

## Metaverse Now and Next

### Insurtech Innovation in the Metaverse

**Insurance could help make the metaverse safe for mainstream business and consumer adoption, potentially accelerating development of a multitrillion dollar market.**

**Greg Hoffnagle, Alex Selarnick, Libby Sousa**

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The metaverse will offer new forms of immersive entertainment, modes of social interaction, and opportunities for collaboration. It is also expected to generate tremendous economic value. According to a recent [Citi report](#), “the total addressable market for the Metaverse could be between \$8 trillion and \$13 trillion by 2030,” with the number of users rising to as many as 5 billion by that year.

But participants in the metaverse could face significant risk of fraud, theft, and damage, particularly at the early stages of its development. The nature of digital relationships may make it difficult to determine who is responsible or liable when something goes wrong, and the nature of digital ownership may make it difficult to assess value and evaluate damage to property. Intellectual property, including brands, may be particularly vulnerable, and individuals may face heightened risk of identity theft. Moreover, security risks are changing as the metaverse evolves, making it hard for participants to understand their future risks and exposure.

Though insurance will undoubtedly play a significant role in mitigating these risks, insurers have yet to offer specific products at scale to protect digital assets or property in the metaverse. There may be many reasons for this, but two challenges stand out as particularly important: (1) uncertainty about regulation and (2) insurance methodologies in the space. In other words, it will be difficult for insurers to assess risk and offer new products until the regulatory landscape is more settled, and insurers will also have to learn how to effectively underwrite products and assess claims in the metaverse.

### **Regulatory Uncertainty**

Regulation inevitably lags innovation. To a degree, this is a feature more than a flaw, because regulators are likely to do more harm than good by setting rules too early. That said, the true value of transformative innovations often cannot be fully realized until the regulatory context begins to take shape, and persistent ambiguity can open the door to rampant fraud.

A first step would be for regulators to assure participants that existing financial regulations apply in the metaverse — and will be enforced — as they are in the real world. That includes know your customer (KYC), anti-money laundering (AML), and unfair trade practices laws.

Of course, existing rules may not be sufficient. Some will need to be adapted to this new context, and regulators may have to develop new rules to address novel challenges presented by the metaverse. For some issues, clarity will only begin to emerge through lengthy court processes. In the United States, the regulatory landscape is complicated by the fact that insurance is regulated at the state level, meaning that there may be

variation in rules among states. Moreover, enforcement can be a significant challenge in digital spaces that reach around the globe.

### **Methodological Uncertainty**

Regulatory uncertainty certainly affects risk modeling, but it may also be difficult for insurers to assess risk in the metaverse because the space is so new that they lack the data and experience to design economically viable products that meet customer needs.

Underwriting could be challenging because insurers have not yet developed effective pricing models for the metaverse. Claims adjustment could be another challenge because it may be difficult to document and determine the value of losses to digital assets and property. Insurers will likely develop their own avatars to reach customers and conduct damage investigations, but this too presents novel challenges given that there are no protocols for using avatars in this way.

### **Insurtech's Product-Metaverse Fit**

There are significant challenges to ensuring the long-term viability of insurance as a solution to risks inherent in the metaverse. However, regulatory scrutiny will increase as the metaverse grows, and regulators and the courts will inevitably begin to clarify how the rules apply in the space — as they have already begun to do in other contexts. Insurers and insurtechs are watching the space closely, and there can be little doubt that many are already building fact bases and testing ideas so that they will be ready to launch products when the time is right. This should be an exciting prospect for the industry, because their success can accelerate the development of the next digital revolution.

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## Contact Us

To discuss issues related to the metaverse, please contact Greg Hoffnagle, Alex Selarnick, Libby Sousa or any member of Goodwin's Metaverse team.

**[Greg Hoffnagle](#)** | Partner, New York | [ghoffnagle@goodwinlaw.com](mailto:ghoffnagle@goodwinlaw.com)

**[Alex Selarnick](#)** | Associate, New York | [aselarnick@goodwinlaw.com](mailto:aselarnick@goodwinlaw.com)

**[Libby Sousa](#)** | Associate, New York | [lsousa@goodwinlaw.com](mailto:lsousa@goodwinlaw.com)

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