

Liability Insurance Products in Metaverse

Activities in Metaverse

Metaverse is full of activity. It should be no surprise because it continues to be a place to try out new ideas, to create avatars, tour, experience a different reality, play games, socialize, attend performances, window shop, and many other activities. Figure 1 is a short list of activities that are taking place in Metaverse.

Figure 1: What Activities are Taking Place in Metaverse

- Buying land to create homes, virtual stores, and office buildings
- Visiting virtual shopping centers and showrooms and experiencing immersive commerce
- Selling and buying online clothing and accessories for their avatars
- Creating auditoriums, sports stadiums, and buildings to promote their business in the physical world and make their presence known in Metaverse
- Investing in virtual workplaces and homes for public and personal use and amusement
- Investing in collectibles, digital art, and many other non-fungible items
- Creating education and learning classrooms and providing immersive virtual training experiences
- Creating and utilizing avatars and personas to help with employee onboarding, customer service, sales, and conducting visitor tours and virtual meet and greet sessions
- Watching concerts and performances
- Following sports and entertainment celebrities
- Gaming (one of the first activities in Metaverse)
- And many others

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Opportunities & Risks

Where there are opportunities there are also risks. This is true in the physical world and in Metaverse. Businesses and individuals alike are exposed to these risks. The probability and severity of each risk varies, of course, as they do in the physical world.

Without doubt commercial endeavors in Metaverse require the prevention and protection measures provided by

insurers. It's best to first understand the types of risks that exist in Metaverse.

Figure 2 provides the types of risks that are in Metaverse. The list includes what can be categorized as property-related, and as liability-related. It's important to note the difference between digital assets and virtual assets - and the risks associated with each type of asset.

Figure 2: What Types of Risks Exist in Metaverse

- | | |
|---|---|
| <p>Risks to Digital Assets</p> <ul style="list-style-type: none"> • Damage • Destruction • Corruption of digital assets • Theft • Trademark/Copyright/IP Right Violations • Changes to governments' and regulators' (e.g. U.S. SEC, U.K. FCA) definition of "digital assets", "virtual assets and ownership", taxable items & activities | <p>Risks to Virtual Assets (e.g. avatars, identities, personas)</p> <ul style="list-style-type: none"> • Damage • Destruction • Corruption • Theft of virtual assets (including Metaverse Real Estate), avatars, identities, personas • Trademark, Copyright, Intellectual Property Rights Violations |
|---|---|
- Risks Associated With the Underlying Systems and Technologies**
- Business Interruption
 - Cyber Threats/Crimes and Ransomware
 - Fraud and fraudulent transactions, and other criminal activities aimed at individuals, companies, governments, and organizations
 - Unauthorized access to data servers, networks, and other technology components
 - Physical and mental harm to people using virtual-reality computers, devices (e.g. VR headsets)
 - New definitions of medical malpractice of telehealth providers in Metaverse (e.g. erroneous diagnosis relating to the devices, components, and simulations utilized)

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In the lead article of this series called *Metaverse: A Universe of Possibilities* examples of digital assets and virtual assets were provided. The focus here is the liability risks associated with those assets.

Liability Risks in Metaverse

Figure 3 provides a short list of the types of liability risks businesses and



individuals are exposed to in Metaverse. The list may appear long but it really is a condensed list. With all the *players* involved in creating Metaverse and its *ecosystem* and their different activities in support of and inside Metaverse itself, the list of liability risks will undoubtedly be long. There is a need to create classifications for these risks beyond the groupings that already exist among risk management professionals in the physical world.

Figure 3: Liability Risks Businesses and Individuals Are Exposed To

- Corruption of avatars, and digital personas
- Privacy and accidental disclosure of personal data
- Accidental disclosure of business data
- False advertising, discriminatory advertisements, misleading advertisements
- Intellectual Property and copyright infringement
- Discrimination
- Defamation
- Harassment and Cyber-Bullying
- Invasion of privacy
- Failure to Prevent Theft
- Labor and employment liabilities including discrimination and harassment
- Crime and Fidelity liabilities
- Failure to prevent hacking and ransomware attacks
- Failure to Prevent Business interruptions
- Failure to recover from cyber attacks and business interruptions
- Failure to recover customer data
- Litigation-related (insurance recovery, privacy litigation, securities fraud, actions/inactions of directors & officers)
- Liabilities relating to improper commercial arrangements
- Third party (partners, vendors, suppliers) risks
- Third party(ies)'s actions and inactions relating to:
 - safeguarding access rights
 - availability of services
 - data privacy
 - securing transactions
 - hosting services and infrastructure
 - data collection, storage, and destruction
 - e-commerce activities
 - platform and systems designs and development
 - data architecture designs and processes
 - cloud services, cloud security, and cloud infrastructure
- Liabilities relating to failure to adhere to tax regulations, international laws on data privacy, artificial intelligence, protection of minors regarding various virtual activities

