

TO BE OR NOT TO BE – AI READY

by Deepak Dastrala and Bharatan Kumar

The soliloquy is essentially all about life and death: “To be or not to be” means “To live or not to live” (or “To live or to die”). Hamlet discusses how painful and miserable human life is, and how death would be preferable, would it not be for the fearful uncertainty of what comes after death.

The soliloquy contains three main themes:

- Doubt and uncertainty
- Life and death
- Madness

Current AI revolution synonymously shares the themes of the soliloquy.

The main themes in the AI context are:

- Doubt and uncertainty
- Growth and decline
- Madness

The AI Conundrum

Artificial intelligence (AI) is polarising. It excites the futurist and engenders trepidation in the conservative. AI advances could conceivably automate everything in insurance: marketing, customer service, underwriting and claims management alike.

However, such automation challenges consumer trust, as there is considerable public and scholarly debate over the ‘black box’ character of many algorithms. Insurance being a business of trust, suggests a dilemma.

Skepticism around AI occurs because in many industries, technology hasn’t kept up with the promises of its marketing. AI and ML have become marketing buzzwords in many circles.

Companies with products that offer simple, rules-based automation are often willing to claim their products are intelligent when they aren’t. Those products can still be useful, but they aren’t delivering the impact that true AI-based solutions can provide.

In this article, you will:

- Understand some activities to generate the essential buy-in on AI from the start
- Learn about some of the technological and usage risks and limitations associated with AI
- Discover the ways to mitigate these risks in order to quell the skepticism around AI

Change Management and AI

For most AI transformations, just 30% of the effort involves technical tasks such as building a data platform and developing and improving the performance of algorithms—the tasks most people associate with AI development. A full 70% of the undertaking is focused on change management.

The best strategy is an end-to-end approach that considers change management even at the first stage when insurers are identifying and selecting their AI solutions. Strong product managers are needed who link technical and business teams. Change management must remain an integral part of the project as it continues through development and scale-up.

Below are a few activities that can be done to generate the essential buy-in for AI:

Cocreate from the start. At the proof-of-concept stage, co-creation is essential. A dedicated team embedding end users and technical contributors will secure early participation and ensure that well-defined use cases are identified to fit their needs.

Make sure AI is embedded in the right proportions for the right use cases and does not overkill the purpose. As deployment progresses, the team will kickstart a feedback loop that will iteratively improve AI effectiveness.

Explain why. The AI should provide users with a rationale when it recommends actions. Without this, they may not take the suggested step.

Employ Inclusive AI. No matter what the topic, AI is only helpful when applied judiciously by

subject-matter experts—people with long-standing experience with the problem that they are trying to solve. There is no value in AI without subject-matter expertise.

Incrementally encourage trust in the models with human touch points at the time of decision assisted by AI. Ask people if they are aware of why AI makes a recommendation before you get a thought about making it autonomous. Your teams should be able to vouch for the AI.

Make it easy. Everything must integrate with existing workflow and tools such as click-to-call or email automation. The new system must reduce, not increase, pain points.

Be flexible. The change management support must adapt to each user, reflecting that they vary significantly in their tech maturity and ability to absorb new systems. The tool should be contextually aware of the insurer's objectives, process and recommend only those actions that the user can perform.

Risk and limitations of AI

The risk associated with the adoption of AI in insurance can be separated broadly into two categories—technological and usage.

Technological risk:

data confidentiality

The main technological risk is the matter of data confidentiality. AI development has enabled the collection, storage, and processing of information on an unprecedented scale. The advent of generative AI, where the AI manipulates your data to create new content, provides an additional risk to corporate data confidentiality.

Technological risk: security

AI algorithms are the parameters that optimise the training data that gives the AI its ability to give insights. Should the parameters of an algorithm be leaked, a third party may be able to copy the model, causing economic and intellectual property loss to the owner of the model.

Additionally, should the parameters of the AI algorithm model be modified illegally by a cyber attacker, it will cause the performance deterioration of the AI model and

lead to undesirable consequences.

Technological risk: transparency

The black-box characteristic of AI systems, especially generative AI, renders the decision process of AI algorithms hard to understand. The insurance sector is a financially regulated industry driven by trust where transparency, explainability and auditability are of key importance to the regulator.

Usage risk: inaccuracy

The performance of an AI system heavily depends on the data from which it learns. If an AI system is trained on inaccurate, biased, or plagiarised data, it will provide undesirable results even if it is technically well-designed.

Usage risk: abuse

Though an AI system may be operating correctly in its analysis, decision-making, coordination, and other activities, it still has the risk of abuse. The operator use purpose, use method, use range, and so on, could be perverted or deviated, and meant to cause adverse effects.

Usage risk: over-reliance

Over-reliance on AI occurs when users start accepting incorrect AI recommendations—making errors of commission. Users have difficulty determining appropriate levels of trust because they lack awareness of what the AI can do, how well it can perform, or how it works. A corollary to this risk is the weakened skill development of the AI user.

Mitigating the AI risks

The risks posed by AI adoption highlight the need to develop a governance approach to mitigate the technical and usage risk that comes from adopting AI.

Human-centric governance

Mitigate the usage risk by using a three-pronged approach.:

- Start with a training program to create mandatory awareness for staff involved in developing, selecting, or using AI tools to ensure alignment with expectations.
- Conduct a vendor assessment scheme to assess the robustness of vendor controls and ensure appropriate transparency codified in contracts.
- Establish policy enforcement measures to set the norms, roles and accountabilities, approval processes, and maintenance guidelines across AI development lifecycles.

Technology-centric governance

To mitigate the technological risk, expand the IT governance to account for the following:

- An expanded data and system taxonomy. This is to ensure the AI model captures data inputs and usage patterns, required validations and testing cycles, and expected outputs. You should host the model on internal servers.
- A risk register, to quantify the magnitude of impact, level of vulnerability, and extent of monitoring protocols.
- An enlarged analytics and testing strategy to execute testing on a regular basis to monitor risk issues that relate to AI system inputs, outputs, and model components.

Get ready for AI

As AI technologies continue to mature and use cases expand, insurers should not shy from the technology. Instead, insurers should contribute their insurance domain expertise to the development of AI technologies. Their ability to inform input data provenance and ensure data quality will contribute towards a safe and controlled application of AI to the insurance industry.

The question insurers need to ask is: Do they want to face a competitor like this? Or do they want to be one, enjoying all the associated benefits of above-trend growth?

There is still time to be among the first insurers to seize this substantial competitive advantage—but the opportunity for first-mover advantage is narrowing.