



Digital Asset Insurance Landscape Presentation

James C. Knox. Esq.

February 26, 2020

Digital Asset Exchange Hacks



Reported ICO Companies Involved in Fraud



Sharing is **Caring**
\$660,000,000



PlexCoin presents
PLEXCOIN
the next cryptocurrency
\$15,000,000




Bitcard™
\$5,000,000



E B I T Z
ZERO KNOWLEDGE PROOF
\$2,900,000



opair
Open Project. Fair Distribution.
\$2,900,000




Benebit
THE CURRENCY FOR CUSTOMER LOYALTY
\$2,700,000



bitconnect
\$700,000



Confido
\$375,000



Real Estate Coin
RE
Leadership of Tomorrow
\$300,000



D
\$300,000



PonziCoin
\$250,000



karbon
\$200,000

Challenges in the Insurance Landscape

“What we will do and we are doing is looking for fraud and manipulation,” Giancarlo said. “And we intend to be very aggressive.”

CFTC
Chairman Christopher Giancarlo

“Attempting to conceal what we allege to be fraudulent securities offerings under the veneer of technological terms like ‘ICO’ or ‘cryptocurrency’ will not escape the Commission’s oversight or its efforts to protect investors.”

- Shamoil T. Shipchandler, Director of the SEC’s
Fort Worth Regional Office

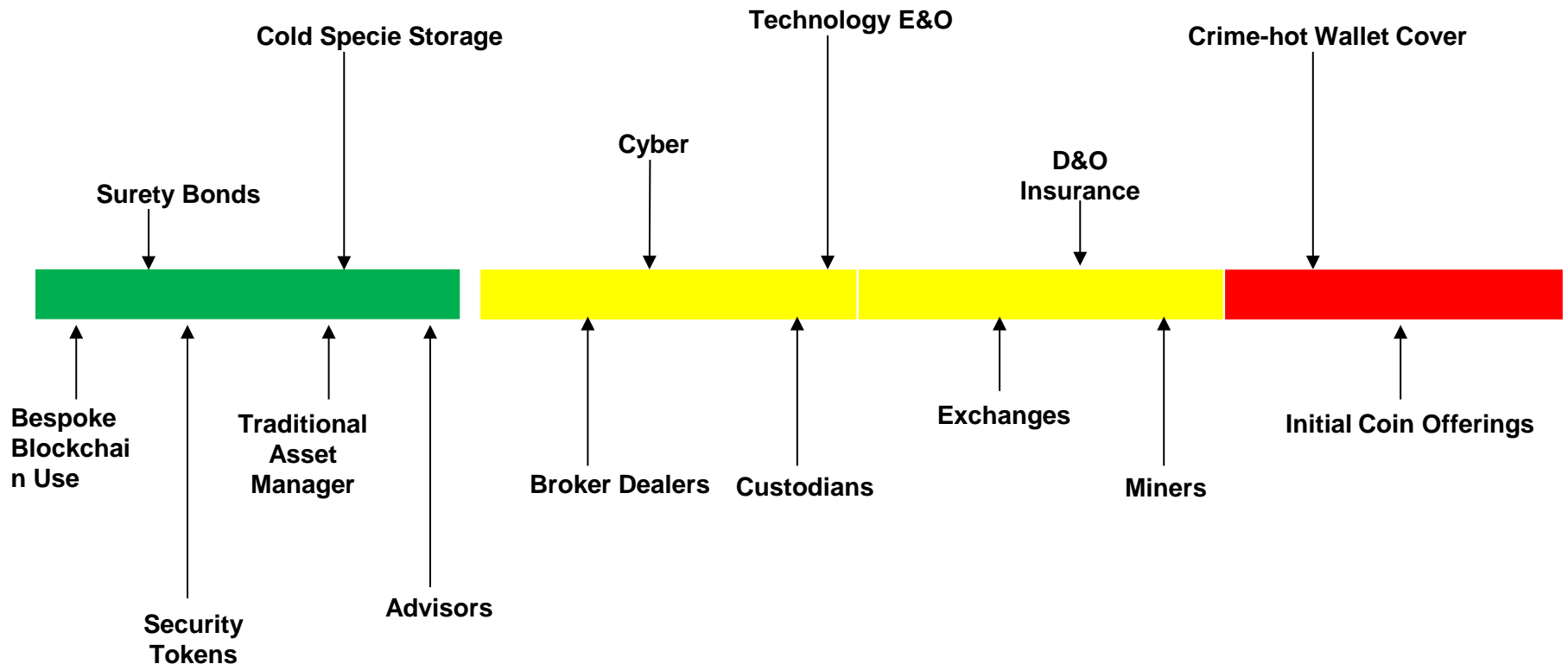
“A number of concerns have been raised regarding the cryptocurrency and ICO markets, including that, as they are currently operating, there is substantially less investor protection than in our traditional securities markets, with correspondingly greater opportunities for fraud and manipulation.”

