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Crypto and Tokenization for Insurers



The digital asset market has entered a new phase. What was once viewed primarily as a speculative retail market is increasingly becoming integrated into mainstream financial infrastructure through regulated ETFs, tokenized assets, stablecoins, and institutional-grade custody and trading platforms.

As regulatory frameworks evolve and operational infrastructure matures, a growing number of insurers are evaluating the opportunities associated with the market, whether directly through investment allocations, indirectly through ETFs and equity holdings, or strategically through new underwriting and product opportunities.

However, digital assets continue to present challenges around volatility, capital treatment, accounting, liquidity, operational risk, and reputational scrutiny.

Meanwhile growing use of tokenization and stablecoins may have impact beyond asset class silos, reshaping elements of payments, collateral management, asset servicing, even insurance product design over the longer term.

This paper examines how insurers are approaching crypto and tokenization today, why adoption has remained limited, and where opportunities may emerge as market infrastructure develops.



About this paper

This FAQ is designed to address the specific, practical inquiries the Mercer Insurance Team has fielded from insurance investment professionals around the globe over the past 24 months. It moves beyond the headlines to examine the regulatory, accounting, and risk-management realities of this emerging asset class.

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Are insurers investing in crypto?

While global interest in digital assets has increased in recent years, the insurance sector remains characteristically cautious. However, the narrative of “total avoidance” is no longer accurate. We are observing a multi-tiered approach to adoption, ranging from direct balance-sheet allocations to indirect exposure via equity proxies.

Early institutional forays were defined by a “start small, think long” mentality. A landmark example is MassMutual, which signaled a shift in the conservative landscape in late 2020 by allocating \$100 million to Bitcoin for its general account¹. While representing just 0.04% of its total investment assets, the move was framed as a strategic effort to help deliver long-term value to policyowners. Beyond direct currency holdings, MassMutual also took a \$5 million equity stake in NYDIG, a specialist in Bitcoin infrastructure and custody. This “picks and shovels” approach has since been mirrored by other industry giants, with Liberty Mutual, Starr Insurance, and New York Life all investing in NYDIG to gain exposure to the underlying institutional architecture of the digital asset ecosystem².

For many insurers, exposure is emerging through “institutional creep” rather than deliberate crypto-specific trades. Smaller insurers, including Grinnell Mutual, Donegal, State Mutual of Georgia, Safeway, and Westfield, have used the Grayscale Bitcoin Trust (GBTC) as a regulated vehicle for exposure, with State Mutual of Georgia notably extending this to the Grayscale Ethereum Trust as well³. Diversified insurers are also now “accidental” owners of digital asset infrastructure through equity index contagion. Any carrier with

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exposure to the S&P 500 now holds Coinbase, while those with Nasdaq exposure own both Coinbase and Strategy. This makes it increasingly difficult to maintain the separation of “traditional” and “digital” assets in a modern portfolio.

Some friction points of access and regulatory uncertainty have been significantly mitigated over the last 24 months. The launch of multiple spot BTC and ETH ETFs has brought the asset class closer to being a line-item-ready investment. These vehicles provide the institutional-grade liquidity and familiar “ticker-based” execution that insurers require, effectively removing the technical hurdles that once deterred cautious investment committees. The US regulatory landscape for digital assets changed dramatically in 2025, with the SEC dropping nearly all enforcement actions from the Biden era and Congress passing the GENIUS Act, establishing a comprehensive federal framework for payment stablecoins.

The next US bill under debate is the CLARITY Act, which is expected to formalize which regulators will oversee which assets. If passed, barriers for institutional investors could be further reduced.

Why haven't more insurers invested directly in crypto?

Effectively, a yield-less asset class.

Bitcoin and gold share the characteristic of being non-yielding assets, and their inclusion in a portfolio is a pure play on capital appreciation rather than income generation. Unlike Ethereum and other “proof-of-stake” (PoS) protocols, Bitcoin operates on a “proof-of-work” (PoW) consensus mechanism. Consequently, Bitcoin cannot be “staked,” a process of locking up assets to secure the network in exchange for a yield. While it is possible to lend Bitcoin to third parties for a return, the underlying protocol itself does not generate cash flow.

In contrast, Ethereum's PoS architecture enables holders to earn a native staking yield, typically ranging from 2% to 4%. For most insurers, however, staking remains operationally and regulatorily prohibitive. Counterparty risks, liquidity lock-ups during un-staking periods, and limited clarity on the accounting treatment of staking rewards all make it a difficult fit for conservative general accounts.

