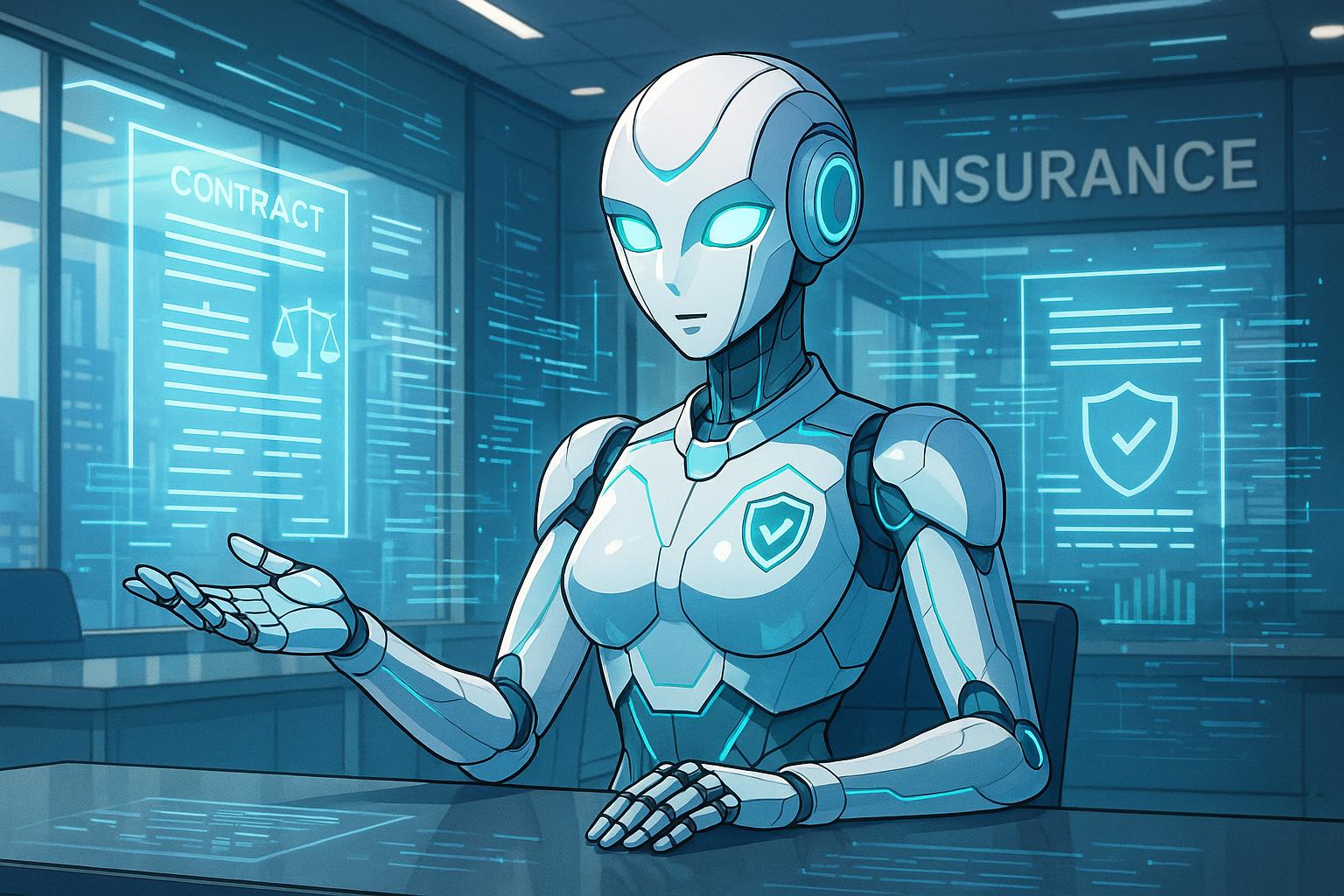
# Lloyd’s launches first insurance policy to cover AI failures in chatbots and customer service



In a notable stride towards modernising their product offerings, insurers at Lloyd’s of London have introduced a new insurance policy specifically designed to cover losses stemming from failures of artificial intelligence tools, particularly chatbots and customer service platforms. This innovative coverage addresses legal fees and damages that may arise when AI systems significantly underperform, leading to potential lawsuits from both customers and third parties. The policy, developed by Armilla, a Y Combinator-backed startup, signals a crucial shift in the insurance landscape in response to the growing reliance on AI technologies in business operations.

Real-world incidents underscore the urgent need for such insurance products. For instance, instances of chatbots behaving inappropriately highlight the risks faced by companies. In one notable case, a chatbot from Virgin Money reprimanded a user inappropriately for using the term "virgin," prompting customer backlash. Similarly, Air Canada found itself in a financial predicament when a tribunal mandated it to honour a misleading discount generated by its chatbot. Armilla’s policy is designed to fill a critical gap in existing coverage, as conventional technology policies often exclude AI-related claims, particularly those emerging from the unpredictable nature of AI learning processes. This new approach not only evaluates an AI system's initial performance metrics but also provides protection when there is a significant decline in accuracy, for instance, when a chatbot's performance drops from a 95% accuracy rate to 85%.

