

# Francesco Palanda's Practical Guide for Mitigating AI-Related Business Interruption Risk

Newsletter Published by the ABA's Insurance Committee

In The News | less than 1 min read

Jul 6, 2026

Hinshaw partner Francesco Palanda recently authored a byline in the American Bar Association Insurance Committee newsletter titled "Six Tips for Evaluating and Mitigating AI-Related Business Interruption Risk."

The article offers practical guidance for attorneys advising clients on Artificial Intelligence (AI)-related business interruption risks, including how to evaluate exposure, identify coverage gaps, and mitigate potential losses.

As businesses increasingly rely on AI to generate, analyze, and monetize information, the risk of business interruption is evolving. Francesco explains how losses may stem not only from physical damage or system downtime, but also AI-specific issues such as inaccurate outputs, system unpredictability, or "hallucinations"—risks that may fall outside traditional insurance coverage.

## Six Tips to Evaluate and Mitigate AI-Related Business Interruption Risk

### 1. Identify How Your Clients Use AI

Begin by identifying how your client uses AI across its business. Counsel should determine whether the client's AI use supports limited functions or is central to revenue generation and decision-making. When AI systems play a critical operational role, disruptions or errors can quickly create significant financial consequences.

### 2. Understand Your Client's AI Technology

Counsel should understand the client’s AI systems, including whether they use machine learning for prediction or generative AI for content creation. You should also assess inputs, outputs, third-party dependencies, and the risk of inaccurate outputs or “hallucinations.”

### **3. Assess the Economic Impact of AI-Related Disruption**

Counsel should assess the financial impact of AI failures or inaccurate outputs. Unlike traditional outages, AI-related losses often stem from reliance on flawed data rather than downtime, potentially leading to lost revenue, reputational harm, or contractual liability without any physical disruption.

### **4. Evaluate Internal Controls and Risk Mitigation Protocols**

Attorneys should assess whether their client has safeguards to identify and address AI errors, including:

- Human review of critical outputs
- Validation and testing protocols
- Ongoing system monitoring
- AI-specific incident response procedures

Without these controls, clients may face greater exposure and a more difficult path to insurance recovery.

### **5. Ensure Current Insurance Policies Address AI Risks**

Traditional insurance policies may not cover AI-related losses when they lack the required element of physical damage. Cyber policies, however, may offer alternative paths to recovery, as courts have begun to recognize business interruption losses from cyber events even in the absence of traditional physical damage.

Counsel should therefore review cyber, errors and omissions (E&O), and other specialty policies to determine whether they may address AI-related risks.

### **6. Advise Clients on Additional Coverage**

Lastly, where coverage gaps exist, attorneys should advise clients on specialized options, including enhanced cyber or technology E&O policies that address non-physical business interruption, algorithmic errors, and data-integrity risks. As insurers develop AI-specific products, policyholders should work with brokers and counsel to ensure emerging risks are adequately covered.

[Read the full article \(PDF\)](#)

- *American Bar Association*: “[Six Tips for Evaluating and Mitigating AI-Related Business Interruption Risk](#)” (June 29, 2026)

---

*Hinshaw & Culbertson LLP is a U.S.-based law firm with offices nationwide. The firm’s national reputation spans the insurance industry, the financial services sector, professional services, and other highly regulated industries. Hinshaw provides holistic legal solutions—from litigation and dispute resolution, and business advisory and transactional services, to regulatory compliance—for clients of all sizes. Visit [www.hinshawlaw.com](http://www.hinshawlaw.com) for more information and follow @Hinshaw on LinkedIn and X.*

## Related People



**Francesco J. Palanda**

Partner

☎ 305-358-7747

## Related Capabilities

Data Privacy, AI & Cybersecurity

Insurance

Insurance Coverage Litigation & Counseling

Professional Services

## Related Locations

Miami

## Related Insights

“Best Practices in Presenting Business Interruption Claims” by Francesco Palanda

Francesco Palanda Addresses Home Insurance Challenges in Natural Disaster-Prone States

## Tags

Cyber, Privacy, Cybersecurity, & Artificial Intelligence, Directors' & Officers' Liability ("D&O"), Crime/Fraud, & Financial Institution Claims