

# EIOPA'S INSIGHTS ON THE AI ACT

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AAE webinar  
17 September 2024

EIOPA INTERNAL USE

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# DIGITALISATION REPORT

## INTRODUCTION

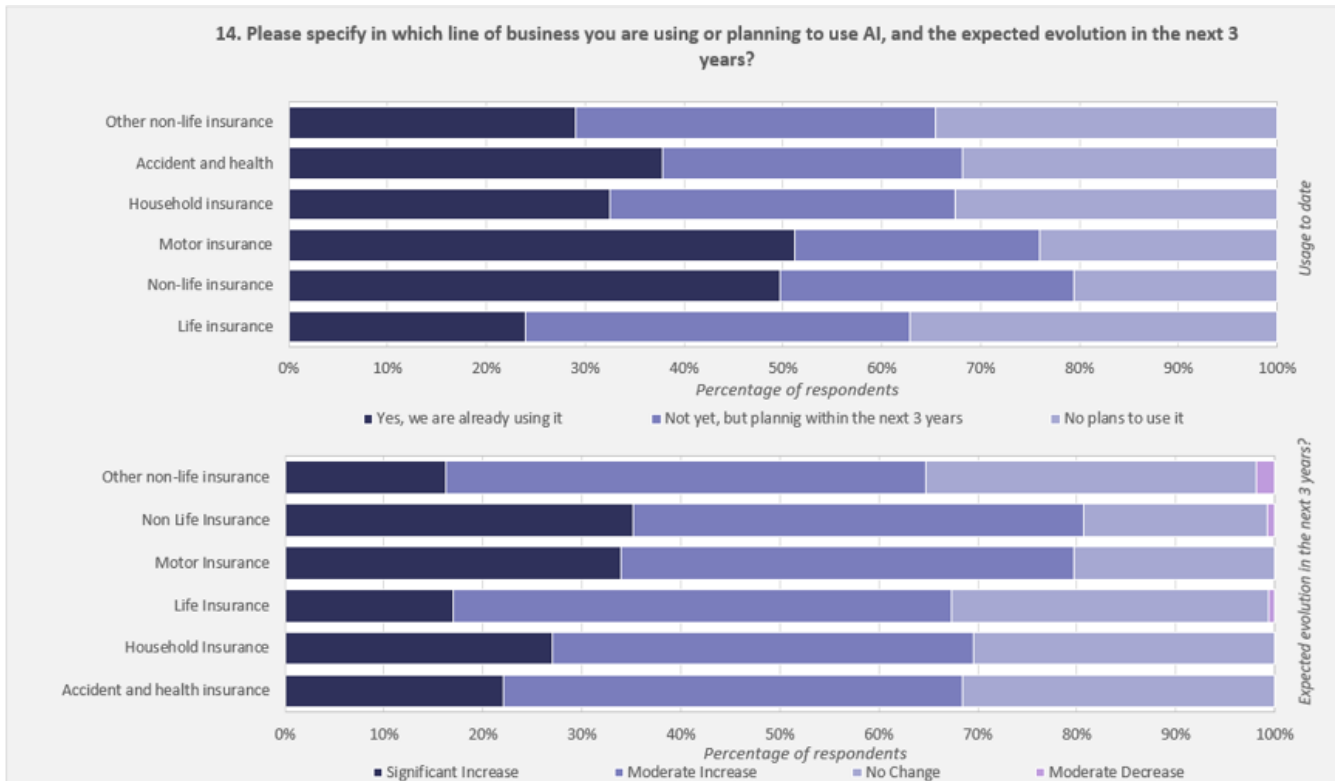
- In 2023 EIOPA issued a Digitalisation Market Monitoring Survey to gather further empirical evidence on the state-of-play of the digitalisation of the European insurance sector
- Responses: 209 undertakings from 22 EU Member States.
- Final report published in April 2024.

