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Policy Update - Utilization Review and Artificial Intelligence

State regulations governing artificial intelligence (AI) in the insurance sector, particularly utilization review (UR), continue to evolve rapidly and appear to focus heavily on three main concerns:

- Preventing algorithmic bias
- Ensuring strict human oversight
- Protecting consumers from automated coverage denials.

Since insurance is traditionally regulated at the state level under the McCarran-Ferguson Act, individual states have the discretion to dictate how carriers must manage AI technologies. Below, we provide a brief overview of the current state-level AI regulatory landscape.

The National Foundation: The NAIC Model Bulletin

In December 2023, The National Association of Insurance Commissioners (NAIC) created through its Model Bulletin on the Use of Artificial Intelligence Systems by Insurers, which established a foundational AI regulatory framework[i].

- The Core Requirement: Insurers must establish a formal, written Artificial Intelligence System (AIS) Program to govern how they select, validate, monitor, and retire AI models.
- Adoption Status: More than half of U.S. states have adopted the NAIC bulletin framework as their standard for market conduct examinations.
- The "No Shield" Rule: Carriers are legally responsible for the output of their AI systems, meaning they cannot blame third-party vendors or software providers for discriminatory or faulty algorithmic decisions.
- Five Guiding Pillars: The framework evaluates insurers based on five main pillars: Accountability, Explainability, Fairness, Security, and Transparency.

Key Enacted State Laws on Health Insurance & Prior Authorization

As of July 30, 2026, seven states have enacted laws limiting how health insurers use AI when making coverage or reimbursement decisions[ii]. The state laws are listed below:

- Alabama — SB 63 regulates how insurers use AI when making coverage authorization determinations. Coverage decisions can't be solely made by AI. Insurers must disclose when AI is used in the review process, and determinations are expected to reflect the patient's own clinical circumstances rather than automated output alone. *Effective Oct. 1, 2026*
- Colorado — HB 1139 covers insurers, pharmacy benefit managers, private utilization review organizations, behavioral health ASOs and managed care entities. Any AI used for utilization review must base decisions on the patient's individual clinical history rather than group data alone, must not be applied in a discriminatory way, and must be periodically audited for accuracy. A denial based on medical necessity cannot be issued on AI output alone without review by a qualified professional. The law also bars insurers from covering AI-delivered psychotherapy. *Effective Jan. 1, 2027*
- Georgia — SB 444 amends the state's private review agent statute to provide that insurance coverage decisions for healthcare services cannot be based solely on AI systems or other software tools. *Effective Jan. 1, 2027*

- Illinois — SB 3114 creates the Transparency in Downcoding Act, which targets claim downcoding. It bans insurers from using any algorithm or automated process that bypasses the information a billing professional submitted in order to downcode a claim. Automated tools may flag claims for review, but a person must make or review every downcoding determination using current AMA CPT coding guidelines. The law also bars downcoding based solely on diagnosis codes and prohibits targeting clinicians who treat complex or chronic patients. Self-insured ERISA plans and workers' compensation plans are excluded. *Effective Jan. 1, 2028*
- Iowa — HF 2635 allows insurers and utilization review organizations to use an AI-based algorithm for the initial review of a prior authorization request, but it prohibits using AI as the sole basis to deny, delay or downgrade a medical necessity request. The law also addresses claims audits and certificate of need processes. *Effective July 1, 2026*
- Utah — SB 319 requires insurers to post their prior authorization requirements and approval and denial statistics publicly, and to disclose to the state, providers and enrollees when AI is used in reviewing requests. Anyone reviewing an adverse determination must use independent medical judgment rather than relying solely on any other source, including AI output. The law also sets maximum decision timeframes and minimum validity periods for chronic or long-term care requests. *Effective Jan. 1, 2027*
- Washington — SB 5395 builds on existing prior authorization law to add AI transparency and accountability requirements. Only a licensed physician or health professional may deny a request on medical necessity grounds, and AI cannot be the sole means used to deny, delay or modify care. *Effective June 11, 2026*

NAIRO supports the responsible adoption of artificial intelligence across the UR value chain and holds the unambiguous position that the final determination in every review must rest with a qualified human reviewer. **AI accelerates the work. Humans own the decision.** This position is consistent with the direction set by HHS, CMS, NAIC, and a growing majority of state legislatures. NAIRO fully supports that direction and, as the review industry's thought leader, will promote it to our members and to all review stakeholders. AI in independent review will be a key theme of the 2027 NAIRO Conference from March 23-25, 2027, in San Antonio, Texas. For more information, please visit www.nairo.org.

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[i] https://anchordrift.ai/blog/naic-ai-bulletin-what-it-requires/

[ii] https://www.beckerspayer.com/policy-updates/7-ai-health-insurance-state-laws-passed-in-2026/