Markets in Focus

Q4 2025

DIGITAL RISK

Economic Overview & Market Update

IMA

INTRODUCTION

YEAR IN REVIEW

2025 marked a turning point for digital assets, as crypto finally stepped into the mainstream. Institutional adoption surged while stablecoins became a global payment backbone, settling trillions in transactions. Blockchain infrastructure has matured dramatically, enabling faster, cheaper, and more scalable networks that rival traditional systems in throughput and reliability. The industry also cleared statutory hurdles with the passing of the GENIUS Act in July and advancement of the CLARITY Act in September; two parts of regulation that should lay the framework for market structure and digital asset oversight that balances innovation with protection.

From Bitcoin's rise as a store of value to the explosive growth of decentralized finance (DeFi), tokenized real-world assets, and the convergence of crypto with AI, the digital economy expanded across sectors. Emerging technologies like DePIN and zero-knowledge systems gained traction, while regulatory clarity in the U.S. helped unlock new use cases. The foundation is set for crypto to reshape global finance, infrastructure, and digital identity at scale.

KEY INDUSTRY EVENTS IMPACTING THE INSURANCE MARKET

Institutional Adoption Surged

Major financial institutions, both traditional and digital, launched crypto products. This adoption legitimized crypto in traditional finance and accelerated integration with mainstream systems. It also boosted confidence in CeFi and increased demand for tokenized assets. As adoption increased, so did exposure to risks.

Stablecoins Became a Global Payment Backbone

Stablecoins emerged as core infrastructure for payments, remittances, and on-chain commerce. In 2025, they settled trillions of dollars, rivaling traditional payment systems in speed, cost-efficiency, and scale. Their use extended across payroll, cross-border transactions, treasury operations, and everyday commerce, with major platforms and institutions adopting them as default rails. Stablecoins also offer an alternative to third-party, off-chain transactions, which can be more vulnerable to attacks.

Blockchain Infrastructure Maturity

Networks achieved high throughput and reliability. Innovations in zero-knowledge proofs and modular architecture improved scalability and privacy. Blockchain maturity enabled more complex Web3 applications, improved smart contract risk management, and supported gaming/metaverse platforms.

The BTC Treasury Strategy

Public companies are leaning into Strategy's, formerly MicroStrategy, treasury strategy and increasing their digital asset holdings. Banks, investment firms, and energy companies are some of the industries seeking to duplicate Strategy's success, which has seen the company's $63 billion in crypto holdings raise its stock value 3,000 percent since 2020.[1] Yet, crypto valuations continue to experience great fluctuations in value, and companies with significant holdings risk liquidity issues or margin calls if their crypto falls below a certain threshold.

Rise of DePIN and Real-World Asset Tokenization

Decentralized Physical Infrastructure Networks (DePIN) and tokenized RWAs (real-world assets) gained traction and adoption into critical public systems and networks, and increasing use in personalized web applications. Examples include decentralized wireless, energy grids, and real estate.

Convergence of AI and Crypto

AI agents began interacting with smart contracts, DAOs, and on-chain data. This fusion created new automation, fraud, and governance risks. Impact: Affected Web3, DeFi, and gaming, with implications for cyber insurance, IP protection, and behavioral risk modeling.

BTC MINING

Bitcoin mining in 2025 underwent a strategic transformation as profitability pressures collided with innovation. Following the April 2024 halving, which reduced block rewards to 3.125 BTC, miners faced tighter margins and began relying more heavily on transaction fees.[2] This shift made hashprice a critical metric, fluctuating with network congestion and fee volatility.[3] With ASIC hardware nearing its performance ceiling, the industry pivoted toward smarter, more efficient operations. AI-driven platforms emerged to allocate hashrate and optimize energy use dynamically,[4] while cloud mining gained popularity among solo and small-scale miners seeking regulated, low-barrier entry points.[5]

Institutional interest in Bitcoin deepened as ETF holdings surpassed $100 billion,[6] reinforcing its role as a reserve asset and drawing Wall Street capital into mining infrastructure. Despite U.S. tariffs inflating equipment costs, industrial mining farms expanded in energy-stable regions, and mining pools consolidated to maintain competitiveness.

