# Lloyd’s launches AI failure cover amid rising chatbot risks



In a notable advancement reflecting the integration of artificial intelligence (AI) into business operations, insurers at Lloyd’s of London have unveiled a specialised coverage designed to safeguard companies against losses resulting from AI tool failures, particularly focusing on chatbots and customer service applications. This innovative insurance product addresses legal fees and damages that may arise from underperformance of AI systems, thereby providing a safety net for businesses facing lawsuits stemming from customer complaints or third-party claims.

The introduction of this policy comes amid growing concerns surrounding AI functionalities and reliability, as highlighted by several high-profile incidents. For instance, a chatbot from Virgin Money reprimanded a customer for using the term "virgin," leading to significant reputational damage. Similarly, Air Canada's chatbot erroneously generated a discount that the company was subsequently compelled to honour. These real-world occurrences underline the critical need for organisations to manage the potential financial repercussions of AI-related errors. Armilla, the company behind this new offering, asserts that with their policy, companies could have mitigated such losses. Karthik Ramakrishnan, Armilla’s CEO, noted that the policy aims to empower businesses to adopt AI technologies with greater confidence by addressing the inherent risks linked to their performance.

Traditional technology insurance policies often exclude claims related to AI’s unpredictable nature, which can result from its adaptive learning processes. Armilla's approach aims to fill this coverage gap by evaluating an AI model's initial performance benchmarks. If significant degradation in performance occurs—such as a chatbot's accuracy dropping from an initial 95% to 85%—the policy would trigger a claim. This specific focus distinguishes Armilla’s offering from the more generic errors and omissions insurance typically available in the market.

The need for such tailored insurance products may be further illuminated by a recent poll conducted by GlobalData, which indicated that a significant barrier to AI adoption in the insurance sector is the lack of in-house expertise. Nearly a quarter of industry professionals cited insufficient internal knowledge as a primary obstacle, followed by concerns about customer understanding and trust in AI technology. To counter these challenges, there has been a push for enhanced education and training within the industry, aimed at bridging the knowledge gap.

Moreover, as the application of generative AI continues to rise, industry publications emphasize the importance of maintaining control over AI outputs, particularly in customer-facing roles. Instances such as the aforementioned Air Canada case have underscored the necessity for proper oversight to mitigate reputational and financial risks associated with AI failures. While AI chatbots can offer businesses significant efficiencies, addressing the intricacies of their implementation—including building customer trust and ensuring ethical transparency—remains paramount.

As Armilla’s policy signals a shift towards recognising AI not just as a tool for operational efficiencies but also as a source of risk that necessitates specialised insurance solutions, the broader insurance market must navigate this evolving landscape carefully. Risk managers have expressed concerns that the increasing use of AI in underwriting might create uninsurable risks, thus altering the foundational principles of shared risk in insurance. As AI technologies advance, the insurance industry will need to adapt rapidly to mitigate potential downsides while fostering innovation.

In summary, Lloyd's of London and Armilla's new insurance offering not only seeks to address the fundamental risks associated with AI tools but also illustrates a pivotal moment in the merging of technology with risk management. As businesses increasingly adopt AI, the evolution of such specialised coverage will likely play a critical role in how they navigate the complex landscape of operational risk in the digital age.

## 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)
* Paragraph 3 – [[3]](https://www.armilla.ai/coverage), [[4]](https://www.insurancetimes.co.uk/news/lack-of-expertise-hindering-ai-adoption-in-insurance-globaldata/1454489.article)
* Paragraph 4 – [[5]](https://www.instech.co/knowledge-centre/generative-ai-in-practice-issue-8/), [[6]](https://www.frogman.org.uk/insurance-industry/)
* Paragraph 5 – [[7]](https://www.lloydslist.com/ID1127532/AI-could-put-insurance-buyers-at-a-disadvantage)

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 collaborates with established partners like Chaucer Group and Axis Capital to provide comprehensive AI liability coverage. This 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 through coverage of 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 a lack of in-house expertise is the primary 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 main 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%). To bridge this knowledge gap, insurers have been encouraged to invest in AI education and training programs.
5. <https://www.instech.co/knowledge-centre/generative-ai-in-practice-issue-8/> - The latest issue of 'Generative AI in Practice' discusses the use of generative AI in the insurance industry. It highlights the importance of controlling AI outputs, especially in customer service applications. The issue references incidents like Air Canada’s chatbot providing incorrect information about a refund policy, leading to financial and reputational consequences. The publication emphasizes the need for insurers to implement proper controls and oversight in AI initiatives to prevent such issues and to de-risk companies’ AI projects.
6. <https://www.frogman.org.uk/insurance-industry/> - The article discusses the challenges and considerations of implementing AI chatbots in the insurance industry. It highlights the importance of building customer trust, addressing ethical concerns, ensuring transparency in AI use, integrating with existing systems, and balancing chatbot interactions with human assistance. The piece emphasizes that while AI chatbots offer benefits like cost and time savings, addressing these challenges is crucial for successful implementation in the insurance sector.
7. <https://www.lloydslist.com/ID1127532/AI-could-put-insurance-buyers-at-a-disadvantage> - Risk managers express concerns that artificial intelligence-driven underwriting could make the concept of shared risk virtually obsolete. The article discusses how AI's role in underwriting may lead to uninsurable risks, potentially disadvantaging insurance buyers. The piece highlights the need for careful consideration of AI's impact on risk management and the insurance market.