Testimony of

Kevin Kalinich

Intangible Assets Global Collaboration Leader, Aon

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Good morning, Chairman Rounds, Ranking Member Warner, and Members of the Subcommittee:

Thank you for the opportunity to testify on this critical and timely subject. My name is Kevin Kalinich, and I serve as Intangible Assets Global Collaboration Leader at Aon, where I lead our global strategy on the identification and mitigation of emerging risks involving intangible assets—ranging from intellectual property and cyber to artificial intelligence (AI), quantum computing and autonomous systems, such as driverless cars and mobile robots.

Insurance Industry Adoption of AI

The insurance industry plays a pivotal role in enabling and shaping responsible AI adoption. Insurance does more than transfer risk; it incentivizes behavioral changes, imposes performance standards, and validates operational discipline. In fact, underwriting standards often act as a form of guardrails, setting the threshold for what is considered an acceptable risk. The insurance industry is addressing the increased demand for AI-specific coverage across a spectrum of lines of insurance, including professional liability (E&O), crime, cyber insurance, directors and officers (D&O), media liability, and general liability in some cases. AI-driven tools can expose organizations to multiple forms of liability simultaneously: Outcomes that are impermissibly biased, IP infringement through unauthorized model training data, bodily injury through malfunctioning autonomous systems, and reputational damage from AI-generated content, to name just a few. Existing statutes, litigation precedent, contractual allocation of liability, and evolving standards, such as the NIST AI Risk Management Framework, are all forms of AI guardrails.

Like many sectors, the insurance industry is working to keep pace with the speed of innovation. Many AI exposures are similar to existing perils, such as cyber and employment practices liability, so we can borrow from historical frequency and severity loss data to underwrite and encourage risk management best practices. However, actuarial models lack sufficient historical loss data to underwrite some critical AI-related exposures with confidence, such as “deepfakes” under crime policies, hallucinations under E & O policies, general/product liability with respect to autonomous robotic faults, and the potential for AI to be misused to enable the development or production of Chemical, Biological, Radiological, and Nuclear (CBRN) threats. As a result, some insurance carriers are inserting AI-related exclusions or narrowly-scoped sublimits into base policies. For example, some E&O policies now exclude claims related to decisions made “solely or materially” by algorithmic systems. Cyber policies may exclude unauthorized use of training data unless explicit consent can be demonstrated. Media liability policies are evolving to restrict coverage for content produced entirely by generative models. These gaps create uncertainty for both policyholders and regulators. To help close these gaps, insurers and brokers are creating new AI-specific policy endorsements. Such policy enhancements typically require risk-based additional premium pricing tied to the presence of documented governance controls, such as validation protocols, audit trails, bias mitigation efforts, and explainability metrics. Where these controls are strong, underwriters are more willing to extend broader terms. This creates a virtuous cycle: good governance leads to better insurability, which in turn supports innovation and consumer protection. In fact, a few cutting-edge insurance carriers have created AI-specific insurance protection, albeit with smaller limits than are sufficient for larger clients. The question is: Can the insurance industry anticipate the risk mitigation requirements to keep up with the

speed of the AI transformation? Yes, if we combine clear and predictable allocation of legal liability with the growing use of AI-based Bayesian frequency and severity actuarial modelling by the insurance industry to expedite more accurate, complete, and in-context underwriting. The risk models cannot be static for LLMs that are not static.

Emerging Risks from AI

While AI is already delivering gains in productivity, decision-making, and customer engagement across many industries, the risk landscape is dynamic and fluid. Ranging from large language model hallucinations, AI cyber attacks and deepfakes to intellectual property infringement , data leakage, AI "Washing" and robotic faults, Stanford's 2025 AI Index Report cited a 56% year-over-year increase in AI-related incidents, underscoring the need for comprehensive safeguards. At Aon, we address these challenges using our proprietary Cyber, Property, Casualty and Directors' & Officers' risk analyzers to map the frequency and severity of AI-related events across sectors. Through these lenses, we help clients implement a range of best practices, including maintaining an AI model inventory, quantifying exposures through scenario modeling, conducting end-to-end AI system audits, performing third-party vendor due diligence, implementing bias detection and validation testing, defining contractual indemnities, and appointing dedicated governance leads for AI deployment. These practices help translate risk into measurable risk mitigation action. For example, Aon recently launched its Data Center Lifecycle Program to help clients manage risk and deliver cloud and AI infrastructure faster. Furthermore, technology innovation risk management history reflects that where AI governance is appropriately robust, growth and adoption are stronger and faster — not weaker and slower.

We are also seeing the emergence of, and reliance on, agentic AI: systems that not only generate outputs, but autonomously execute tasks based on goals set by users. These systems are already booking travel, placing digital ads, writing code, and executing financial transactions with minimal human oversight. From a risk perspective, agentic AI collapses traditional chains of accountability. If an autonomous agent makes a mistake—procures restricted materials, violates trade rules, or deploys inaccurate financial recommendations--who is responsible? The software developer? The enterprise that enabled it? The individual who set the parameters? These blurred lines of liability create uncertainty for insurers. Traditional policies were not designed to accommodate risk transfer in a world where machines initiate action independently and in real-time.