Meanwhile, the global hashrate surged to 830 EH/s—a 77% increase from 2024 lows—prompting heightened scrutiny over energy consumption and environmental impact.[7] ESG pressures and local regulations pushed miners toward renewable energy and carbon-neutral strategies.

Traditional BTC Miners also began a rapid expansion into the AI Infrastructure/HPC space, as traditional data centers failed to support the demand for energy access. Many miners began allocating a significant portion of their completed and in-construction operations to GPU-specific configurations to support this increased demand. This will continue, as many newer construction data centers remain cold and unsupplied with energy.

From an insurance perspective, coverage evolved to include equipment breakdown, business interruption, and regulatory risk, while cloud mining platforms introduced new exposures around custody and fraud. As we look to 2026, mining will remain viable—but only for those who embrace relentless optimization, smarter infrastructure, and tighter compliance.

What That Means for You

+ Coverage for mining operations now includes equipment breakdown, business interruption, and regulatory risk.
+ Cloud mining platforms introduce new custody and fraud exposures, especially for retail participants.

BLOCKCHAIN + WEB3

Blockchain and Web3 in 2025 transitioned from hype to utility, reshaping digital identity, finance, and infrastructure. Decentralized identity systems took center stage, with projects advancing biometric and credential-based models gaining traction across sectors such as finance, healthcare, and gaming.[8] Tokenization of real-world assets (RWAs) accelerated, enabling 24/7 trading and fractional ownership of stocks, bonds, real estate, and commodities. Institutional platforms began integrating tokenized RWAs into traditional portfolios, signaling a shift toward hybrid financial ecosystems.[9]

The convergence of AI and blockchain introduced new automation capabilities, as AI agents began interacting with smart contracts and DAOs to manage governance and assets. No-code tools and "virtual cofounders" lowered the barrier to Web3 development, opening the door for broader participation.[10] Meanwhile, smart contracts became more scalable and secure, thanks to innovations in zero-knowledge proofs and modular architecture, while cross-chain ecosystems improved interoperability across networks.[11]

User experience also saw major upgrades, with wallet-based identity and simplified onboarding tools making Web3 more accessible to non-technical users. Web3 gaming and social platforms began attracting mainstream audiences, further expanding the ecosystem.[12]

New risks emerged around digital identity theft, smart contract failure, and token custody. Insurance models are evolving to address decentralized governance structures and vulnerabilities across interoperable chains.[13]

What That Means for You

+ Custodial risk continues to be a major driver in both insurance requests and insurance claims activity. This happens for a variety of reasons. Stolen private keys, bridge exploits, and smart-contract bugs trigger eight- and nine-figure losses. Crime/specie/cyber policies often exclude on-chain coding errors, hot-wallet losses, and unauthorized trades, or they require custody controls that many firms don't meet. Quality risk management procedures (RMPs) are critical to obtain favorable terms, as are full due diligence of any smart contracts, bridges, or third-party platforms that may contribute to a loss of assets.

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+ Coverage models are evolving to address decentralized governance and cross-chain vulnerabilities.

DEFI + CEFI

The convergence of decentralized and centralized finance accelerated in 2025, as traditional institutions began integrating DeFi protocols and tokenized assets into their offerings.[14] Legislation also brought structure to DeFi, with the U.S. and EU introducing frameworks for stablecoins, DeFi disclosures, and crypto asset custody.[15] Licensing regimes and compliance standards began to formalize across jurisdictions, reducing legal uncertainty for both startups and incumbents.

Despite progress, systemic risks persisted. Flash loan exploits, oracle manipulation, and smart contract bugs continued to trigger failures in DeFi markets. On the innovation front, tokenized finance took root, with real-world assets like treasuries, credit, and private equity increasingly issued and traded on-chain.[16] This shift enabled 24/7 liquidity and programmable compliance, but also raised challenges around valuation, custody, and regulatory oversight.

DeFi Vaults are bringing institutional-grade asset management On-Chain, with growing expectations that they will become a standard for asset curation. Vaults are automated Smart Contracts that pool user deposits and allocate them into yield-bearing strategies. Users deposit assets, and the De-Fi Vault allocates and manages those assets across sophisticated yield strategies. Vaults remove the need for manual monitoring, reallocation, and gas costs, and the opportunities are meaningful. The downside is that vault risks are real. Smart Contract exploits and Oracle manipulation are slowing investor interest. One hack could lead to a catastrophic loss.

