DAC BEACHCROFT

AI and Policy Wordings

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A presentation for the
Lloyd's Market Association Wordings
Forum
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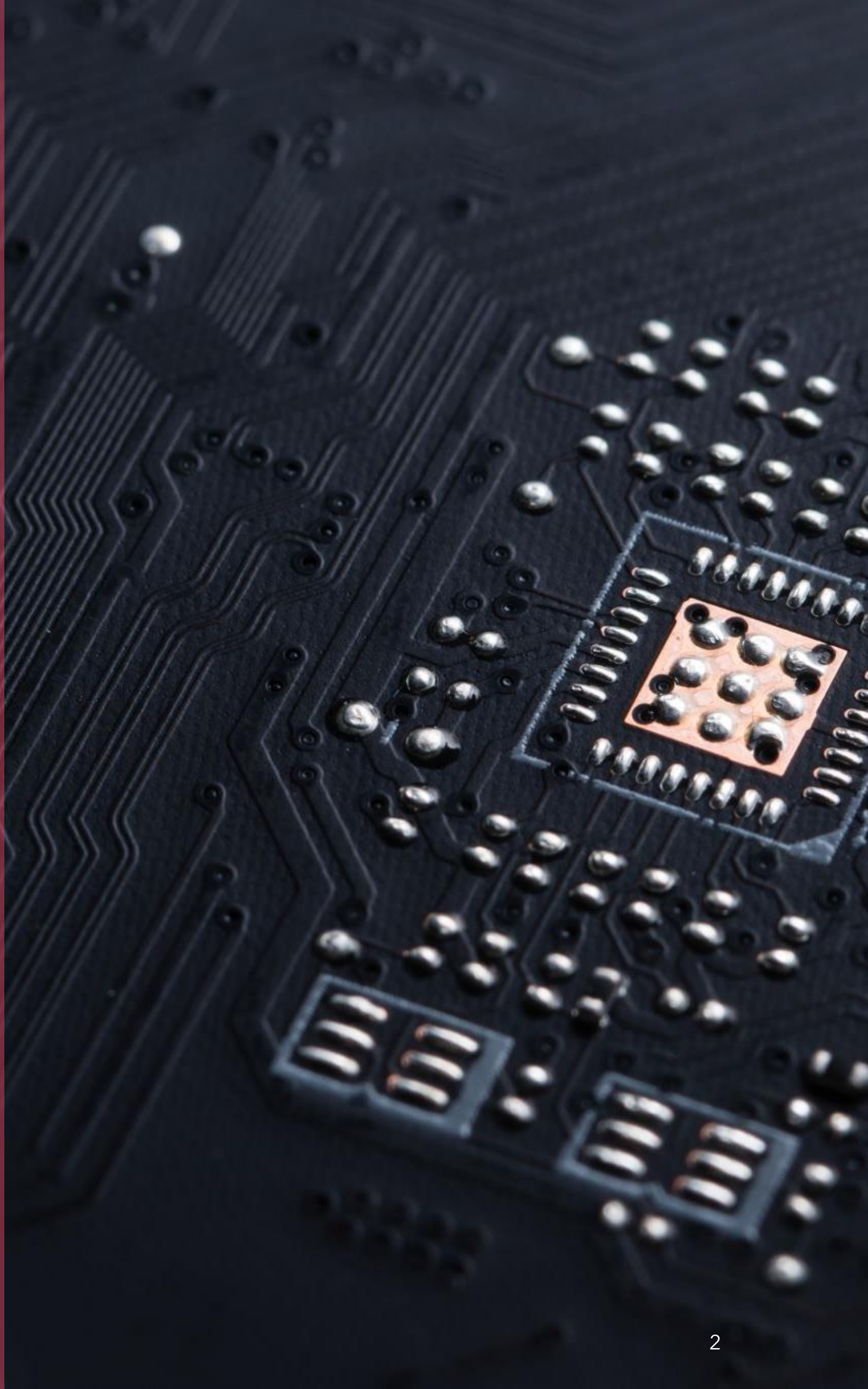
Agenda

- Implications of AI risk on insurance
- Defining 'Artificial Intelligence'
- An overview of wordings innovation in the market
- Absolute exclusion for AI risks
- Questions for the Proposal Form
- Discussion



Implications of AI risks

By covering AI related risks, policies may now need respond to additional claims.

