

OPINION



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ARTIFICIAL INTELLIGENCE

Aims for AI

The EU's AI rules must allow insurers to continue to innovate for the benefit of their customers

As the use of artificial intelligence (AI) becomes more prevalent across the insurance industry, regulators are examining how its use could potentially impact consumers. Specifically, the European Commission is proposing cross-sectoral regulations that would control — and, in some instances, prohibit — certain practices: for example the use of AI systems by public authorities, or on their behalf, for social scoring purposes.

Given the rising societal concerns about consumer privacy, data security and the potential impact of AI on human agency, it is no surprise that the EC and other entities are exploring new guidelines. In fact, we take the view that a regulatory stance is required and applaud the early position taken by the EC.

However, proposals from certain policymakers could limit insurers' abilities to undertake certain practices: for example, to assess risk and price policies accurately, personalise consumer experiences and mine data assets for actionable insights. Since the industry is already required to adhere to a wide range of regulatory requirements, a sensible step would be for insurers to collectively engage with regulators to explain how they both protect consumer data and ensure a fair, unbiased use of AI in all its forms. They should also reassure regulators that the necessary precautions are being taken by insurers to safeguard against possible problematic cases. Below, I outline the most recent proposed legislation and highlight both concerns for insurers and recommended actions.

AI in insurance: the current landscape

As data volumes exploded during the last decade, insurers turned to data analytics tools, now commonly referred to as AI, to streamline and enhance operations across the business. For instance, AI was instrumental in designing and managing usage-based insurance products and in providing “always-on” service and support via mobile phone applications¹. AI also helped insurers to automate processes and to gain better risk insights during underwriting processes.

There are, however, growing societal concerns about the use of big data and AI. Beyond worries about unprecedented surveillance capabilities, some observers have expressed concerns that the increasing adoption of AI could exclude certain consumer groups, including racial minorities and other historically under-represented groups, from financial services². Many guidelines have cited the need for ethical standards, but the absence of a single guideline on what this means in practice for relatively new AI-based technologies is a potential gap.

Against this backdrop, the EC's proposed AI Act aims to clearly articulate where and how AI can be used. It also seeks to define requirements for internal quality procedures for using AI and to identify penalties in cases of non-compliance. The draft position of the Council of the EU mentions the insurance industry specifically in the context of high-risk AI use.

Reservations about the draft Council position begin with the fact that the proposed AI Act does not appear to leverage existing insurance regulation that already covers the use of data analytics. Future regulation regarding AI in insurance should therefore build on the foundations that are already in place.

Additionally, the definition of AI is broad and activities that fall within the definition cover many procedures and processes that are already subject to sector-specific legislation (eg, reserving, pricing, customer protection). Moreover, complex models have long been a part of the standard toolbox for actuaries and risk modellers, and outputs are subject to existing legislation, such as the Solvency II Directive.

The proposal that different AI use cases need different levels of control is welcome. AI regulation must also reflect the

¹ “[Artificial intelligence governance principles: towards ethical and trustworthy artificial intelligence in the European insurance sector](#)”, EIOPA, June 2021

² “[Artificial intelligence governance principles](#)”, EIOPA, June 2021

overlapping and nuanced relationship between AI, big data and machine learning, and the impact of AI-driven automation on the risk profile of longstanding industry processes, such as risk evaluation and claims assessment. Technical and performance requirements for existing AI systems already factor in regulatory and industry standards for statistical accuracy, absence of bias and cybersecurity. These existing risk governance processes can also be reinforced to ensure that “reasonably foreseeable misuse³”, as identified in the EIOPA AI Governance Principles, is addressed.

Similar enhancements to existing standards can address concerns about bias, via stronger risk management vigilance and oversight of risk models, in line with existing regulations. In fact, a well-calibrated AI system can potentially eliminate unconscious human bias far better than a less sophisticated process.

AI does create new risks, such as when data volumes contain patterns that cannot be understood by human operators. But the AI Act reflects a societal concern when these risks impact human beings. This can include such things as: reduced understanding for humans of why certain decisions impacting their life and wellbeing are being made; inducing behavioural change through incentivisation and gaming; and privacy concerns based on what insights can be derived from data. For these new types of exposures, additional legislation can be justified to define “red lines” for practices that are considered unacceptable (eg, in the domain of biometrics) and to create a level playing field across industries (eg, embedded insurance in social networks).

Finally, there is a fine line between genuine risks and ethical problems. From a practical point of view, risks could be exposures that can lead to financial losses or legal non-compliance, while ethical problems are viewed in terms of societal and cultural norms, that require making the trade-off between different stakeholders.

AI has the potential to deliver what consumers are looking for, including speed, simplicity and personalisation by helping to reduce frictions in distribution and servicing. But insurers must not lose sight of customer and market considerations on data protection, and should seek to create more transparency and trust in the use of personal data and the use of AI to support customers' decisions. ●

³ Article 9 of the [EC proposal for an AI Act](#)