

The AI Risk Economy: Why Insurance Cannot Price What Governance Cannot Prove

Basil C. Puglisi, MPA | Working Paper | May 2026 | Working paper. Not legal, actuarial, or insurance advice.

THE PROBLEM

Economic incentives often override safety, ethical, and governance considerations when no countervailing enforcement mechanism exists. Legislation moves slowly. Voluntary commitments lack enforcement. Insurance markets can create economic counterpressure faster because they operate at the point of contract renewal and impose direct financial consequences.

THE CENTRAL FINDING

No published empirical actuarial study quantifies AI governance maturity as a pricing factor for liability insurance. Carriers are excluding and conditionally covering AI risk based on governance signals, but the actuarial data that would validate governance-linked pricing does not yet exist.

WHAT THE MARKET IS DOING (AS OF MAY 2026)

| Signal | Evidence |
|--------------------------------|--|
| Exclusion endorsements | 7 carriers identified, with mixed primary and secondary verification, as filing or adopting AI exclusion language since June 2024 |
| Affirmative AI products | 7 providers, 8 distinct products across liability, warranty, endorsement, and multiline |
| Regulatory adoption | 24 states plus D.C. adopted NAIC AI Model Bulletin; EU PLD transposition due by December 9, 2026 |
| Governance-linked underwriting | ISO/IEC 42001 certification, via A-LIGN/Armillia partnership, linked to potential preferential terms at a Lloyd's coverholder; governance documentation emerging as non-universal underwriting input |

THE FIVE-TIER MODEL

The paper proposes a five-tier insurance maturity model, as one analytical lens rather than a market standard, mapping where an organization falls on the spectrum from excluded to insurable:

| Tier | Name | Key Characteristic | Insurance Profile |
|------|-----------------------|--|--|
| 1 | No AI Policy | No awareness, no controls | Potentially excluded |
| 2 | Ethical AI | Published principles, no enforcement | Principles alone do not answer audit |
| 3 | Responsible AI | Technical controls without named checkpoint accountability | Traceability without named human authority |
| 4 | AI Governance | Named human checkpoint authority | Verifiable decision trail |
| 5 | AI Governance + Audit | Portable, auditable project records | Strongest insurance profile |

WHAT THIS MEANS FOR YOUR ORGANIZATION

The paper distills these emerging underwriting signals into a six-variable governance declaration, a way to express AI risk posture in six concrete questions. Organizations deploying AI without governance documentation face a narrowing coverage market. The 2026 and 2027 renewal cycles will arrive with fewer options for organizations that cannot answer: What AI is deployed? What breaks if it fails? How are errors reduced? Who reviews output? Is there an audit trail? What AI operates outside visibility?

Companies that build governance evidence now position themselves on the insurable side of the divide the market is creating.

READ THE FULL PAPER

Website: basilpuglisi.com/ai-risk-economy-insurance-governance SSRN: Abstract ID 6823580 (pending)

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