

AI Insurance: Standalone Solution or Policy Evolution?

Reflections from the Clauses Committee Technical Roundtable with Peter Wedge (General Counsel, Testudo)

The IUA's Clauses Committee brings together wordings experts and legal counsel from across the IUA's membership. As well as publishing model IUA clauses, the group acts as a thought leader and education provider. One of the group's regular outputs is to host technical roundtable discussions with industry experts on key cross-class trends.

AI has been an increasingly prominent theme arising in each of the IUA's underwriting and claims committees. Wordings discussions remain paramount, as individual classes consider if and how their policies need to evolve. The IUA Clauses Committee continues to monitor wordings developments and support IUA committees in their discussions.

At the Committee's recent technical roundtable, IUA wordings representatives were joined by industry expert Peter Wedge, General Counsel of Testudo Global Inc. Testudo offers AI liability insurance as a Lloyd's coverholder. The session considered whether AI risks would likely be absorbed into existing policies or addressed through standalone AI coverage.

Defining AI

The rapid rise of Generative AI (Gen AI) has brought both innovation and uncertainty to the insurance industry. Innovation in the adoption of AI to improve efficiency across critical business functions. Uncertainty as to whether the novel harmful outcomes are covered by existing insurance policies.

A central theme was the challenge of defining AI, and hence AI risk. The Organisation for Economic Co-operation and Development (OECD) states that "an AI system is a machine-based system that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments¹."

Gen AI is different. It is a machine-based learning system or model that is trained on data with the ability to create content or responses, including text, images, audio, video or code. Gen AI can be described as a so-called "stochastic parrot", akin to predictive text, that can produce varied outputs from identical prompts, raising questions about reliability and liability. AI, broadly speaking, is not new. It has been around since the 1940s. But its widespread use in the form of Gen AI is new; ChatGPT for example gained 100 million users within two months of being released on 30th November 2022.

¹ [OECD Legal Instruments](#)

Regulating AI

The roundtable highlighted a key tension in global regulatory approaches to AI. Due to the perceived high-level risks of AI (such as loss of control, creation of biological weapons, use for terrorist activities) regulators are attempting to balance innovation with safeguarding society.

The EU leans heavily towards safety with the EU AI Act, while the US, at the federal level, favours innovation, perhaps because it sees itself in a global battle for AI dominance with China. At the individual US state level, safety remains the greatest focus for regulators.

With respect to product liability as applied to AI, the EU's Product Liability Directive now classifies software as a product, meaning AI developers, vendors, and deployers may be exposed to new liabilities. The UK's Law Commission is considering a similar approach. In the US, some court decisions have favoured the concept of product liability being applied to software, and hence AI.

AI risks

In October 2025, the Geneva Association conducted a study which showed that more than 90% of 600 respondents desired insurance coverage tailored to AI/Gen AI threats in the form of standalone AI coverage².

The use cases of GenAI tools are many and varied, with exceptional opportunities presented to businesses. Naturally, the risks flowing from these uses are equally wide-ranging. One particularly striking example discussed was the potential liability for a chatbot which inadvertently encouraged an individual to cause self-harm. In such a case, depending on the circumstances, strong arguments could arise as to why responsibility would fall on the developer, the vendor who sold the AI, or the deployer of the chatbot. This example underscores the complexity of liability attribution. It also raises questions about how liability flows between parties and whether subrogation is feasible or worth pursuing for the insurers of deployers, especially when vendors cap their contractual exposure and developers operate with robust legal defences.

Traditional insurance and AI

Importantly, it is acknowledged that London market cyber clauses used across many classes of insurance include a consistent definition of Computer System. This definition may be broad enough to encompass AI if it is regarded as software.

There is growing discussion regarding coverage gaps stemming from unique AI exposures. Many AI-related risks are not specifically addressed by current Cyber, Tech E&O, Product Liability, CGL policies. For

² [Gen AI Risks for Businesses: Exploring the role for insurance](#)

example, hallucinations, new ways for IP infringement, data disclosure via outputs, and AI-specific or technology-neutral regulatory non-compliance.

Effective 1 January 2026, three new ISO CGL exclusion endorsements explicitly exclude Gen AI from general liability cover to varying degrees and these are being slowly adopted by some US carriers. Many policies, especially cyber, commonly treat AI risks as ‘silent’, neither affirmatively covered nor excluded. Underwriters will be exploring if they will provide cover and, if so, how to price for these exposures, and aggregation across multiple lines remains a challenge. Anecdotally, limited examples of AI specific clauses or policy language have been seen in London market to date.

Standalone AI covers

Three specialised insurers have developed standalone AI insurance products targeting these coverage gaps. Munich Re and Armilla provide products covering a first-party performance guarantee of the model itself (which requires an invasive evaluation), whereas Testudo, launched in January 2026, covers AI liability (third-party) insurance for enterprises deploying Gen AI. Armilla also has an AI liability cover which requires a double trigger: AI underperformance leading to financial or legal claims.

AI Agents

Looking ahead, the conversation turned to the latest trends related to Gen AI, being AI agents. These are software systems that can perceive inputs, make decisions, and take actions autonomously to achieve specified goals, often by interacting with digital tools, data sources, other systems, or users. Depending on the access provided, an AI agent can plan, act, transact, and execute on a company or individual’s behalf using the LLM as a ‘brain’. These bring all the issues of Gen AI like hallucinations, plus new issues like agent misalignment where, for example, the intention of the consumer is misinterpreted, and cybersecurity risks (including prompt injection), data privacy risks, and hacking risks may flow. In the UK at least, it is likely that businesses will be responsible for the actions of their AI agents.

Summary

As AI becomes more embedded in operational processes, the insurance market will need to evolve its approach to risk assessment, policy design, and claims handling.

In conclusion, the roundtable made it clear that AI risk is a present and accelerating exposure that is already testing the limits of current insurance products and, inevitably, policy wordings. Whether addressed through standalone solutions or broadening of existing products, clarity and collaboration will be key to ensuring that insurance keeps pace with technological change.

Evie Newman (Underwriting & Claims Technician)

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