- **Increased severity and frequency of existing claim**

- **Data poisoning** involves the malicious insertion of harmful data into the datasets used to train AI models. This can lead to corruption of the model and outputs

- **Algorithmic errors in decision-making** – possible liability for allegations that the inherent or unintentional biases in AI models lead to outcomes that are discriminatory

- **Copyright claims** resulting from AI-generated materials

- **Regulatory actions** – the input of private or confidential information into AI models could breach duties of confidentiality, and lead to data protection regulatory actions

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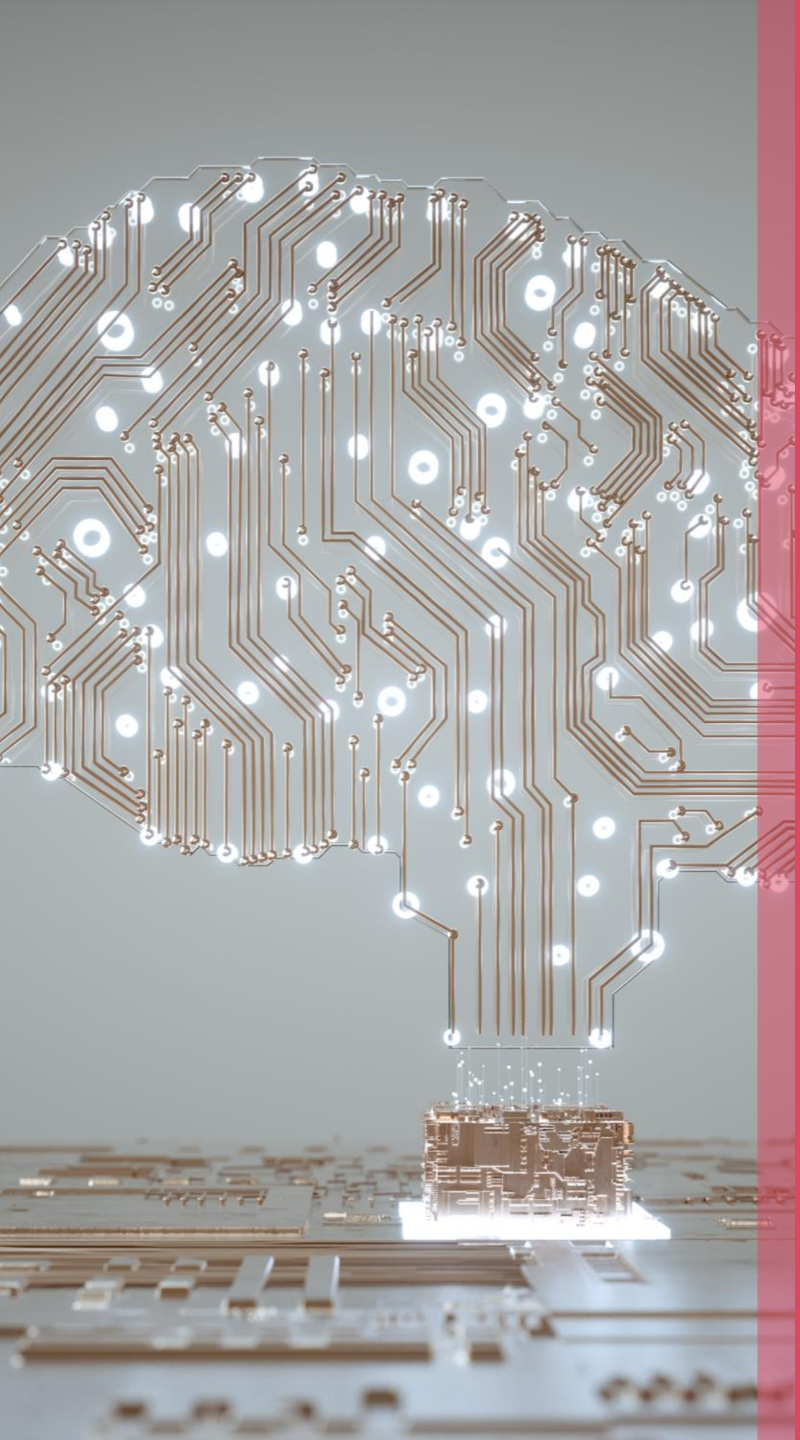
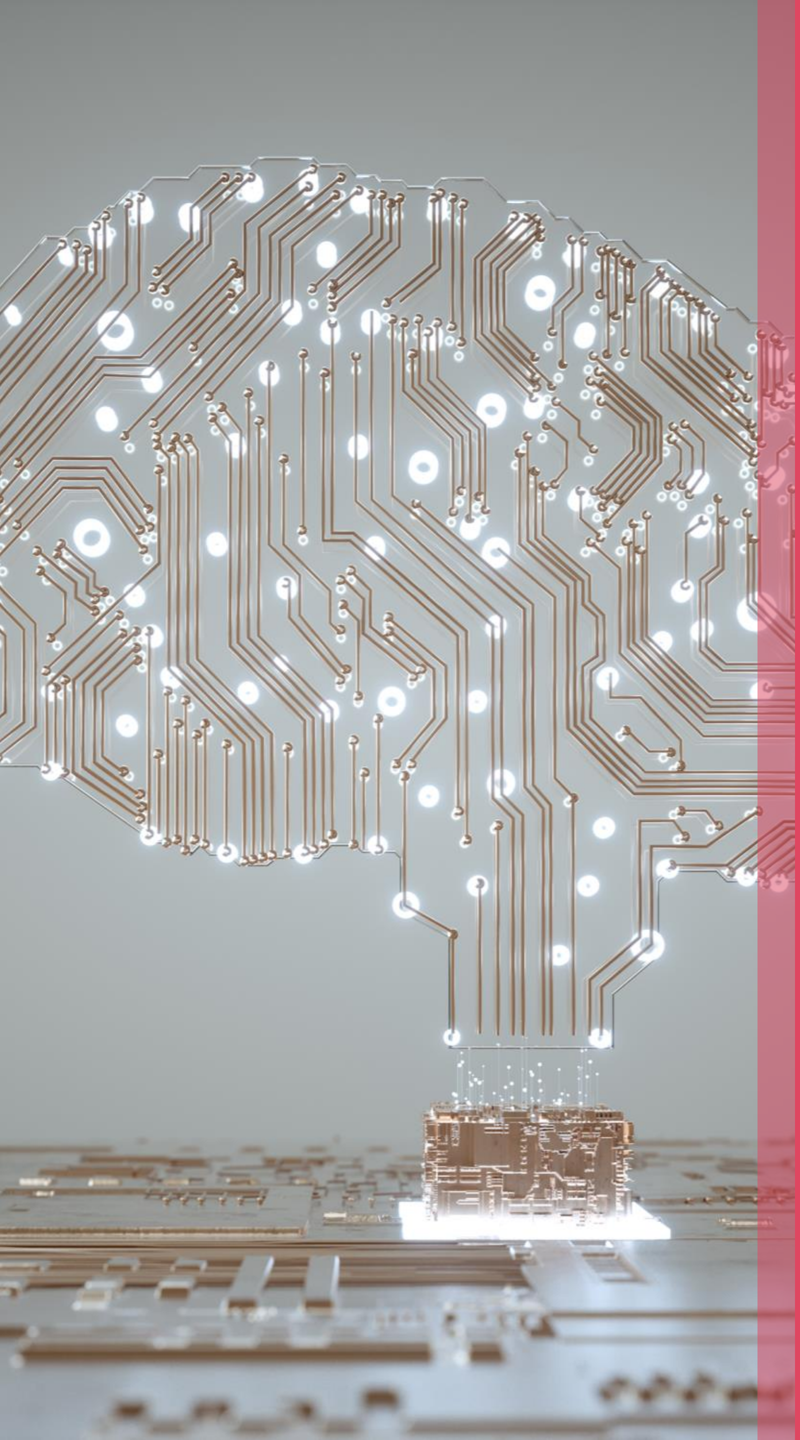


