Value Momentum

The History of

AI in Insurance

And Where It's Headed

The History of AI in Insurance and Where It's Headed

by

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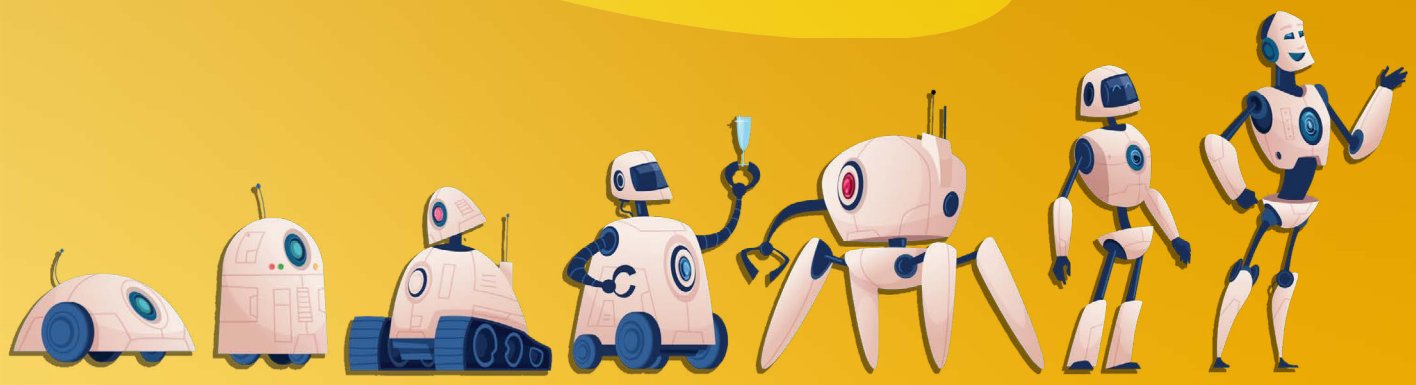


GenAI has been the main topic of discussion across all industries for almost two years. But where did AI start, and what does its continued evolution mean for today?

Artificial intelligence (AI) has been hyped, shelved, and resurrected countless times. Terms like "AI Winter" and "AI Boom" get tossed around like they're part of some dystopian weather forecast, but knowing what they really mean requires diving into the history of AI and how it has fit into the world of insurance.

More importantly, learning about AI's ups and downs can help insurers understand how this technology has finally found its place in our industry. This e-book takes you on a journey through AI's evolution to explore how it went from an academic curiosity to a cornerstone of modern insurance — and where the future of AI in insurance is headed.

The Birth of AI in Insurance: Ambition Meets Reality (1950s-1960s)

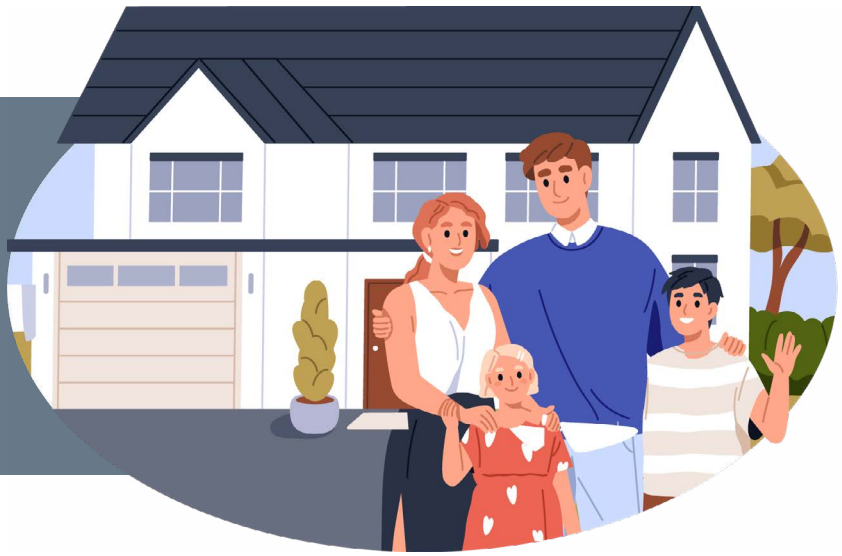
In the 1950s, while public attention was focused on "The Lion, The Witch, and The Wardrobe"; a new thing called television (with advertisements now!); and the Korean War, Alan Turing was asking himself a question that would fuel decades of innovation: Can machines think? The now-famous Turing Test, published in a 1950 paper, is when the concept of machines thinking officially stepped into the limelight. In 1956, John McCarthy coined the term artificial intelligence, and AI was born.

