

diffusetap
Virtual Event Series

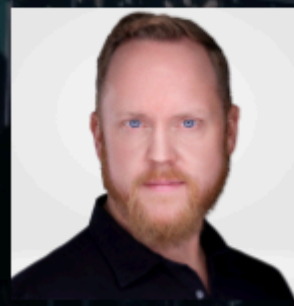
Would You Insure FTX US?

Guest Speaker:



Christian Davies
Global Head of Distribution & Innovation
Relm Insurance Ltd.

Hosts:



Kenny Estes
CEO & Founder
Diffuse



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COO & Co-Founder
Diffuse



DiffuseTap: Would You Insure FTX US?

Last time on DiffuseTap, Christian Davies, Global Head of Distribution and Innovation at Relm Insurance Ltd., talked to us about why Relm insured FTX US but not FTX International, why traditional insurance firms avoid crypto-based companies, and how crucial D&O insurance is in the world of crypto.

Want to make friends from the Diffuse Fund Ecosystem? Email contact@diffusefunds.com.

DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)... straight from your armchair like a boss.

Meet the Speaker



CHRISTIAN DAVIES is an insurance and cybersecurity professional with a solid track record with tech startups and top brokerages at [Lloyds of London](#). Christian is currently the Global Head of Distribution and Innovation at [Relm Insurance](#), the leading specialty insurer for emerging industries including digital assets, Web3, cannabis, psychedelics, and more.

LinkedIn: [@christian-ogden-davies](#)

About Diffuse®

We are an alternative fund platform offering differentiated investment products. From digital assets to VC funds and beyond, we identify green field investment opportunities we feel will have market beating returns and turn them into professionally managed funds. For more information, visit www.diffusefunds.com.



KENNY ESTES: Mr. Davies, thank you so much for joining us. Do you want to tell the good folks a little bit about your background and what you're up to over at Relm?

CHRISTIAN DAVIES: Perfect. Great to be here. Thank you very much for having me, and great to see all these faces. My name is Christian Davies. I am the Global Head of Distribution and Innovation at Relm Insurance. I've been in the insurance industry for about 12 or 13 years, depending on what side of the bed I wake up on, and I've always done innovative insurance for innovative clients.

Previously, I was the Global Head of Cyber Technology Insurance at three different broking houses. One of which was Willis. I created the first ever crypto insurance product globally, which, I make the joke that it was definitely not crypto insurance. It was literally insurance of a USB stick that went into a vault. And that was a very, very long time ago.

Relm is the first fully-regulated, licensed insurance company in the world that is licensed to collateralize, take payments, and denominate limits in cryptocurrency. We specialize in ensuring innovative emerging markets on a global basis.

We've been around for 5 years with over 180 million in gross written premium in 35 different jurisdictions. We target clients like crypto clients, AI clients, fintechs, and pharmaceutical companies like those in the psilocybin and cannabis industries. It's all the cool interesting things that a classic insurance company would absolutely run away from in the polar opposite direction.

That includes even some people on here. In your funds, you still can't get insurance because you touch crypto, and some people still think that crypto is only used for crime. So, we provide insurance to lots of different funds. Venture funds, hedge funds, and private equity funds as well. Even for lawyers who advise crypto companies. When they can't get it, we tend to be the provider of choice. If 5% of the crypto market buys insurance, we insure about 97% of them.

KENNY: Okay, well, I know for our protocol that one of those lines is D&O insurance. I've tried to imagine doing directors and officers insurance. Given that it's probably a little bit dicey in crypto, would you ever insure somebody like, I don't know, FTX?

CHRISTIAN: So, the interesting thing is, we did insure FTX. We insured FTX US, also known as West Realm Shires, which is public knowledge. We were so confident in FTX US. When you look at FTX, FTX US is a regulated entity.

Everything there is one to one. It got dragged down in a bankruptcy situation with the parent company. We were asked to look at the FTX International holding company in the Bahamas on three different occasions. And on none of those occasions, could we get comfortable with the risk they proposed. The reason for that is information sharing. We take risk, and we insure risk of what people see as incredibly, incredibly risky industries.



