Written evidence submitted by British Insurance Brokers' Association (BIBA)

About BIBA:

The British Insurance Brokers' Association is the UK's leading general insurance intermediary organisation representing the interests of insurance brokers, intermediaries, and their customers.

BIBA membership includes more than 1,800 regulated firms, employing more than 100,000 staff. General insurance brokers contribute 1% of GDP to the UK economy; they arrange 77% of all general insurance with a premium totalling £105.5bn and 94% of all commercial insurance business.

Insurance brokers put their customers' interests first, providing advice, access to suitable insurance protection and risk management.

BIBA is the voice of the insurance broking sector and advises members, the regulators, consumer bodies and other stakeholders on key insurance issues.

Introduction:

AI, and its adoption, is moving fast. We believe the next decade for our sector could be hugely transformative as technology is embraced at a far greater rate, which is why in working with leading members who have begun to adopt AI technology, we have produced guidance for members, especially our SME/Micro business members. With this, in no means exhaustive guidance, they can benefit from examples of how and where these opportunities lie and where possible, consider the potential risks of implementation and strategies for implementation.

We welcome this Committee's timely inquiry into this area, following the Prime Minister and his Government's announcement of how AI can help usher in a decade of national renewal.

Our response covers some of where we think AI can and does play a role on the insurance broking sector, as well as some of the potential risks this presents to businesses and customers.

Potential applications of AI in insurance broking and their benefits:

In a world obsessed with ever more efficiency gains - cutting down on administrative burden in both personal and professional worlds - AI presents an opportunity for a collection of areas.

According to the most recent Bank of England statistics – 75% of financial services businesses use AI, up from 58% in 2022. The reality is that there are very few services outside of the reach of AI, whether directly or indirectly in the value chain of financial services. Chatbots, platforms, administrative services can and often do all include some form of AI and the pace of its inclusion continues to grow.

Some (not all) examples of current application within insurance brokers, include:

- **Policy comparison services** – insurance brokers might use AI for a much quicker market comparison of products that meet the needs of a client, which can in turn provide more reliable and accurate results for customers who benefit from expert advice faster than through traditional searches.
- **Claims management** – the combination of AI and phone imaging can be useful for speeding up the processes of determining losses and ultimately the management of the claim.
- **Internal policy and HR services** - through a ChatGPT-esque search interface, employees can search for their own profiles, outline their leave, internal policies, benefits, etc. This is particularly useful for smaller organisations who don't have an internal/only have a small HR department.

- **Fraud detection and analysis** – a huge responsibility for all who operate in financial services is fraud detection and reporting. AI can take in larger quantities of data for analysis at pace, which can provide even more accurate and speedier results to fraud detection. Time is often key when it comes to fraud so this can strengthen the capabilities of all who operate in the FS space.
- **Customer data collection and analysis** – insurance brokers often collect and manage a fair amount of data for their customer book. AI can be used to better analyse this data and find trends which can help retain business and deliver better outcomes for customers. This may also mean data collection and processing is more efficient and thus reduces the regulatory risks of unnecessary data storage.
- **FAQ Chatbots** – whilst the role of insurance brokers is to advise and help manage risks, customers often have very simple specific questions which can be better responded to quickly and more efficiently in a chat system. Many of these systems can be automated to locate and provide fast accurate answers to often frequently asked questions or concerns, freeing up time to deal with more complex issues and cases.

Broker perspective:

As part of our work on guidance for members, we surveyed a pool of leading members on our committees and advisory boards to determine their current views and experiences with AI. 55% of respondents saw operational efficiency as the biggest benefit of AI and as 60% of our 1800+ membership are SME/Micro businesses, this comes as no surprise.

Interestingly and as mentioned as one of the key applications – 41% of respondents stated that recognising and preventing fraud as the most important application of AI. Other areas of interest included broker presentations, contract reviews, HR, M&A due diligence, compliance support, marketing and new business pipeline management.

What are the risks to financial stability arising from AI and how can they be mitigated?

As we have already set out AI holds considerable potential for insurance brokers, enabling smaller organisations to streamline operations and compete with larger competitors more easily than ever before. As with any technological advancement however, there are associated risks.

Those who can navigate these risks and implement technology that maximises value for both them and their customers, without compromising the value of human brokers themselves, will be well-positioned for success.

But like any new system, its important insurance brokers enter into this with their eyes wide open and understand the potential risks and how to avoid or mitigate them.

