# Baringa’s Web 3 Trailblazers Podcast

## Can insurance help solve the crisis of confidence in Web 3 and digital assets?

**Anna Orriss-Baxter, Baringa:** Welcome to our Web 3 Trailblazers podcast with me, Anna Orriss-Baxter. Today's episode is all about the role of insurance and insurers in the digital asset and cryptocurrency ecosystem. With recent scandals and revelations shaking the crypto world in 2022, it's important to consider how insurance can play a role in restoring consumer confidence and trust in cryptocurrencies. I'm delighted to be joined today by Ben Davis from Superscript and Benedict Altier from Baringa. Both of my guests have a wealth of experience and expertise in this field and I'm looking forward to hearing their insights on the topic. To begin, Ben, would you be able to introduce yourself and tell us about your interest in Web 3?

**Ben Davis, Superscript:** Thanks, Anna. Great to be here. Thanks for having me on. My name's Ben Davis on the team leader of digital assets at Superscript. We are the first insurtech that's been licensed at Lloyd’s. We're also the first company that has released a digital asset technology errors and omissions and cyber product backed by Lloyd’s, which we did in 2022. We've got one of the biggest digital asset teams worldwide that's solely focussed on ensuring crypto assets, Web 3 and Metaverse technology. My personal interest in cryptocurrency has spanned for the last five years where I realised the potential that digital assets could hold for the future value exchange. And you know, all of us at Superscript and especially in Digital Assets team, were really excited about emerging technology and where that that can take us. So yeah, thank you so much for having me on site to be here.

**Anna Orriss-Baxter, Baringa:** Really excited to have you. Thank you. And now just moving over to you, Benedict, would you be able to introduce yourself, please?

**Benedict Altier, Baringa:** Absolutely, yes. So I'm a blockchain specialist and Baringa’s insurance practice with a background in working with insurers and asset managers and developing digital and data strategy. I've also worked in building decentralised blockchain applications myself, including a specialised risk model for smart contracts. It was at a conference a couple of months ago in London, the Insurers Innovators Summit that had a whole day focussed on Web 3 events and Ben Davis was one of the speakers and he was an incredible communicator and advocate for the role of insurance and building confidence in the crypto and digital asset space and tackling some of the big challenges that the sector is facing. And I thought it would be a perfect guest to have on the Trailblazers podcast.

**Anna Orriss-Baxter, Baringa:** Thank you both for joining and welcome. If we now start by getting stuck in, I wanted to start with some reflections on insurance for digital assets. Recently, I read an estimate that only 1% of digital assets are currently insured. And for me, I found this really quite staggering. And I'd love to just open by asking you both whether statistics like this are surprising to you. And if you believe the insurance sector has been slow to bring digital asset insurance offerings to market.

**Ben Davis, Superscript:** Yeah. It's a good question, it's a good one to start with. I think first and foremost, it's hard to actually accurately estimate how much of the total cryptocurrency market is insured, but somewhere around 1% is probably right. I would say yes, the insurance industry has been slower to innovate than other industries out there. But that really is the game of insurance. Right. The insurers are there to transfer the risk from the balance sheet of the company to their own pockets, essentially. And you can't really effectively do that without understanding the risk, the technology. And so insurance will never go before technology. It will never advance faster than technology. It always has to lag behind. Now the question is, how much are we lagging behind? Because in my mind there is acceptable levels of lag and there's unacceptable levels of lag. And part of what I said at the Insurance Innovators conference, I believe that there is currently an unacceptable level of lag in the digital asset insurance industry, because if you look at how insurance has historically insured emerging technology like AI, social media, video games, different things like that, there is a lot more insurers that are able to ensure that a lot faster pace than crypto. So crypto has actually been probably one of the most discriminated asset classes when you come to looking at insurance, finding insurance solutions for it. A lot of insurers will still just decline it because it says the word crypto in the submission or has some sort of digital asset name in the email or in the submission documents without actually peeling back the layers and figuring out what's the level of risk relative to the company rather than declining just because it mentions a word. So we still have a lot of work to do in the industry. But I think it's very easy to give insurers a bad rap. I think you look at many things on social media or you listen to a lot of podcasts and most of them are telling insurers what to do. Now, I do think that, you know, some of it is it's very valid, but I do think it's easy to kind of beat up on insurers when actually their job is to pick up the risk that people are trying to offload. And in industries like digital assets, which has, quote unquote, perceived risky nature. You can forgive them for it. However, I do think that this this technology is, coming up to like 14 years that it's been around, we need to start taking some more risk and we need to start moving in the direction of having a more liquid market than currently is available.

