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Written evidence submitted by International Underwriting Association

The International Underwriting Association of London (IUA) represents international and wholesale insurance and reinsurance companies operating in or through London. It exists to promote and enhance the business environment for its members. The IUA's London Company Market Statistics Report shows that overall premium income for the company market in 2023 was £48.432bn. Gross premium written in London totalled £42.995bn while a further £5.437bn was identified as written in other locations but overseen by London operations. For further information about our organisation and membership, please visit our website, www.iua.co.uk, under the section "About the IUA".

The IUA and its members would like to commend the House of Lords for its engagement with industry stakeholders on the UK-EU reset. We look forward to collaborating with Parliament as it advances present and future policy reforms. The IUA welcomes the opportunity to provide feedback to the Call for Evidence. Our answers are set out below.

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

Recent advances in artificial intelligence (AI), machine learning, and natural language processing are transforming financial services, particularly within the insurance sector. AI is not only boosting productivity but is also significantly enhancing risk assessment, underwriting accuracy, claims processing, and regulatory compliance. A Bank of England report indicates that approximately 75% of financial service firms have already adopted AI in some capacity, underscoring its growing relevance. While AI promises strong returns on investment through more customised product offerings and improved efficiency, it also serves as a reminder that high-quality, accurately recorded data is indispensable; without it, even the most sophisticated AI tools can yield little value.

Current Applications in Insurance:

- Automated Underwriting and Risk Clearance: Insurers now deploy AI algorithms to extract key information from broker submissions and process risks automatically. For example, Hiscox, in partnership with Google Cloud, has implemented an AI-enhanced lead underwriting model for sabotage and terrorism risks. This system rapidly generates lead quotes by compiling pricing and risk details for underwriter review, significantly reducing the manual workload involved in data entry.

- Claims Processing and Damage Assessment: AI-powered chatbots and virtual assistants are streamlining claims handling by directing claims to appropriate teams and, in some cases, processing payments automatically. Tools that analyse photographic evidence enable rapid damage estimates; for instance, MS&AD's use of Tractable's 'AI Property' tool in Japan has cut settlement times from several months to as little as one day. This increased efficiency is particularly vital for complex commercial claims, where early intervention is critical.

- Customer Service and Data Extraction: Natural language processing supports 24/7 customer service via chatbots that manage policy enquiries and claims filing. AI also excels at extracting, comparing, and summarising data from lengthy documents or broker submissions, which allows underwriters to receive clear summaries of key features and potential red flags while bypassing much of the repetitive manual work.

- Legal and Compliance Functions: Within legal teams, AI is used to quickly summarise large quantities of data with precision, proving valuable in reviewing NDAs, TOBAs, and other contractual documents. Simultaneously, automated tools support insurers in monitoring regulatory changes and ensuring ongoing compliance, although many of these initiatives are still in development.

- Risk Assessment, Loss Prevention, and Fraud Detection: AI-based systems analyse extensive datasets to build detailed risk profiles, enabling insurers to offer policies that are more tailored to individual needs. For instance, Zurich leverages AI to evaluate risks such as fire and water damage by considering diverse data points—from proximity to fire hydrants to fire brigade response times. Additionally, technologies like Zurich's Catastrophe Intelligent Agent (CATIA) and sophisticated fraud detection models help streamline the reinsurance process and flag anomalous claims, optimising overall risk management.

Looking ahead, the application of AI to risk management functions—particularly pricing and underwriting—has the potential to fundamentally transform the insurance industry. AI will facilitate the development of bespoke products, aligning coverage more closely with individual customer needs, and thereby enhancing profitability. Further automation in claims processing promises to streamline operations and swiftly improve outcomes.

Beyond currently adopted practices, firms are exploring additional uses for AI, including:

- Enhanced Intermediary Services: The emergence of AI brokers trained on historical contracts and pricing data, alongside improved processes for generating sales and marketing materials and analysing client feedback.

- Policy Management Automation: Tools to evaluate proposal forms, perform compliance checks, generate policy documents from standardised templates, and dynamically adjust policies in real time based on changes in risk factors.

- Legal Document Review: Expanding the use of AI within legal teams to review and summarise extensive contractual information, reducing manual efforts significantly.