SEC
Chairman Jay Clayton

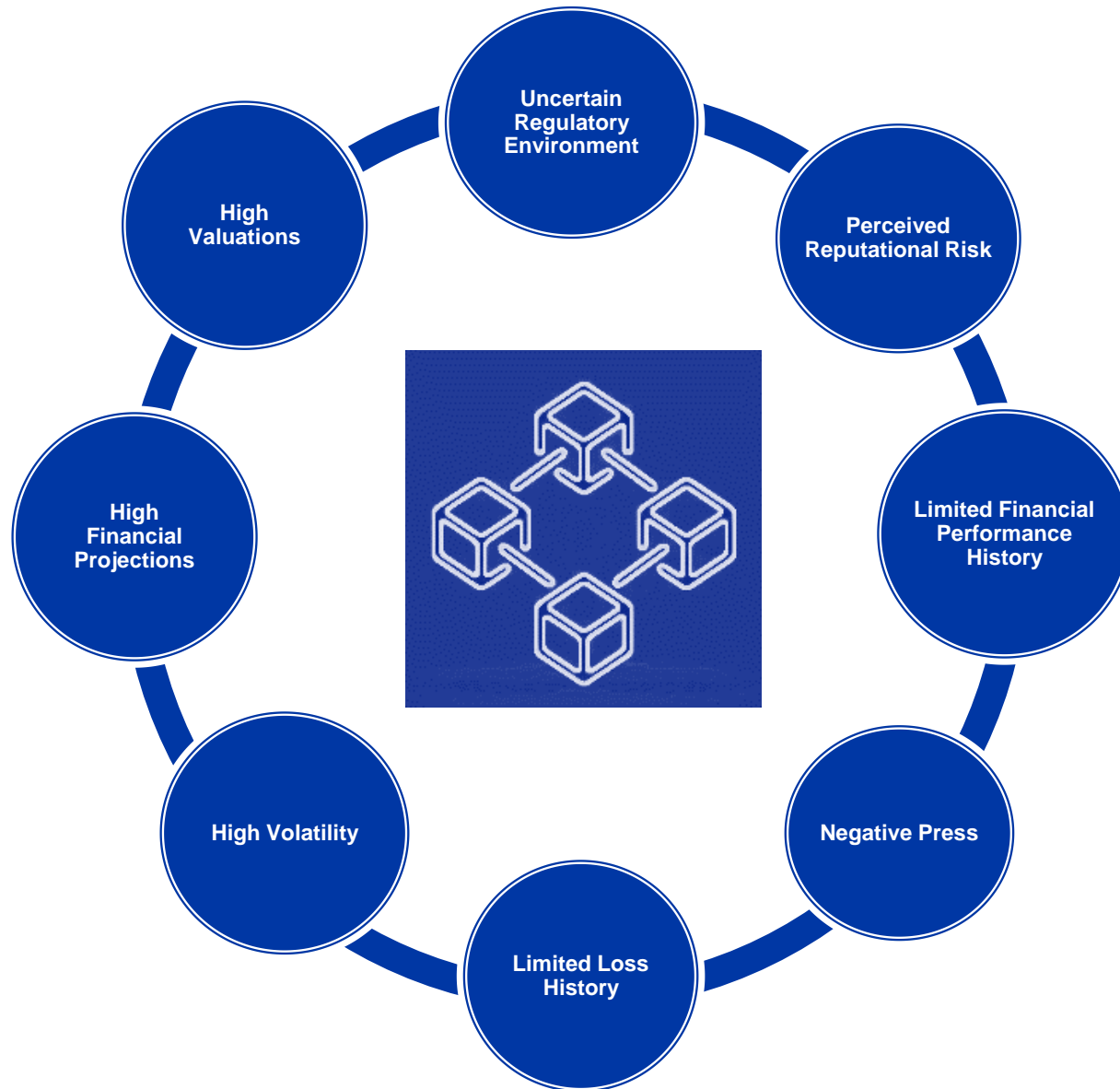
“There are great concerns regarding virtual currencies and the justice ministry is basically preparing a bill to ban cryptocurrency trading through exchanges,”