**Benedict Altier, Baringa:** Absolutely. And I think as well that's the one angle is do insurers have a responsibility and should they be trying to insure the digital asset space? But also the flip side is there's a tremendous opportunity that insurers are, by their nature, the best people in the world at insuring and understanding really complex and specialised risks. So this $900 billion market cap opportunity of digital assets to insure represents a huge opportunity for insurers who are willing to take that risk and are able to upscale and get the resources they need to provide effective coverage for digital assets.

**Ben Davis, Superscript:** And Benedict you're absolutely right and it's you know $900 billion and like let's say total market cap right now is actually small when you compare it to the associated industries because that doesn't take into consideration any of the adjacent traditional financial companies that are getting into the space that need insurance. That doesn't take into consideration the metaverse development, that doesn't take into consideration any sort of NFT technology. So actually the $900 billion, using that number is a total market cap of the cryptocurrency circulation today, is a good indicator of what's to come. But it's actually a very small indicator of what the entire future total value could be when we look at the space holistically.

**Anna Orriss-Baxter, Baringa:** Yes, it sounds like a really exciting opportunity I'm hearing. But obviously, insurers, by their very nature, are going to be that bit risk averse. They're going to wait to see how some of the market evolves before diving straight in. We've talked a little bit about digital assets being a discriminated asset class, and I quite like that terminology, and the word crypto can often be a little bit off putting. But if we now consider it kind of from the perspective of digital asset companies, are they looking for insurance? Is it something that they're reaching out and they're trying to find? And what are the, other than the potential stigma against some of the names of these digital assets, what broader challenges are they facing? In getting this if it's something that they feel they need?

**Ben Davis, Superscript:** Yeah. So I think from our perspective, we have noticed an uptick in submissions from companies, both from the start up nature. So literally, you know, two people in a garage that are interested in protecting themselves because they realise, hey, we're starting a business. There's risks involved in any sort of business, let alone in a digital asset arena. So we've noticed an uptick in submissions from small business, but we've also noticed an uptick in submissions from traditional businesses that are now getting into digital assets. So that would be a variety of companies, but it could be a marketing media company that now wants to do NFTs, that could be a company that has historically done traditional software development that now wants to develop Metaverses that are compatible with blockchain and NFT technology. That could be a bank that now wants to offer staking services to their customers or other digital asset related products. So we've definitely noticed an uptick in submissions. And so to answer your question, there are more and more businesses today that are realising they need insurance to have functional operation of their business. We've also seen more companies transact and get contracts with some of the biggest names in the world Nike, Adidas, Disney, and they're all working with these smaller companies that are adept in the Web 3 space. And a lot of those contracts have stipulations of 5 million, 10 million in insurance because those companies want to know that if something goes wrong, at least their balance sheets protected. So we have a lot of those kind of requests come in and so we're actually hiring even more people into the team. So we've got a team of four now. We're expanding to six in the next hopefully 3 to 4 months. And a lot of it is just to handle that that incoming new business mission flow. Because what we're seeing is even though we're in a depressed kind of bear market on crypto and the wider macroeconomic space, it hasn't really stopped businesses looking for insurance, which is really interesting.