Figure 4 provides a list of the liability insurance products today that are relevant in the virtual world. It's a sound starting point to create liability insurance coverage for the various types of risks businesses and individuals are and will face in Metaverse.

Figure 4: Relevant Liability Insurance Products for Metaverse

- Directors and Officers Liability Insurance
 - Custody Insurance
 - Crime/Fidelity Insurance
 - Errors and Omissions/Professional Indemnity Insurance
 - Employment Practices Liability Insurance
 - Kidnap and Ransom Insurance
 - Cyber Insurance
- Most companies buy business owner's policy, or a BOP. These protect against liability and don't tend to protect the business property. Business property insurance does promise to keep the owner's property safe, however "property" will need to be better defined in Metaverse.

Insurers and Reinsurers possess the expertise to discover, assess, classify, quantify, rate and price risks. This expertise is what needs to be applied in Metaverse - and applied with new lenses. Note by the way that gamers are very good at viewing 'new worlds' with only a bias toward gaining a 'new experience', or pursuing a 'new adventure'.

Relevant Liability Insurance Products

There are liability insurance products that exist today that can be enhanced, and some transformed, to provide the insurance coverage required in Metaverse.

It's important to note that many companies that are active in Metaverse today do possess business liability insurance - primarily for the physical world. Some of those policies may contain clauses, terms and conditions that in the context of Metaverse may lead to misinterpretations as to the scope of the coverage/protection being provided. This could lead to litigation where the insurer that wrote the policy did not intend to cover activities taking place in support of, or in Metaverse, and the policyholder arguing that policy does include coverage.

Terms and definitions are still evolving in Metaverse. Damage to a physical property is different to damage to a virtual asset. The former is tangible and there are methods to estimate the



replacement or repair values of the damaged property. The latter is more challenging because of the still evolving methods for defining the value or worth of a virtual asset.

The commercial environment in Metaverse is markedly different. Product launches are highly visible, advertisements can be launched instantaneously, transactions and how they are carried out differ (especially when cryptocurrencies or in-game currency and credits are involved), therefore, the liability risks are different - and require careful thought in creating policies where a different concept of speed and time is involved.

New Universe and New Players

The number of active businesses, organizations, associations, and individuals (i.e. Metaverse ecosystem players) in Metaverse continues to grow. Therefore, there's tremendous opportunity for insurers to create partnerships and alliances, and to create forums for information sharing, co-ideation, and co-creation. Most of the Metaverse players know they are exposed to risks but don't know who to turn to for assistance in understanding them. This certainly applies to digital asset creators, and virtual (NFT) asset designers and creators - many of whom don't have any insurance protection.

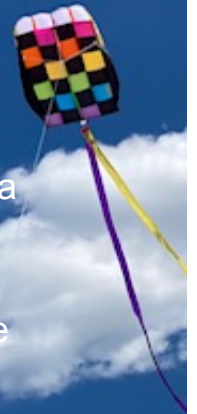
Commerce is active in Metaverse and the fascination with virtual reality and

the universe of new possibilities, at least for the moment, is overpowering concerns about property loss, liabilities, and risks of litigation. However, lurking in the minds of practically all the Metaverse players is the need for insurance coverage; protection that is relevant to the virtual world, easy to understand, and affordable.

The next article on this series called Insurance in Metaverse: A Universe of Possibilities is on Wealth Management insurance products and services.

A Sound Step...

that insurance leaders, liability insurance product managers, underwriters, actuaries, technology experts, and insurtechs & fintechs can take is create a forum to better understand the liability risks in Metaverse and to co-create risk scenarios, risk strategies, and create prototypes of liability insurance products that can be pilot-tested in Metaverse.





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