



# SO YOU'VE BOUGHT AN NFT... BUT CAN YOU INSURE IT?

Since its inception in 2009, cryptocurrency has evolved from being an obscure digital asset known to few, to becoming part of mainstream discourse as a coveted asset class. Over the past year, non-fungible tokens (NFTs) have dominated conversations in the cryptocurrency space. This is because the sale of NFTs has risen exponentially during this time, with the NFT market currently valued at about \$41 billion. This amount is approaching the total value of the global fine art market. The most expensive NFT ever sold went for \$91.8 million in December 2021.

## WHAT IS AN NFT?

An NFT is a blockchain-based tool that represents one of a kind digital or physical assets. It's encoded with the same underlying software as many cryptos, and they are purchased and sold online with cryptocurrency. Because each NFT is one of a kind, they each have a unique identifying code called a uniform resource identifier (URI). This is what makes it "nonfungible": it's unique and thus non interchangeable with copies that might be made.

The NFT itself isn't the artwork, but rather points to the artwork that lives elsewhere, whether it's in the digital or physical world. NFTs' characteristics allow them to be used as certificates of ownership over things like digital art.

Like with many products that become incredibly lucrative, fraud and theft have become rampant issues in the NFT space. This is why people purchasing NFTs are looking for ways to protect their investments with insurance.



## DIFFICULTIES INSURING NFTS

Unfortunately, there currently isn't NFT insurance available on the market. Because it's a new and unique asset class, insuring NFTs has proven to be challenging. For starters, not all NFTs are the same because some are fully digital, while others are digital representations of tangible items. It's also a complex product that's difficult to value because much like "conventional" fine art, they're worth only as much as the market says they are.

With insurance, value is heavily influenced by historical value over time. Most NFTs haven't existed for much time and their value fluctuates rapidly, which is what makes determining their fair market value difficult. The lack of historical data makes understanding and pricing the risk of NFTs difficult for insurers.

Additionally, distilling a precise description of core risks is also a challenge because of the nature of blockchain. For example, the NFT itself and the art it represents aren't one and the same. The NFT is a unique digital signature of an asset, while the artwork associated with the NFT exists somewhere separately from the NFT. These layers of complexity make it difficult to assess the full scope of risk.

The insurance industry has been slow to respond to NFT risks, though some existing lines of coverage might serve as a starting point to building a specific line of coverage capable of protecting against many of the risks associated with NFT transactions. Intellectual property insurance, theft and bankruptcy insurance, misrepresentation insurance, fine art insurance, and cyber insurance policies may provide models for developing NFT policies, as they each address different aspects of NFT losses.

While insurance providers develop products to protect this unique asset type, what can NFT owners do to protect themselves and their investments?

## CURRENT OPTIONS & NEXT STEPS

The best way to protect an NFT is to understand as much as you can about how NFTs work and confirm that you're implementing best practices to reduce risk. Consider the security posture of storage wallet providers and possible points of failure when digitally storing an NFT.

**Though coverage isn't yet available for your NFTs, our team is staying on top of developments in this area and will post follow-up content, as available. The best course of action is to talk to your broker if you currently invest in NFTs or plan to in the future to be sure they are aware of your complete risk profile.**

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Remember to ensure your other valuables are properly protected, as well! [Connect with our Private Client team to learn more about how we can help.](#)

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