**Benedict Altier, Baringa:** Yeah. And I mean, to add to that as well. There's the obvious aspect of actually protecting the digital assets themselves, but anyone involved in the spaces, as Ben was saying, will need to think about other important lines for any for any business looking to get insurance coverage for instance, professional and indemnity directors and offices, if they're doing any kind of work in the space, they want to make sure that they stay protected like they would in any other subsector. So huge interest not only for protecting the actual assets, but if you're doing any work, you want to make sure that any of your smart contracts, anything that you produce as a company in the space is protected by the traditional pieces of coverage you get for any other product or service you might offer.

**Ben Davis, Superscript:** Yeah. And it's a good way to map out the risk. You know, you've got your tangible assets and then your intangible assets. So your tangible assets would be kind of like the crypto that you store either on your balance sheet or custodian's protected environment. And then you've got the intangible. So that's like the contract risk you take. That's the professional negligence that Benedict was mentioning, that's the cyber risk. And cyber and in digital assets does not mean well, normally does not mean theft of actual assets. The theft of the assets should be transferred on to like a crime or a cold storage or specie policy. And the crime piece will actually cover the digital theft of NFTs. But the cyber piece that we normally put in place for our clients, it just protects against ransomware, data breach, DDoS attacks, things like that of that nature, and directors and officers, again, you can call that an intangible, but you know, that's protecting the liabilities that the directors and officers can face in the appointment of them and the management of the company. So yeah, it's, it's really interesting. And you know, we are seeing customers, I think, start all that, when our clients come to us, they'll start off talking about the tangibles, talking about they want to protect their digital assets and the care costs to control themselves or another party. And then once we start talking with them and actually getting to the root of what they're looking for, we start seeing that they're actually more interested in professional indemnity or directors and officers. So it's both of these worlds that we have to be able to ensure.

**Anna Orriss-Baxter, Baringa:** Yeah, and I think that's really interesting, and particularly in an area like Web 3 where it's still, I know the technology has been around for a long time, but the kind of adoption by the mainstream has not necessarily, and I think it still sometimes can feel a little bit nascent and a little bit intangible. So this kind of idea of the insurance becoming more tangible, the assets. But then actually the broader piece is interesting just to get your perspective on how insurers can help potential clients to cut through some of that, to work out kind of what they need and what the role of insurance can be in just helping them to also just to understand Web 3 a little bit more and what the opportunities are, what the challenges are.

**Ben Davis, Superscript:** Yeah, I mean, I don't think insurers are going to help anybody understand anything in Web 3, to be honest, it will probably be the other way around, to be fair. I think insurers are much more likely to partner with some of the nimble tech start-ups to provide capital allocation rather than do any sort of like tech development themselves. So I think we need to boil down to like what insurers are good at. Insurers are good at pricing risk and protecting capital. If you boil down what their business model is, it's pricing risk and protecting capital, and deploying that capital when they believe the risk is within tolerance levels of making a return. That is a perfect partner for somebody to come along and partner with and create technology that can harness this pricing of risk and create almost like a real time data stream, which actually blockchain's amazing for. If you actually look at what a blockchain can do, you've got this distributed technology that gives you a real time look at the transactions that are happening on a network within seconds, within minutes, whatever it is. And so if you want to look at insurance innovation in the future, I believe distributed ledger technology and smart contracts are a brilliant way for insurers to actually get way better at pricing. You can code and we're seeing this in, you know, in parametric insurance where insurers have partnered with start-ups to provide hurricane insurance or crop insurance or flight delay insurance and get really, really smart with how they price and how they pay out. And so I believe this is, as a technology, is potentially a dawn of a new era with how insurers can interact with their end clients.

