Insurance Broker Best Practices to Reduce AI-Related E&O Risk

INSURANCE AGENCIES AND BROKERAGES, like most businesses, are increasingly using artificial intelligence and large language models (LLMs), such as ChatGPT and Gemini, in their daily operations. AI can provide significant advantages, including greater efficiency, enhanced productivity, and cost savings. For example, brokers may use AI to generate policy comparisons and proposals, accelerating the quoting process.

However, these benefits come with risks. AI-generated information may be inaccurate, leading to improper advice, coverage misrepresentations, or binding coverage that violates underwriting guidelines. Overreliance on AI may also increase exposure to errors and omissions (E&O) claims and litigation.

Insurance agencies can reduce AI-related risks by following these five best practices:

1. Require Licensed Producer Oversight

AI can improve efficiency, but it does not replace the professional judgment or responsibility of a licensed producer. Treat AI-generated content as a preliminary draft that may contain errors.

Before any quote, proposal, coverage summary, or policy comparison is provided to a client, a qualified individual should independently verify all material information, including coverage terms, limits, deductibles, exclusions and endorsements, against the applicable policy forms and source documents.

2. Establish a Formal AI Policy

Agencies should adopt a written AI policy that defines:

- Approved AI tools;
- Information that may or may not be entered into AI platforms;
- AI outputs requiring licensed producer review;
- Tasks AI may assist with or perform autonomously, if any; and
- Permitted and prohibited uses.

Approved uses may include document summarization and administrative support. Prohibited uses should include independently binding coverage, modifying limits, providing coverage advice, or communicating coverage determinations without human review.

The policy should be distributed to all employees, supported by training, and reinforced through written acknowledgment of compliance.

3. Manage Third-Party AI and Data Security Risks

Confidential client information, such as loss runs, financial records, proprietary information, or other sensitive data, should not be entered into unapproved public AI platforms. Agencies should also review contracts with AI vendors to ensure they adequately address confidentiality, cybersecurity controls, data retention, indemnification, insurance requirements, and limitations of liability.

4. Document AI Usage

As with other client communications and insurance placement decisions, agencies should maintain records of AI-related activity.

Documentation should reflect the client's requests, information available to the producer, AI-generated output, any modifications or verification performed by agency personnel, communications with the client, and the coverage ultimately procured. Such records may provide valuable evidence in defending a future E&O claim.

5. Review Insurance Coverage

Agencies should review their own E&O policies to determine whether any exclusions, limitations, or endorsements affect coverage for AI-related activities. Likewise, agencies should be aware of any AI-related coverage restrictions contained in policies they recommend or place for clients.

CONCLUSION

AI is a valuable tool that can help insurance agents and brokers improve efficiency and service. However, it should supplement rather than replace the oversight, expertise, and professional judgment of a licensed producer.

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