

Want in on the NFT Craze? Understand the Risks First

NFTs are the hot new craze in digital assets.

CNBC reports that someone paid 400 Ether, or about \$1.3 million, for an EtherRock NFT that is essentially clip art of a rock. It may seem like a strange fad, but many companies are taking the NFT trend seriously. According to Markets Insider, Visa recently spent \$150,000 on a CryptoPunk NFT. CoinDesk says that Budweiser is venturing into NFTs and has changed its Twitter profile picture to a rocket ship designed by an NFT artist, and Bloomberg reports that Facebook is also considering getting into the NFT market.

NFTs are huge. But are they a good investment?

What are NFTs?

NFT stands for non-fungible token. It's a type of digital asset that's similar to cryptocurrency in the sense that its tracked and traded on a blockchain. However, the nonfungibility is part of what separates NFTs from cryptocurrencies. Each NFT is unique.

According to Cuy Sheffield, the Head of Crypto at Visa, "Since the rise of the Internet, there hasn't been a way to claim possession of a digital good, since most files can be infinitely copied, pasted, and shared. NFTs are unique tokens that can be used to certify the provenance, authenticity, and ownership of a piece of digital media."

Sheffield argues that NFT could become important for creators and collectors, and that small businesses could benefit, too. "NFTs give small businesses an opportunity to harness public blockchains for producing digital goods—which can be delivered instantly to a crypto wallet. We can envision a future in which your crypto address becomes as important as your mailing address."

The Downside of NFTs

The potential is appealing, but there are also risks to consider.

One obvious concern is that we might be seeing an NFT bubble. It may even bring to mind the Dutch tulip mania of the 1600s, when the price of tulips skyrocketed and then crashed. Interestingly, Business Insider says that a collection of 50 NFTs that are inspired by the tulip mania has been attracting buzz, and one sold for more than \$55,000.

There's also the risk of fraud. The Wall Street Journal warns that scammers are taking advantage of the NFT craze. These scams may take the form of phony NFTs, platforms that are designed to steal credit card information and viruses that empty the victim's digital wallet.

What Coverage Is Available?

If you purchased an expensive painting or necklace, you would most likely want insure it. Likewise, if you invest in an NFT, you will likely want to protect your investment with appropriate insurance coverage. Unfortunately, insuring an NFT is not as straightforward as insuring a physical asset.

NFTs are new, so the idea of insurance coverage for NFTs is also new. The volatility of this type of digital assets adds further complications, making insurance difficult to source. As of now, it's also virtually impossible to secure affordable insurance policies, such as cyber and D&O, for entrepreneurs starting NFT companies.

But this doesn't mean that insurers are ignoring NFTs. According to Investopedia, a Bloomberg report indicates that insurance for cryptocurrency could become a "big opportunity." Insurance Business says that "insurers are scrambling to figure out how to provide coverage for those selling, buying, or trading the non-tangible assets."

Coverage could address risks associated with lost or stolen NFTs, fraud and intellectual property claims.

This is a rapidly developing risk management topic. We'll keep you posted as new facts emerge.