### REPORT ON THE DIGITALISATION OF THE EUROPEAN INSURANCE SECTOR

EIOPA-BoS-24/139  
30 April 2024

# DIGITALISATION REPORT

## CURRENT AND EXPECTED USE OF AI



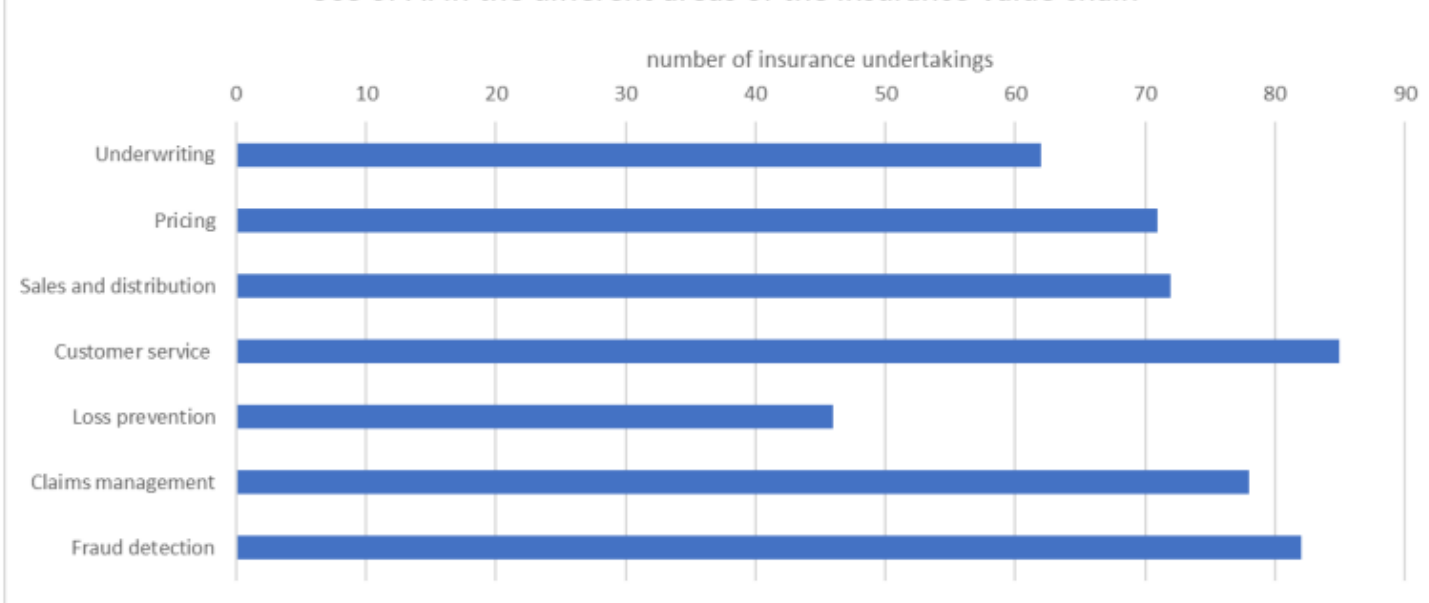
### Key takeaways:

- AI is used by **50% in non-life insurance** and by **24% in life insurance**
- The **use of AI is expected to increase significantly** in all lines of business in the next 3 years.
- The survey was launched shortly after the release of **Generative AI models such as ChatGPT**
- **AI is most often used with human oversight:** the AI model advises or supports human who makes decision - model suggests answer.
- **Acquiring adequate talents and skills** is identified as the most relevant **constraint** when implementing new technologies (e.g., AI).