Volatility.

The risk profile of these assets is further defined by extreme price variance. Over a 10-year period to December 2025, Bitcoin was around 15 times more volatile than 10-year US Treasuries and five times more volatile than the S&P 500, with annualized 10-year volatility of 74%. Ethereum, despite being the second-largest digital asset by market capitalization, historically exhibited twice the volatility of Bitcoin over the same period⁴. For insurers, this degree of price volatility necessitates a rigorously disciplined approach to position sizing to mitigate excessive surplus volatility.

Reputational and regulatory capital burden.

The regulatory treatment of digital assets is currently the primary barrier to direct adoption. In the EU, the European Insurance and Occupational Pensions Authority (EIOPA) has proposed a 100% capital charge on (re)insurers' crypto-asset holdings⁵.

This “one-for-one” requirement essentially dictates that for every euro of crypto held, the insurer must hold one euro of capital, effectively rendering direct exposure negligible for most regulated entities.



In the US, the National Association of Insurance Commissioners (NAIC) (via SSAP No. 20/INT 21-01) treats directly held cryptocurrencies as non-admitted assets. This means they cannot be used to support policyholder obligations or be included in statutory surplus. However, a critical distinction has emerged: while “direct” coins are non-admitted, US insurers can gain admitted exposure indirectly through ETFs or regulated fund vehicles.⁶ These structures are treated as admitted assets, providing a more capital-efficient pathway for insurers to access the asset class without the penalty of non-admittance.

Infrastructure and operational risk.

On the one hand, the operational frameworks associated with digital assets have developed materially. Direct coin custody remains a complex endeavor, as private key management and exchange-based storage carry substantial counterparty and cyber risks. The “institutionalization” of this infrastructure is being led by traditional custody giants, which now provide Bitcoin and Ethereum custody services for institutional clients.

As these credible, highly regulated players enter the space alongside specialized firms, the “infrastructure risk” is steadily decoupling from “price risk.” While asset volatility remains high, the operational safety of holding them is nearing the standards required by insurance investment

committees across the industry. Over time, this maturation of the custody layer should lower the barrier for insurers seeking to move beyond indirect proxies into more direct strategic allocations.

At the same time, however, a new risk is on the horizon: Quantum Computing. Until recently, the timeframe for quantum computing to run algorithms to derive private keys from public keys and impersonate wallet owners was estimated to be at 10-15 years. According to a recent Google paper, however, quantum computers could break cryptography with fewer resources than previously suggested. Investors will need to monitor these developments as they evaluate the asset class.^{7,8}

Digital Asset Infrastructure is improving, and custody services are becoming more institutional grade. At the same time, Quantum Computing poses material operational and price risks.

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Why might insurers consider investing in crypto?

Improved hedging.

The institutional infrastructure for digital assets has matured significantly and now provides robust mechanisms for programmatic risk management. Sophisticated hedging of spot exposure is readily achievable through a rising number of providers.

Notably, the CME Group provides a regulated suite of futures and options covering Bitcoin, Ethereum, Solana, and XRP. The availability of both standard and micro-sized contracts is particularly advantageous. This allows institutions to precisely fine-tune hedge ratios while maintaining the capital efficiency required for large-scale balance sheet management.

Liquidity profiles have expanded considerably. In 2025, CME Crypto futures averaged daily notional volumes of approximately \$12 billion.⁹ This level of depth indicates a highly liquid environment for Bitcoin and Ethereum in particular, capable of absorbing the entry and exit of the ticket sizes typically considered by insurance firms without causing significant market slippage.

Protection against currency debasement and inflation.

For institutional allocators, Bitcoin's appeal is increasingly rooted in its role as a non-sovereign, hard-cap asset. With a programmatic supply cap of 21 million units, Bitcoin may function as "digital gold," standing in clear contrast to the elastic supply dynamics of fiat currencies.



This characteristic is increasingly relevant for US-based insurers contending with structural headwinds to the dollar. As markets price sustained erosion of the US dollar's rate advantage and refocus on long-term US fiscal imbalances — including rising federal debt — Bitcoin may offer a strategic hedge against monetary debasement.

By diversifying into an asset with no direct counterparty risk and fixed supply, insurers can potentially shield a portion of their surplus from the inflationary pressures and "twin-deficit" concerns weighing on the dollar's long-term valuation relative to other G10 currencies.

