ARIZONA DEPARTMENT OF INSURANCE & FINANCIAL INSTITUTIONS

Arizona Department of Insurance and Financial Institutions
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NOTICE OF THE OPPORTUNITY TO COMMENT

Pursuant to Arizona Revised Statutes ("A.R.S") §§ 41-1001(24) and 41-1091, the Arizona Department of Insurance and Financial Institutions ("Department") issues Substantive Policy Statements ("Bulletins") to provide guidance to the industry on requirements under Arizona law. Bulletins are advisory-only and intended to promote a level playing field and provide regulatory certainty by uniform application of regulatory provisions.

While Arizona law does not require prior notice or public comment before issuing a Bulletin, pertinent legal and policy considerations may enhance the Bulletin. In such instances, the Department may request public comment on the subject of a Bulletin.

Topic for Comment

The Department is considering adoption of a Bulletin regarding the insurance industry's use of Artificial Intelligence ("AI") Systems.

The Bulletin is intended to inform the industry on how the Department will ensure that insurers' practices in using AI systems comply with Arizona insurance laws. The Bulletin will discuss the Department's expectations for developing and implementing AI systems.

The Department invites interested parties to submit comments prior to the final publication of the Bulletin. The Department is particularly interested in comments from insurers related to their use of AI systems and their approach to ensuring compliance with Arizona laws.

Instructions

Clearly state and support comments and proposed amendments to the Bulletin (draft attached below) in response to this Notice. When submitting comments, reference "Draft AI Bulletin" in the subject line, if submitted by email, or in the heading of any mailed document to ensure that your comments are considered.

The Department will consider all timely submitted comments but cannot commit to incorporating any individual comment into the Bulletin.

Interested parties should submit comments before the close of business on **October 9, 2026**.

Comments may be submitted by email at public_comments@difi.az.gov or delivered on or before the above date to: Department of Insurance and Financial Institutions, Attention: Enforcement,

Innovation, and Regulatory Policy Division, 100 North 15th Avenue, Suite 261, Phoenix, AZ, 85007-2630.

Draft AI Bulletin (INS)

The Use of Artificial Intelligence Systems in Insurance

Pursuant to Arizona Revised Statutes ("A.R.S.") §§ 41-1001(24) and 41-1091, the Arizona Department of Insurance and Financial Institutions ("Department") issues this Substantive Policy Statement ("Bulletin") to provide guidance regarding the use of artificial intelligence in insurance.

1. **Purpose**

The Department issues this Bulletin to provide a level playing field for this regulated industry and emphasize that insurer decisions impacting Arizona consumers must comply with all applicable insurance laws and regulations, including laws that address unfair trade practices and unfair discrimination. **This Bulletin outlines the Department's expectations regarding how insurers will govern the use of artificial intelligence and advises insurers of the type of information and documentation the Department may request during an investigation or examination of an insurer regarding its use of artificial intelligence.** There is no new policy in this Bulletin. It merely clarifies that existing laws and rules apply to emerging technologies.

2. **Scope**

This Bulletin applies to all DIFI-regulated entities that engage in the business of insurance in Arizona.

3. **Background**

Artificial intelligence techniques are being deployed across all functions of the insurance business, including product development, marketing, sales and distribution, underwriting and pricing, policy servicing, claim management, and fraud detection.

The use of artificial intelligence makes sense. It has the potential to facilitate the development of innovative products, improve consumer interactions and service, simplify and automate processes, and promote efficiency and accuracy. However, in the absence of proper controls, artificial intelligence poses the risk of inaccurate, arbitrary, capricious, or unfairly discriminatory outcomes for consumers.

4. **Department Position**

The Department expects insurers to develop, implement and maintain a documented program for the responsible use of artificial intelligence in making or supporting decisions related to insurance practices. The program should be designed to ensure compliance with applicable federal and state laws and regulations and mitigate the risk of adverse consumer outcomes. Decisions made or supported through an insurer's use of artificial intelligence are subject to the Department's examination authority.

The regulatory expectations and oversight considerations set forth in this Bulletin rely primarily on the following laws and regulations:

The Unfair Trade Practices Act, A.R.S. §§ 20-442, *et. seq*., which prohibits practices that constitute unfair methods of competition or unfair or deceptive acts and practices.

