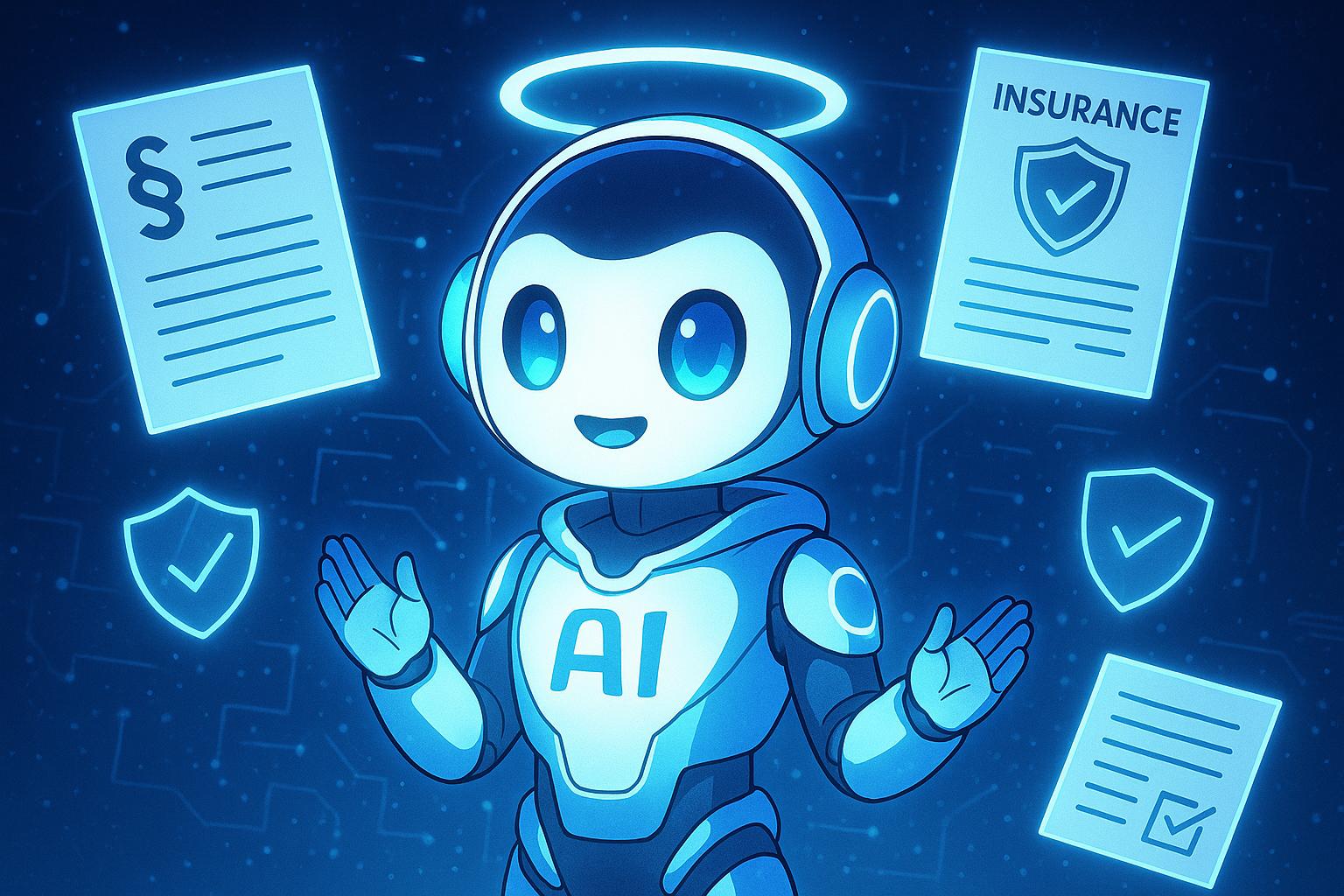
# Lloyd's and Armilla launch first insurance to cover AI chatbot failures in customer service



In a significant stride towards integrating artificial intelligence into everyday business operations, Lloyd's of London has recently unveiled a specialised insurance product aimed at mitigating the risks associated with AI failures, particularly within customer service environments leveraging chatbots. This innovative solution, provided by Armilla, a startup supported by Y Combinator, seeks to cover legal fees and damages arising from incidents involving AI tools that fail to perform as expected. The measure emerges in response to a growing recognition of how these technologies can, at times, lead to significant financial and reputational repercussions for businesses.