# DIGITALISATION REPORT

## AI USE CASES IN INSURANCE

Use of AI in the different areas of the insurance value chain



Source: EIOPA's Digitalisation Market Monitoring survey, June 2023

### Key takeaways:

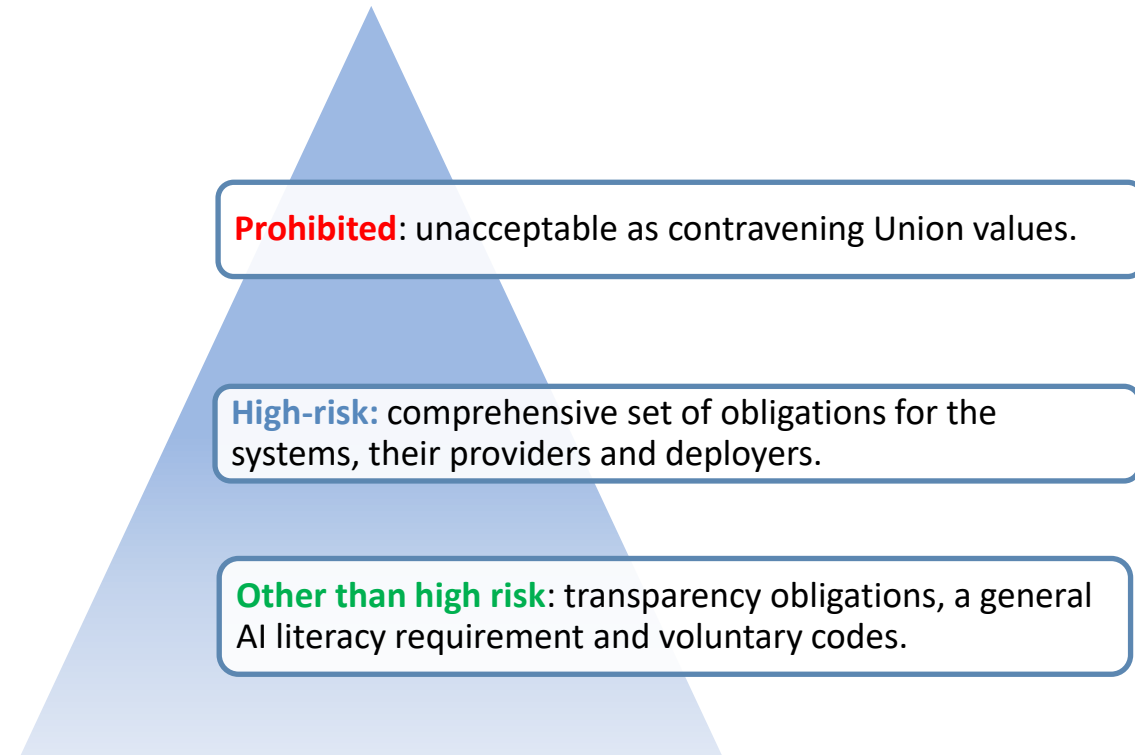
- **Pricing, claims management and sales and distribution** are the areas of the insurance value chain where AI is currently used the most.
- Most insurance undertakings **using AI do it on selected areas of the insurance value chain**, while some of them are using it throughout the complete value chain
- **Chatbots** is the most popular AI use case, and pricing is where there are a greater number of AI use cases
- **66% of the reported use cases are developed in-house**, and the remaining 34% are outsourced from 3rd party service provider



## 2. Regulatory framework: focus areas

## 2.1. AI ACT: OVERVIEW (1/3)

- ❑ **Objectives:** Promote the uptake of human centric and trustworthy artificial intelligence while ensuring a high level of **protection of health, safety, fundamental rights** (...) and to support innovation.
- ❑ **Horizontal:** applies to all applications of AI across all sectors and applications.
- ❑ **Risk based approach:** The higher the risk, the stricter the rules.
- ❑ **Shared responsibility:** Provides rights and obligations to different stakeholders in the AI value chain (e.g. providers, deployers, importers, etc).



## 2.1. AI ACT: OVERVIEW (2/3)



### Two high risk use cases in the insurance sector:

AI systems intended to be used for **risk assessment and pricing in relation to natural persons in the case of life and health insurance.**

