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INTELLIGENCE

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Managing Use of AI by Service Providers

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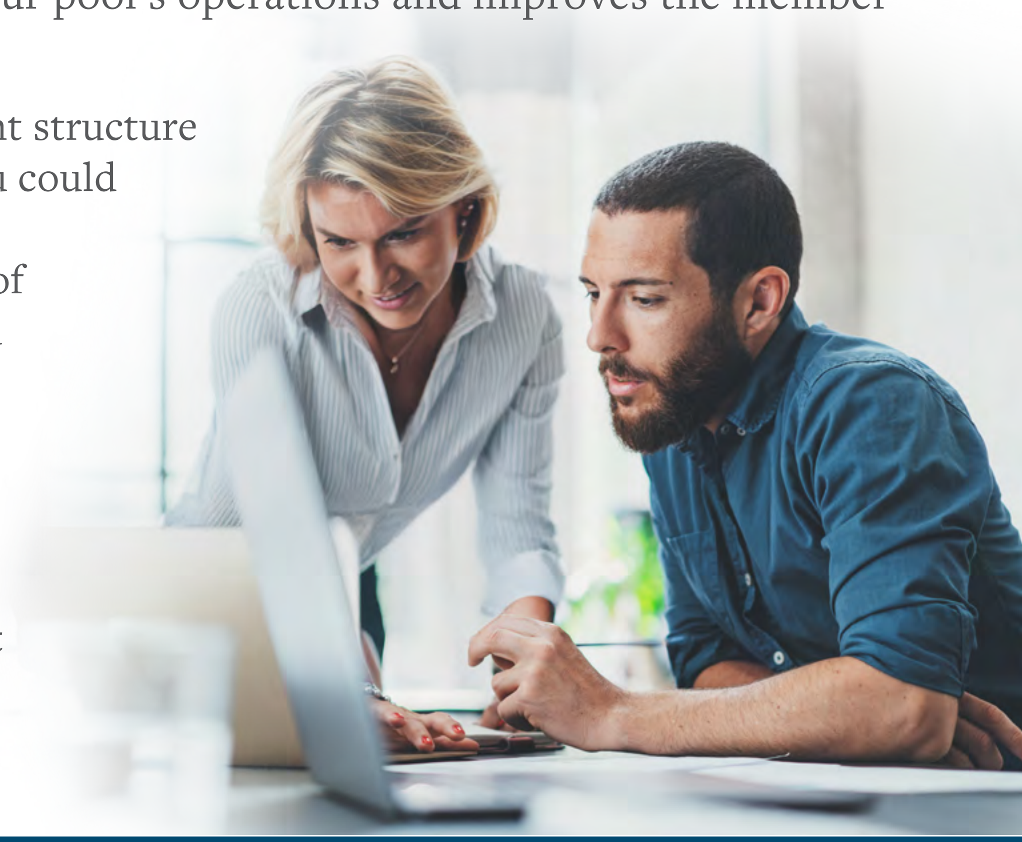
Pools have long relied on robust networks of service providers, from actuaries and investment consultants to financial and claims auditors, third-party administrators, reinsurance brokers, benefits enrollment services and many more. Each business partner introduces new capabilities, recalibrates your pool's operations and improves the member experience you offer.

No matter your pool's current structure and strength, the truth is you could not have reached this point without the dedicated work of service providers — past and present. **As we look to the future of AI, we'll once again work closely with service providers making early investments and experimenting in ways that will benefit pooling.**



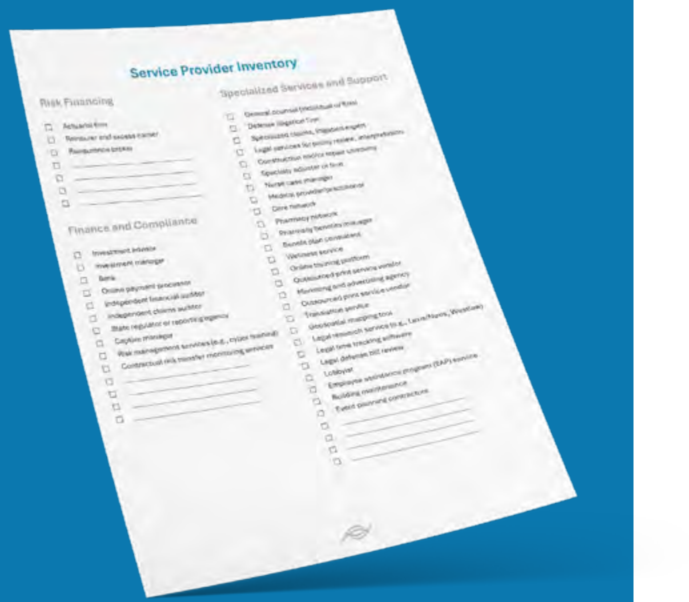
But according to a survey we conducted earlier this year, only one percent of pools has inventoried the ways their service providers use AI. As a result, potential risks and valuable opportunities are being missed — a situation that helps no pool.

