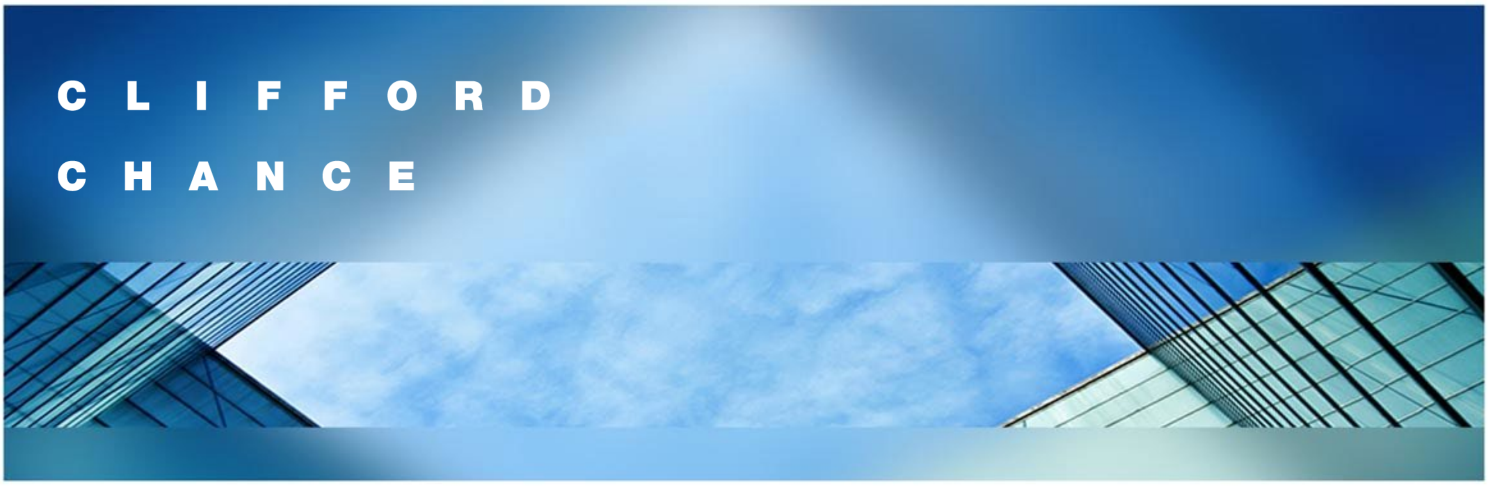


# SAFEGUARDING THE USE OF AI IN THE INSURANCE SECTOR

**EIOPA has published a report on governance principles for ethical and trustworthy artificial intelligence (AI) in the insurance sector. The report sets out six governance principles that have been developed by EIOPA's Consultative Expert Group on Digital Ethics in Insurance. The principles cover proportionality, fairness and non-discrimination, transparency and explainability, human oversight, data governance and recordkeeping and robustness and performance. These principles are accompanied by non-binding guidance for insurance firms on how to implement them in practice throughout the AI system's lifecycle. It is worth noting that environmental aspects of AI were not examined in the paper.**

There have been a number of papers on ethics and AI published by a variety of stakeholders in recent years at national, European and international level. Just days before the EIOPA report, the Alan Turing Institute published a paper commissioned by the FCA, considering the challenges and benefits of AI in Financial Services. Given the volume of literature on AI and ethics, this report is a welcome addition for its focus on the insurance sector.

Currently, there is no universal consensus on ethical issues in AI, as, among other matters, much depends on the use case of the AI and the stakeholders involved (e.g. customer, regulator). The significant role of the insurance sector for businesses and individuals makes digital ethics in insurance an important aspect of regulatory oversight. The EIOPA report seeks to assist firms to reflect on the ethical issues associated with Big Data (BD) and AI and to organise their governance arrangements to safeguard the "sound use of AI".

The report notes that the adoption of BD analytics and AI in the European insurance sector has accelerated during the Covid-19 pandemic. There are multiple use cases for AI across the entire insurance value chain, from product design, through to claims management. The ability to micro-segment risks with increasing accuracy is a particular concern to regulators, for the implications it has on pricing, competition and access to cover for higher-risk customers. The insurance sector should take ethical concerns of BD and AI seriously in order to build and retain customer trust in products and services and avoid invasive regulation.

Although public interest and ethical standards and outcomes already underpin some important conduct of business regulatory principles (e.g. treating customers fairly), the report explains that the ethical use of data and digital technologies requires firms to look beyond regulation or legislation and expressly "*take into consideration the provision of public good to society as part of the corporate social responsibility of firms*". Firms should think about the impact of AI on different categories of customer, with special attention given to vulnerable customers, and determine whether or not the fair treatment of customers is put at risk by the applicable AI. This means that firms need to understand the design of the AI system, the sources and quality of data used in its processes, how the outcomes (decisions) are reached by the AI and how those decisions are implemented from the end user's point of view. By developing, documenting, implementing and reviewing appropriate governance systems and arrangements, insurers and intermediaries will establish a culture that ensures appropriate ethical considerations are considered when making decisions about AI and BD.