Reported initiatives also indicate that, while progress is ongoing, many firms have not finalised their AI strategies. These developments are paving the way for a significant transformation in how insurers handle data-intensive tasks, ultimately diminishing manual interventions and providing underwriters with concise, actionable information.

Despite its transformative potential, the adoption of AI raises several concerns. One major challenge is ensuring the quality and accuracy of the underlying data; without correct and comprehensive data, analytics cannot deliver reliable insights. Additional issues include the confidentiality of data inputs, the trustworthiness of AI outputs, accountability in the event of errors, and the high current costs of AI services compared with manual alternatives. These considerations are highlighted in recent publications such as Accenture's January 2025 report with UK Finance titled '*Generative AI in Action: Opportunities & Risk Management in Financial Services'* which outlines both the opportunities and risks associated with deploying AI in financial services.

In summary, AI is already markedly improving efficiency and productivity within financial services by enhancing underwriting, claims processing, risk assessment, and legal document review. Over the next decade, its deeper integration, especially in risk management, will likely result in more customised products and streamlined processes, providing substantial returns on investment. However, realising these benefits fully depends on maintaining high-quality data and addressing concerns around confidentiality, reliability, and cost. As the industry evolves, balancing these innovations with robust data governance will be crucial to harnessing the full potential of AI.

2) To what extent can AI improve productivity in financial services?

AI offers significant opportunities to drive productivity improvements, particularly in saving time and reducing costs, the full benefits can only be realised by addressing implementation challenges and ensuring that investments in AI are balanced against tangible operational savings. The evolution of the regulatory landscape will also play a pivotal role in shaping the future impact of AI across financial services.

Before assessing AI's impact, it is essential to define "productivity" in this context. Productivity may be measured by the ability to save time, reduce costs, or increase accuracy. This multifaceted view helps in evaluating AI-enhanced processes against traditional methods, where each metric contributes to overall operational efficiency.

Based on current insights and the capabilities of available AI tools, there is considerable potential for productivity improvements in areas such as customer service, compliance and reporting, underwriting and pricing, and claims processing. For example, within the insurance and reinsurance sectors, AI can streamline workflows by automating routine tasks. The measurable benefits are often reflected in reduced processing times, which directly translate into cost savings. However, quantifying these improvements solely in reduced time or cost savings is challenging because such gains must be weighed against the significant investment in AI technology including system implementation, process re-engineering, and staff training.

Despite these promising gains, several challenges remain. Data privacy concerns, regulatory hurdles, and the need for human oversight are critical considerations that must be balanced against the benefits of automation. Each of these challenges requires careful management to ensure that the

adoption of AI does not compromise the integrity or security of operations while striving for greater efficiency.

In the realm of regulation, the framework governing AI adoption plays a significant role. For instance, while the European Union has introduced detailed guidelines that provide clarity on AI use, the UK's approach is still evolving. Initiatives such as the Bank of England AI Consortium and the AI Financial Crime Lab reflect proactive efforts. With a focus on balancing consumer protection with the need to foster innovation, further maturation of the regulatory framework is anticipated to enhance overall confidence and stimulate investment within the sector.

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

AI is inherently a double-edged sword. While it enhances defensive capabilities through improved threat detection, it also enables attackers to accelerate, automate, and scale their assaults. This dual nature could, over time, contribute to increased severity and frequency of cyber-related incidents. Consequently, continuous investment in adaptive defences and advanced threat monitoring is essential.

The reliance on third-party providers and the use of complex, opaque AI models; including embedded or "hidden" elements, can introduce vulnerabilities that are not immediately apparent. Although this area requires further exploration, it is critical to maintain rigorous due diligence and oversight of all external technology dependencies.

The risk of AI-generated hallucinations is well recognised, with users typically testing outputs before relying on them. However, the potential for massive misinformation remains a significant concern. This issue poses a dangerous disadvantage in sectors where accuracy is paramount, such as in (re)insurance legal frameworks. Mitigation predominantly depends on robust internal controls and continuous process reviews, although future restrictions may alter the approach.