**Prohibited:** unacceptable as contravening Union values.

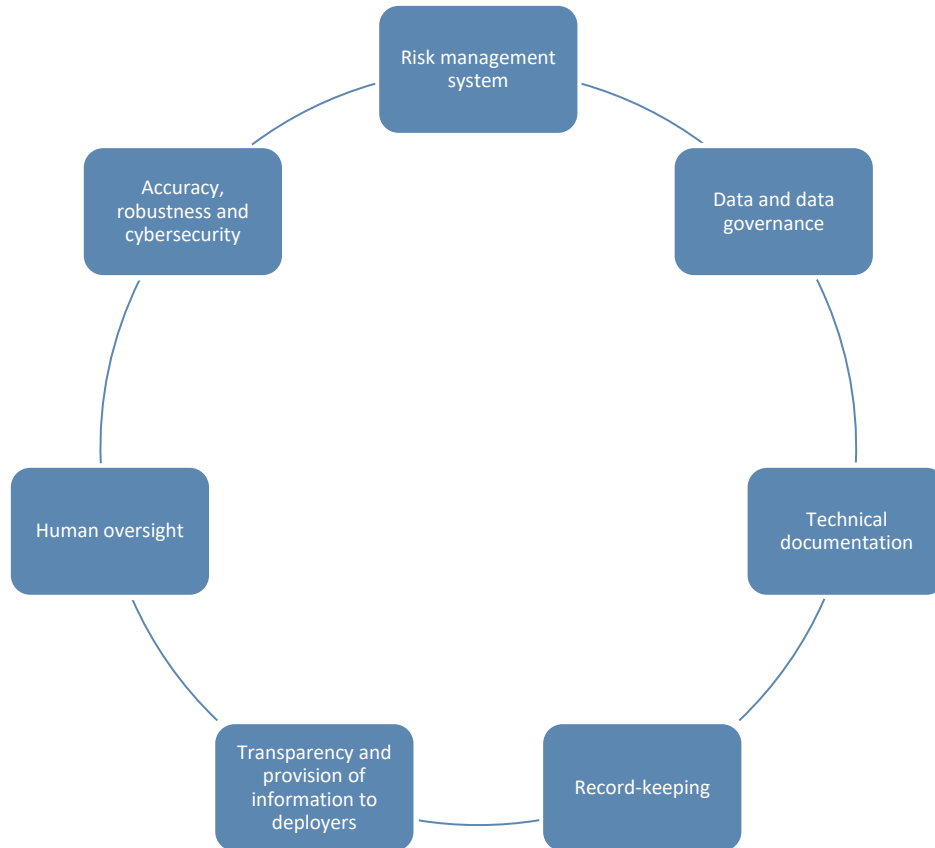
**High-risk:** comprehensive set of obligations for the AI systems, their providers and deployers.

**Other than high risk:** transparency obligations, a general AI literacy requirement and voluntary codes.



## 2.1 AI ACT: OVERVIEW (3/3)

### ❑ High-risk AI systems



### ❑ Providers of high-risk AI systems

- Ensure that AI systems comply with these obligations.
- Registration in the EU database, quality management system (including post-market monitoring), maintaining documentation, and ensuring that systems undergo a conformity assessment and affix the CE marking.

### ❑ Deployers of high-risk AI systems

- Use high-risk AI systems in accordance with the instructions
- Human oversight
- Inform and suspend the use serious incident or malfunctioning.
- Ensure that input data is relevant and keep the logs
- Conduct a fundamental rights impact assessment

## 2.2 AI SYSTEM: SCOPE OF THE DEFINITION (1/1)

### ❑ The definition of AI system (Article 3 (1) and Recital 12))

**‘AI system’** means a machine-based system that is designed to operate with varying levels of autonomy and that may exhibit adaptiveness after deployment, and 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 environments

### ❑ Are GLMs in or out of the scope?

#### ❑ Implementation work:

- Recitals clarify that the definition is not intended to cover simpler rules-based traditional software systems or programming approaches
- The Commission has been tasked with developing guidelines on the application of the AI definition (art.96.1.f).
- Evaluation and review process for the different elements of the AI Act, providing flexibility for adjustments if needed.