The six governance principles and accompanying guidance are summarised below.

| | PRINCIPLE | KEY POINTS |
|---|---|---|
| 1 | **Proportionality** | Firms should conduct AI use case impact assessments based on the severity and likelihood of harm that could occur to customers or the firm, to understand what governance measures are required for that particular use case. Governance measures could include transparency, explainability, human oversight, data management and robustness. |
| | | The assessment and governance measures should be proportionate to the potential impact of the specific AI use case on consumers and/or the firm. |
| | | The combination of measures should be assessed to ensure an ethical and trustworthy use of the AI. |
| 2 | **Fairness and Non-Discrimination** | Firms should adhere to principles of fairness and non-discrimination when using AI and balance the interests of all stakeholders. The principle includes some specific obligations, such as "*avoiding the use of certain types of price and claims optimisation practices like those aiming to maximise consumers' "willingness to pay" or "willingness to accept*"". The paper accepts that "fairness" is difficult to define and is context specific and the accompanying guidance looks at what firms should take into account when determining what is "fair". |
| | | Data governance is highlighted as important to ensuring fairness and non-discrimination. Firms should think about the source of data, its accuracy and appropriateness for the purpose for which it is being used. |
| | | Firms should monitor and mitigate biases from data and AI systems which could include developing fairness and non-discrimination metrics in high-impact AI. |
| 3 | **Transparency and Explainability** | The concept of transparency in AI systems is a key part of discussions on the responsible use of AI in financial services. Firms are expected to understand how AI makes important decisions or governs important processes that affect the business and its customers. The greater the impact of the AI, the greater the level of transparency and explainability measures that the firm should adopt. |
| | | Transparency helps customers trust new technology and it helps firms to explain how the outcomes of decisions are reached by AI to key stakeholders, such as customers and regulators. Explanations should be "*meaningful and easy to understand in order to help stakeholders make informed decisions*". |
| | | Firms will need to adapt their explanations to the audience and the particular AI use case. |
| 4 | **Human Oversight** | Firms must still involve adequate human oversight throughout an AI's life cycle. Roles and responsibilities need to be clearly allocated, documented and embedded in governance systems. This means some form of direct human involvement in the design, operation, maintenance, adaptation or application of the AI system, by individuals with appropriate experience, skills and knowledge. |
| | | Firms should consider if staff require additional training in AI. |

| | PRINCIPLE | KEY POINTS |
|---|---|---|
| 5 | **Data Governance and Record Keeping** | It is important to ensure data used by BD and AI is accurate, complete, appropriate and stored securely. Bias and discrimination can originate from the data used in the AI system, so governance arrangements on the collection of data and the processing of that data are important. The provisions of the GDPR (as on-shored in the UK) form the basis of this principle. |
| | | The same governance standards should apply to data, no matter if it is sourced internally or from external sources. |
| 6 | **Robustness and Performance** | AI systems should be fit for purpose and monitored on an on-going basis, including for cyber resilience. Assessments should be on-going and sound data management will underpin the usability and suitability of the AI. |
| | | Performance metrics should be developed. |

## WHAT DOES THIS MEAN FOR INSURERS AND INTERMEDIARIES?

The paper published by EIOPA represents the views of the members of EIOPA's expert group on digital ethics, but the views in the report do not necessarily represent the position of EIOPA, but EIOPA will use the findings to identify possible supervisory initiatives on digital ethics in insurance.

Firms operating in Europe should use the information in the report and the non-binding guidance to help them develop risk-based, proportionate governance measures around the use of BD and AI in their business. Firms should also stay abreast of further work by EIOPA and other European-level initiatives relating to AI, which includes the European Commission's Ethics guidelines for Trustworthy AI (on which this report is based) and the proposal for a Regulation on artificial intelligence, published by the European Commission in April 2021.

The PRA, FCA and the UK government are conducting their own activities on the safe adoption of AI in UK financial services, which includes the collaboration referred to earlier with The Alan Turing Institute and the activities of the Artificial Intelligence Public-Private Forum (AIPPF). The report published by the Alan Turing Institute in June 2021 includes guiding principles for the responsible adoption of AI, discussing fairness, transparency, human oversight, reliability and robustness and touching on 'uninsurability', among other things. At the second meeting of the AIPPF in February 2021, participants again discussed similar points to the EIOPA report, such as the need for human oversight of AI and adequate data governance standards, while noting that any risk management guidelines need to strike the right balance to provide reassurance without hampering innovation. So unsurprisingly, there are commonalities between the FCA and PRA's work and the report published by EIOPA. Given that the EIOPA report is sector specific and very detailed, UK insurers and intermediaries will benefit from reading the EIOPA paper and considering how the principles and guidance can be applied to their own business and governance arrangements.

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