AIFS0080

Written evidence submitted by the Chartered Insurance Institute

About the CII

The Chartered Insurance Institute is a professional body dedicated to building public trust in the insurance and financial planning profession. Our strapline *Standards. Professionalism. Trust.* embodies our commitment to driving confidence in the power of professional standards: competence, integrity and care for the customer.

We deliver that commitment through relevant learning, insightful leadership and an engaged membership. Our 122,000 members commit to high professional standards by maintaining continuing professional development and adhering to a published ethical code.

Our Royal Charter requires us to *secure and justify the confidence of the public*.

Summary

We welcome the opportunity to contribute to the Treasury Select Committee's work on AI. Our key points are:

- AI has already been used in insurance for more than a decade, in areas including underwriting and claims.

- It can deliver significant benefits to consumers, but, in its current state, it is best used as an assistant to professionals, enabling them to do their work more efficiently and effectively. People should always be prepared to take accountability for the outcomes created by AI, either through design or monitoring. Advances in the underlying mathematical models used for AI may make it more reliable in future.

- A proportionate regulatory approach should include:
    - a skills strategy for AI across all financial services, that educates all employees of firms about the potential and risks of AI
    - focus on governance mechanisms developed in partnership with professionals by professional bodies.

How is AI currently used in different sectors of financial services and how is this likely to change over the next ten years?

Insurance has been using interpretive AI (recognising patterns based on input data), for more than a decade. Examples include:

- Underwriting – using machine learning to improve the speed of decision-making and ease of doing business for consumers in the retail and SME markets

- Risk Modelling – e.g. assessing the impact of climate change by using AI to chart the complex interrelationship between changing weather patterns and developments in demographics and the global built environment

- Claims – using AI to assess claims, allowing claims professionals to deal with routine claims more efficiently, and focus more attention on complex claims

Over the next 10 years, there is the potential to use generative AI (that produces new content based on training data and some form of a reward function) in interactions with customers that are much more sophisticated than 'chat bots' historically used in financial services. This kind of technology is likely to be able to refine products bought without advice to align more closely with consumers' individual needs, to help pre-populate forms and to answer questions.

The extent to which these changes will be able to take place will depend on the mathematical models that underpin generative AI. The latest advances, that took place in 2017, in the paper *Attention Is All You Need* by Google scientists Vaswani et al, whilst extremely effective, still have the potential to create 'hallucinations' that could generate incorrect or misleading information for customers. While this is the case, there will be a significant need for human checking and oversight of customer-oriented information generated by AI. Improved mathematical models may reduce the potential for these errors to occur.

While these improvements take place, there is the potential for a two-tier system to emerge where AI assistants help to deliver consumer benefits through productivity gains for professionals within well-managed boundaries, whereas other consumers are left to interact with 'raw' AI and develop their own mitigations to limitations or errors.

To what extent can AI improve productivity in financial services?

In underwriting, AI can:

- Improve predictive capacities of underwriters by using neural networks to analysis correlations between risk factors – one article published by google claims that AI has helped one major insurer to predict 'large loss' accidents with 78% accuracy.
- Provide underwriters with generative assistance. For example, Allianz UK has developed an Underwriter Guidance Tool, known as BRIAN. This uses generative AI to simplify the process of accessing essential information. The information is only sourced from uploaded documents to enhance reliability. It gives underwrites quick, simple answers, backed up by detailed analysis if they need to go further.

In claims, AI can:

- Triage claims swiftly to the right specialists when first notified of a loss
- Be used in resource planning for claims functions within insurance firms, based on risk and policy data
- Use historical data for quicker claim settlements and more precise reserving – this would be particularly beneficial in health claims, where wait times can run into months
- Improve fraud detection and alerts during the claim lifecycle

What are the benefits and risks to consumers arising from AI, particularly for vulnerable consumers?

The CII has undertaken consumer research for the last seven years, as part of its 'Trust Index'. This research shows that there are nine key areas that consumers and SMEs value in insurance:

- Protection: does the insurance policy cover the right risks?

