# Lloyd’s launches specialised insurance to cover AI chatbot failures and legal risks



In a notable shift reflecting the growing prominence of artificial intelligence (AI) in business operations, insurers at Lloyd’s of London have initiated a specialised insurance product aimed at covering losses linked to failures in AI tools, particularly focusing on chatbots and customer service platforms. This new offering provides coverage for legal fees and damages incurred when AI applications underperform significantly, leading to potential lawsuits from customers and third parties.

Several incidents underscore the necessity for such insurance. A revealing case involved Money's chatbot, which embarrassedly reprimanded a customer for using the term “virgin,” while DPD had to deactivate its bot due to offensive user interactions. Perhaps most striking was Air Canada’s experience, where a tribunal mandated the airline to honour a discount generated by a chatbot that had no validity. According to Armilla, the company behind this insurance initiative, had its policy been in place during these events, it would have absorbed the substantial financial losses that resulted from the AI’s misjudgements.

The introduction of this policy by Armilla aims to fill a critical gap in the existing insurance landscape. Traditional technology policies typically exclude claims arising from the unpredictable nature of AI's adaptive learning capabilities. This novel approach not only assesses an AI model’s initial performance metrics but also ensures that coverage is provided in cases where performance degrades significantly over time. For instance, a chatbot that initially achieves 95% accuracy and subsequently drops to 85% could trigger a claim.

Karthik Ramakrishnan, Armilla’s CEO, highlighted that this insurance product could stimulate greater AI adoption across various industries by instilling confidence in businesses regarding the management and mitigation of related risks. This development indicates a foundational shift in how businesses and insurers perceive AI—not merely as a tool for innovation but as a source of distinct operational risks that necessitate specialised insurance products.

As the integration of AI into business processes expands, associated risks such as AI hallucinations and model drift are becoming increasingly prominent. Traditional insurance frameworks often lack the specific provisions needed to address these emerging challenges. In response, numerous insurers have begun introducing tailored policies that cater to the unique liabilities stemming from AI technologies. For example, Munich Re offers an AI Warranty Insurance product designed to cover risks associated with the unreliability and underperformance of machine learning models, while Relm Insurance launched a suite of liability insurance products specifically for companies involved in developing AI technologies.

The rising trend within the insurance industry reflects a recognition of these evolving risks, as highlighted during a workshop hosted by Lloyd’s in collaboration with Freshfields, where industry leaders discussed the legal, regulatory, and reputational challenges associated with AI integration. With discussions covering various insurance products, it was evident that understanding how to navigate these novel risks is essential for underwriters in an increasingly tech-driven environment.

Overall, the insurance community is making strides to adapt to the transformative impact of AI, striving to strike a balance between innovation and risk management. The establishment of specialised insurance for AI-related issues marks a significant evolution, offering businesses the protection they need to safely embrace the potential of artificial intelligence in their operations.

## 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/), [[3]](https://www.forbes.com/sites/ronschmelzer/2025/04/30/ai-gone-wrong-now-theres-insurance-for-that/)
* Paragraph 3 – [[4]](https://www.wtwco.com/en-us/insights/2025/03/emerging-ai-exposures-and-the-role-of-cyber-and-e-and-o-insurance), [[5]](https://www.lloyds.com/news-and-insights/events/ai-event)
* Paragraph 4 – [[6]](https://www.klgates.com/Navigating-the-New-Frontier-Insurance-for-Artificial-Intelligence-Risks-3-4-2024), [[7]](https://www.jdsupra.com/legalnews/ai-and-insurance-the-awkward-early-days-5834525/)

