

# ”Yes, AI chef!”: A recipe for insuring physical artificial intelligence

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Artificial intelligence is no longer just a digital tool working quietly in the background. Today, AI is rolling up its sleeves and getting hands-on in the physical world. AI-fueled robots are grilling food (“AI grill robots reach South Korean kitchens amid ‘physical AI’ push,” MLex, Dec. 8, 2025) in five-star South Korean hotels, preparing (<https://bit.ly/4tT5Zs5>) Thanksgiving dinner for forward-deployed troops, and crafting (<https://bit.ly/4duYRMP>) lattes for weary travelers at the San Francisco International Airport. Even Michelin-starred chefs are experimenting (“This Year’s Hot New Tool for Chefs? ChatGPT,” New York Times, June 2, 2025, <https://nyti.ms/4tqrPLU>) with AI to enhance their creative process.

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As AI steps out from behind the screen and into our daily lives, it brings with it both exciting possibilities and a wide array of new risks. Bodily injury, property damage, and business interruption are just a few risks that organizations adopting physical AI may wish to consider. And in doing so, organizations facing these emerging risks would benefit from considering insurance early and often.

## What is physical AI anyway?

”Physical” AI has been characterized as (<https://bit.ly/4drtFhv>) AI systems that empower machines to autonomously perceive, understand, reason, and interact with the physical world in real time. The uses for physical AI are as diverse as the offerings on a world-class restaurant menu.

These systems are not just cooking in commercial kitchens. They are also inspecting power grids, helping surgeons

operate, and collaborating with humans in bustling warehouses. With each new application, potential liabilities rise.

Some examples include:

- (1) **Bodily injury:** AI robots interacting in the physical world can cause physical harm. An AI chef, for example, might cause food poisoning, allergen contamination, or accidentally leave a sharp object in a dish.
- (2) **Property damage:** AI robots can also damage or destroy property. An AI-enabled kitchen or building system could malfunction and cause a grease fire, water loss event, or equipment failure, damaging dining areas, guest spaces, food inventory, or critical infrastructure.
- (3) **Business interruption:** Physical AI can also disrupt business operations. A physical AI system used in a kitchen, service environment, or building could malfunction or cause an accident that delays service, shuts down part of a facility, or interrupts supply and distribution, resulting in lost revenue for the business.

These scenarios are only a few of the risks that physical AI brings to the table. New and different risks will arise as physical AI evolves and gets increasingly integrated into society.

## Classic recipes: Legacy insurance products as a first line of defense

Legacy insurance products — responding to traditional exposures not expressly tied to AI — continue to serve as a primary safeguard for organizations facing the emerging risks associated with physical AI.

For example, commercial general liability (CGL) policies can cover claims for bodily injury or property damage caused by an occurrence — i.e., an accident. So, when an AI-powered robot causes injury or property damage, CGL coverage should apply (absent any AI-targeted exclusions) because the insuring agreement is based on the harm itself instead of the technology that brings about that harm.

A similar dynamic exists for other core lines of insurance. Business interruption coverage found in most “all-risk” policies,

as another example, is designed to respond to income losses resulting from unforeseen disruptions, including those caused by AI failures.

While legacy coverages remain relevant, the introduction of AI will still introduce new and significant complexities for insurance coverage. The definition of an “occurrence” is one potential wrinkle. Courts in New York and elsewhere have defined an “occurrence” as an accident that is “unexpected, unusual and unforeseeable” from the policyholder’s standpoint. *Agoado Realty Corp. v. United Int’l Ins. Co.*, 95 N.Y.2d 141, 145 (2000).

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The use of AI raises novel questions for this framework.

- (1) What qualifies as “unexpected” in the context of an innovative physical AI system?
- (2) If harm results from flaws in design, coding, or training data, will courts treat these as accidents or as intentional conduct?
- (3) If an AI system causes a series of similar incidents, will these be viewed as separate “occurrences” or as a single event?

These questions and others will no doubt arise in insurance claims and drive coverage lawsuits going forward.

In the end, as organizations increasingly integrate physical AI into their operations, legacy insurance programs remain the essential first line of defense against this rapidly changing risk landscape.

### New to the insurance menu: AI insurance products

Although legacy insurance products remain an important first line of defense, the insurance landscape is evolving rapidly. As AI becomes more prevalent and its risks more clearly defined, insurers are reconsidering how these exposures fit within standard policies.

A notable development is the emergence of AI-specific exclusions that limit or bar coverage for AI losses. This trend (<https://bit.ly/4f8exH4>) is gaining momentum, with many insurers considering these exclusions. As a result, organizations can no longer assume that existing policies will cover every

AI-related risk.

To fill the gaps left by these exclusions, insurers are developing new AI-specific insurance products. For instance, Chaucer and Armilla have introduced (<https://bit.ly/4d9e2dd>) standalone offerings designed to eliminate ambiguities about whether legacy coverage lines will respond to AI risks. Other insurers like Munich Re and AXA XL have similarly introduced AI-related insurance products.

As physical AI exposures grow more pronounced and as insurers increasingly begin to exclude them, these new insurance products may become essential risk management tools for organizations looking to confidently adopt physical AI solutions.

### Writing the risk management menu of the future

To create a robust risk management approach for physical AI, organizations may wish to adopt a systematic and forward-thinking approach based on the following five practical steps:

- (1) **Audit physical AI exposures:** A foundational step for any organization is to assess where and how physical AI is being used. Because every organization’s AI risk profile is unique, a thorough audit — one that draws on input from across the organization — can help ensure no AI-driven exposures are overlooked. With a clear understanding of these risks, organizations are much better positioned to address them.
- (2) **Assess vendor contract protections:** Given the reliance on external vendors for many physical AI systems (e.g., robotics manufacturers and AI software companies), organizations should consider the strength of their contract provisions. Reviewing these agreements for robust indemnification clauses and evidence of adequate vendor insurance can make all the difference if an AI-related incident occurs.
- (3) **Proactively review existing insurance policies:** Organizations may then wish to evaluate how well their current insurance portfolio addresses their AI risk profile. Different coverage lines might interact in unexpected ways, and nuanced exclusions or definitions related to AI could leave critical gaps. Ongoing review, even for existing policies, is especially critical as new forms, endorsements, and similar changes are incorporated into legacy policies each renewal. By working with brokers or coverage counsel, organizations can identify these vulnerabilities and make informed decisions about supplemental risk transfer strategies.
- (4) **Explore AI-specific insurance products:** As traditional policies evolve, organizations may find value in exploring insurance solutions designed specifically for AI risks. New offerings can address novel AI exposures that legacy programs might overlook.
- (5) **Prepare for in-depth underwriting inquiries:** With insurers taking a closer look at AI governance and

controls, organizations can benefit from being ready for detailed underwriting questions. Maintaining clear documentation around AI definitions, testing protocols, ongoing monitoring, and safety measures not only facilitates the underwriting process but also strengthens the organization's position if a claim ever arises.

The rise of physical AI marks a new era for businesses, blending innovation with complex risks. As this technology

steps into real-world settings, organizations may have to rethink how they insure against potential exposures.

By staying proactive and adapting risk mitigation and transfer to emerging risks, organizations can embrace physical AI's possibilities while maintaining confidence in their risk management and insurance solutions. With the right mindset, saying "Yes, AI Chef!" becomes an invitation to innovate securely in a changing world.

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