So, we ask lots and lots of questions. We're not an insurance carrier that can turnaround a quotation for a client in half a day. It's going to take two weeks. It's going to take a lot of due diligence as well. So, we asked them questions. If you can answer them, we will happily give you insurance. There are so many nuances around crypto as well, where we see some of the more classical insurance companies coming in on board.

D&O is a prime example. You look at things like, where is the funding? Who are the directors and officers? Have they got any strange things against their names? Are they funding terrorist organizations or coming from terrorist organizations? That's what you're looking at classically. When you look at crypto as well, you then have a whole different financial side of it, which is their tokenomics. If they have tokens, you then have to understand that side of it.

What's the vesting period? Who is getting most of the tokens? How does it vest? Do you have an eclipse? Is it heavily managed by one single person, who can then change the way that the entire process of the company goes, and can pull a massive rug from under all their ICO providers? What jurisdictions are they? Have they had interactions with the SEC?

It is incredibly complicated, but we've been doing it for five years. Probably about a quarter of our book of business is directors and officers. Most of the crypto company names that you can think of today off the top of your head, we are probably their director and officers insurance company,

KENNY: Including Diffuse, so there you go. That's a selfish plug. So, five years. That would have been 2019. That would have been a bit of a nightmare in the crypto market overall. I'm starting to see a lot more insurance carriers entering the market, or at least claiming they're entering the market. I have two questions. One, is that true? Are they actually coming in a meaningful way? And then, how do you guys distinguish yourselves from the newbies, as it were?

CHRISTIAN: Absolutely. There are no other insurance carriers coming into the market. That's the big differentiator there. There are things that are called Managing Agents or MGAs, who sometimes write on behalf of an insurance company. It's not their capital. So technically, they can write whatever on the earth they want, within some guidelines that they have tried to pitch to their backers

KENNY: "Hold the pen", I believe is the term for it?

CHRISTIAN: Exactly. They hold the pen. The people who actually make the decision of the underwriting or claims processes, when you come to that claim, could sit way, way higher at another completely separate company. There are zero capital requirements for when you set up an MGA as well. There are a couple of classic insurance companies, very, very famous ones. A couple of Lloyd's syndicates have started to write more than just what we call specie insurance, which is cold storage.



They have started to write a couple of lines of D&O. One very famous Lloyd's syndicate, second ever D&O client in the crypto space, was actually FTX International, which we had declined three years running. And lo and behold, three weeks after they broke that insurance, they immediately signed a check for \$5 million.

So, there are definitely people coming into the market. But again, it's nuanced, like all of these emerging technologies. You need to understand what they're all doing and how it's working. We have to do exactly the same. And that's why Relm was created.

KENNY: Okay, so generally just being a little bit, I guess stricter, more thorough on the underwriting and just understanding the business better. Is that the positioning?

CHRISTIAN: Yeah. We understand the businesses better than most people. We also write on our own capital. It's our own balance sheet. Interestingly, we did actually just get reinsurance from a company called Hanover, the second largest insurance reinsurance company in the world, which is a massive testament to just how successful and well seen and well thought of Relm is in the insurance space.

We did not really want to give away any of our book of business because it is very profitable. And we do like to try and keep much of it to ourselves. It looks very good to regulators when you can turn around and say, "well, Hanover took a part of that book." And we also have very specialist products as well. We're not just giving you a proposal form that asks you "Are you a SaaS provider?" when you're a mining company.

No. We have very targeted questions and we have very targeted insurance policies, and insurance coverages as well. For example, in crime, we look at hot wallets and digital asset theft. We specifically reference digital assets as one of the things that can be stolen through the cybercrime bit through employee infidelity.

And it specifically references that it's not shoehorned into some definition of property, or any other weird and wonderful thing. So, that's the big differentiator. That's what sets us apart from everybody else, and has for the last five years.

KENNY: Okay, that makes sense. How can you use that information? Do you guys do venture investing as well? Or is it like – I'm guessing if this is even a politically correct term anymore – a Chinese wall there around that information and how you can use it internally?

CHRISTIAN: Yeah. Interestingly, we have not been the best company at using all of our data. And let me give you this stat which is going to shock you all, as some of you are investors and I have an investing background as well. We've had over 5,000 submissions, or peak clients that are interested in buying



insurance. And every single one of them gives us way more information that you as investors are never going to get.

