#)

The recent AI product boom may be of interest to insurers, as the demand for coverage accelerates the development and creation of new and existing insurance products.

However, the AI hype bubble risks bursting as hundreds of top AI scientists and researchers warned last month that AI technology posed an extinction risk to humanity. For insurers, the marketability and allocation of risk for policies seeking to cover AI products may be challenging due to the increased risk of disputes, regulatory concerns, and intricate arrangements arising from AI products. In this article we consider some of those challenges.

IP and data protection disputes

Developments in AI product sophistication and application could generate a surge in disputes, particularly regarding data usage and proprietary information.

Underwriters may want to examine the scope of coverage they currently offer under existing policies and whether this ensures adequate protection against such losses. This is especially important when considering management liability, professional indemnity and cyber wordings covering data usage, copyright, and privacy.

Additionally, when conducting risk assessments for new AI products, insurers may want to revisit the enquiries they make at proposal stage. This is to ascertain, prior to policy inception, whether potential insureds have adequate data protection in place and are not likely to be in violation of property rights.

Regulatory compliance

With the increased prevalence of AI products, regulators worldwide will likely impose rules and regulations on businesses. Indeed, June saw European Union lawmakers agree upon draft legislation, the EU AI Act. Brando Benifei, a member of the European Parliament working on the EU Artificial Intelligence Act, stated:

'While Big Tech companies are sounding the alarm over their own creations, Europe has proposed a concrete response to the risks AI is starting to pose'.

In brief, the Act provides AI developers, deployers and users with clear requirements and obligations regarding the specific uses of AI. The proposed rules will:

- address risks created by AI applications;

- propose a list of high-risk applications;
- set clear requirements for AI systems for high risk applications;
- define specific obligations for AI users and providers of high risk applications;
- propose a conformity assessment before the AI system is put into service or placed on the market;
- propose enforcement after such an AI system is placed on the market; and
- propose a governance structure at European and national levels.

The proposed rules include fines of up to EUR 40 million for those in breach.

Although this might not be directly applicable to the UK, [Rishi Sunak recently stated that the UK should become a global hub for developing international regulation](#). Only time will tell whether the UK will adopt similar or mirrored rules.

Commercial contracts

The procurement of AI products may also encourage various contracts between different entities through licensing/goods agreements, partnership contracts and joint ventures between providers and tech companies.

Insurers may want to develop their wording propositions to reflect AI products' varied applications and broader interaction with parties.

Conclusion

The AI product boom appears to be a lucrative and exciting time for both technology companies and insurers. However, insurers may wish to approach these developments with caution and much consideration, given the increased risk of liability and high losses.

Tim Johnson, Partner, recently discussed, with Carrier Management's Elizabeth Blossfield on the [Insuring Cyber Podcast](#), the risks and opportunities for insurers when navigating the unknowns such as new and upcoming AI products.

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