- The Unfair Claims Settlement Practices Act, A.R.S. § 20-461, *et. seq*., which sets forth standards for the investigation and disposition of claims.

- The corporate governance laws, A.R.S. §§ 20-492.01 *et. seq*., and rule, Arizona Administrative Code (AAC) R20-6-310, which require insurers to report on governance structure, policies, and practices. These requirements apply to elements of the insurer's corporate governance framework that address the insurer's use of artificial intelligence to support decisions impacting consumers.

- The property and casualty insurance rating laws, A.R.S. §§ 20-341, *et. seq*., which prohibit excessive, inadequate or unfairly discriminatory insurance rates, regardless of the methodology the insurer used to develop rates, rating rules, and rating plans.

- The market conduct surveillance laws, A.R.S. §§ 20-156, *et. seq*., which establish the framework for the Department's market conduct actions, including assessing and addressing the market practices of insurers, beginning with market analysis and extending to targeted examinations. Market conduct actions are separate from, but may result from, consumer complaints. An insurer's use of artificial intelligence systems to make or support decisions that impact consumers is subject to investigation, including market conduct actions.

Decisions subject to regulatory oversight made by insurers using artificial intelligence must comply with these legal standards, which, at a minimum, dictate that decisions are not inaccurate, arbitrary, capricious, or unfairly discriminatory. Compliance with these standards is required regardless of the tools and methods insurers use to make decisions.

The Department expects insurers to comply with the following guidance and expectations:

- Because any technology without appropriate guardrails and oversight has the potential to increase the risk of inaccurate, arbitrary or unfairly discriminatory outcomes for consumers, it is important that insurers adopt and implement controls.

- If an insurer uses artificial intelligence to make a consequential decision, the Department expects a person to review and agree with the decision before action is taken.

- The Department recognizes that robust governance, risk management controls, and internal audit functions play an important role in reducing the risk that artificial intelligence-driven decisions will violate the law.

- The Department encourages the development and use of verification and testing methods to identify errors and bias in the use of artificial intelligence.

- The Department will review the use of artificial intelligence through examinations and product filings and investigate consumer complaints regarding the use of artificial intelligence. Insurers using AI should be able to furnish procedures and protections upon request by the Department.

- Insurers should expect the Department's monitoring and investigation of artificial intelligence-related issues to include inquiries concerning governance framework, risk management, data and privacy protections, and internal controls. In addition to conducting a review of any of the items listed in this Bulletin, the Department may also ask questions regarding any specific use of artificial intelligence.

- As in all cases, investigations and market conduct actions may be performed using procedures that vary in nature, extent, and timing in accordance with regulatory judgment. Work performed may include inquiry, examination of company documentation, or a range of other market actions. These activities may involve the use of contracted specialists with relevant subject matter expertise.

The controls and processes that an insurer adopts and implements as part of its artificial intelligence program should be reflective of, and commensurate with, the insurer's own assessment of the degree and nature of risk posed to consumers by the artificial intelligence it uses, considering: (i) the nature of the decisions being made, informed, or supported using artificial intelligence; (ii) the type and degree of potential harm to consumers resulting from the use of artificial intelligence; (iii) the extent to which humans are involved in the final decision-making process; (iv) the transparency and explainability of outcomes to the impacted consumer; and (v) the extent and scope of the insurer's use or reliance on artificial intelligence systems from third parties.

The Department recognizes that insurers may demonstrate their compliance with the laws that regulate their conduct in the state in their use of AI systems through alternative means, including through practices that differ from those described in this Bulletin. The goal of the Bulletin is not to prescribe specific practices or documentation requirements. Rather, the goal is to ensure that insurers in the state are aware of the Department's expectations as to how artificial intelligence will be governed and managed and of the kinds of information and documents about an insurer's artificial intelligence systems that the Department expects an insurer to produce when requested.

5. Conclusion

Decisions subject to regulatory oversight made by insurers using artificial intelligence must comply with the legal standards that apply to those decisions. Legal compliance is required regardless of the tools and methods used to make decisions. Insurers should implement appropriate controls to ensure their AI systems comply with the law.