FSB FINANCIAL STABILITY BOARD

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

Response to Consultation

Insurance Europe

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?**

Insurance Europe generally agrees with the benefits and risks identified in the report. AI can lead to efficiency and productivity gains, enhance customer service offerings, and improve risk management and overall operational efficiency in the sector.

However, the report could be further enhanced by recognising further insurance-specific benefits and case studies.

The use of AI applications in claims handling, for example, makes the processing of claims more efficient and leads to a faster settlement of claims for customers. It can be used throughout the claims process, for instance in the motor vehicle sector from the submission of images of damage via a smartphone app to the repair of the vehicle or payment of the claim amount. It can also be used to categorise incoming cases for claims handling in order to significantly reduce the case handing lead time for the customer. AI tools can also be used to automatically read, interpret and process relevant documents and photographs, such as to extract the information needed from medical records or identity cards, to recognise vehicle types or licence plate numbers, or to evaluate whether the damage to a vehicle is a total loss.

As the insurance industry focuses more on prevention, AI systems can be used to help better monitor and predict risk, as well as to provide advice to customers on how to reduce risk going forward. This can in turn help to reduce the frequency and severity of losses over time and can lead to lower insurance premiums for customers.

AI-driven fraud detection solutions can tackle the problem of insurance fraud by analysing massive amounts of data from multiple sources in order to spot fraudulent claims. Such tools can enable insurers to spot and flag unusual patterns that a human might miss, potentially helping to reduce these huge costs, as well as the level of customer premiums.

Insurance Europe would also welcome appropriate recognition in the report that many AI-related risks are not entirely new. European insurers already manage relevant model, operational and data governance risks under existing frameworks.

At the same time, some of the risks identified in the report are specific to generative AI or agentic AI, which give rise to additional considerations that are not relevant to all uses of AI within the financial sector. This further demonstrates the importance of proportionate, risk based and technology neutral approaches to monitoring and addressing risks.

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

Insurance Europe considers the sound practices to be sufficiently comprehensive and clearly structured.

However, it should be stressed that financial institutions in Europe are already subject to extensive regulatory requirements that address the risks associated with AI adoption. Any additional principles or sound practices should be careful to avoid creating unnecessary compliance burdens or duplicating existing obligations in an already highly regulated sector. Such practices should therefore be applied in a proportionate manner and integrated into the existing governance processes of European insurers, rather than treated as a separate AI governance framework.

The final report should therefore make explicit reference to the fact that firms may rely on existing governance and risk management processes, where they already address the identified risks.

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?**

It is important to ensure a proportionate, risk-based and technology-neutral approach. Insurance Europe therefore welcomes the FSB's approach in recognising that there are different considerations with regard to newer forms of AI, such as generative and agentic AI, compared to more traditional AI tools.

At the same time, caution is needed to avoid placing too much emphasis on emerging risks associated with newer forms of AI that could ultimately drive companies away from innovating and deploying such tools.

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

Insurance Europe welcomes an approach that is high-level, principles-based and proportionate to the level of risk and the type of AI use in question. Given the rapid pace of AI development, it is crucial to preserve sufficient flexibility for market participants when it comes to monitoring and addressing the risks associated with newer types of AI and to ensure an address that is sufficiently technology-neutral and future-proof.

To ensure this flexibility, the final report should avoid overly frequent revisions or increasingly detailed expectations that could create uncertainty for firms that already have processes in place and that are already subject to European regulatory requirements.

Insurance Europe believes that continued dialogue between regulators, supervisors and industry is key, particularly as the technology continues to evolve, to ensure that practical implementation and experience and supervisory expectations are aligned.

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 are useful in illustrating how financial institutions can benefit from responsible AI adoption, but they remain more focused on banking and capital markets than on insurance.

   Insurance Europe would welcome the addition of insurance-specific examples that demonstrate how AI can benefit policyholders and improve insurance processes. Please see our response to Question 1.

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

   The case studies provide useful insights of how certain financial institutions have been adopting responsible AI.

   Insurance Europe would propose the inclusion of further examples that demonstrate more proportionate approaches to governance and implementation, as this would help to provide more actionable insights for small financial entities in a manner that is more relevant to their size and the nature of their AI use.

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

   Insurance Europe would like to highlight the importance of avoiding an overly broad definition of AI that could capture actuarial or traditional statistical techniques that are already long-established in the insurance sector, such as linear regression models.

   A clear definition of AI is crucial to facilitate a common understanding of what should be subject to the scope of the sound practices.

   The use of generalised linear models (GLMs), including linear and logistic regression, has been widely established in the insurance industry for decades. Both insurers and supervisors have extensive experience with such models and a sound understanding of the associated risks. In its recent letter to the European institutions, the European Insurance and Occupational Pensions Authority (EIOPA) has stressed this same point and called for an explicit exclusion of GLMs from the scope of the definition of an AI system, given their high degree of explainability and transparency, noting that such models are well-understood, directly interpretable and not autonomous. The European Central Bank (ECB) also came to a similar conclusion in its recent Opinion on the AI Omnibus, which it has shared with European policymakers and regulators.

As EIOPA notes, including traditional statistical models within the definition of an AI system risks drawing finite supervisory resources away from assessing more novel, and potentially riskier or less well understood, applications of AI.

Insurance Europe believes therefore that a more explicit clarification from the FSB that such traditional techniques are not considered AI for the purposes of the sound practices would help to avoid ambiguity, inconsistent interpretation and unnecessary burden for companies and supervisors regarding existing statistical analysis and modelling in the insurance sector.

On explainability, Insurance Europe agrees that transparency is important, particularly where AI materially affects customers. However, the definition of explainability should be proportionate and context-specific and should avoid being perceived as a general expectation across all AI systems. From the perspective of the insurance industry, we would welcome clearer recognition in the sound practices that, in certain use cases, such as AI-driven fraud detection, legitimately prioritise accuracy and performance over explainability. It should be clear in such cases that financial institutions are not expected to share information or provide explanations about the nature of the model in light of concerns over model manipulation or exploitation.

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

Insurance Europe welcomes the opportunity to provide feedback on the Financial Stability Board (FSB) consultation report on Sound Practices for Responsible Adoption of Artificial Intelligence (AI).

The use of AI in the European insurance sector builds on long-standing experience with data-driven models and is already the subject of a comprehensive and robust regulatory framework, including the AI Act, Solvency II, GDPR and the Digital Operational Resilience Act (DORA), as well as sector-specific conduct and consumer protection rules such as the Insurance Distribution Directive (IDD). Insurance Europe therefore welcomes an approach that is high-level, principles-based and proportionate. From a European insurance perspective, it is essential that the final report preserves flexibility and proportionality, and supports existing EU and sector-specific frameworks rather than duplicating or adding further requirements.

Insurance Europe also welcomes the recognition by the FSB that the sound practices are not intended to establish an international standard, to impose a prescriptive approach for responsible AI adoption by financial institutions nor to influence business decisions in adopting a certain AI technology.