

Understanding the Different Types of Digital Asset Insurance Coverage

In our previous article, NIACE shared about the importance of digital asset insurance and its various benefits to all participants in the digital assets space. Additionally, the article debunked the common misconception that digital asset coverage is reserved specifically for certain types of organisations. In this article, NIACE will be sharing the different types of digital asset insurance plans which aims to help readers to understand how these policies might be suited for you and/or your organisation.

As businesses warm up to the idea of embracing blockchain technology, cryptocurrencies and tokenised assets, protecting these digital assets becomes increasingly paramount especially amidst an increased risk of theft and fraud. Therefore, innovative insurance solutions can provide companies and their investors with a peace of mind and security for effective operations, helping them manage the unique risks associated with digital assets. Below are some of the more prominent digital asset insurance coverages:

Digital Asset Vault Insurance: This insurance plan provides coverage for loss of digital assets from internal to external theft and the damage or destruction of private keys that have been stored in physical vaults. The concept of vault insurance is not new to the market as there are current insurance plans which cover physical assets like precious metals. Therefore, with the proliferation of digital assets and the continued emphasis on security, the industry has naturally evolved to provide protection for digital assets. Benefits of digital asset vault insurance include the protection against damage and/or theft, internal fraud, and external fraud which could lead to massive financial losses

Cyber Liability Insurance: This insurance plan provides coverage for daily operations that helps protect businesses in this space from the financial losses and liabilities associated with cyber-related risks and events. Cyber insurance is designed to address the growing threat of cyberattacks, data breaches, and other cyber incidents which has seen a huge surge in the industry especially in the past 5 years. The obvious benefit of cyber liability insurance is protecting businesses from the financial liability from daily operations. Additionally, it helps to cover theft of private keys which would otherwise not be covered in a conventional cyber insurance plan.

Commercial Crime Insurance: This seemingly obvious but crucial insurance plan is a type of operational insurance plan that covers businesses from financial losses stemming and relating to various internal/external fraud incidents including embezzlement, employee dishonesty, fraud, forgery, and theft.

Technology E&O Insurance: This insurance plan provides coverage for loss stemming from and relating to errors and omissions (E&O). Often, companies within the digital assets space rely heavily on AI, coding and technology to execute operations and processes. Errors in backend processes and/or software could result in financial losses to a third party arising from negligence or professional error. Technology E&O plans help firms to manage and transfer the risk of exposure for technology related issues off the company's balance sheet.

Smart Contract Insurance: This insurance plan provides coverage for financial losses stemming from a failure in and/or vulnerabilities in smart contracts. Smart contracts are self-executing in nature with the terms of the agreement directly written into code. These contracts are commonly used in blockchain-based applications and cryptocurrency transactions.

Slashing Insurance: This insurance plan provides coverage for financial losses stemming from penalties imposed on validators by the network for violating the rules of the blockchain. As a blockchain network employs a proof-of-stake system as a consensus mechanism, it relies on validator nodes to maintain the security of the network and to create and/or confirm new blocks on the chain.

Slashing refers to the penalties enforced on validators for network rule violations or nefarious conduct. Financial losses from a slashing event occurs when validators lose a portion of their staked cryptocurrencies for rule violations. This insurance is particularly important for E&O incidents. Some benefits of slashing insurance include coverage for business interruption from a slashing event, litigation and related legal costs, and helps businesses meet their contractual obligations

Digital asset exchanges and custodians require digital asset insurance to hedge against internal bad actors and market movement. NFT marketplaces can have a peace of mind with the knowledge that their virtual assets are safeguarded against hacks and technical malfunctions. Even startups accepting cryptocurrency payments can rest soundly knowing that they are protected from accidental double-spends or chargebacks. In this highly dynamic sector where trust plays the pivotal role in transactions, digital asset insurance is not merely part of operating expenses, it is an investment in forging a future-proof foundation for stable and sustainable growth. The following is a non-exhaustive list of companies that would benefit greatly from the digital asset insurance discussed above:

Blockchain and cryptocurrency-reliant businesses: protecting digital assets and protection against fraud

Cryptocurrency Exchanges: protecting against the high financial losses associated with cyber theft and/or hacking incidents

Fintech Companies: protecting against digital fraud

Investment Firms (like hedge funds) dealing with Digital Assets: protecting against regulatory risks which could impact digital asset valuations and market movement

NFT Marketplaces: protecting against theft and sector specific risks

NIACE welcomes the shift in focus to digital asset insurance as the company has been a strong advocate for developing the digital asset insurance space since the company's inception. The company looks forward to working alongside industry partners to further develop this space and provide our clients with the best in-house digital asset insurance coverage as we ease our clients to prepare for the unknown in the current digital assets space.

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