Karthik Ramakrishnan, CEO of Armilla, has stated that this product aims to inspire greater confidence in businesses considering AI adoption by addressing the associated risks effectively. As AI becomes ever more embedded in various sectors, the move towards offering dedicated insurance coverage marks recognition of AI as a transformative yet potentially risky component of contemporary business strategies. This response from the insurance industry could empower many companies to embrace AI technologies more extensively, as it effectively mitigates the lateral movement into uncharted territories of operational risk.

The implications of this development extend beyond businesses and insurers. In March 2025, Lloyd’s plans to host a workshop focusing on the regulatory landscape concerning AI in insurance. This event aims to equip attendees with strategies to manage the unique legal and reputational risks that accompany AI deployments, covering areas such as data protection, discrimination, and consumer welfare. Discussions around how these risks might affect traditional insurance products further enforce the notion that the insurance sector must adapt in response to evolving technological landscapes.

Additionally, industry experts have pointed out that as AI continues to permeate business functions, a tailored approach to insurance is vital. Traditional insurance models may not adequately cover the complexities introduced by AI's autonomous decision-making capabilities. Insurers are urged to reconsider existing policy structures and develop specific endorsements to encompass the unique challenges posed by AI, thereby supporting businesses in navigating their AI integration journeys.

As companies increasingly invest in AI technologies, the necessity for specialised insurance products becomes more apparent. The growth of AI adoption is not without its hurdles; a recent survey indicated that a lack of in-house expertise remains a significant barrier for many insurers in embracing AI solutions. Addressing this knowledge gap through education and training is essential for smoother integration, consequently elevating the imperative for tailored insurance solutions.

Overall, the introduction of dedicated AI performance coverage marks a significant evolution within the insurance domain, offering both financial security and the encouragement necessary for businesses to explore the vast potential of artificial intelligence. In recognising AI not merely as a tool for innovation, but as a catalyst for unique operational risks, the insurance industry is paving the way for a more resilient future.

## 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 – [[1]](https://www.jdsupra.com/legalnews/ai-update-chatbot-errors-there-s-a-4637358/), [[4]](https://www.lloyds.com/news-and-insights/events/ai-event)
* Paragraph 4 – [[5]](https://www.instech.co/knowledge-centre/generative-ai-in-practice-issue-8/), [[6]](https://www.insurancebusinessmag.com/uk/news/breaking-news/specialised-ai-insurance-needed-as-adoption-grows-522521.aspx)
* Paragraph 5 – [[6]](https://www.insurancebusinessmag.com/uk/news/breaking-news/specialised-ai-insurance-needed-as-adoption-grows-522521.aspx), [[7]](https://www.insurancetimes.co.uk/news/lack-of-expertise-hindering-ai-adoption-in-insurance-globaldata/1454489.article)

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/ai-performance-warranty-brief> - Armilla offers an AI Performance Warranty designed to protect businesses integrating AI technologies by ensuring their AI solutions meet performance benchmarks. This warranty provides financial protection against AI performance failures, offering compensation for underperformance and independent verification of AI outputs. The warranty aims to bridge the gap left by traditional contracts and service level agreements, which often lack financial backing for unmet key performance indicators. By offering this warranty, Armilla seeks to accelerate enterprise adoption of AI by mitigating risks associated with AI performance issues, thereby enhancing trust and reliability in AI solutions.
4. <https://www.lloyds.com/news-and-insights/events/ai-event> - Lloyd's, in partnership with Freshfields, is hosting a workshop titled 'AI in the insurance industry: the emerging regulatory landscape' on March 26, 2025. The event aims to help attendees understand how to mitigate novel litigation, regulatory, and reputational risks associated with AI, including issues related to data protection, discrimination, hallucination, and consumer protection. The workshop will discuss the impact of these risks on various insurance products, such as cyber, errors and omissions (E&O), and directors and officers (D&O) insurance, and outline key steps to mitigate them.
5. <https://www.instech.co/knowledge-centre/generative-ai-in-practice-issue-8/> - The eighth issue of 'Generative AI in Practice' by InsTech focuses on the use of generative AI in the insurance industry. It highlights the importance of controlling AI outputs, especially in customer service applications. The issue discusses incidents like Air Canada's chatbot providing incorrect refund information, leading to legal consequences. It also notes that more insurers are looking to offer coverage for AI errors, with companies like Aioi Nissay Dowa, Munich Re, Greenlight Re, Swiss Re, and Chaucer entering the market. The publication emphasizes the need for insurers to help de-risk companies' AI projects as AI adoption grows.
6. <https://www.insurancebusinessmag.com/uk/news/breaking-news/specialised-ai-insurance-needed-as-adoption-grows-522521.aspx> - As artificial intelligence (AI) becomes increasingly integrated into business operations, the insurance industry is recognizing the need for specialized coverage to address the unique risks associated with AI. Traditional insurance policies may not adequately cover issues arising from AI's autonomous decision-making processes. Experts suggest that insurers may need to adjust existing policies, exclude certain risks, or offer specific endorsements to address AI-related challenges. The article highlights the importance of developing insurance products that specifically cover AI-related risks to support businesses in their AI adoption journey.
7. <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 primary barrier preventing insurers from adopting artificial intelligence (AI) technology. The survey, conducted across Verdict Media platforms, found that 24.4% of industry professionals identified this as the main obstacle. Other challenges include concerns over customer understanding, skepticism regarding AI's readiness, and a lack of customer trust. To bridge the knowledge gap, insurers are encouraged to invest in AI education and training programs to facilitate smoother AI integration into their operations.