



ZYWAVE

# Small Business Insights

Balancing the Benefits and Risks of Artificial Intelligence

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Artificial intelligence (AI) is rapidly transforming how small businesses operate, offering powerful tools to improve efficiency, strengthen security and enhance customer engagement. To adopt AI effectively, small business leaders must understand both its strategic advantages and potential pitfalls to make informed decisions that align with long-term objectives. This article explores the key benefits and risks of AI for small businesses and offers guidance on using this technology responsibly.

*A survey by American Express found that 86% of U.S. small businesses using AI feel more confident in decision-making, citing fewer errors and greater efficiency. Still, it's vital to scrutinize AI risks to minimize exposures and ensure responsible implementation.*

## The Key Benefits of AI

AI offers a range of practical applications that can help small businesses operate more efficiently, securely and strategically, including:

### **Solving Problems Before They Happen**

AI-powered tools help small businesses anticipate and address issues early. For example, route optimization software can adjust delivery plans in real time based on traffic, weather or vehicle capacity. Similarly, inventory planning tools can detect stock gaps and forecast demand to prevent shortages.

### **Automating Routine Tasks**

AI tools can streamline operations by performing repetitive tasks such as generating invoices and responding to customer inquiries, freeing up time for high-value activities.

### **Enhancing Security**

AI can detect threats, identify vulnerabilities and respond to suspicious activity faster than manual systems, helping small businesses prevent cyberattacks before they escalate.

### **Analyzing Data**

AI analytic tools can quickly examine large volumes of structured and unstructured business data to uncover trends, inefficiencies and growth opportunities. These insights can help small businesses make informed decisions, reduce costs and identify new revenue streams.

### **Creating and Managing Content**

AI can generate product descriptions, write and schedule social media posts, and draft responses to online reviews to support marketing and brand engagement efforts.

## Improving Customer Service

AI-powered chatbots can answer common questions, assist with orders and provide 24/7 support, enhancing the customer experience without increasing staffing costs.

## The Risks Associated With AI Use

Understanding the potential risks of AI is critical for small businesses to safeguard operations, uphold stakeholder trust and support sound decision-making. Small businesses should be aware of the following limitations of AI:

### **AI depends on data that may be flawed or outdated.**

AI systems are only as good as the data they use. Inaccurate, biased or incomplete data can lead to poor decisions and unreliable insights.

### **AI can increase cybersecurity vulnerabilities.**

AI integration can expand an organization's attack surface and introduce new entry points for cyberattacks. Threat actors may use generative tools to craft phishing emails, deepfakes or automated threats, increasing the risk of breaches.

### **AI can raise ethical and privacy concerns.**

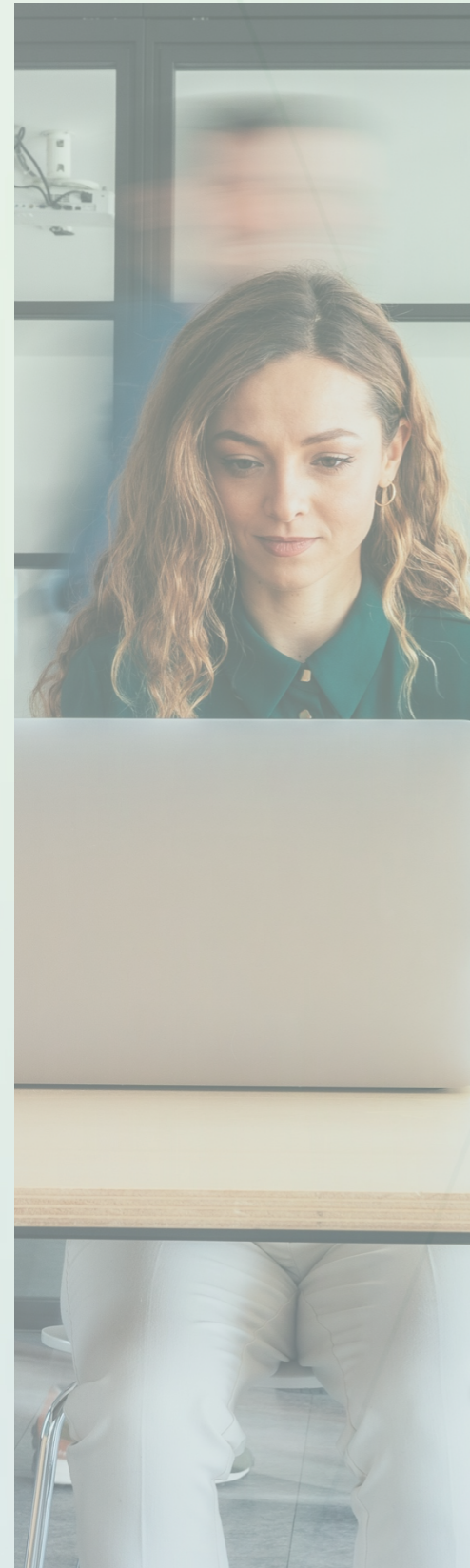
Using AI to collect, store or analyze personal or sensitive data without clear consent or proper safeguards can violate privacy laws, reinforce bias and damage customer trust.

### **AI adoption can outpace internal capabilities.**

Limited in-house expertise and minimal resources within small businesses can hinder effective AI implementation and increase the risk of mismanagement.

### **Overreliance on AI can weaken human oversight.**

Overreliance on AI can lead to unchecked decisions, missed errors and diminished accountability in complex situations.



## Using AI Responsibly

Responsible adoption is essential as AI becomes increasingly embedded in small business operations. Small businesses must maintain transparency in how AI tools are used, apply ethical standards to data use and collection, and ensure oversight of automated decisions. By establishing clear governance frameworks, designating accountability for AI oversight and investing in staff training, these organizations can help mitigate operational, legal and reputational risks. Small businesses should also review their insurance policies—such as cyber insurance, commercial crime insurance and professional liability insurance—to ensure they provide adequate coverage for AI-related exposures.

**Contact us today for further risk mitigation guidance and insurance solutions.**

*This document is not intended to be exhaustive, nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel or an insurance professional for appropriate advice.*