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Auditing a Digital Insurance World: Artificial Intelligence and Machine Learning audits within Insurance Firms

Internal auditors and insurance companies are still looking for best practices in dealing with the risks and benefits associated with Artificial Intelligence (AI). This position paper elaborates on the progress and relevance of AI within the European insurance industry, the upcoming legislation and risk response. This is supported by a survey which provides the perspective from the Three Lines and their current state of readiness to manage the risks related to AI.

We then provide suggestions to Internal Audit for a solid audit response on AI, to help the insurance industry prepare for 'trustworthy AI' and future legislation. The AI act is in final discussions at the European Parliament.

An online survey was created to assess data and covered over 80 entities. Out of the total, 28 belong to the Insurance industry and are the reference throughout the paper. Moreover, to facilitate comparisons and avoid scale issues, the companies were clustered into small, medium and large.

The Internal Audit function can play a vital role in minimizing AI risks by advising on risk mitigation, reviewing potential biases, and ensuring compliance with relevant laws and regulations. Their involvement should begin from the onset of AI implementations, and follow a top-down approach, starting with auditing the AI strategy and governance, then testing individual instances, algorithms, and models. A multidisciplinary audit team including IT, data science, business audit, and ethics professionals can help ensure thorough assessments.

The paper closes with a proposal for an AI audit program to identify and test the key AI-related risks, root causes, and testing strategies, across seven different areas:

1. Strategy & Governance
2. Legal & Compliance
3. Developments of AI systems
4. Operations Management for AI systems
5. Security & Data Protection
6. Human Capital
7. Sustainability.





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About ECIIA

The ECIIA is the voice of internal audit in Europe. Our role is to enhance corporate governance through the promotion of the professional practice of internal auditing. Our members comprise 34 national institutes of internal auditing from countries that fall within the wider European region, representing 55 000 members. The ECIIA mission is to further the development of good Corporate Governance and Internal Audit at the European level, through knowledge sharing, developing key relationships, and impacting the regulatory environment, by dealing with the European Union, its Parliament and any other European regulators and associations representing key stakeholders.

About the ECIIA Insurance Committee

ECIIA set up an Insurance Committee, in 2012 with Chief Audit Executives of the largest European Insurance companies. The mission of the ECIIA Insurance Committee is: *“To be the consolidated voice on behalf of the profession of Internal Audit in the Insurance sector in Europe by representing and developing the Internal Audit profession as part of good corporate governance, achieving thought leadership through publications on relevant topics and by interacting with the Regulators, as required, and any other appropriate institutions of influence at European level”*. ECIIA represents around 55.000 internal auditors and around 13.000 are active in the insurance sector. The paper describes the results of a survey and discussions amongst the Committee members and was prepared by a dedicated workgroup with representatives of large Insurance Companies in Europe.

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