Protect Pool Data

Data protection must be a top priority for every pool. Reliance on third-party providers brings complex responsibility for pool-sourced data in AI-enabled systems.

Your pool's most sensitive and mission-critical data flows through service provider systems — for example, enrollment lists, medical and pharmacy claims, member contact information, financial transactions, property valuations and litigation files. Such systems extend beyond your direct oversight yet continuously collect, analyze and store sensitive details.

Given the long and sustained membership in many pools, data isn't just sensitive; it's also incredibly valuable. Data considerations were lower stakes when generating insights was a labor-intensive process and machine learning



Service Provider Inventory

Risk Financing

Specialized Services and Support

Finance and Compliance

Service Provider AI Checklist

Download our Service Provider AI Checklist as an internal reference to evaluate AI-related risks and requirements for every service provider your pool uses. Consult the checklist during selection, contracting, compliance reviews and ongoing management.

AI affects every function of pooling, so assess service provider relationships such as:

- Reinsurance brokers
- Investment advisors and managers
- Legal services for policy reviews
- Third-party claims administrators
- Pool management services
- Policy, underwriting, claims and enrollment systems

By collaborating with service providers to understand AI's impact and shape our shared future, we ensure pooling's continued success.

Can pool data be used to train a service provider's AI model for the benefit of its other clients or customers?

was less prevalent. In today's AI environment, pools must consider and protect data ownership, control and privacy.

For example:

- Who owns and can use insights generated from pool data sources within contracted AI systems?
- Can your service provider blend pool data with other data sources under its control (and does your answer change if no data can be traced back to your pool or any of its members)?
- Can pool data be used to train a service provider's AI model for the benefit of its other clients or customers?

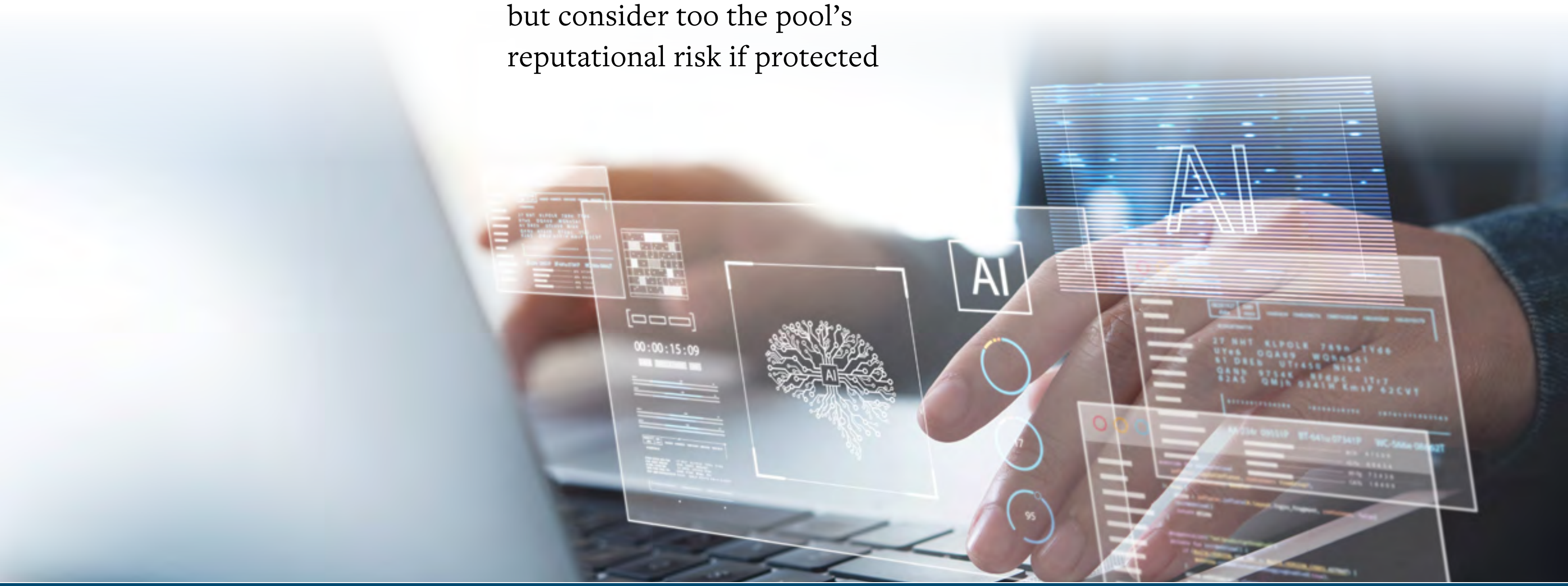
These questions become even more challenging when pool data includes personal, proprietary or confidential information. Whether the pool or its service provider is legally obligated to protect such information is a baseline question, but consider too the pool's reputational risk if protected information it holds is accessed or misappropriated.

As data dynamics grow more complex, the next step is clear: pools must understand how each service provider uses AI. A proactive review process helps identify risks before they surface, clarify accountabilities and ensure your pool's data remain protected across every partnership.

