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Carriers Need to Create Explicit AI Insurance Products

Cracking the AI Code: For carriers, AI is a "first-mover" opportunity hampered by a lack of historical data and standardized risk frameworks. Because AI risks are interconnected—triggering everything from cyber to D&O claims—traditional, siloed underwriting is no longer effective.

In Part 3 of our **AI Insurance Market Series**, we examine the barriers keeping carriers on the sidelines and the infrastructure needed to bridge the gap. From dynamic risk monitoring to specialized technical underwriting, learn how carriers can turn AI uncertainty into a competitive data advantage.



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Article 3 of 5 - AI Insurance Market Series

The Carrier's Dilemma

Insurance carriers recognize the opportunity in AI insurance. The total addressable market is substantial and growing rapidly as enterprises increase AI adoption. Yet most carriers have been slow to develop explicit AI insurance products.

This hesitation isn't due to lack of interest or capacity. Rather, carriers face fundamental challenges in underwriting AI risks that traditional insurance processes weren't designed to address.

Why AI Insurance Is Different

1. Rapidly Evolving Technology

Traditional insurance relies on historical loss data to price risk. Carriers can look at decades of claims experience for property damage, auto accidents, or professional liability. AI presents a different challenge:

- The technology is evolving on a quarterly or even monthly basis
- New AI capabilities and use cases emerge continuously
- Historical loss data is sparse and may not predict future exposures
- Risk profiles can change dramatically as models are updated or retrained

The Challenge: How do you price insurance for a risk that's changing faster than your

2. Information Asymmetry

In traditional insurance, underwriters can assess risk using standardized questions and site inspections. With AI, the knowledge gap between insureds and insurers is much wider:

- Organizations have deep understanding of their specific AI implementations that would take weeks or months for underwriters to fully grasp
- Technical details about model architecture, training data, and deployment contexts are complex and domain-specific
- Risk controls and testing procedures vary widely and are difficult to evaluate without technical expertise
- Many relevant risk factors are hidden within code, data pipelines, and operational processes

3. Absence of Standardization

Mature insurance markets benefit from standardization—building codes for property, safety standards for vehicles, accounting principles for financial reporting. AI lacks comparable standardization:

- No universally accepted AI risk frameworks or assessment methodologies
- Limited regulatory clarity on AI requirements in most jurisdictions
- Wide variation in how organizations govern, test, and deploy AI
- Diverse technology stacks and vendor ecosystems with different risk characteristics

4. Interconnected and Cascading Risks

AI risks don't fit neatly into traditional insurance categories. A single AI incident can trigger multiple types of losses:

- A biased hiring algorithm could lead to discrimination claims (liability), regulatory penalties (D&O), and reputational damage affecting revenue (business interruption)

- An AI data breach could expose both personal information (cyber) and proprietary models (IP)
- AI system failure could disrupt operations (business interruption) while also creating third-party liability exposure

The Challenge: Traditional insurance products are siloed by coverage type, but AI risks span multiple coverage categories simultaneously.

What Carriers Need to Develop AI Insurance Products

1. Efficient Risk Assessment

Carriers need ways to quickly and accurately evaluate AI risk profiles without requiring deep technical expertise from every underwriter:

- **Standardized assessment frameworks** that translate technical AI details into insurance-relevant risk factors
- **Quantitative risk scoring** that provides objective, comparable measures across different AI implementations
- **Automated data collection** that gathers relevant information directly from applicants' systems
- **Validation mechanisms** to verify self-reported information and detect inconsistencies

2. Dynamic Risk Monitoring

Unlike traditional insured assets, AI systems change frequently. Carriers need ongoing visibility into how risks evolve:

- **Continuous monitoring** of key risk indicators throughout the policy period
- **Trigger mechanisms** that alert underwriters to material changes in risk profile
- **Adjustment protocols** for modifying coverage or pricing when exposures change significantly
- **Incident tracking** to capture near-misses and emerging patterns before they become claims

3. Specialized Underwriting Expertise

AI insurance requires a new type of underwriting capability that bridges insurance and technology:

- Understanding of AI technologies, use cases, and failure modes
- Ability to evaluate the effectiveness of AI governance and risk controls
- Familiarity with AI regulations and emerging compliance requirements
- Knowledge of AI vendor ecosystems and supply chain risks

4. Flexible Policy Design

AI insurance products must be structured to address AI's unique characteristics:

- **Comprehensive coverage** that addresses liability, business interruption, cyber, and reputational risks in a coordinated way
- **Clear definitions** of AI systems, covered uses, and triggering events
- **Appropriate sublimits** for specific high-frequency or high-severity exposures
- **Modular options** that let enterprises tailor coverage to their specific AI risk profile

The Opportunity: Carriers that solve these challenges first will establish market leadership in a high-growth segment. First movers can set industry standards, build underwriting expertise, and develop the data needed for pricing advantage.

Next: Article 4 - Quantifying AI Insurability: The Role of Data and Metrics