FSB FINANCIAL STABILITY BOARD

Sound Practices for Responsible Adoption of Artificial Intelligence (AI): Consultation report

Response to Consultation

American Property Casualty Insurance Association (APCIA)

1. **Do you agree with the benefits and risks of AI adoption by financial institutions described in this report? Are there any substantive benefits or risks not covered?**

APCIA broadly agrees with the benefits and risks identified in the report.

The report appropriately highlights efficiency gains and improved customer service,

enhanced risk management capabilities, and potential systemic risks such as third-party dependencies and concentration.

APCIA welcomes the balanced presentation of both benefits and risks. Balanced framing is essential to support responsible innovation and avoid unintended disincentives to adopt beneficial AI applications.

However, the report could be strengthened by further recognizing insurance-specific benefits, such as improved risk assessment, claims processing, and financial inclusion. Another important point for APCIA would be more explicitly acknowledging that many AI-related risks are not entirely new, but extensions of existing model, operational, and data governance risks already managed by insurers. In addition, insurers' use of AI also enables the better understanding of risk and enables us to better work with customers, communities and the larger society on future risk modeling and risk mitigation.

Regarding systemic risks, APCIA recognizes their importance, but notes that further evidence may be needed to assess the extent to which some risks (e.g. correlated behavior) could materialize in practice.

2. **Are the sound practices sufficiently comprehensive and clear to enable financial institutions' responsible AI adoption?**

APCIA considers the sound practices to be comprehensive, covering both governance and lifecycle aspects of AI adoption; and clearly structured, particularly through the organisation-wide and lifecycle-based approach.

The lifecycle approach (from inception to retirement) is a useful tool for structuring risk management processes. However, APCIA notes that the level of detail in some areas could, in practice, lead to de facto prescriptive expectations. Furthermore, there is a need to ensure that institutions retain flexibility to apply existing frameworks proportionately.

It is critically important as well that due recognition be given to existing, time tested and effective insurance regulatory standards. For example, the concept of "bias" is discussed at several points. It should be noted that in the insurance context, the standard is "unfair discrimination" that recognizes that insurance must reflect differences in risk in pricing and underwriting whether AI is used, or not.

3. **Do the sound practices strike an appropriate balance between managing risks relating to all forms of AI, and addressing some of the risks relating to emerging and new complex forms of AI, such as GenAI and agentic AI?**

APCIA supports the FSB's technology-neutral approach, which is appropriate given the rapid pace of AI development. The report broadly strikes a reasonable balance between risks associated with traditional AI and those linked to emerging technologies such as generative and agentic AI.

However, APCIA encourages caution against over-emphasizing emerging risks that are still evolving and setting expectations that may be difficult to operationalize at an early stage of technological development. Supervisory and policy approaches should remain risk-based, proportionate, and adaptable over time with a high priority on governance.

4. **Are the sound practices sufficiently flexible to accommodate and address newer types of AI and responsible adoption over time?**

APCIA strongly agrees that flexibility is essential. We particularly welcome that the sound practices are explicitly non-binding. They are intended to evolve alongside technological developments, and they allow institutions to adapt them to their business models and risk profiles.

To maintain this flexibility, APCIA encourages avoiding overly frequent revisions that may create uncertainty while also supporting ongoing dialogue between supervisors and industry, which is essential in a rapidly evolving field.

5. **Do the case studies in this report sufficiently highlight how different types of financial institutions can benefit from responsible AI adoption? Are there additional case studies for inclusion in the report? If so, please provide such case studies, particularly for nonbanks.**

The case studies in the report are helpful in illustrating how institutions can implement responsible AI practices. We note that the majority of examples are drawn from banking and capital market contexts and therefore insurance-specific examples are limited.

Additional case studies that reflect insurance use cases, such as underwriting and pricing, claims handling, fraud detection, and risk prevention and mitigation, could be useful in that regard.

6. **Do the case studies in this report provide actionable insights for financial institutions in their responsible AI adoption?**

The case studies provide useful illustrations of practices in larger or more advanced institutions. However, their practical applicability for smaller or less complex firms is more limited. Further examples could better illustrate proportionate implementation.

APCIA encourages the inclusion of case studies demonstrating simplified governance approaches, and scalable implementation tailored to different sizes and levels of complexity.

7. **Are the definitions in the glossary clear and aligned with industry sound practices, including recent developments in AI?**

APCIA welcomes the effort to provide a glossary and promote consistency in terminology.

However, the FSB definition of AI-system is currently too broad and risks capturing other predictive models used in insurance such as linear regression, actuarial pricing models and traditional statistical scoring models.

APCIA considers it important to maintain a clear distinction between AI systems (including machine learning and adaptive systems) and traditional statistical models, which are well understood and already subject to established regulatory frameworks.

Furthermore, the FSB definition of Explainability is fine in itself, but is currently framed as a general expectation across AI systems. From the Insurance Industry we would like to see clearer recognition that certain use cases (e.g. fraud detection) legitimately prioritize performance over explainability.

8. **Are there any comments you would like to make on this report? Please fill in.**

The American Property Casualty Insurance Association (APCIA) represents nearly 12000 insurers and reinsurers with a wide range of size and business models, operating in the U.S. and around the globe. We appreciate the opportunity to provide comments on the Financial Stability Board's consultation report on Sound Practices for Responsible Adoption of Artificial Intelligence. Our comments incorporate by reference the comments to be filed by the Global Federation of Insurance Associations in which we have actively participated.

APCIA and our members strongly support the responsible and risk-based adoption of AI in financial services. Insurers have a long history of using data-driven models and operating within robust governance, risk management, and regulatory frameworks. These frameworks provide a strong foundation for managing AI-related risks.

APCIA welcomes the FSB's effort to develop a high-level, principles-based and non-binding framework that supports responsible AI adoption across the financial sector. It is essential that flexibility and proportionality be maximized, as the principles do, along with the foundational recognition of the time tested and proven effective insurance regulatory standards that help insurers maximize the value of AI for customers and the larger society.

General observations

APCIA would like to highlight the following key overarching points:

• Balanced approach: The report appropriately recognizes both the benefits and risks of AI adoption, which is essential to avoid discouraging innovation and the delivery of consumer benefits.

• Principles-based framework: We welcome the FSB's intention to provide a non-prescriptive "menu of sound practices", allowing financial institutions to tailor approaches to their specific risk profiles and use cases.

• Proportionality and flexibility: The explicit recognition of proportionality is particularly important given the diversity of financial institutions and AI use cases.

• Use of existing frameworks: Many AI-related risks are already addressed within existing governance, model risk, and risk management frameworks. It is therefore important that the principles recognize and rely on these frameworks. This is particularly important in the context of any discussion of "bias" considering that the insurance standard is "unfair discrimination" as interpreted and applied by insurers and insurance regulators.

APCIA appreciates the collaborative approach being followed by the FSB and believes that the principles are a generally a positive development. We are pleased to participate in this and further opportunities to engage in dialogue.

Conclusion

GFIA supports the FSB's initiative and welcomes its principles-based, flexible and proportionate approach.

We encourage the FSB to:

• further specify its AI definition in order to make a distinction between true AI systems and other predictive models used in insurance

• maintain a strong focus on proportionality and flexibility,

• continue recognising the role of existing regulatory and risk management frameworks, and

• further reflect sector-specific considerations, including for insurers.

A balanced and adaptable framework will be key to ensuring that AI can be deployed responsibly while enabling innovation, enhancing customer outcomes, and supporting financial stability.