**Benedict Altier, Baringa:** Absolutely. I think partnerships on the security front as well, because there's so much that can go wrong, as we've seen through numerous hacks and also accidental cases where millions of dollars were lost due to people trying to fix problems or vulnerabilities that existed in existing smart contract frameworks. So partnerships with audit companies, companies that specialise in reviewing the codes within some of the smart contracts that a business might want to put out penetration testing and ensuring that they can partner with security companies who can give them, and t the businesses they are working with an understanding of what are the best practices in terms of ensuring they have good wallet protection practices in place like multi-signature wallets, for instance. Having all of those foundations in place through work with the security company can then also give insurers the reassurance that someone is following best practices and reducing some of the risks and the known vulnerabilities that exist in some of the technologies that they could be insuring.

**Ben Davis, Superscript:** And just to follow on that, I think that's a brilliant point around smart contract auditing. I think what we've seen recently, especially with FTX, is that it had really nothing to do with crypto, if you actually boil it down, has nothing to do with crypto. It has everything to do with human greed and fraud and exploitation of people that unfortunately put their trust in a centralised company at the end of the day. What crypto and ironically you know, bitcoin was started to do away with all of that. But what we've found is actually the transparency of Bitcoin and digital assets is the thing that I think is going to end up restoring trust. And that's why smart contract auditing is so important. And what these companies are doing is they're trying to bring financial inclusion to on chain and to the masses and to actually have insurance as part of that is brilliant. I mean, like, can you imagine in the future when I think this FTX stuff hopefully calms down, insurance ultimately is a vote of confidence. And we could use insurance as regaining the trust in smart contracts or in these institutions and actually using insurance as a force for good in this industry. Because I believe that right now what we have is a crisis of confidence and insurance is one vehicle where we can actually get over that crisis. And if we can use insurance as a means of kind of maybe even validating some of these smart contracts and saying, hey, we think this is a good bet, but if it does go wrong, you've got some protection or, hey, this company, well, you know, these guys have been backed by whatever insurer. We know that somebody has done due diligence on them. We know that they're good even if they implode or whatever. So actually, I think insurance is one of the maybe the beacons that this digital asset and Web 3 industry can go to to help out of the current issue.

**Benedict Altier, Baringa:** Yeah. And there's a real incentive for platforms and exchanges to work with insurers. If you're a legitimate exchange and you really believe in proving to your customers that you can be trusted, that you're following all the best practices in terms of how you're storing assets and how you're ensuring that they're fully collateralised. Then you've got a vested interest to work with insurers and say, Look, we've got a pool of assets, we've got customers. This is a state of how we're organising our collateral. Can you help us to provide the assurance to customers that their assets will be protected? I know that some of the leading blockchain platforms have started to look at kind of self-insurance and policies where they have a guarantee that the assets are protected. But ultimately it's the name and the reputation of an insurer that will provide real confidence for people trying to decide whether they want to trust a platform or an exchange.

**Anna Orriss-Baxter, Baringa:** Yeah. And I guess this brings it back to some of the things that you both talked about earlier around the partnerships and where some of the new entrants to the market can then partner with some of the insurance who have that reputation and have that trust and confidence from the end consumers both retail and institutional, that actually will kind of really help to move this forward. And I think most of our listeners will be aware that 2022 was not a great year for cryptocurrencies, and I think there were a few shocks to the market, one of which being the FTX that that you've mentioned. And I think you've both highlighted that there's some real opportunities for insurance to help to rebuild some of that trust and confidence in these digital assets. Just before we moved on, wanted to check if there was anything else you wanted to expand on or bring out with the end consumer in mind and how we help them to be more confident in this market?