National Policy for Insuring AI

AI experts see a varied potential range of AI frequency and severity losses. The "AI 2027" white paper posits a range of scenarios involving AI systems surpassing human-level intelligence, and actions by policymakers determining whether the consequences are catastrophic. Geoffrey Hinton, the 2024 Physics Nobel Prize Winner "for foundational discoveries and inventions that enable machine learning with artificial neural networks," sees two main future possibilities for the relationship between humans and AIs: either AIs take over and humanity goes extinct, or humanity successfully learns to live with superintelligent AIs and greatly improves healthcare, productivity, the economy and standards of living. Sam Altman, CEO of OpenAI, recently warned the Federal Reserve that AI could disrupt labor markets and economic stability faster than institutions are equipped to address. He likened the pace and breadth of potential upheaval to globalization but compressed into a timeframe of months instead of decades. This is not just a macroeconomic concern. It is an insurability concern. Traditional insurance relies on

uncorrelated, diversifiable risk pools and predictive loss modeling. If AI-induced dislocation becomes systemic—triggering job losses, capital market volatility, and cascading liability claims—insurers may find themselves facing unquantifiable aggregate exposures. These correlated risks are difficult to price, underwrite, and reinsure using existing structures.

Sound public policy should provide clarity while fostering innovation. The “SAFETY Act” was enacted by Congress in 2002 (with Aon advising the Department of Homeland Security with respect to insurance issues) to encourage the development and deployment of anti-terrorism technologies in the wake of 9/11. The Act provides liability protections for companies that develop and sell technologies designed to combat terrorism, reducing the risk of lawsuits related to those technologies. Contrast such incentive-based government actions with the European Union AI Act, which critics argue may stifle AI innovation, providers and deployment due to overburdening regulations, compliance and penalties.

A coordinated, whole-of-government approach to regulation is needed, which combines thoughtful state-based solutions with overall consistent predictability on a national level. For example, The National Association of Insurance Commissioners (NAIC) adopted the Model Bulletin on the Use of Artificial Intelligence (AI) Systems by Insurers in December 2023, which has been adopted by over half of the states. This bulletin aims to provide guidance and promote a consistent regulatory approach to the responsible use of AI within the insurance industry. We suggest that the affirmative safety principles set forth in the NAIC Model Bulletin should be part of the national framework.

The White House "America's AI Action Plan," released last week, highlights and recognizes the benefits of a comprehensive strategy to bolster the US's leadership in artificial intelligence. The plan recognizes the urgency to accelerate innovation, build AI infrastructure, and lead in international diplomacy and security, all while acknowledging the need to address potential risks and promote trustworthy AI. Algorithmic risks transcend borders, and fragmented regulatory regimes may introduce confusion or drive investment offshore. National standards can give companies confidence, while leaving room for states to continue serving as laboratories for innovation. Regulatory clarity builds trust which, in turn, accelerates growth. I shared some of these insights with the Federal Insurance office at their AI advisory meeting at the end of 2024.

Legislation like Senator Rounds’ AI package, Senator Lummis’ AI Bill, which requires AI firms to disclose technical documents with incentives similar to the SAFETY Act mentioned above, and other bipartisan efforts could help build the right architecture for safe AI deployment. Additionally, the bill introduced by Senators Warner and Tillis – the Secure AI Act – is another example of legislation that generates the type of feedback needed to help policymakers grapple with the multitude of policy angles and challenges that AI presents. For Aon and our clients, we welcome public policy that will ensure that liability frameworks are clear, that insurance markets remain viable, and that developers and end-users alike can act with confidence.

Aon remains deeply committed to collaborating with clients, regulators, and policymakers to build AI systems that are not only transformative, but trustworthy. We encourage lawmakers to create a national, principles-based framework for AI regulation, and we support AI-specific insurance innovation through model legislation in the states or regulatory sandboxes. This will help companies like Aon establish for clients minimum risk governance baselines such as inventorying AI tools, assigning ownership and auditing performance; promoting transparency in model inputs and outputs to enable effective underwriting and regulatory supervision; advancing transnational coordination to align incentives and reduce compliance complexity; and supporting education and certification in AI ethics and governance, especially at the board and executive

levels. In effect, we need to predictively calibrate our thinking and actions around what it means to design and implement AI regulatory structures. In some ways we should consider the behaviors and mindsets of the disruptive innovator driving the enhanced AI ecosystem, knowing that with each regulatory iteration, a new risk will present itself. The challenge is to build structures today that account for that arc of maturity and risk.

At Aon, we believe that with appropriate guardrails, AI can unlock unprecedented value for humanity —enhancing resilience, accelerating innovation, and improving outcomes across industries. Let's work together to ensure AI becomes not just a technological breakthrough—but a force for good, guided by insight, trust, and shared responsibility. Thank you again for the opportunity to share Aon's perspective.