# Lloyd’s launches insurance to cover AI chatbot errors amid rising liability concerns



Lloyd’s of London has taken a significant step into the evolving landscape of artificial intelligence (AI) with the introduction of a new insurance product designed specifically for companies grappling with the fallout from AI-related malfunctions. This offering, which is being facilitated through Armilla, a Y Combinator-backed startup, comes at a time when many businesses are increasingly reliant on AI technologies, particularly in customer service scenarios where chatbots are now commonplace.

The new insurance policies aim to cover legal claims and associated costs arising from cases where an AI system, such as a chatbot, fails to perform adequately—commonly referred to as 'hallucinations'. These hallucinations occur when an AI system produces inaccurate or misleading information with unwarranted confidence, leading to potentially costly errors for businesses. For instance, customer service bots have made headlines after delivering incorrect information or inappropriate responses, reflecting a growing concern about accountability in AI deployment.

As highlighted in a recent Financial Times article, companies like Virgin Money and Air Canada have faced public backlash and legal challenges due to their AI systems’ failures. Air Canada, for example, found itself in court after its chatbot inaccurately created a discount during a customer interaction. Such incidents underscore the pressing need for businesses to protect themselves against the financial consequences of these burgeoning technologies.

Kelwin Fernandes, CEO of NILG.AI, addressed these concerns, stating that removing humans from processes raises critical questions about accountability and liability. “If you remove a human from a process or if the human places its responsibility on the AI, who is going to be accountable or liable for the mistakes?” Fernandes noted during an interview, emphasising the complexities companies face as they integrate AI into their operations.

The insurance product developed by Armilla not only mitigates the financial risks involved but also seeks to encourage broader adoption of AI technologies by providing a safety net for companies. This can enhance confidence among businesses hesitant to integrate AI tools due to fears of potential blunders and subsequent litigation. Armilla has designed two specific risk transfer products: the AI Product Warranty and AI Liability Insurance—which aim to guarantee the quality of AI products while reducing associated risks for both AI vendors and their clients.

Moreover, the insurance sector is grappling with evolving regulatory landscapes and increased risk exposure tied to AI. An understanding of these issues was reinforced during a workshop jointly hosted by Lloyd’s and Freshfields, which focused on the emerging regulatory challenges associated with AI in the insurance industry. The session highlighted the importance of addressing not only financial risks but also regulatory, reputational, and consumer protection concerns stemming from AI technologies.

Lloyd’s own commitment to AI innovation and risk management is underscored by its in-house initiatives, as exemplified by insights from Ranil Boteju, Chief Data and Analytics Officer at Lloyds Bank. During discussions at a Google roundtable, Boteju revealed that while they are excited about AI’s potential, the organisation takes a cautious approach, limiting exposure to generative AI capabilities until robust guardrails are established.

The introduction of this insurance product signifies not only a proactive strategy by Lloyd’s but also reflects a broader recognition within the insurance industry of the unique challenges and risks posed by AI technologies. As businesses continue to navigate this complex landscape, insurance offerings like those from Armilla will play a critical role in shaping the future of AI integration and protection against its unforeseen consequences.

### Reference Map

1. Paragraph 1, 2
2. Paragraph 3
3. Paragraph 4
4. Paragraph 5
5. Paragraph 6
6. Paragraph 7

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

* <https://www.pymnts.com/artificial-intelligence-2/2025/insurers-begin-covering-ai-mishap-related-losses/> - Please view link - unable to able to access data
* <https://www.ft.com/content/1d35759f-f2a9-46c4-904b-4a78ccc027df> - Lloyd's of London has introduced an insurance product developed by Armilla, a Y Combinator-backed startup, to cover companies against losses caused by malfunctioning AI tools, particularly chatbots. The policies cover legal claims, damages, and associated costs if an AI system underperforms or causes harm. This initiative aims to mitigate financial risks and encourage greater AI adoption, addressing issues like AI 'hallucinations' that have led to costly mistakes for companies such as Virgin Money and Air Canada.
* <https://www.lloyds.com/news-and-insights/lloyds-lab/insurtech/lloyds-lab-accelerator/alumni/armilla-ai> - Armilla AI, a startup focused on AI assurance and risk management, participated in Lloyd's Lab Accelerator program. During the program, Armilla AI designed two risk transfer products for AI risks: AI Product Warranty and AI Liability Insurance. The company works with AI vendors and enterprises to guarantee the quality of their AI products and mitigate risks, aiming to become a Managing General Agent (MGA) to offer insurance products covering AI risks.
* <https://www.armilla.ai/solutions> - Armilla AI offers solutions for AI assessment and risk transfer, including 'Armilla Insured' and 'Armilla Guaranteed'. 'Armilla Insured' provides coverage for liability, financial damages, and legal defense, covering both internally and externally built models. 'Armilla Guaranteed' offers a warranty that protects a company's investment or licensing fee if an AI product fails to meet expectations, ensuring compensation for underperforming AI and guaranteeing return on investment.
* <https://www.lloyds.com/genai> - Lloyd's report 'Generative AI: Transforming the cyber landscape' explores how Generative AI and Large Language Models (LLMs) are reshaping the cyber risk landscape. The report discusses the potential impacts of these technologies on cyber risk and insurance, emphasizing the need for businesses to improve risk mitigation, security, and defense technologies, and to seek appropriate risk transfer in response to rapidly changing technologies.
* <https://www.lloyds.com/news-and-insights/events/ai-event> - Lloyd's, in partnership with Freshfields, co-hosted a workshop titled 'AI in the insurance industry: the emerging regulatory landscape' on March 26, 2025. The event aimed to help underwriters understand and mitigate novel litigation, regulatory, and reputational risks associated with AI, including data protection, discrimination, hallucination, and consumer protection, and discussed their impact on various insurance products.
* <https://www.lloyds.com/about-lloyds/our-purpose/stories/innovation/intelligent-ai> - Intelligent AI, supported by Lloyd's Lab and mentorship from leading insurers and brokers, developed the Intelligent Rebuild Cost Platform. This platform leverages AI and data analytics to provide accurate and real-time rebuild cost estimates for properties, addressing the challenge of underinsurance in the industry and helping insurers accurately price policies and manage risks more effectively.