- Justice minister Park Sang-ki

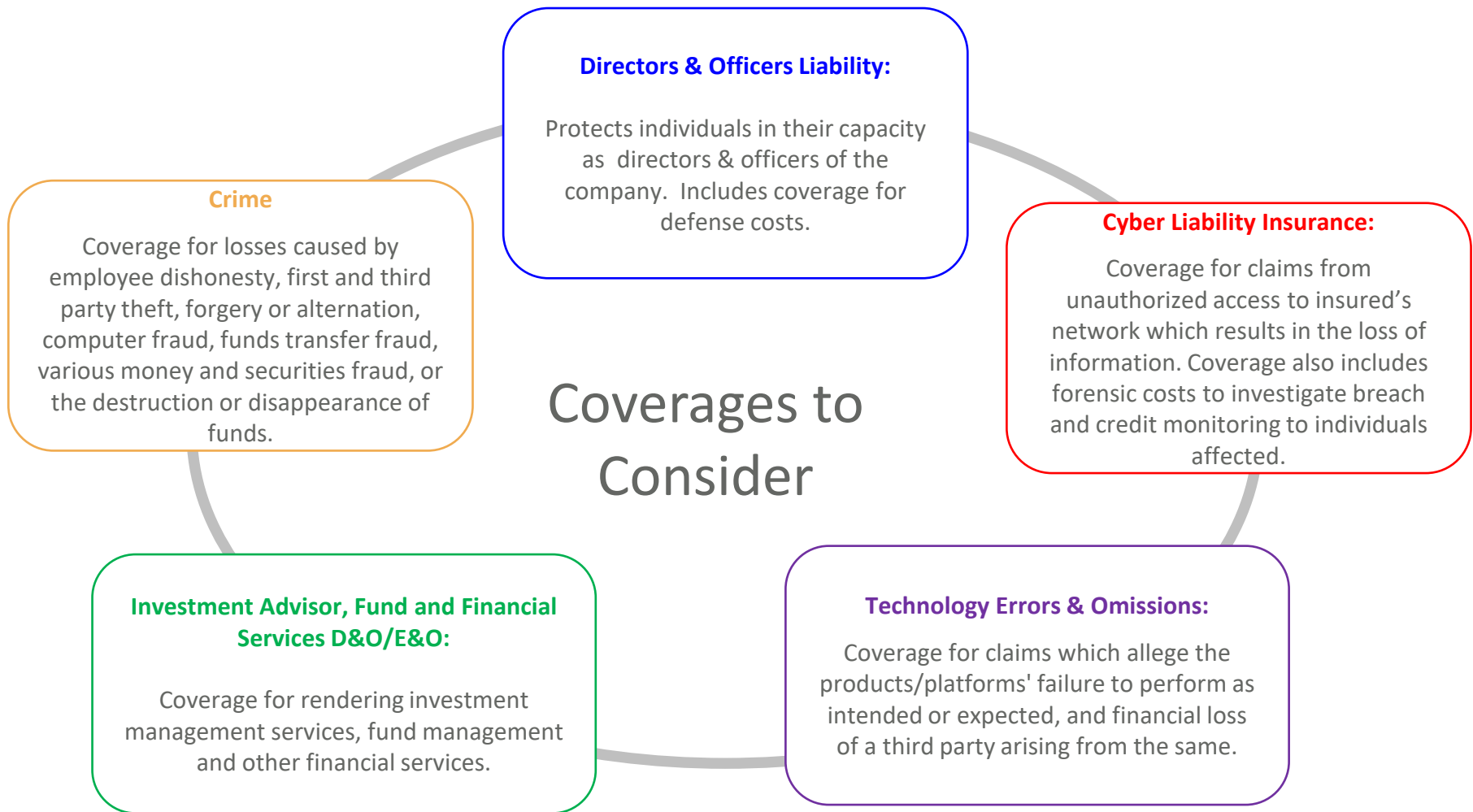
Risk Distribution – Digital Asset Industry Landscape



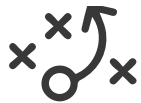
Factors Limiting the Insurance Marketplace



Coverages to Consider



Digital Asset-D&O Marketplace and Insurer Appetite



Market Strategy

- Risk philosophy – “checking the box” or is adequate coverage desired?
- Coverage terms are varied and insurer appetite is constantly changing—primary capacity is limited
- Process is critical – the limited pool of insurers will not revise terms for new broker partners. A best in class approach from the outset is necessary.

