



HOUSE BILL 565: Limit use of AI Medicaid/Commercial Insurance.

2025-2026 General Assembly

Committee:	Senate Health Care. If favorable, re-refer to Rules and Operations of the Senate	Date:	May 19, 2026
Introduced by:	Reps. Reeder, Potts, Shepard, Huneycutt	Prepared by:	Jason Moran-Bates
Analysis of:	PCS to Third Edition H565-CSMR-4		Amy Jo Johnson Staff Attorneys

OVERVIEW: *The Proposed Committee Substitute to House Bill 565 would prohibit insurers and Medicaid prepaid health plans (PHP) from using artificial intelligence (AI) as the sole basis for denying a utilization review determination. It would also prohibit healthcare providers from using AI to change procedure, diagnosis, or billing codes to reflect a higher level of risk or care provided than was supported by the clinical record. Medicaid providers would have to annually attest to compliance with these provisions.*

BILL ANALYSIS:

Section 1 of the bill would prohibit private insurers from using AI as the sole basis for denying a utilization review determination. It would also require the Department of Health and Human Services (DHHS) to amend its contracts with PHPs to include similar prohibitions.

Section 2 of the bill would define "upcode" to mean "the submission of billing codes that represent a higher level of service, severity, or risk than is supported by the clinical services rendered." It would prohibit the use of AI (i) to upcode, (ii) recommend or submit billing, procedure, or diagnosis codes, (iii) create documentation that results in upcoding, or (iv) adopt procedures that incentivize upcoding. All uses of AI for generation of billing, procedure, or diagnosis codes would have to be supported by a medical record that had been reviewed and attested to by a healthcare provider. A healthcare provider's repeated failure to comply with these provisions would be an unfair and deceptive trade practice under Chapter 75. AI developers would be prohibited from training AI systems in a manner that would systematically result in upcoding.

Beginning July 1, 2027, Section 3 of the bill would require healthcare providers who participate in the Medicaid program, as a condition of participation, to annually file an attestation with the Department of Health and Human Services and the Attorney General that they are compliant with the law regarding AI upcoding limitations.

EFFECTIVE DATE: The bill would be effective October 1, 2026, and apply to insurance contracts entered into, amended, or renewed, and healthcare claims submitted on or after that date.

Kara McCraw
Director



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Legislative Analysis
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