Several illustrative cases underline the pressing need for such coverage. For instance, incidents like the chatbot employed by Virgin Money chastising a customer for using the word "virgin" and the breakdown of DPD's bot due to inappropriate interactions have raised alarms about unwanted and damaging consequences. Further, Air Canada faced a complex legal challenge when it was directed to honour a misleading discount generated by its chatbot. According to Armilla, had these entities secured the new insurance, they could have potentially shifted the financial burden of such mishaps onto their coverage, particularly if the AI's performance fell "demonstrably below initial benchmarks."

What sets Armilla’s policy apart from traditional technology error and omission insurance is its specific focus on the performance of AI systems. The initiative addresses a significant gap in existing coverage as general technology policies often exclude challenges associated with AI's adaptive learning capabilities, which can result in unpredictable behaviours. Armilla's innovative assessment approach determines the initial performance metrics of an AI model and provides coverage for situations where a significant performance decline, such as a drop from 95% to 85% accuracy in chatbot interactions, is evidenced. Karthik Ramakrishnan, CEO of Armilla, asserts that such insurance could promote greater confidence among companies in deploying AI technologies, thereby driving broader adoption while managing inherent risks associated with them.

Despite the potential advantages that AI, particularly in the form of chatbots, could bring to the insurance sector, a surprising number of UK insurers appear hesitant to fully embrace these technologies. A survey of the 148 leading insurance companies highlighted that a mere 10 firms were incorporating AI into their customer service operations, with 70% of these using freeform chatbots capable of responsive dialogue. This ambivalence appears to stem from a combination of factors, including a notable lack of internal expertise, as identified by a GlobalData poll, which revealed that 24.4% of industry professionals cite insufficient in-house knowledge as the most significant barrier to AI adoption. Additionally, ongoing scepticism regarding AI's readiness and customer trust issues contribute to this reluctance.

Intriguingly, while many within the insurance community remain cautious, a significant portion expresses optimism about AI's transformative potential. The same GlobalData survey indicated that 60.2% of respondents believe AI will eventually meet the industry's expectations, reflecting a belief that these technologies are still evolving, with significant opportunities for advances in critical areas such as underwriting, claims processing, and fraud detection. Furthermore, the Lloyd's Market Association reported that a considerable number of firms in the London market are already experimenting with AI technologies, although comprehensive adoption remains limited.

The introduction of tailored insurance products like Armilla's may serve as a catalyst for the insurance industry, addressing not only the financial vulnerabilities posed by AI tools but also fostering an environment where innovation can thrive. By redefining the approach to AI-related risks, Lloyd's and Armilla are recognising the duality of AI as both a driver of operational efficiencies and a source of unique challenges, which, if left unaddressed, could hinder the much-anticipated transformation of the sector. As AI continues to evolve, the insurance landscape is poised for significant changes, potentially reshaping how companies engage with these advanced technologies while navigating the complexities they bring.

## Reference Map:

* Paragraph 1 – [[1]](https://www.jdsupra.com/legalnews/ai-update-chatbot-errors-there-s-a-4637358/), [[2]](https://www.ft.com/content/1d35759f-f2a9-46c4-904b-4a78ccc027df)
* Paragraph 2 – [[1]](https://www.jdsupra.com/legalnews/ai-update-chatbot-errors-there-s-a-4637358/), [[2]](https://www.ft.com/content/1d35759f-f2a9-46c4-904b-4a78ccc027df), [[3]](https://www.armilla.ai/coverage)
* Paragraph 3 – [[4]](https://www.insurancetimes.co.uk/news/lack-of-expertise-hindering-ai-adoption-in-insurance-globaldata/1454489.article), [[5]](https://businessmondays.co.uk/why-are-chatbots-being-ignored-by-the-uks-insurance-industry/)
* Paragraph 4 – [[6]](https://www.lifeinsuranceinternational.com/analyst-comment/insurance-insiders-say-ai-not-met-expectations-yet/), [[7]](https://www.lmalloyds.com/LMA/News/Releases/2025/lma_240425.aspx)