Defining Artificial Intelligence

"AI is the science and engineering of making intelligent machines, especially intelligent computer programs" – Alan Turing

"An AI system is a machine-based system designed to operate with varying levels of autonomy that may exhibit adaptiveness after deployment and that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments" – EU AI Act

"Computer systems able to perform tasks normally requiring human intelligence" – Guidance for Judicial Office Holders



Defining Artificial Intelligence

Some more recent definitions:

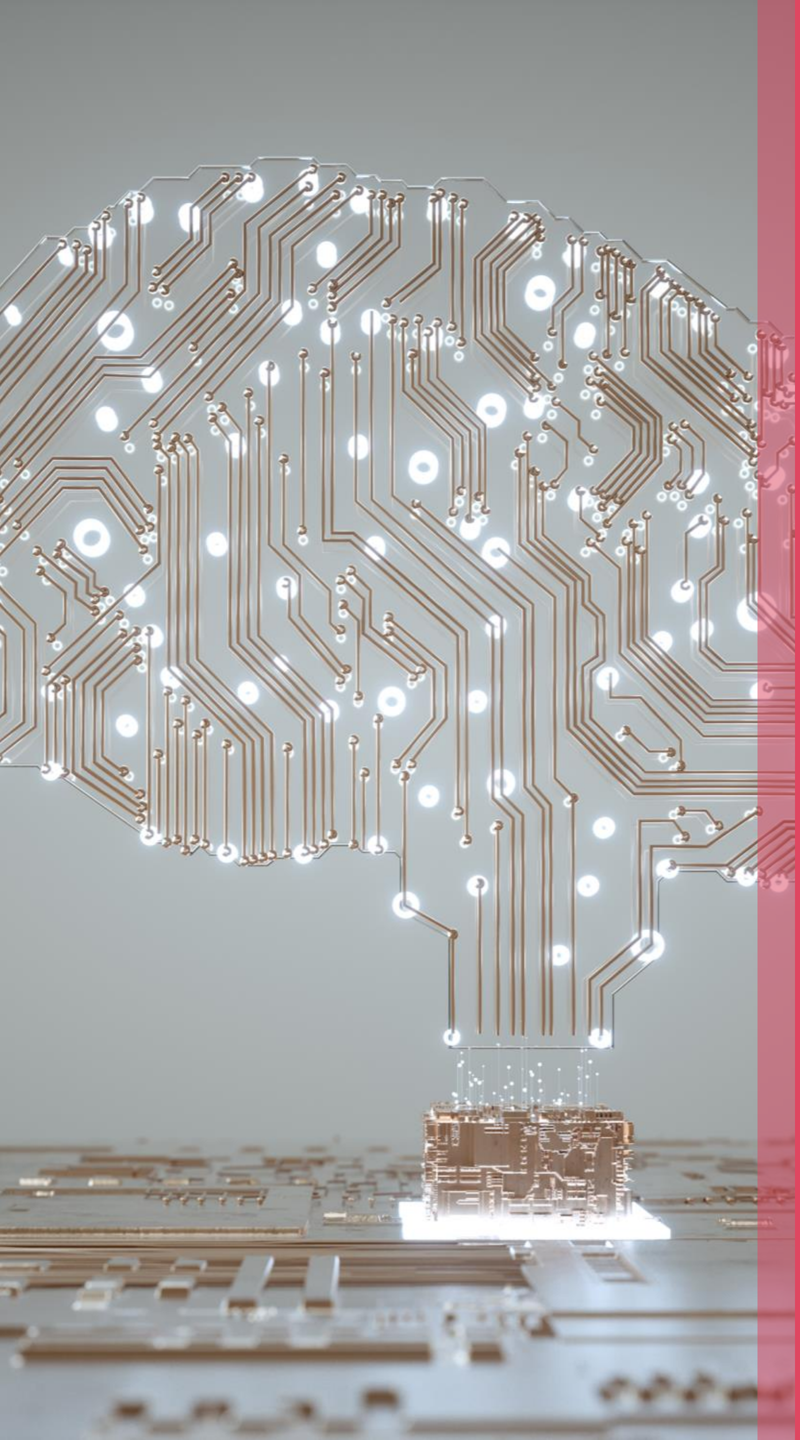
"a technology that is autonomous" – UK Jurisdiction Taskforce