**Ben Davis, Superscript:** Yeah, I think from my perspective and I agree, you know, 2022 hasn't been the best year for crypto, but in another light, it has been a good year because we have had players that ultimately were not good for the industry, get found out and taken out of the game, which is kind of like a wildfire. Right? It purges all the bad stuff out of the industry and a lot of commentators in the Web 3 industry have said that crypto and digital assets are kind of speed running through finance. And I actually do agree with that, right, because you have some of these players that if they were propped up by public money or, you know, whatever it is, they would be around for years and years and years and these unsustainable business practices would only get worse. People would lose much more money than they've lost already. And I'm not I'm not saying, you know, my heart goes out to all the people that have lost money. It's awful. Absolutely awful what's gone on. But it's much better to have this happen now than potentially in the future when we're now talking about, hundreds of millions of people that have lost money because these people are doing risky betting and gambling with user funds. So, I think it's actually a good thing that we get these people out, we expose the fraud, we talk about it and we move on and we learn as an industry. I believe that's how we get stronger. And if you look at the track record of Web 3 and digital assets and things like that, we have gotten better. We have gotten better as an industry, we have gotten stronger over time. We've gotten more secure. Even though there's been attacks and hacks that still happen. You have to remember that we are building everything in public. Like, if you want to attack something, you can literally look at the code on the smart contract and figure out a way. So, building in public, it is using the public database of coders that are interested in this and constantly improving to figure out how we actually do this thing right. And I believe that even though there's shock to the system it's making us stronger as we get older and as we move on. So, yeah even though it was a tough year I think it's a very necessary year, unfortunately.

**Benedict Altier, Baringa:** I really like that analogy, and the speed running through finance idea, I mean essentially the whole ecosystem and all the technologies that live in it are a giant laboratory for how we can set up financial institutions and systems. You can set up your own bank with a couple of lines of code in your room on a computer. That's not something that's at all possible in the traditional financial world. So, it's hardly surprising that there would be situations where using and experimenting with these technologies in this laboratory, in this way, would lead to issues. But at the same time, because it's a laboratory, we can try a lot of things out. I think we've tried aspects of an unregulated wild west and decided that's not best for most people in the ecosystem. Equally, there's an alternative narrative where it's highly regulated and there's very limited options in terms of the kinds of things you can do on networks and in terms of payments and offering tokens, etc. But there's also a nice blend of the two where we use some of the market dynamics that protect people in other industries, for instance, insurance to help provide that protection for people to pool risk where vulnerabilities really weren't known and to help ensure that if people are unlucky enough to be affected by bad actors, there's a protection mechanism in place that can help to protect the assets and protect themselves as well.

**Anna Orriss-Baxter, Baringa:** Yeah, that makes sense. And to now start looking a little bit further forward. I'd be interested to hear how you both think that the insurance industry's relationship with the digital asset sector will evolve in the next 5 to 10 years. What do you think are the priority areas that will be focussed on?

**Ben Davis, Superscript:** In my mind there are two scenarios that happen and we're actually seeing both of them play out. So it will be interesting to see which one kind of wins out. But the first scenario is, the traditional insurance industry does the same thing that they're doing currently, which is, you know, a handful of the players they're putting out terms and that kind of develops like cyber insurance does, where you have standard market terms that generally most insurers agree to for Web 3. And then it is a maturation of market pricing and product. And so that's from the insurance side. So, I really do see ourselves as kind of like at the very beginning of cyber insurance or, D&O. On the broking side specifically, I see it more as like an IP insurance where you have only a few brokers for the large majority of the market actually know what they're doing and can take an outsized market share. I think insurers have to be a bit different because you need to syndicate out that risk, specifically in London. So there needs to be more insurance players than like insurance companies that know what they're doing, I would say, than brokers, because I do believe the business will be concentrated in only a few hands in the broking industry. So that's one scenario that will kind of potentially play out. Scenario two, which is interesting, is the decentralised insurance community gets more sophisticated than the traditional insurance community and starts taking more and more and more market share. That ends up making the traditional insurance industry irrelevant. And that's already started happening in terms of what's been going on with companies like Nexus Mutual, where they're getting more sophisticated in the types of risks that they can ensure the price points better because they don't have the same operating costs as an insurer. And it really gets dependent on what risk somebody is willing to place their token allocation and stake on. And I'm, you know, speaking as a broker that is interested in both sides, I really think the innovation that's happening from the decentralised insurance community is incredible. I think one of the pros is that they don't care about legacy insurance. They're going to do it. They don't really have the same kind of constraints. The cons, is they don't have the same ability to view price and entertain risk that a traditional insurer does. So again, this goes back to what I said at the very beginning. There is the great opportunity for them to marry that up. And we're seeing companies like Munich Re take note and start doing those types of partnerships and relationships. That's how I see those two scenarios progressing. Here at Superscript, we're really interested and really focussed on being the bridge of both the Web 3 industry and the financial industry. And we're hard at work at figuring out how we can actually help a blend of the scenarios where the traditional insurance industry isn't forgotten, isn't left behind, understands the technology enough to be able to essentially put out capital and the Web 3 community uses that capital and expertise and uses it with their technology to get a much better end client experience. And so that's what we're really working hard on right now and something I'm really excited about in the future.