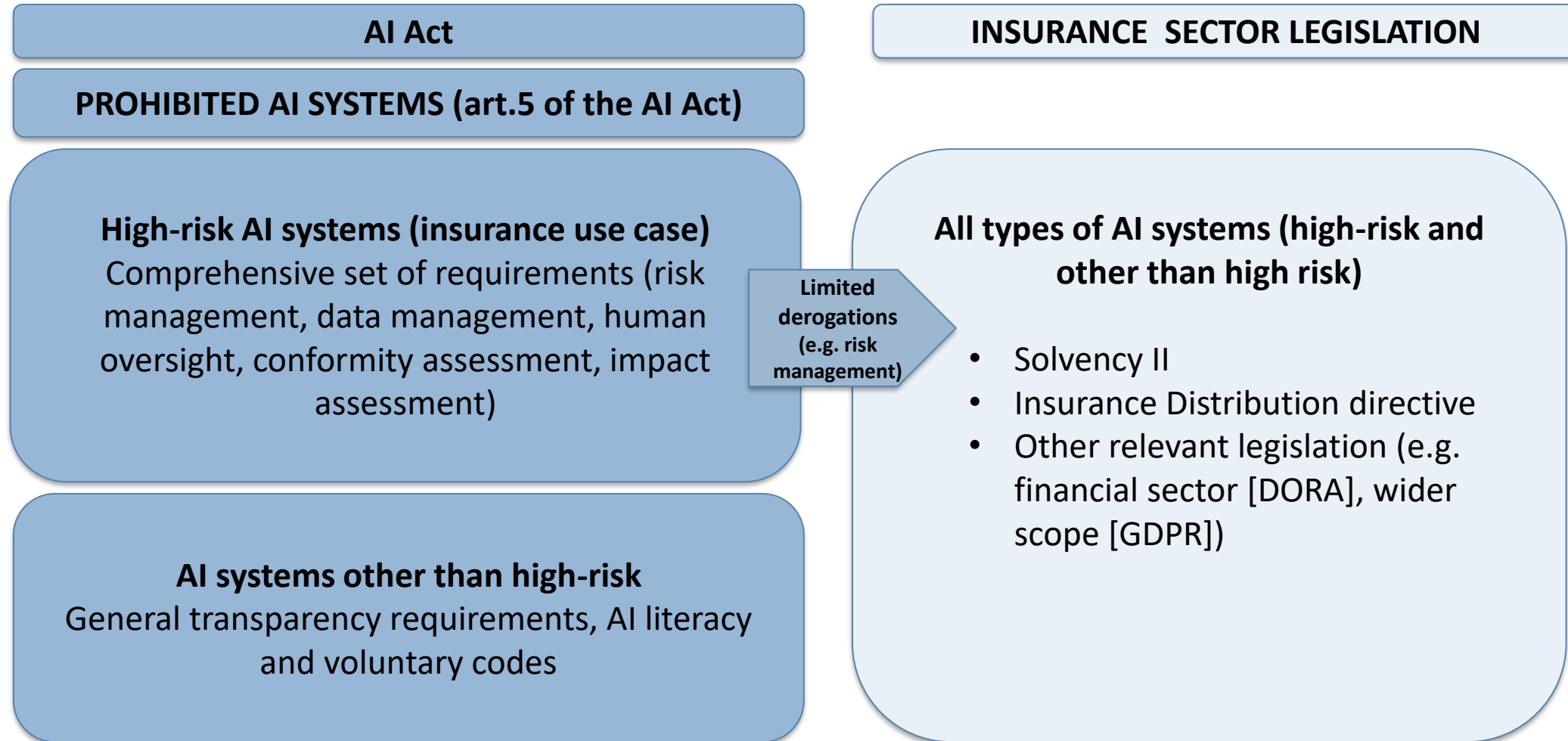
## 2.3 HIGH-RISK AI SYSTEMS: INSURANCE USE CASE (1/1)

- Two **high risk use cases in the insurance sector**:

AI systems intended to be used for **risk assessment and pricing in relation to natural persons in the case of life and health insurance.**

- AI systems for the purpose of **detecting fraud in the offering of financial services and for prudential purposes** to calculate credit institutions' and insurances undertakings' capital requirements should **not be considered as high-risk** (recital 58).
- Possibility for **exemptions** according to certain criteria, e.g., when the AI system is intended to perform a narrow procedural task or a preparatory task.
- **Implementation work**: Guidelines to be developed by the Commission (including a list of practical examples of high risk and non-high risk use cases of AI systems) by 02/2026.