From an insurance perspective, DeFi's composability introduced complex interdependencies that complicate risk modeling, underwriting, and terms of coverage. CeFi platforms, on the other hand, required enhanced coverage for custodial risk, cyber liability, and regulatory enforcement actions.

What That Means for You

Counterparty risk is a growing concern. Vetting custodians, exchanges, curators, and protocols requires extensive auditing. A good protocol is also to have real-time assessment and proof-of-reserves dashboards. Many custodians are maxed out in terms of insurance capacity, and there is not enough to satisfy all clients in the event of a catastrophic loss. It is advisable to have strong contractual risk transfer, indemnification, and insurance under your control.

The primary insurable risks for DeFi Vault investors and curators are Smart Contract exploits, Oracle failures, and resulting loss of funds. There are regulated insurance solutions capable of covering these losses today, such as combining guaranteed yield with insurance coverage for loss of funds, creating something closer to a DeFi Bond. Vaults solve yield access, and insurance solves risk management.

+ There is currently $140B of assets accruing in DeFi yield-bearing Blockchain protocols, and most of this amount is uninsured. From an insurance perspective, the challenge is to create policies that can protect assets on third-party protocols while not being under the care, custody, or control of the insured.

+ As institutions continue to allocate more funds to DeFi and digital assets, coverage availability will tighten.

+ Most recently, some Digital Asset Treasuries (DATs) have had a hard time getting D&O coverage due to a massive influx of requests. This will also be true as insurers look to cover as many DeFi and digital assets as possible.

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+ CeFi platforms required enhanced coverage for custodial risk, cyber liability, and regulatory enforcement actions.

METAVERSE + GAMING

Immersive technology adoption surged across gaming and enterprise platforms this year. VR headsets, smart glasses, and haptic wearables became more affordable and accessible, while neural interfaces and gesture-based controls began entering consumer markets, expanding the sensory depth of virtual experiences.[17] Game studios embraced AI-driven design, using machine learning to co-develop dynamic storylines, lifelike environments, and adaptive NPCs that respond to player behavior. These tools lowered development costs and accelerated production timelines for both indie and AAA titles.[18]

While gaming is still the largest economic driver of the metaverse, with a 2025 projected revenue of $185 billion,[19] the industry is evolving into a tool for real-world problems. Industries from healthcare to education, automotive to retail, and financial to entertainment leaned into metaverse technology for everything from immersive training, therapy, and virtual learning campuses to showrooms and hosting live events.

Blockchain integration expanded within gaming ecosystems, enabling secure asset ownership, decentralized economies, and player-driven governance. NFTs and tokenized items facilitated cross-platform interoperability and opened up secondary market monetization.[20] At the same time, gaming platforms evolved into social and economic hubs, where players earned income through play-to-earn models and engaged in virtual commerce. Metaverse-native brands launched immersive retail and entertainment experiences, blending gaming with lifestyle.[21]

From an insurance perspective, new risks emerged around virtual asset theft, intellectual property infringement, and behavioral liability in immersive environments. Coverage models are evolving to address digital property, cyber liability, and user safety in persistent virtual worlds.[22]

What That Means for You

+ Risks emerged around virtual asset theft, IP infringement, and behavioral liability in immersive environments.
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SUMMARY

The insurance landscape for digital risk continues to mature. Even as technologies evolve, data that helps underwriters create customized products to fit each sector and an organization's needs is becoming available. While new insurance options continue to open, underwriters are looking for control thresholds to be met.

It remains critical to be as transparent as possible with your broker and the insurance marketplace to unlock the best combination of coverage and cost. Brokers specializing in this space understand how to translate complex technology into simple terms that the market can understand.

Keys to success with upcoming insurance renewals/placements include:

START EARLY

Insurance placements in this space can take longer than other industries, often substantially so. To expedite the process, provide full information, a completed application, and any requested supporting data.

