

Advisory topic: Bitcoin, Crypto, and Virtual Currencies

Industry Maturity Index: *Now*, and *Short-term*

Why this is important: Bitcoin and other crypto or virtual currencies have created alternative payment methods and alternative assets. As a purely digital asset, which holds a variable market value, insurance coverage for loss or theft of bitcoins presents an opportunity and a challenge. Some companies are accepting bitcoins for premium payment.

What is it? Bitcoin is the most well-known virtual currency. A virtual currency is a medium of exchange using cryptography to secure the transactions and to control the creation of additional units of the currency. Virtual currencies are a subset of alternative currencies, or specifically of digital currencies.

Bitcoin uses Blockchain technology; Blockchain technology is a unique and separate discussion.

Virtual currencies use decentralized control as opposed to centralized (i.e., banking) electronic money. One effect of this decentralization is that the central banks of various countries lose control and regulation. This loss of control puts these currencies at odds with nation state monetary control policies and practices.

Broad Implications / Uses: This has applications for a limited number of businesses and individuals. If you are not using bitcoins or other virtual currencies the impact is very small. If you are accepting them as payments or holding them as investments the impact can be extreme.

- Fluctuation in value - up and down
- Anonymous nature of transaction
- Lack of insurance on deposits

On March 25, 2014, the United States [Internal Revenue Service](#) (IRS) ruled that bitcoin will be treated as property for tax purposes as opposed to currency. This means bitcoin will be subject to [capital gains tax](#). One benefit of this ruling is that it clarifies the legality of bitcoin. No longer do investors need to worry that investments in, or profit made from, bitcoins are illegal or how to report them to the IRS.

Most Central Banks in most countries have either defined bitcoin as not a currency or as illegal.

Economic Impact(s): Some early speculators in bitcoin have made a tremendous amount of money as the value of bitcoins increased. As a general economic event this did not register for the vast majority of people and businesses.

Insurance Industry Implications: Bitcoin and virtual currencies can have positive and negative impacts to many areas of our industry;

- Positive Impacts
 - it creates a new class of asset to insure
 - the value of premium payments may rise before they are converted to dollars

ACT Risk Advisory – Bitcoin and Virtual Currencies



- There are existing ISO endorsements for bitcoin (CR2545, CR2546)
- Negative Impacts
 - under existing policy forms, your insured will have a gap in coverage for loss of bitcoins
 - the value of premium payments may fall before they are converted to dollars

The insurance industry has responded to crypto currencies very slowly.

- The [Great American Insurance Group](#) has added an endorsement to its existing business Crime policy.
- [INGUARD](#) accepts premium payments in bitcoin
- [Teambrella](#), a new peer to peer British insurance company is launching to become the first decentralized bitcoin based insurance company

Other insurance implications of bitcoin in light of the IRS ruling are:

- Accepting bitcoin as a method of payment is the same as accepting other non-currency items. Examples would be accepting publicly-traded stock certificates or gold and silver. It is definitely better than my doctor neighbor who has accepted live chickens as payment.
- Bitcoin is a high-valued type of property similar to jewelry or silver. It differs from stock certificates or other documents. Bitcoin has no physical presence. A theft of bitcoins is not covered under a homeowner policy or a business policy without special endorsements. Since there have been large, documented thefts of bitcoins, customers may want to insure against this risk.

Recommended Actions:

Agents -

- Ensure you and staff are aware of the basic bitcoin concepts and applications (see 'Resources')
- Review your current customer base for possible impacts
- Investigate niche market for insuring bitcoins (example: Great American)

Carriers -

- Investigate offering theft coverage for bitcoin and other crypto currencies

Vendors -

- Investigate requirements for accepting bitcoin payments and tracking the value in accounting systems

Examples/Resources:

- [Great American Coverage article](#)
- [Insurance and Risk Article on Bitcoin](#)
- [Article on Teambrella](#)
- [Teambrella web site](#)
- [How to Set Up A Bitcoin Account Article](#)
- [Youtube Video on How to Set Up a Bitcoin Account](#)

Evolving Technology Caution:

Bitcoin and other virtual currencies are not yet a mature technology. The security of the bitcoin exchanges is questionable at the current time.

Call to Action:

- Educate yourself and your staff on this new asset category your customers may need to insure
- Educate your customers on the lack of current insurance coverage for this asset class

ACT Risk Advisory –
Bitcoin and Virtual Currencies



- Create a standard response if your agency or company is asked about accepting bitcoin as a payment method
- At the time of this writing it is the practice of ransomware hackers to demand payment in bitcoin. With this in mind, it may be worthwhile for your business and your customer's businesses to set up a small bitcoin account.

Authors: Duke Williams

