# AI insurance emerges as safeguard for algorithmic risks



As artificial intelligence becomes embedded across industries, organisations are grappling with two sides of risk management: ensuring AI systems operate safely—known as AI assurance—and mitigating financial exposure when they fail, through AI insurance.

AI assurance involves technical and governance measures such as bias testing, performance monitoring, audit trails and accountability frameworks. The UK government has championed the field, publishing a *Trusted Third-Party AI Assurance Roadmap* in September 2025 to strengthen independent verification services and position the country as a global hub for assurance.

AI insurance complements these efforts by covering liabilities from algorithmic harms including discrimination, privacy breaches and operational errors. Unlike traditional cover, AI insurance must address “multiplayer accountability”—the shared responsibility of developers, data providers and deploying firms. Insurers are increasingly demanding structured documentation of data sources, model architecture and regulatory risks before underwriting.

The two disciplines are closely linked: robust assurance lowers insurance premiums, while insurance requirements incentivise organisations to improve assurance practices. This is creating de facto safety standards, with insurers insisting on evidence of monitoring and incident response before offering cover. Firms adopting advanced model risk management protocols benefit from reduced costs and stronger governance.

The FCA has cautioned that AI in underwriting could entrench discrimination, warning of risks around hyper-personalisation. The market is already responding: Lloyd’s of London has introduced chatbot liability cover, while Hiscox has launched the UK’s first dedicated AI liability policy.

Despite limited historical data, actuaries are modelling AI risks using simulations and analogues from human decision-making claims. These efforts, supported by partnerships such as a £2 million Axa–University of Edinburgh project, aim to build new risk assessment tools for commercial AI.

AI insurance is also emerging as a proactive governance tool, with policy reviews often exposing weaknesses in firms’ AI management. By setting expectations ahead of regulation, insurers are shaping industry norms and reinforcing responsible adoption.

Though still nascent, the field is expanding in step with AI applications from recruitment algorithms to autonomous systems and healthcare diagnostics. Early adopters of AI insurance stand to gain not only financial protection but sharper insights into AI safety—helping to secure the UK’s role as a leader in trustworthy, innovation-friendly AI.

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## Bibliography

1. <https://www.wired-gov.net/wg/news.nsf/articles/Understanding+AI+Insurance+and+the+role+it+plays+in+AI+Assurance+16092025112500?open> - Please view link - unable to able to access data
2. <https://www.gov.uk/government/publications/trusted-third-party-ai-assurance-roadmap> - The UK government's 'Trusted Third-Party AI Assurance Roadmap' outlines strategies to establish a robust AI assurance market. It emphasizes the need for independent verification of AI systems to build trust and drive economic growth. The roadmap identifies challenges and proposes interventions to support a high-quality third-party AI assurance market, aiming to make the UK a global leader in AI assurance services.
3. <https://www.ft.com/content/9f9d3a54-d08b-4d9c-a000-d50460f818dc> - The UK's Financial Conduct Authority (FCA) has cautioned that the use of artificial intelligence (AI) in the insurance industry could render some individuals 'uninsurable' and lead to discrimination. FCA chief executive Nikhil Rathi highlighted the risks of AI-enabled hyper-personalization, which could benefit many consumers but also risk excluding others, particularly those with poorer health or limited access to technology.
4. <https://www.ft.com/content/1d35759f-f2a9-46c4-904b-4a78ccc027df> - Insurers at Lloyd's of London have introduced a new insurance product covering companies for losses resulting from errors or malfunctions caused by AI chatbots. Developed by Armilla, the policy addresses growing concerns about inaccuracies and unpredictable behavior from AI systems, aiming to encourage wider AI adoption by mitigating risk.
5. <https://www.ajg.com/uk/news-and-insights/2024/july/ai-poses-unique-challenges-for-businesses-insurers-and-regulators/> - The integration of artificial intelligence (AI) presents unique challenges for businesses, insurers, and regulators. AI algorithms can perpetuate existing biases, leading to discriminatory outcomes, and raise concerns about data privacy and security. The use of vast amounts of data also increases the risk of data breaches, potentially causing significant financial and reputational damage for organizations.
6. <https://www.brownejacobson.com/insights/the-word-june-2025/silent-ai-threat-to-insurers-don-t-leave-it-to-chance> - The rise of artificial intelligence (AI) in the insurance industry introduces significant risks, including data breaches, potential claims leakage, and issues with immature or inaccurate data models. Customer trust remains a significant barrier, with many UK customers expressing distrust in the use of AI by insurers. Regulatory bodies like the Financial Conduct Authority (FCA) and Information Commissioner's Office (ICO) are intensifying efforts to create a conducive environment for the responsible use of AI.
7. <https://www.insurancebusinessmag.com/uk/news/professional-liability/hiscox-launches-first-affirmative-ai-liability-cover-in-uk-market-540863.aspx> - Hiscox has introduced the UK's first affirmative AI liability cover, updating its Technology Professional Indemnity policy to explicitly cover AI-related claims. This policy addresses scenarios such as when a client relies on an algorithm’s output to deliver a contract and the model fails, or when faulty data fed into an AI tool produces defective software, providing clarity on risks arising from AI use, deployment, and professional advice.