We're getting every single little bit about that company. And then, it forms part of the contract of insurance. And if anything deviates, if anything is a lie or fraudulent, then that can void their insurance entirely. So, we're now starting to look at how we can use the data. We've had these interesting conversations where a lot of the reinsurance market, the Munich re and the Swiss re, come to us and say, "Oh, we really want part of your business. We want to insure you. But we've got to go and get independent data to make sure that you're doing it right."

And then, they turn around and go, "Where can we get that independent data from?" And then, they realize that they can only get the independent data from us because we're the only ones who actually have the independent data.

So, could we use this adventure? Technically, we could. We do actually have a small allocation of our funds that we do put towards venture. But there are more opportunistic plays that we see, and things that I see from an actual venture capitalist, rather than being able to use that data.

Historically, we know what tends to work because we see them from a startup, and we see them through that A, B, C, D, and then potentially their IPO. That gives us a little bit of a headstart over others, because we get to follow their lives considerably further as well. We see these trends out there.

KENNY: Right. So, if anybody is looking for a check from an insurance company, maybe hit up Mr. Davies here and see if there's anything there. Sounds like you have to get some D&O insurance from them first though.

Speaking of which, earlier you said D&O is about a quarter of your business. At a high level, where is the market going? What are the trends you're seeing? What are the new businesses? I know you said a lot of it is bespoke, what you do. But where is the market headed?

CHRISTIAN: So, D&O is increasing, and investors are getting a lot more savvy in investing in crypto companies. If you look at a classical SaaS investment, or if they have any independent board members, they are forcing companies to buy D&O coverage. And now, that's starting to roll across the crypto investment landscape as well.

In terms of the areas of growth, you would have all seen the SEC trying to take an absolute holeless pipe over every single crypto company in the United States, even if they're not even based in the United States. It's definitely stifling the innovation that's happening in the US. You see the likes of the UAE with VARA, the Virtual Asset Regulatory Authority that started to bring its own regulatory legislation there.

They have over 2,000 Crypto companies in queue to get licensed. You've got MiCA coming out of the new European legislation, which is going to be enforcing custodians to have limits of insurance, which, I



believe, is between half and equal to the amount of assets they have under custody. Again, massive game changer. All the different European jurisdictions are trying to figure it out as well.

Hong Kong, again, I'm not ever sure what Hong Kong is going to do because they tend to wake up the following day and then change their mind. But at the moment, they're very, very crypto-friendly. That could change with their virtual assets regulatory authority as well.

These jurisdictions have been making big strides, and actually enforcing that hard and fast as well. In Singapore, you'll see that as well. People seem to be moving more into real world assets. We see a lot of that.

And finally, for all of us, actual UX and UI cases. Now we will actually be able to get my great, great grandfather to actually be able to use something in crypto, rather than some person who is fluent in 27 different coding languages.

KENNY: Going back to the licenses. All of this legislation, and all of these laws are coming on to books and all of the jurisdictions. How does that impact the insurance industry specifically? Is it just one more thing you have to underwrite on the D&O side, to make sure they're not running afoul of any laws? Or are you actually insuring against a violation of the licensure specifically?

CHRISTIAN: Yeah. In D&O, we specifically look to include coverage for regulatory investigations. That's the whole point. The D&O covers that individual director and the company, side A side B, for those kinds of investigations and the outcomes of those investigations.

What we're seeing is more and more jurisdictions, like the UAE and Hong Kong, are mandating insurance. MiCA is also mandating insurance as part of the regulatory process. So, if you want to insure it, if you want to get regulated in that company in that country, you have to have insurance. They're coming to us to help them actually write the legislation for those jurisdictions.



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Dennis Chookaszian

Corporate Director, CME Group

DiffuseTap: Institutional Grade
Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. [Read on](#)



Susan Brazer

CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse
2022

Susan described the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. [Read on](#)



Raj Mukherjee J.D.

VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes
Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for [Coinbase](#) and [Binance](#) from scratch, and how investors can profit from crypto without getting caught in a taxation mess. [Read on](#)

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