From our survey of members, we found the most common risks associated with AI included:

- Risks for customer data privacy and security;
- Cyber security – particularly the potential vulnerabilities which result from AI system integration, as well as the fact that threat actors will be using AI to help find security vulnerabilities so it can both enhance and diminish security;
- Regulation – it can often be broad, burdensome and at times restrictive, which offsets the return on investment for organisations big and small, and potentially stifle market innovations the benefit customers.

More broadly than this, other concerns which arose were:

- The potential cost of any new AI system/application;
- How it would integrate with existing systems (which also feeds into concerns about cost);

- AI in underwriting – ensuring if an AI based algorithm rejects a claim that a human can check the decision isn't in error;
- Implications for vulnerable groups – for example the European Insurance and Occupational Pensions Authority is concerned about the use of AI in health and life insurance and how this could lead to groups of individuals being excluded due to their risk profiles or leading to excessively high premiums; and
- The threat to talent and future jobs in the sector.

Many of these concerns wouldn't be completely surprising to the committee and perhaps reflect the opinion of other sectors of the economy. The key part in this is that insurance broking is a heavily trust based profession, where reputation has a clear connection to current and new business. And the fact many are small/micro businesses it's critical that the costs and benefits are weighted strategically.

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?

The government is embracing the application of AI across all sectors of the economy and society. The PM's clarion calls for how it could transform the UK's public services, and our growth prospects are a positive indicator to businesses who are considering its adoption.

One of the biggest barriers for an investment of this scale is going to be cost. For our larger members who already have invested in AI, or have plans to do so, this issue is not insurmountable but for most of our membership it would be. We believe if the government wants to push and promote the benefits of AI across the economy, and to ensure small businesses aren't left behind, greater financial support should be offered to allow SMEs to divest themselves of legacy systems and invest and benefit from AI. This could be in the form of small grants and or tax relief to incentivise and free up capital for investment.

Of course, like all investments and innovations, businesses also need certainty. Certainty around the policy direction, the regulatory structure (and potential costs/burdens thereof) as well as the incentives to help the smallest of businesses invest.

What is helpful is that in addition to our own guidance – the government and regulators have been proactive in this space, trying to offer greater certainty by discussing the potential benefits and risks of AI and producing guidance on how to mitigate these risks.

For example, the ICO guidance and risk toolkit sets out 10 key components for an audit framework, organisations can apply to maintain strong data protection processes in relation to AI deployment.

This audit framework includes:

- Governance and accountability in AI;
- Transparency;
- Contracts and third parties;
- Data minimisation
- Information security and integrity;
- Data protection by design;
- Statistical accuracy;
- Discrimination and Bias;
- Human Review; and
- Tracker Template

For many it's the start of a journey and therefore clearer expectations and support structures can and should be put in place, but the despite the risk of AI withstanding, we could see positive impacts on our sector as well as the growth prospects of the UK.

Ultimately, it's important for all stakeholders to continue to collaborate to ensure the industry and our clients benefit from the application of AI in insurance broking.

Conclusion:

As set out at the very beginning AI has the potential for both high risk and great reward. Our mission is to work with our members to ensure they get the support they need to embrace AI where possible, for the smallest brokerage to not be left behind with those with the greatest means, and for the end customer to get better outcomes because of a more innovative, competitive and dynamic insurance market.

To remain support and incentivise more organisations to invest in AI, we think some very basic early steps can be taken, including:

- Greater clarity around policy ambitions and potential regulatory framework for AI;
- Assistance for small businesses (and their clients) to remain competitive and benefit from AI investment, through grants or tax relief; and
- Continued collaboration between industry, government and the regulator to ensure businesses and clients can benefit from AI.

Yet, despite the widespread use of different forms of AI across financial services, the insurance broking market at its core still has a vital traditional interpersonal element that engenders trust in their customers, delivers solutions, advice and risk management and ensures people are better prepared for the risks and opportunities of life.

Whilst there are broad benefits to AI's use and it has undeniable potential to transform the sector, we mustn't lose sight of these core values of insurance broking, and allow some of the potential risks to security, reputation and future talent be realised.

Whilst this submission only provides a short summary of our thoughts and work in this space, we would as ever be happy to continue to support the work of this committee in ensuring there is an adequate framework for AI use in financial services that benefits BIBA members and their customers.

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