"software that is automated and generates information outputs based on a statistical model of data taken from similar or informative scenarios" – LMA's Understanding AI Exposures study

Generative AI:

"a deep learning algorithm that analyses vast swathes of data in order to produce content (for example, text, images, audio and video) in response to user inputs" – LMA's International Professional Indemnity Committee study on The impact of AI on the International E&O Market

"AI systems that create new content such as text, images, audio or video in response to user prompts" – Gallagher Re (in association with MIT and Testudo)



Specimen definition of AI

Artificial Intelligence means any machine-based system that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments, including, without limitation, any system that can emulate the structure and characteristics of input data in order to generate derived synthetic content, including images, videos, audio, text, and other digital content.

Silent AI, Affirmative AI and Exclusions

Endorsements	Product enhancements
Standalone AI wordings	Conditions and exclusions

Absolute exclusion

The **Insurer** shall not be liable to make payment under this Coverage Part for **Loss** on account of any **Claim** made against any **Insured** based upon, arising out of, or attributable to:

1) any actual or alleged use, deployment, or development of Artificial Intelligence by any person or entity, including but not limited to:
   a. the generation, creation, or dissemination of any content or communications using **Artificial Intelligence**;
   b. any **Insured's** actual or alleged failure to identify or detect content or communications created through a third party's use of **Artificial Intelligence**;
   c. any **Insured's** inadequate or deficient policies, practices, procedures, or training relating to **Artificial Intelligence** or failure to develop or implement any such policies, practices, procedures, or training;
   d. any **Insured's** actual or alleged breach of any duty or legal obligation with respect to the creation, use, development, deployment, detection, identification, or containment of **Artificial Intelligence**;
   e. any product or service sold, distributed, performed, or utilized by an Insured incorporating **Artificial Intelligence**; or
   f. any alleged representations, warranties, promises, or agreements actually or allegedly made by a chatbot or virtual customer service agent;

Absolute exclusion (continued)

2) any **Insured's** actual or alleged statements, disclosures, or representations concerning or relating to **Artificial Intelligence**, including but not limited to:
   a. the use, deployment, development, or integration of **Artificial Intelligence** in the **Company's** business or operations;
   b. any assessment or evaluation of threats, risks, or vulnerabilities to the **Company's** business or operations arising from **Artificial Intelligence**, whether from customers, suppliers, competitors, regulators, or any other source; or
   c. the **Company's** current or anticipated business plans, capabilities, or opportunities involving **Artificial Intelligence**;
   d. any actual or alleged violation of any federal, state, provincial, local, foreign, or international law, statute, regulation, or rule regulating the use or development of **Artificial Intelligence** or disclosures relating to **Artificial Intelligence**; or
   e. any demand, request, or order by any person or entity or any statutory or regulatory requirement that the **Company** investigate, study, assess, monitor, address, contain, or respond to the risks, effects, or impacts of **Artificial Intelligence**.

Questions for the Proposal Form

- Who would be checking the output and what are their qualifications?
- What training would be provided to those using the system?
- Were client consents being secured for use / input of their confidential data – is the system open or ring-fenced?
- Are there any licensing issues in relation to any output generated and how it is to be used?
- Contractual apportionment of the risks arising and limitations of liability (consequential losses excluded)?
- Legal disclaimers where use is by third parties?
- Protections in place to protect resilience of the system (i.e. from cyber-attack)?

Discussion

Our Global Insurance Predictions for 2026 are now live!

Our global experts have once again come together to provide their insights on the key issues for the year ahead.

We have expanded our reach again this year, offering predictions across over **20 lines of business** and more than **20 jurisdictions**, recut across our six key themes of geopolitics, environment, social issues, technology, economics and regulation.

So whether you are looking for a deep dive on D&O, an overview across Southeast Asia or a broad understanding of environmental developments around the globe, this resource is for you

We hope that you find these predictions of interest. Please do get in touch if you would like to discuss any of the issues further.

Published on Informed Insurance: the home of DAC Beachcroft's thought leadership for the insurance industry, you can read them all here.

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