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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

AI Tools Spark Debate Over Insurance Policy Interpretation

By **Abraham Gross**

Law360 (August 21, 2025, 9:53 PM EDT) -- An artificial intelligence tool drafts an insurance policy and makes a note of potential inconsistencies in language.

A policyholder uses the tool to parse through the jargon to summarize their coverage and limits.

Attorneys sparring over the definition of a crucial undefined term in a policy cite competing large language models to support their interpretation, and courts parse definitions from different models — alongside Mirriam Webster and the Oxford English Dictionary — to judge whether coverage is merited.

Insurers and policyholders are weighing the opportunities and pitfalls of using AI tools to interpret policy language, spurred on by a circuit court opinion that openly weighed the merits of a futuristic solution to an age-old dispute.

AI systems, such as large language models, or LLMs, offer a tantalizing possibility of quickly identifying and resolving policy language issues, one that experts unanimously told Law360 must be taken seriously even as they cautioned about the limitations, challenges and potential pitfalls.

"The tools themselves are never going to be a substitute for your own judgment, for reading the policy, for using experienced counsel," said Matthew Bricker, a founding partner of Tittmann Weix, who represents carriers.

The judiciary gave credence to AI-assisted policy interpretation through the Eleventh Circuit's May 2024 decision in Snell v. United Specialty Insurance Co., which found the insurer owed no coverage to a landscaper accused of negligently installing a trampoline and causing a child's injuries.

Though the case ultimately turned on a quirk of Alabama law that invalidated coverage based on the landscaper's application, U.S. Circuit Judge Kevin Newsom's concurrence explored how LLMs could have clarified the plain meaning of "landscaping," a hotly contested term in the suit.

Judge Newsom's at times wry inquiry, which he suspected "many will reflexively condemn as heresy," explored the potential benefits of contract interpretation using AI tools — their large databases, open research, accessibility and contextual savviness — and their downsides — hallucinations, underrepresented data, manipulation through prompts.

"Might LLMs be useful in the interpretation of legal texts? Having initially thought the idea positively

ludicrous, I think I'm now a pretty firm 'maybe,'" he wrote. "At the very least, it seems to me, it's an issue worth exploring."

Bricker told Law360 that insurers have used contract drafting tools — whether algorithmic or AI-based — for decades. Drafting tools can often structure coverage, exclusions and endorsements, update older policies, or review policies for any anomalies and overall consistency.

Still, he said that a circuit court judge transparently discussing his use of AI tools likely meant other judges and clerks are similarly engaging with these tools.

"It's kind of coming out from behind the shadows, especially with the Eleventh Circuit opinion, and I think you're probably going to see more of it in cases going forward, or people expressly saying that they're doing it, rather than just informally doing it behind the scenes," he said.

When most courts try to apply an "ordinary meaning" to undefined terms in a legal text, they usually turn to dictionary definitions, and for many insurance policy disputes, that semantic investigation can often be the difference between coverage and its absence.

Bricker noted that dictionary definitions can be cherry-picked, contain out-of-date uses of a word, or be deployed in the wrong context, adding, "I don't think that AI or LLMs will replace dictionaries — certainly they're no substitute for reading the policy — but I think they can be used to supplement the analysis."

Michael Levine of Hunton Andrews Kurth LLP's recovery practice, who leads the firm on emerging insurance issues, told Law360 that the widespread use of AI to interpret contract language could undermine a shared understanding of the meaning of policy terms.

"If the insurance company was behind its curtain using generative AI to understand what certain words mean, and the policyholder was doing it on the other side, unless the outputs matched, you're going to get two different meanings, and you're not going to have that theoretical meeting of the minds in the contract," he said.

He said that while the tool should be considered, the variability and constant evolution of AI tools could be at odds with what insurance recovery counsel are striving for in insurance contracts.

"We want consistency, predictability, uniformity," he said. "We want the word to mean the same thing today as it meant five years ago and what it means five years from now, and you're not going to get that with a large language model. That output is going to change over time."

William Ridgeway, co-head of cybersecurity and data privacy at Skadden Arps Slate Meagher & Flom LLP, said that the existing tools used to interpret contracts, like dictionaries, also involve transparency and consistency issues of the type that are associated with AI.

Still, he said he is less concerned about attorneys using these tools to supplement their experience and more so about individuals who use the tool without understanding case law and other practical considerations.

"In the court system, in litigation interpreting those terms, it's hard for me to see a world in which — at

least in the near term — AI is fully supplanting those tried-and-true methods for interpretation," he added.

In Ridgeway's view, the adoption and use of AI tools would naturally progress as models improve and users approach the tools and their queries in a more systematic way.

He expressed appreciation of the nuance of Judge Newsom's concurrence in light of news coverage that often focuses on when AI use has gone awry, "which I think gives rise to perhaps undue concern that these tools are so unreliable as to not be helpful."

The stigma associated with using an AI tool in a legal setting is widely cited as an impediment to openly using the technology in arguments.

"I'm not so sure that using LLMs is accepted yet as a source of truth, or at the equal level to a dictionary — and you can question that in and of itself," said Colin Kemp, managing partner of Pillsbury Winthrop Shaw Pittman LLP's San Francisco office.

Fellow Pillsbury attorney Tamara Bruno, who leads the Texas branch of the insurance recovery practice, said that LLMs are sensitive to prompts, can be difficult to manage when it comes to matters more complex than the definition of a single word, and can change with time.

"It just seems to me like we're almost creating a new expert issue, and now parties are going to have to bring in generative AI prompt experts who can explain what they did, document what they did, and demonstrate it and then show how it is a source that the court should consider," she said.

Bruno noted that at the end of Judge Newsom's appendix of LLM prompts, one model concluded that whether installing a trampoline is considered landscaping "is a matter of opinion. There is no right or wrong answer."

"What benefit did we get from that, if, at the end of the day, it's going to say, 'Well, it can go either way'?" she said.

Bruno and Kemp said that AI tools can help policyholders distill their coverage, but cautioned about overrelying on their responses.

"I've certainly gotten queries from clients where they have run things through ChatGPT and then come to me to add my expertise to the output that they've received, because that is one of these issues with the LLMs: It's very hard to evaluate the output if you don't know much about the subject," Bruno said.

"I think it's a tool, but using it as an oracle is problematic," she added.

--Additional reporting by Hope Patti. Editing by Bruce Goldman and Nick Petruncio.