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

## Bibliography

1. <https://www.jdsupra.com/legalnews/ai-update-chatbot-errors-there-s-a-4637358/> - Please view link - unable to able to access data
2. <https://www.ft.com/content/1d35759f-f2a9-46c4-904b-4a78ccc027df> - Insurers at Lloyd's of London have introduced a new insurance product to cover companies for losses resulting from errors or malfunctions caused by artificial intelligence chatbots. Developed by Armilla, a Y Combinator-backed startup, the policy covers legal costs and damages if a business faces claims due to underperforming AI tools. The new offering addresses growing concerns about inaccuracies and unpredictable behavior from AI systems—like chatbots delivering incorrect responses or inappropriate language—and could encourage wider AI adoption by mitigating risk. Notably, incidents like Air Canada’s chatbot inventing a discount or Virgin Money’s bot reprimanding a customer for using the word “virgin” highlight the potential for reputational and financial harm. Armilla’s policy differs from traditional technology errors and omissions insurance by providing more substantial coverage specifically tied to AI performance degradation. Payouts occur if the AI performs significantly below expected standards, ensuring only qualified systems receive coverage. The product is underwritten by several Lloyd’s insurers, including Chaucer, which emphasizes selectivity in providing coverage to ensure only reliable AI systems are insured.
3. <https://www.armilla.ai/coverage> - Armilla offers specialized insurance solutions tailored to the unique challenges of artificial intelligence. Their coverage protects both enterprises and AI vendors from risks associated with AI adoption, including performance shortfalls, legal exposures, and financial risks. As a Lloyd’s of London Coverholder, Armilla's policies are backed by established partners such as Chaucer Group and Axis Capital. The coverage includes protection against errors, omissions, and unforeseen performance issues in AI-driven products and operations, as well as mitigation of legal and financial risks, covering defense costs, settlements, and third-party claims from AI underperformance or alleged damages.
4. <https://www.insurancetimes.co.uk/news/lack-of-expertise-hindering-ai-adoption-in-insurance-globaldata/1454489.article> - A GlobalData poll reveals that the lack of in-house expertise is the biggest barrier preventing insurers from adopting artificial intelligence (AI) technology. The survey, conducted across Verdict Media platforms, gathered responses from over 120 industry professionals. The results showed that 24.4% identified a lack of internal expertise as the primary obstacle to AI adoption, followed by concerns over customer understanding (21.3%), skepticism regarding AI’s readiness (17.3%), and a lack of customer trust (13.4%).
5. <https://businessmondays.co.uk/why-are-chatbots-being-ignored-by-the-uks-insurance-industry/> - Despite the potential benefits, the majority of the UK insurance industry has yet to adopt AI technology, particularly chatbots. A survey of the top 148 insurance companies in the UK revealed that only 10 companies utilize AI for customer service, with 70% of these employing freeform chatbots capable of responding intelligently to any customer input. The low adoption rate suggests a significant skepticism towards AI in customer service channels, despite the technology's potential to enhance customer experience and reduce operational costs.
6. <https://www.lifeinsuranceinternational.com/analyst-comment/insurance-insiders-say-ai-not-met-expectations-yet/> - A GlobalData poll indicates that most insurance insiders believe AI has not yet met expectations but remain optimistic about its future potential. The survey found that 60.2% of respondents think AI will eventually meet industry expectations, while 29.6% are skeptical about its future impact. The optimism reflects the belief that AI's development is still in the early stages, with potential to transform core functions such as underwriting, claims processing, and fraud detection.
7. <https://www.lmalloyds.com/LMA/News/Releases/2025/lma_240425.aspx> - A recent survey by the Lloyd’s Market Association (LMA) revealed that over one-third of London market firms are actively using AI. The survey, completed by 81 firms in the London market, including 45 Lloyd’s managing agents, highlighted that 14% of respondents have deployed or experimented with agentic AI or generative AI in underwriting processes. However, 65% have not yet done so, and 12% have no plans to utilize the capability. The primary use case for AI is data extraction from unstructured documents, used by almost three-quarters of respondents.