

## **Understanding the Importance of Digital Asset Insurance**

Across the globe, companies across various sectors and industries regardless of size have invested and/or are actively investing hundreds of millions to capitalise on the opportunities presented by emerging blockchain technologies and digital assets. These innovative developments within the digital asset space are viewed as the holy grail to some global issues like cybersecurity and data control. Additionally, the sector is often viewed as the sector that has the highest potential for revolutionary and/or groundbreaking business models that is set to disrupt the status quo. However, with the rapidly evolving nature of the digital asset sector, a complex operating environment, and an uncertain regulatory landscape, organisations utilising blockchain and digital assets need to understand and manage key risks. Consequently, it is paramount that firms within the digital asset space manage sector specific risks.

There is a common misconception that digital asset insurance is targeted at financial institutions and the firms within the cryptocurrency space. However, digital asset insurance can be designed and customised to suit the needs of all consumers regardless of their background and industry. As the world becomes increasingly globalised and the exchange of information over the internet gets faster and faster, there are an increasing number of organisations and individuals who are entering into the digital asset space. Although there are numerous reasons for this trend, the top three reasons for the uptick in entrants into cryptocurrencies are the desire to diversify current investment portfolios, the desire to enter into new fast-growing industries, and the fear of missing out. Therefore, the types of plans available to consumers play a pivotal role in how much coverage benefit the end consumer receives.

Firstly, the most fundamental albeit crucial aspect of digital insurance is that it helps to foster growth and innovation within the sector. All companies are exposed to various forms of liability based on the services they provide and the industry that they are in. Digital asset insurance helps to add business credibility to the reputation of a firm. By demonstrating that it has proper digital asset insurance coverage, organisations like banks and outside investors will view a firm within this space as trustworthy and reliable, hence a better investment or partner, easing the process of obtaining the crucial capital needed to innovate and grow. Moreover, if there are losses incurred from operations, the company will have a reliable safety net to stay afloat and continue to grow. Essentially, insurance helps ease the burden of certain liabilities by transferring risk away from companies, allowing business owners and management staff to focus on running and growing the business.

Secondly, with the proliferation of new technologies like blockchain and cryptocurrency related software, the industry will likely experience increased scrutiny not just from regulatory bodies but everyday retail investors as well. On one hand, governments are actively encouraging innovation within this space while looking to protect investors and the broader market. This will likely see a push for the formalisation of a regulatory framework not just on the wider digital assets industry but also any firm and/organisation that is involved in digital assets. Despite the anticipation of a pro-cryptocurrency environment in the United States after the recently concluded US General Elections, a legally enforceable blanket regulatory framework would likely be imposed and implemented on the sector. Consequently, it is widely expected that digital asset insurance would be a requirement for all participants (except individual retail investors) in cryptocurrencies and its associated digital

assets. Obviously, the benefit then for having purchased digital asset coverage would be the compliance of regulatory frameworks.

Lastly, the most obvious benefit for purchasing digital asset coverage is to protect against financial losses and claims resulting from online piracy. It has been no secret that high profile cryptocurrency hacks such as the Ronin Network and Poly Network breach has not only caused the companies behind them to incur huge financial losses but also caused a large knock-on effect within the industry. As blockchain technology involves the collection of personal data and identifying information, companies in this space are extremely vulnerable to a cyber and/or data breach. Consequently, the said firm would likely incur huge financial losses stemming from business interruption and be thrust into the regulatory spotlight. Being insured by digital asset insurance helps to manage the above-mentioned risks and would ensure shareholders and management a peace of mind.

NIACE is encouraged by recent developments in the digital asset space as well as the future prospects of the sector as we constantly look to provide our clients with the best range of coverage plans specifically suited to their needs. The company remains committed to serving our clients to the best of our abilities and look forward to a bigger and brighter future within the digital assets sector.

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