Early AI programs, like Logic Theorist and General Problem Solver, tried to model human thinking using logic and rules. But while these systems excelled at solving theoretical problems, their real-world applications were limited. They weren't ready to handle an insurance claim anytime soon, for instance.

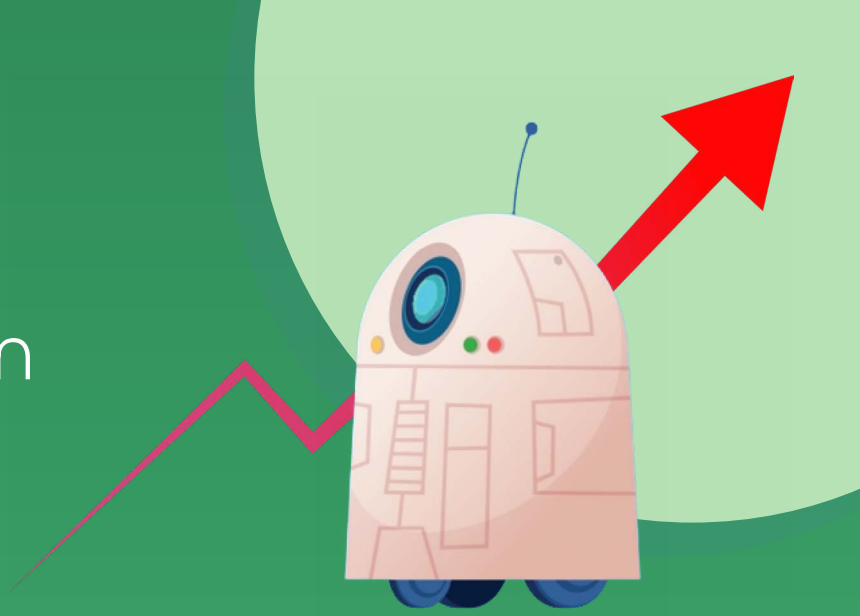
Given this lack of use case, the insurance industry of the era didn't give AI much thought. Why would it? AI research was focused on proving machines could think logically. Meanwhile, insurers were busy focusing on traditional, people-powered processes like risk assessment and claims.

There was some innovation happening, however. Restrictions on multi-line underwriting were lifted, allowing insurers to specialize in multiple products. And the same year as the advent of the Turing Test, the Insurance Company of North America (INA) created the first homeowners policy, covering factors including fire, theft, and liability, which previously had to be purchased through separate policies.

While AI didn't attract much attention from the insurance industry during this period, other innovations were still occuring, including the creation of the first homeowners policy in 1950.



The First AI Boom: Hope on the Horizon



As the '60s gave way to the '70s, expert systems emerged. These were early attempts to mimic human decision-making in specialized areas, rooted in the idea that if enough rules were crammed into a system, it could solve complex problems like a human expert.

But these rule-based systems weren't flexible enough to deal with the messy, unpredictable nature of real-world data. Insurers quickly found out that while expert systems could handle straightforward cases, they fell apart when faced with edge cases — the kind of anomalies that insurance deals with daily.

In insurance, AI was still more of an experimental tool to play around with than a technology to rely on. But this experimentation yielded some lasting results. The National Flood Insurance Program (NFIP) was established in 1968 to provide flood insurance, to improve floodplain management, and to develop maps of flood hazard zones. The NFIP is still around today, providing affordable flood insurance to those in risky areas.

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