Cryptoasset Risk Mitigation Services

Specialized for infrastructure providers, institutions, family offices, and investors
Risk Mitigation

Capabilities

- Risk Mitigation Professional Services
- Technology Platforms
- Insurance Coverage
Cryptocurrency Trading introduces new, unique operational risk

<table>
<thead>
<tr>
<th>Traditional Trading Risk</th>
<th>Cryptocurrency Trading</th>
<th>New Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Identity</strong></td>
<td>Customer knowledge essential to meet service, suitability, and compliance needs</td>
<td>Parties can <em>anonymously</em> transfer value through the blockchain</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>Online access limited to firm’s own system</td>
<td>Access to the record requires <em>public and private keys</em></td>
</tr>
<tr>
<td><strong>Network</strong></td>
<td>Trading information contained within highly regulated systems (e.g., exchanges, DTCC &amp; Bloomberg, etc.)</td>
<td>Trade details are <em>broadcast to a distributed network</em></td>
</tr>
<tr>
<td><strong>Data</strong></td>
<td>Trading mistakes can be removed from the books and replaced with corrected trade</td>
<td>The block is added to the chain creating an <em>immutable</em>* record</td>
</tr>
<tr>
<td><strong>Third Parties</strong></td>
<td>Most trading is confirmed with a phone call from the back office</td>
<td><em>Unknown miners</em> validate new blocks when created</td>
</tr>
</tbody>
</table>

* Distributed network could be public or private, permissioned or unpermissioned depending the specific blockchain implementation

** An immutable blockchain record can not be changed
# Insurance “Links”

between cryptocurrency and traditional insurance markets

<table>
<thead>
<tr>
<th>Custody</th>
<th>Distributed Data</th>
<th>Mining (May be out of scope for this discussion)</th>
</tr>
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<tbody>
<tr>
<td>• Cryptocurrencies need to be custodied like traditional assets&lt;br&gt;• However, they have unique technical qualities that require specific risk mitigations</td>
<td>Blockchain-based assets are stored on broadly distributed ledgers</td>
<td>Miners are individuals or companies that set up computers to calculate the cryptographic hashes and validate the ‘blocks’ of data</td>
</tr>
<tr>
<td><strong>Cold Storage</strong>&lt;br&gt;Access keys can be stored on air-gapped devices, creating extremely high-value targets for theft</td>
<td>• Trading is reliant on nodes of distributed data that will likely be overseas and held by unknown parties&lt;br&gt;• While making it difficult to corrupt data, it also makes an institution reliant on access to outside systems to operate</td>
<td>A proof-of-work (PoW) or proof-of-stake (PoS) system is an economic measure to deter denial of service attacks and other service abuses such as spam on a network by requiring some work or stake from the service requester, usually meaning processing time by a computer, or underlying value</td>
</tr>
<tr>
<td><strong>Hot Storage</strong>&lt;br&gt;Access keys stored online are easier to access and potentially easier to hack</td>
<td><strong>Business interruption</strong> policies with an understanding of the blockchain</td>
<td>• <strong>E&amp;O and D&amp;O</strong>&lt;br&gt;• <strong>Reputational risk</strong> for involvement with cryptocurrencies viewed as supporting illicit activities</td>
</tr>
<tr>
<td><strong>Network security</strong> (i.e., cybersecurity) policies written with digital wallets in mind&lt;br&gt;• Crime policies&lt;br&gt;• Physical vaulting&lt;br&gt;• <strong>Counterparty risk</strong> if cold storage is with a third party</td>
<td><strong>Links</strong> to Traditional Insurance Markets</td>
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BlockRe Can Assist
with trading platform risk mitigation, compliance, and audit

BlockRe assists in providing full audit of crypto-related trading operations, risks, processes, procedures, reporting, and KYC/AML

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<th>Risk Mitigation</th>
<th>Compliance and Audit</th>
<th>Technology Support Platforms</th>
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| • Security Assessment  
  • Insurance  
  • Loss prevention  
  • Threat Intelligence and Analysis  
  • Asset tracking  
  • Incident tracking | • Regulatory Compliance, KYC/AML, and Legal Support  
  • Ensuring clients have appropriate KYC/AML controls in place.  
  • Reporting and Controls  
  • Audits | • Selection  
  • Integration  
  • Configuration  
  • On boarding  
  • Training  
  • Support |

Examples

BlockRe can provide an objective assessment of the potential risks and losses surrounding aspects of crypto trading – providing level of protection against potential E&O lawsuits

BlockRe can help develop a suitable AML program built for crypto compliance that could prevent regulatory fines

BlockRe can assist in selecting the best technology vendors and securing suitable vendor insurance policies

- Identify and mitigate any significant risks
- Provide security and assurance regarding risks or liabilities
- Enable rapid design of a cryptoasset insurance policy
Specific Ways to Engage BlockRe

Risk Mitigation Professional Services
BlockRe can prepare a thorough review of your current or proposed cryptocurrency custody processes and a threat assessment of security weaknesses that can be addressed through risk mitigation.

Insurance Coverage
BlockRe can broker bespoke coverages that address crime, cyber, E&O and D&O issues specific to cryptocurrency better than brokers unfamiliar with the new technologies.

Technology Platforms
BlockRe can report and make specific recommendations to your technology team to reduce risks associated with the marketing and trading of cryptocurrencies.
Contact Information

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