- Confidence: will the insurance company deliver on its promises when the customer needs it to?
- Ease: how easy is it to set up an insurance policy with the insurer?
- Price: is the policy a reasonable price?
- Relationship: does the insurer understand the customer as an individual person or business?
- Loyalty: does the insurer recognise the loyalty of longstanding customers?
- Control: how much control does the customer have over the way the claim is paid, in order to minimise disruption to their lives and businesses?
- Speed: how quickly are claims paid?
- Respect: do customers feel that they are being treated as customers or potential fraudsters during the claims process?

AI has the potential to deliver against many of these elements:

- Protection – AI can be used to analyse claims and demographic data, to develop products that more accurately reflect the risks of different groups
- Confidence – AI, if used properly, can help to reduce human error by increasing analytical capacity
- Ease – AI can decrease the time taken to complete processes for customers, and give consumers who need time to understand policies another route to ask questions, or listen to information repeatedly.
- Price – AI can drive efficiencies that reduce costs
- Relationship – AI can analyse risk to suggest areas where advice for customers will be most relevant and helpful
- Loyalty – AI can help professionals to understand customer behaviour, and find correlations between customer loyalty and behaviour that will help to deliver value to loyal customers where appropriate – for example analysing the relationship between customer loyalty and propensity to commit fraud
- Respect – AI can take some routine tasks away from claims handlers, giving them more time to engage with customers and find innovative solutions for urgent or unusual circumstances

The list above shows that some benefits for consumers can be delivered primarily by AI, while others, such as ‘relationship’ and ‘respect’ still need to be led by human empathy, with AI acting far more in a supporting role.

In addition, some factors can be undermined by inappropriate or inaccurate use of AI, for example:

- Confidence can by undermined by data breaches or appropriation of personal data and intellectual property by the insurance firm or an AI third-party provider

- A sense of fairness around rewarding loyalty can be undermined if an AI algorithm is developed that exploits vulnerability in a way that causes detriment to existing customers – for example if AI exploits cognitive decline in consumers by auto-renewing them into a slightly worse deal, year after year.

- Relationships and a sense of respect can be undermined if consumers are left to communicate with chat bots that cannot understand their personal circumstances, needs and preferences because of a lack of empathy.

- AI could be used to go further than fraud prevention, denying legitimate claims and reducing trust in insurance.

How can Government and financial regulators strike the right balance between seizing the opportunities of AI but at the same time protecting consumers and mitigating against any threats to financial stability?

Skills

One important area where the government, regulators and professional bodies can work together is to develop a skills strategy for AI that ensures all professionals in financial services are aware of the potential and risks of AI. This will allow a heathy debate within firms and the wider profession around the most effective way to use AI, increasing trust over the long-term.

The CII has developed a range of courses and materials for professionals to help with their understanding and use of AI, including:

- An introductory course to data science and AI
- CPD materials
- Guides and articles around the opportunities and risks associated with AI

Governance

In tandem with this skills approach, regulation should focus on governance of AI within firms. The CII has produced two pieces of ethical guidance on the use of AI within firms, a *Digital Companion to the Code of Ethics* and *Addressing Gender Bias in Artificial Intelligence*. They set out practical steps that individuals and firms can take to use AI in a responsible way that delivers good outcomes for consumers. The kinds of activity that are discussed include:

- **Raising awareness** throughout the firm: not only among those who commission and design AI systems, but all other stakeholders. All senior managers should understand the potential harm that can come from mis-managing AI. Allied to this, institutions and individuals should be held responsible for decisions made using AI, and if decisions cannot be explained in detail, responsible bodies and individuals should be able to reference why this is the case.

- **Access and redress mechanisms for customers**, who should be able to understand how decisions made or recommended by machines impact their welfare, and be able to challenge decisions that they believe are unfair.

- **Equally, institutions should be able to explain how algorithmic decisions are made** in detail for scrutiny by experts and public bodies. This includes describing how training data has been collected, although for commercial and privacy reasons, this data may be restricted to a group of independent experts. These resources should make data and systems fully auditable.

- **Accountability**: institutions should be held responsible for decisions made by the algorithms that they use, even if it is not feasible to explain in detail how the algorithms produce their results.

- **This accountability should be backed up with validation and testing**, especially for discriminatory harm, and institutions should endeavour to make the results of these tests public.

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