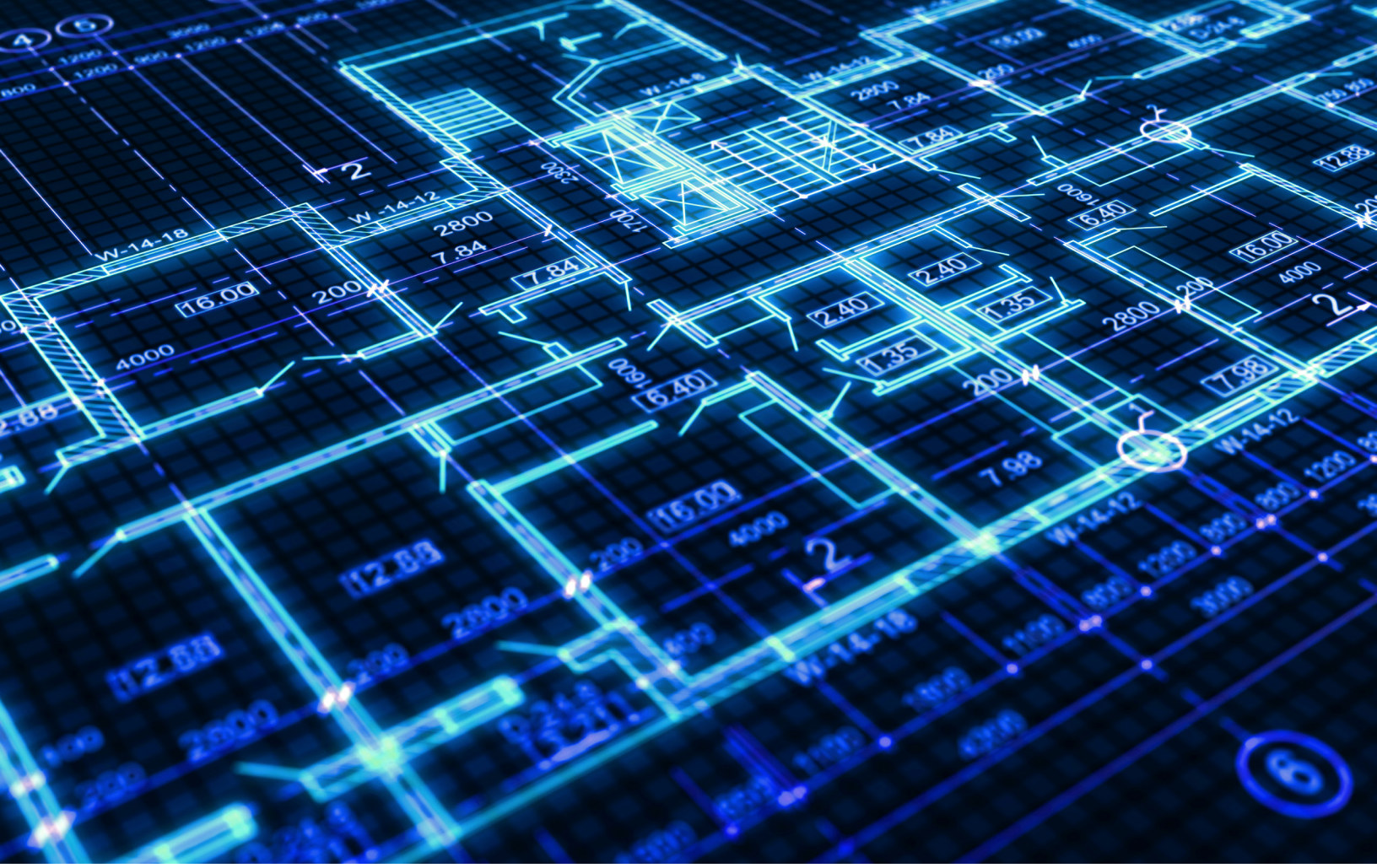
HIGHLIGHT CONTROLS AND EXECUTIVE EXPERIENCE

Insurers' chief concerns for digital risks include cyber and board oversight. Having a solid cybersecurity program will impact coverage availability and affordability. For any fidelity or employee theft exposures, insurers will demand well-crafted risk management procedures for assets and security keys.

WORK WITH EXPERTS

The marketplace for digital risk remains fragile. To navigate it effectively, it's crucial to understand how your insurance broker can leverage their market and industry expertise to represent your needs. Poor coverage design is unlikely to perform correctly in the event of a claim.

As the digital asset and blockchain industries continue to mature, so too will their insurance options. Until then, preparing for the complex process of obtaining the right insurance program is essential for long-term protection.



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