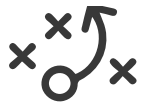


Limits / retention / pricing objectives

- Premiums from leading insurers are high relative to the general D&O marketplace
- Pressure(s): charging for the risk and/or severely limiting coverage (e.g., regulatory exclusions)
- Retention levels remain high
- Capacity is generally offered in layers between \$1M - \$5M; building large capacity requires investing in a \$5M primary limit



Digital Asset-Crime Marketplace and Insurer Appetite



Market Strategy

- Aon has a manuscript form to address crime exposure
- Coverage for theft, damage or destruction of digital assets
- Capacity is in flux – insurer appetite is constantly changing
- Coverage for hot wallets is extremely limited and requires a detailed presentation by the proposed Insured to the marketplace



Limits / retention / pricing objectives

- Lloyd's is the primary focus
- Specie solutions may be available for cold storage-only risks
- Premiums are high relative to the general Crime marketplace



Primary

LLOYD'S



Excess

CNA

AXIS

Liberty Mutual
INSURANCE

Arch

TOKIOMARINE
HCC

ASPEN

AXA
XL GROUP

CF CRUM & FORSTER

SOMPO

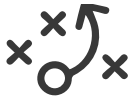
MARKEL

AIG

EVEREST

beazley

Cyber and Tech E&O Marketplace and Insurer Appetite



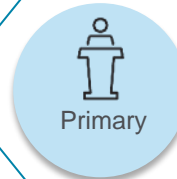
Market Strategy

- Aon uses market forms, but tailors them to match needs of client
- Coverage for theft, damage or destruction of data, income loss, breach management costs, privacy liability, and errors and omissions from technology services
- Capacity is in flux – insurer appetite is nascent and low
- Aon is working with Lloyd's to produce a proprietary form.



Limits / retention / pricing objectives

- Axis and Munich Re are the main primary leads
- Premiums are high relative to the general Cyber and Tech E&O marketplace
- Cyber and Tech E&O market is much less developed than either the Crime or Specie markets.
- Retention levels remain high
- Capacity is generally offered in layers between \$1M - \$5M;
- Total capacity generally around \$10M



Primary



LLOYD'S

Munich RE 



Excess



Digital Asset-Underwriting Information requested by insurance companies

1. Introduction / Pitch deck (if available).
2. Description of general business. How is revenue generated?
3. High level summary of digital asset and blockchain environment.
4. Country of domicile and registration. Description of geographic locations and any being avoided.
5. Summary of board and management team (attach bios). Expertise in the digital asset and blockchain space.
6. Ownership / capitalization table and funding levels. Description of fundraising model and process details. Will documents be filed with regulators?
7. Notable partnerships / associations. Relative market positioning (e.g., client base, reviews) and market differentiators (e.g., brand reputation).
8. Financial statements and projections.
9. Details of legal counsel, accountants, banking partners, etc.
10. Comment on regulatory landscape, company culture, and communication with investors.
11. Describe processes to comply with KYC/AML and GDPR.
12. What controls are in place to assess and address financial crime risks? Have these controls been vetted by counsel and are underwriters privy to the opinion of any attorney(s) that have reviewed and approved the controls?
13. Details of security protocols and overall investment in security. Third party independent audits/assessments?
14. Storage details: hot / cold; first or third party custodian? Segregation of customer funds (detail on hot/cold processes and technologies used). Detail of security controls around each storage methodology. How often are currencies traded or moved between storages? Which exchanges do you use (if any)? Is dual sign-off required for financial transactions? Describe any multi-sig or sharding processes.
15. Approach to customer service. How are customer service lag times addressed during high volume?
16. Detail on any outages in the last 12 months. Capacity planning for high volume and onboarding/funds transfer process?
17. Disaster recovery / business continuity, testing (schedule and actual failover tests), loss income estimations, datacenter locations and operators.
18. M&A – process, due diligence, integration.
19. Number of employees and headcount breakout by business unit.
20. What background checks are performed on employees and what financial crime training is provided?
21. Discuss any past, present, and potential future litigation.