# Lloyd's launches first insurance policy covering AI chatbot failures and legal claims



In a notable shift reflecting the evolving landscape of artificial intelligence (AI) integration, insurers at Lloyd's of London have introduced a pioneering policy designed to cover losses stemming from failures of AI tools, particularly focusing on chatbots and customer service platforms. This new insurance offering addresses a pressing need within the industry: the legal costs and damages incurred when AI systems underperform, triggering lawsuits from customers and third parties. As AI continues to become integral in business operations, this development underscores the insurance sector's response to the unique risks associated with these technologies.

Several high-profile incidents help illustrate the necessity for such targeted coverage. For instance, an embarrassing gaffe by a chatbot from Money saw it reprimanding a user for innocuously mentioning the word "virgin." Similarly, DPD had to disable its chatbot after it engaged in inappropriate conversations with users, and Air Canada faced significant repercussions when a tribunal ruled that it must honour a false discount offered by its chatbot. These cases demonstrate how AI errors can lead not only to reputational harm but also to substantial financial liability. According to Armilla, the insurer behind this policy, businesses could have mitigated these financial repercussions if their policies had covered the chatbot’s poor performance, which fell "demonstrably below initial benchmarks."

Armilla’s offering fills a critical gap often left by traditional technology insurance policies, which usually exclude claims that arise from the unpredictable nature of AI, particularly due to its adaptive learning processes. The policy assesses an AI system's initial performance metrics, providing coverage if there is a significant decline over time. For example, if a chatbot’s accuracy drops from 95% to 85% in its interactions, this shift could trigger a claim. Karthik Ramakrishnan, the CEO of Armilla, suggests this insurance can help foster greater confidence in AI technologies among businesses. He states that the introduction of this product marks a paradigm shift, recognising AI not merely as a tool of innovation but also as a source of operational challenges that warrant specialised insurance solutions.

This innovative policy is underwritten by several entities within Lloyd’s, including Chaucer, which has highlighted the need for a selective approach to coverage to ensure only reliable AI systems are insured. Such measures aim to encourage more widespread adoption of AI technologies by alleviating fears associated with performance failures. As noted, traditional professional indemnity policies often overlook the liabilities inherent in AI algorithms, which can leave businesses exposed to risks not accounted for in their existing cover. This gap in coverage could pose significant challenges as AI becomes further embedded in business practices and decision-making processes, necessitating a reevaluation of insurance strategies to align with these emerging risks.

The implications for the insurance industry are profound, with more than a third of London market firms reportedly utilising AI in some capacity. A recent survey highlighted that 14% of respondents have begun implementing AI technologies directly into underwriting processes. However, barriers such as data quality, system integration, and ROI concerns continue to limit broader adoption. The Lloyd’s Market Association (LMA) underscores the need for firms to enhance their capabilities and expertise around AI to fully leverage its opportunities while also ensuring that adequate risk management strategies are in place.

In summary, the advent of specialised insurance products tailored for AI-related risks signals a maturation in both the technology and insurance sectors. It not only reflects an awareness of the growing intricacies of AI implementations but also provides essential protection for businesses navigating this complex landscape. As AI continues to advance, the ability to adapt insurance coverage to meet its unique challenges will be crucial for fostering innovation while safeguarding against potential liabilities.

## 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/), [[6]](https://e123insurtech.com/brendans-blog/ai-fails-insurance-execs-should-know-about)
* Paragraph 3 – [[2]](https://www.ft.com/content/1d35759f-f2a9-46c4-904b-4a78ccc027df), [[3]](https://www.armilla.ai/coverage), [[4]](https://www.armilla.ai/ai-performance-warranty-brief), [[5]](https://kennedyslaw.com/en/thought-leadership/article/2024/the-current-and-future-impacts-of-ai-in-the-insurance-sector/)
* Paragraph 4 – [[7]](https://www.lmalloyds.com/LMA/News/Releases/2025/lma_240425.aspx)

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## 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 comprehensive AI liability coverage tailored to protect enterprises and AI vendors from the unique challenges associated with artificial intelligence. Their specialized underwriting aims to build trust, reduce risk, and boost adoption across the AI ecosystem. The coverage safeguards organizations against performance shortfalls, legal exposures, and financial risks linked to AI-driven products and operations. As a Lloyd’s of London Coverholder, Armilla's insurance products are backed by established partners, including Chaucer Group and Axis Capital, ensuring industry-leading coverage. The policy addresses errors, omissions, and unforeseen performance issues in AI systems, covering defense costs, settlements, and third-party claims resulting from AI underperformance or alleged damages.
4. <https://www.armilla.ai/ai-performance-warranty-brief> - Armilla's AI Performance Warranty provides financial protection against AI performance failures, offering enterprises risk mitigation tools while helping AI vendors accelerate adoption. The warranty ensures that AI solutions meet the highest performance standards and deliver on their outcomes, bridging the gap left by traditional contracts and SLAs. By offering compensation for underperformance, the warranty adds credibility to vendor claims and supports faster enterprise adoption. Real-world protection examples demonstrate how the warranty has facilitated enterprise adoption by providing assurance that AI meets performance benchmarks for accuracy, resulting in faster sales cycles and immediate enterprise adoption.
5. <https://kennedyslaw.com/en/thought-leadership/article/2024/the-current-and-future-impacts-of-ai-in-the-insurance-sector/> - The article discusses the current and future impacts of artificial intelligence (AI) in the insurance sector, focusing on coverage limitations and gaps. It highlights that traditional professional indemnity (PI) policies may not cover errors from AI algorithms or systems, leading to potential liability issues. The piece emphasizes the need for insurers to adapt their policies to address claims arising from AI-generated outputs, third-party claims, and regulatory compliance. As AI becomes more integral to decision-making processes, the article suggests that insurers must evolve their coverage to mitigate risks associated with AI implementation.
6. <https://e123insurtech.com/brendans-blog/ai-fails-insurance-execs-should-know-about> - This blog post highlights notable instances of AI failures that insurance executives should be aware of. It discusses the infamous Air Canada case, where the airline's chatbot provided incorrect information about its bereavement policy, leading to legal repercussions. The post emphasizes the challenges with AI, such as the 'garbage in, garbage out' phenomenon, where AI systems can produce incorrect outputs based on flawed inputs. It underscores the importance of understanding AI limitations and the potential risks associated with its implementation in customer service and other areas within the insurance industry.
7. <https://www.lmalloyds.com/LMA/News/Releases/2025/lma_240425.aspx> - A press release from the Lloyd’s Market Association (LMA) reveals that over one-third of London market firms are now actively using artificial intelligence (AI). The survey, conducted across 81 firms in the London market, including 45 Lloyd’s managing agents, highlights that 14% of respondents have deployed or experimented with agentic AI or generative AI in underwriting processes. However, significant barriers to AI adoption remain, including data quality and availability, integration with existing systems, and concerns over return on investment. The LMA emphasizes the need for the market to build out its AI expertise and capabilities to leverage the opportunities presented by AI.