## 2.4. INTERPLAY AI ACT AND INSURANCE SECTOR LEGISLATION (1/3)



## 2.4. INTERPLAY AI ACT AND INSURANCE SECTOR LEGISLATION (2/3)



#INSURANCE #AIAct

### REGULATORY FRAMEWORK APPLICABLE TO AI SYSTEMS IN THE INSURANCE SECTOR

Artificial Intelligence (AI) is expected to play a pivotal role in the ongoing digital transformation in all industries.

In the insurance sector, AI is also expected to have a substantial impact, with a growing trend towards the adoption of AI systems throughout the insurance value chain.

AI offers many opportunities for the economy and the society, but it also brings some risks.

In this context, the European Parliament and the European Council adopted the AI Act which was published in the Official Journal of the EU in July 2024. Existing regulation for insurance in Europe already applies, including to the use of new technology.

EIOPA will continue working to facilitate a smooth implementation of applicable regulations to the use of AI in the insurance sector and support national insurance supervisors in their supervisory work.

### THE AI ACT AND ITS APPLICATION IN THE INSURANCE SECTOR

- › The AI Act applies across all sectors of the economy, including insurance. It aims to ensure a high level of protection for fundamental rights, health, and safety.

15 July 2024

## 2.4. INTERPLAY AI ACT AND INSURANCE SECTOR LEGISLATION (3/3)



- ❑ **AI Act and sectoral legislation:** complementary objectives; to be applied in conjunction, ensuring alignment and consistency.
- ❑ **Mapping:** AI Act vs sectoral legislation.
- ❑ AI Act limited **derogations** for financial institutions.
- ❑ **New or more specific: requirements** (data governance - discrimination).
- ❑ **Providers (AI Act) vs Supervised Entities** (insurance sector legislation).
- ❑ **High risk AI systems vs AI systems other than high risk.**

## 2.5. AI STRATEGY ; SKILLSET AND HUMAN OVERSIGHT (1/1)

### ❑ **AI strategy a fundamental change** (EIOPA digitalisation report)

- 16% of respondents have developed a dedicated AI strategy
- An additional 56% of the expect to develop such AI strategy within the next three years.

### ❑ Need to review the **skillset and capabilities**, especially when dealing with more complex models (EIOPA digitalization report)

- **AI capabilities will be increasingly** applied to improve risk selection and pricing.
- IT experts develop the underlying technologies. However, the effective deployment of AI in actuarial tasks requires the **oversight by actuaries** themselves.
- **Human oversight** (AI Act: High risk AI systems and deployers)



### 3. Overview of EIOPA's AI Activities



# EIOPA'S PAST WORK ON AI

## MAIN ACTIVITIES IN RECENT YEARS



**2021**

- AI governance principles report developed by EIOPA's Stakeholder Group on Digital Ethics

**2022**

- Letter to co-legislators on the AI Act
- Supervisory Statement on differential pricing practices

**2023**

- AI Act negotiations monitoring and engagement
- Digitalisation Market Monitoring survey – Report published in April 2024 (survey 2023)

# EIOPA'S WORK ON AI

## ACTIVITIES IN 2024

- An **AI project group** created in EIOPA's new Digital Finance Steering Committee, with 3 workstreams:
  - AI Act: Assess the impact on the insurance sector
  - Guidance on AI: Assess the need for further guidance on the use of AI in insurance
  - Supervision of AI: Support NCAs in the supervision of AI
- **Other AI Activities:**
  - IAIS AI application paper: Promote international convergence of the application of Insurance Core Principles in the context of AI
  - Training of supervisors: EU Digital Finance Supervisory Academy
  - Monitoring market developments: e.g. dedicated calls with firms on AI in the context of the European Forums of Innovation Facilitators (EFIF)
  - Suptech: Assess the use of AI tools for supervisory purposes



**THANK YOU**