**Benedict Altier, Baringa:** Yeah, I think that that's exactly right. It's a sort of trust in the traditional insurance institutions versus trust in code, because the one thing that these decentralised insurance companies lack is name recognition. Right. Nexus Mutual has built up a reputation, but that reputation still remains mostly within the crypto and the Web 3 community in terms of traditional businesses putting trust in Nexus Mutual, they have to still have faith that they know what they're doing, even though if you're in the community, you know that there's  ways of finding out whether they're mechanism of pooling risk in their smart contract mutuals is sound or not. The really nice thing about Nexus Mutual, I think one thing will definitely benefit the traditional institutions is this open sourcing of knowledge and tools. And for instance, Nexus Mutual have a grant program where tools or ideas or proposals that would be beneficial to Nexus Mutual members are funded. And those are things that could potentially benefit traditional insurers as well when it comes to improving smart contracts, auditing, tools for trying to improve the safety of these platforms. And also they can, because they have information from Nexus Mutual on the sort of trust that people have in backing the security of some of the platforms that are on Nexis Mutual, they can help to use this to try and gauge risk as well. So I think that crossover is exactly right. I think there's always going to be a subset of companies that want a trusted brand name that they know has done the work and has got a reputation for hundreds of years of understanding complex risks. But at the same time, they're clearly as if you're in the sector and you are interested in having a code for solution where you can see exactly what would happen in a given situation. Then decentralised insurance offers that in a really compelling way.

**Anna Orriss-Baxter, Baringa:** And it'll be really interesting to see which of these two paths or whether there's a third one that emerges and is followed in the next 5 to 10 years. Unfortunately, we're starting to run out of time. So before we start to wrap up, are there any closing remarks or comments that that you'd like to highlight around insurance and the digital asset market more broadly?

**Ben Davis, Superscript:** Yeah. I think insurance, if you actually look at the history of what we've done as an industry, has an actual incredibly rich history of innovation. I mean, we figured out how to insure spaceships, the first boats, the first cars. You know, we've been able to insure very interesting, complex structures in tangible objects. We can figure this out. You know, we can have an industry, a very, robust industry built around insuring digital worlds, digital currencies, digital objects. And we're an innovative bunch and we should be able to figure it out. So I think I really am hopeful for the future in terms of both on chain insurance and traditional insurance. And I believe we're putting ourselves in the position to hopefully be at the forefront of that conversation and help our clients get the best of both worlds.

**Anna Orriss-Baxter, Baringa:** Yeah, I think there's some much stranger things that are well insured than digital assets.

**Ben Davis, Superscript:** Absolutely.

**Anna Orriss-Baxter, Baringa:** That's probably a good point at which to wrap up then. So it's been really brilliant to have you both on the podcast today and to really do this deep dive into the insurance markets. So, thank you very much for sharing your insights and taking the time to our listeners. Thank you very much for joining us today and please do continue to look out for the next instalments of our Web 3 Trailblazers podcast.