There is apprehension that AI tools could become overly concentrated within a few large technology companies. On a related note, while some financial market tools such as trading algorithms may rely on social media data, GDPR restrictions have notably curtailed the misuse of such data. Diversifying technology partners and maintaining clear accountability are pivotal in managing this risk.

In summary, while AI offers substantial benefits, its integration introduces risks that necessitate proactive management. Strengthening both cybersecurity measures and internal oversight, along with a careful assessment of external dependencies and data usage, will be critical to safeguarding financial stability as the industry embraces these transformative technologies.

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

Government and financial regulators must carefully weigh both the benefits and risks presented by the integration of AI in insurance, particularly with regard to vulnerable consumers.

On the benefits side, AI has the potential to markedly enhance the efficiency and personalisation of insurance services. By leveraging advanced data analytics, insurers can more accurately assess risk, tailor products to individual circumstances, and process claims more rapidly. For consumers, this can translate into faster claims resolution, more responsive customer support, and policies that better reflect their unique needs. In many cases, properly applied AI can support proactive engagement, thereby identifying vulnerable consumers who might benefit from additional assistance or tailored coverage.

However, these benefits must be balanced against a range of significant risks. The use of AI in underwriting and pricing is governed by a framework that includes anti-discrimination legislation, privacy and data protection laws, and specific insurance law principles. For example, the Equality Act 2010 in the United Kingdom prohibits unfair treatment based on a number of protected characteristics, while data protection regulations such as the GDPR impose strict conditions on the processing of sensitive personal information. Given that insurers are required to collect and handle extensive amounts of data to optimise AI outcomes, any failure to secure this information or to ensure its use aligns with its original purpose may not only lead to severe financial penalties but also damage reputational trust.

There is also the risk that AI-driven decision-making, if not managed with appropriate safeguards, could lead to unintended adverse impacts on consumers. In the context of insurance risk selection and pricing, this might result in some individuals facing difficulties in obtaining coverage or receiving equitable pricing. Concerns have been raised most notably in recent focus documents from the EU's Fundamental Rights Agency about the potential for algorithmic processes to undermine the principle of non-discrimination. To mitigate these risks, it is vital that AI systems are developed and deployed transparently, with robust measures in place to verify data quality, ensure explainability in decision-making, and subject models to regular audit and oversight.

In conclusion, while AI offers significant potential to improve and personalize insurance services, it is imperative that its adoption is accompanied by safeguards. By ensuring strict adherence to anti-discrimination, data protection, and insurance law, and by maintaining transparency in AI decision-making processes, government and financial regulators can help to secure the benefits for consumers without compromising the interests of those most vulnerable.

5)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?

Government and financial regulators face an increasingly complex challenge in harnessing the transformative potential of artificial intelligence while safeguarding consumer protection and maintaining financial stability. Our members recognise that striking the right balance between fostering innovation and ensuring market integrity is paramount.

The current regulatory landscape is characterised by distinctly different approaches. The European Union has enacted its AI Act, which employs a risk-based model to categorise applications as either high risk or low risk and establishes precise, enforceable standards to ensure accountability and transparency. In contrast, the United Kingdom and the United States have opted to test and monitor the safety of AI technologies rather than imposing immediate prescriptive rules. Their flexible strategies are designed to accommodate rapid technological advancements while maintaining essential safety standards.

In sectors such as insurance, where AI integration raises complex issues related to data privacy, security, and algorithmic opacity, the challenge becomes even more critical. Some industry stakeholders have noted that the clear definitions and stringent guidelines offered by European regulation provide a dependable foundation for compliance. Other stakeholders have suggested that it would be beneficial for regulators to engage directly with AI experts to bridge the gap between evolving technology and effective oversight. In addition to this collaborative engagement, there is strong support for investing in the training and upskilling of regulatory staff to better grasp the functions of these technologies and the associated risks effectively.

In conclusion, a balanced regulatory framework should blend robust, enforceable standards with a flexible, consultative process that evolves alongside technological advancements. By engaging with industry, fostering expert collaboration, and committing to ongoing professional development, government and financial regulators can responsibly seize the opportunities presented by artificial intelligence while ensuring consumer protection and preserving financial stability.

We welcome the opportunity to respond to this consultation and would be happy to clarify any of the points made. Thank you for considering our feedback.

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