Assess Service Provider AI Use

A systematic approach to talking with service providers helps pools ask the right questions and evaluate risks and benefits. Don't wait until a service provider introduces specific AI initiatives. This is a risk mitigation effort to undertake right now.

Use the following eight areas when reviewing existing and new service provider relationships and agreements.



General AI Use and Transparency

Begin by seeking clarity on definitions and practices. Some service providers refer to machine learning or advanced automation without distinctly labeling it "AI."

ASK:

- How do you distinguish AI from conventional automation in your services?
- Where does machine learning, predictive modeling or automated decision-making influence your service delivery?
- Do third-party platforms or subcontractors embedded in your work employ AI?

Request a full inventory of all AI systems deployed across internal and external platforms. Ask about specific future plans for AI enablement.

Data Handling and Privacy

AI makes use of robust datasets. Your pool's data deserves careful stewardship.

ASK:

- Which categories of our pool's data do your AI systems use?
- Do you use pool-originated data to train models? If so, how is it protected or anonymized?
- How do you guard against unauthorized sharing, reuse or resale of our data?
- What protocols guide data deletion, return or transfer if our contract ends?

Request data flow diagrams, anonymization processes and retention policies. Clear procedures for data security, access and lifecycle bolster your pool's privacy expectations.

Security

AI systems can introduce vulnerabilities distinct from traditional IT systems.

ASK:

- How is access to your AI systems controlled, monitored and audited?
- What security assessments focus specifically on AI models and data?
- What procedures exist for responding to unauthorized system changes or breaches?
- Who manages system backups and restores functions after an incident?

Accountability should include incident response, AI-focused testing and team training. Service providers that treat AI as indistinguishable from regular IT systems warrant closer review.

Fairness, Bias and Ethical Considerations

Pools create equitable coverage and pricing for diverse memberships. AI can inadvertently reinforce biases or incorrect assumptions.

ASK:

- How do you test and monitor AI systems for biases, assumptions or unfair outcomes?
- What error types and frequencies occur in AI-driven processes?
- What procedures exist for identifying and correcting discriminatory decisions?

Seek evidence of monitoring, human oversight and adaptation processes when potentially biased results are detected.

Regulatory Compliance and Legal Considerations

AI and data privacy laws are rapidly evolving.

ASK:

- Which regulatory frameworks guide your AI work for pools like ours?
- How do you maintain compliance as requirements change?
- What notifications or reports will you provide if new mandates affect the services you provide?
- How would you respond if regulations prohibited current or planned AI uses?

Review sector-specific requirements in your jurisdiction. Request documentation of compliance programs, audits and certifications.

Explainability and Accountability

Pools must understand why AI systems make decisions — and who is accountable. Your members will hold you accountable to these standards, no matter your service provider relationships.

ASK:

- What metrics and historical performance data guide AI oversight?
- Do service level agreements capture AI reliability?
- Who is responsible for addressing AI-generated mistakes or disputes?

Providers should demonstrate the ability to monitor, explain and intervene in AI-driven decisions.

Ongoing Monitoring and Communication

AI evolves continuously. Maintaining alignment requires open and ongoing communication at every level of a service provider relationship.

ASK:

- How will you notify us about AI changes or new features impacting our relationship?
- What reporting cycles support oversight (monthly, quarterly, annually)?
- Who is our contact for urgent AI questions or disputes?
- Will you commit to transparency in audits, assessments and change management?

Assess whether partners provide timelines for AI notifications, reporting and escalation pathways.

Documentation and Evidence

Thorough documentation supports oversight, compliance and quality improvement over time.

ASK:

- Do you maintain AI governance policies and regular updates?
- Do you conduct privacy impact assessments specific to AI operations?
- Can you share security and bias testing reports?
- Do you provide audit records, performance metrics and change histories?

Request current documentation at contract renewal or major relationship changes. Limited or outdated records suggest unaddressed risk.

Build Relationships with AI Accountability and Innovation

In the near term, AI is going to pulse through pool operations — shaping claims workflows, influencing member services, driving analytics and revealing patterns unreachable at human speed. Actively managing the use of AI by service providers goes beyond compliance and risk management to empower your pool to continuously improve, adapt and serve with confidence in a changing world.

By forging collaborative, inquisitive relationships with your service providers, your pool builds resilience, nurtures innovation and strengthens trust. Lean into the opportunity to ask questions, thoroughly document answers and revisit these issues as AI technologies, privacy rules and expectations evolve.

Take These Practical Steps Today

- Schedule AI reviews with core business partners, using our checklist as a guide.
- Involve legal counsel to ensure contracts specify transparency, risk management and deliverables.
- Add AI-related questions to compliance reviews and procurement cycles.
- Create a calendar for regular check-ins to assess new technologies being implemented, regulations and best practices.

About the Author

Ann Gergen oversees operations, governance functions and member service delivery for the Association of Governmental Risk Pools. She routinely communicates and collaborates with the more than 200 pools that participate in AGRiP and their service providers. Ann has more than 30 years of direct public sector experience in local government management, emergency services, risk management, primary and reinsurance claims and pooled insurance services. She is a recognized resource in strategic management and operations of public entity pools.