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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.forbes.com/sites/ronschmelzer/2025/04/30/ai-gone-wrong-now-theres-insurance-for-that/> - As artificial intelligence becomes more integrated into business operations, new risks such as AI hallucinations and model drift are emerging. Recognizing these challenges, insurance companies are introducing policies to cover such risks. Traditional insurance policies often lack specific provisions for AI-related risks, leaving businesses exposed to significant financial and legal challenges. Industry firms have announced approaches to insuring emerging AI risks. In January 2025, Relm Insurance launched a suite of AI liability insurance products designed to provide tailored coverage for companies developing or integrating AI technologies. These solutions aim to address the unique risks posed by AI, including potential liabilities arising from AI system failures or unintended behaviors. Munich Re offers an AI Warranty Insurance product that enables companies to mitigate risks associated with the underperformance, unreliability, and drift of machine learning models. This coverage is particularly beneficial for businesses that develop or deploy AI solutions, providing financial protection against specific underperformance scenarios. In early 2024, cyber liability insurer Coalition introduced a policy endorsement aimed at covering risks associated with generative AI technologies. This endorsement addresses potential liabilities stemming from the use or misuse of generative AI, such as data poisoning, infringement, and regulatory violations. Insurance firm AXA also released new endorsements for its cyber insurance policies that specifically address risks related to generative AI. This development reflects the evolving nature of AI-related risks and the insurance industry’s efforts to provide comprehensive coverage for such emerging threats.
4. <https://www.wtwco.com/en-us/insights/2025/03/emerging-ai-exposures-and-the-role-of-cyber-and-e-and-o-insurance> - As artificial intelligence (AI) becomes more integrated into business operations, new risks such as AI hallucinations and model drift are emerging. Recognizing these challenges, insurance companies are introducing policies to cover such risks. Traditional insurance policies often lack specific provisions for AI-related risks, leaving businesses exposed to significant financial and legal challenges. Industry firms have announced approaches to insuring emerging AI risks. In January 2025, Relm Insurance launched a suite of AI liability insurance products designed to provide tailored coverage for companies developing or integrating AI technologies. These solutions aim to address the unique risks posed by AI, including potential liabilities arising from AI system failures or unintended behaviors. Munich Re offers an AI Warranty Insurance product that enables companies to mitigate risks associated with the underperformance, unreliability, and drift of machine learning models. This coverage is particularly beneficial for businesses that develop or deploy AI solutions, providing financial protection against specific underperformance scenarios. In early 2024, cyber liability insurer Coalition introduced a policy endorsement aimed at covering risks associated with generative AI technologies. This endorsement addresses potential liabilities stemming from the use or misuse of generative AI, such as data poisoning, infringement, and regulatory violations. Insurance firm AXA also released new endorsements for its cyber insurance policies that specifically address risks related to generative AI. This development reflects the evolving nature of AI-related risks and the insurance industry’s efforts to provide comprehensive coverage for such emerging threats.
5. <https://www.lloyds.com/news-and-insights/events/ai-event> - Lloyd’s, in partnership with Freshfields, co-hosted a workshop on mitigating legal, regulatory, and reputational risks stemming from AI. The event focused on understanding how to address novel litigation, regulatory, and reputational risks significant for underwriters, including data protection, discrimination, hallucination, and consumer protection. Discussions covered the impact of these risks on various insurance products, including cyber, errors and omissions (E&O), and directors and officers (D&O) insurance. The workshop aimed to provide actionable knowledge and the opportunity to engage with peers facing similar challenges in the evolving AI landscape.
6. <https://www.klgates.com/Navigating-the-New-Frontier-Insurance-for-Artificial-Intelligence-Risks-3-4-2024> - As artificial intelligence (AI) becomes more integrated into business operations, new risks such as AI hallucinations and model drift are emerging. Recognizing these challenges, insurance companies are introducing policies to cover such risks. Traditional insurance policies often lack specific provisions for AI-related risks, leaving businesses exposed to significant financial and legal challenges. Industry firms have announced approaches to insuring emerging AI risks. In January 2025, Relm Insurance launched a suite of AI liability insurance products designed to provide tailored coverage for companies developing or integrating AI technologies. These solutions aim to address the unique risks posed by AI, including potential liabilities arising from AI system failures or unintended behaviors. Munich Re offers an AI Warranty Insurance product that enables companies to mitigate risks associated with the underperformance, unreliability, and drift of machine learning models. This coverage is particularly beneficial for businesses that develop or deploy AI solutions, providing financial protection against specific underperformance scenarios. In early 2024, cyber liability insurer Coalition introduced a policy endorsement aimed at covering risks associated with generative AI technologies. This endorsement addresses potential liabilities stemming from the use or misuse of generative AI, such as data poisoning, infringement, and regulatory violations. Insurance firm AXA also released new endorsements for its cyber insurance policies that specifically address risks related to generative AI. This development reflects the evolving nature of AI-related risks and the insurance industry’s efforts to provide comprehensive coverage for such emerging threats.
7. <https://www.jdsupra.com/legalnews/ai-and-insurance-the-awkward-early-days-5834525/> - The insurance industry is grappling with the integration of artificial intelligence (AI) into its operations, leading to challenges in underwriting and policy coverage. Some insurers are excluding AI-related risks from policies, while others are offering AI-specific errors and omissions coverage or endorsements covering AI-related issues. This evolving landscape reflects the industry's efforts to balance innovation with risk management, as AI becomes increasingly prevalent in business operations.