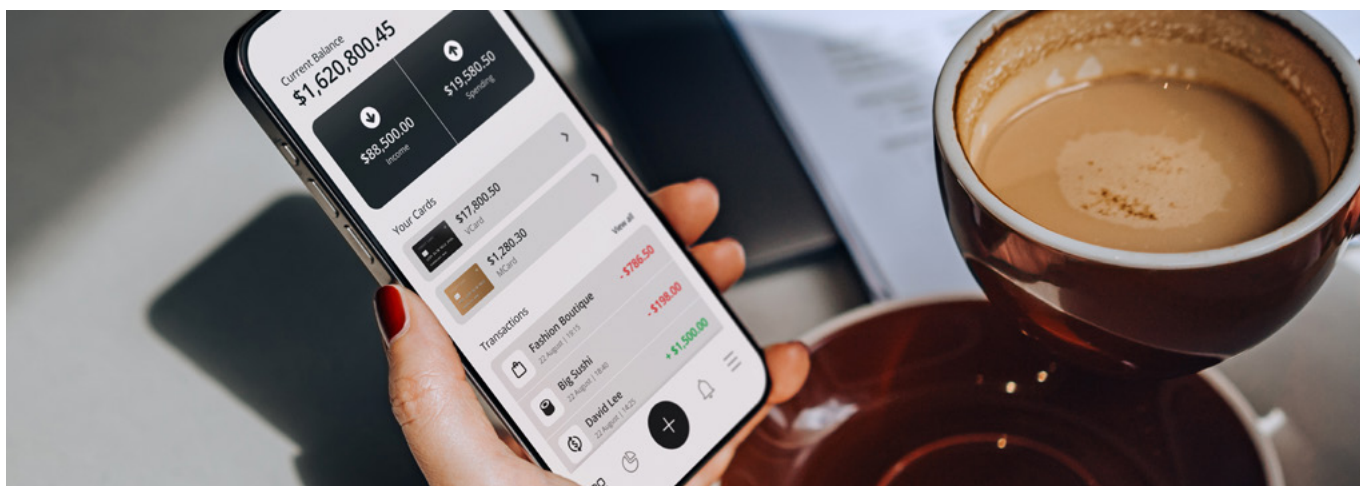
Potential diversification benefits.

Adding a modest allocation to crypto can enhance the risk-adjusted profile of a traditional diversified portfolio. Incorporating digital assets into a classic 60/40 stocks-and-bonds mix may increase expected Sharpe ratios as the allocation size rises. This is due to crypto's historically high returns relative to its volatility and its low correlation with traditional assets, both of which can provide diversification benefits. According to Mercer calculations, even small allocations (for example, 1–5%) to Bitcoin or a broader basket of digital assets may improve expected returns and risk-adjusted performance.¹⁰

Product innovation.

Investor engagement may also enhance underwriting insight. As insurers gain experience with crypto assets and tokenized market infrastructure, their ability to identify and evaluate emerging underwriting opportunities strengthens. Crypto and tokenization may support new insurance structures, including parametric cover, micro-policies, and digital asset-denominated protection products, such as Bitcoin-linked life insurance, expanding both product design and distribution possibilities.





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How might the evolution of tokenization create new opportunities?

Theoretical benefits

Tokenization refers to the representation of ownership rights in real-world assets as digital tokens recorded on a blockchain. In theory, tokenization can enable faster settlement, continuous market access, fractional ownership, and programmable compliance across collateral management and asset-liability management workflows. EIOPA has highlighted these potential efficiency gains, particularly in post-trade and balance sheet processes. Reflecting this view, BlackRock CEO Larry Fink has called tokenization “the next generation for markets,” pointing to a future of near-instant asset tradability, while noting that significant technological, legal, and cybersecurity challenges still need to be addressed.¹¹

Other industry specialists, including Jonathan Larsen of Ping An and David Solomon of Goldman Sachs, have similarly characterized tokenization as a structural evolution in market infrastructure rather than a transient innovation.^{12,13}

Current examples of tokenization

Tokenization is slowly gaining traction in specific institutional markets. Tokenized money market funds and US Treasuries surpassed \$7 billion in assets under management in 2025.

Beyond public markets, real-world asset tokenization is estimated to exceed \$20 billion and continues to expand.¹⁴ Moreover, there are multiple institutional efforts across banks and asset managers to tokenize private funds using regulated digital asset-focused platforms.

\$7B

**tokenized money funds and
Treasuries AUM in 2025**

Barriers to growth

Despite tokenization's potential to improve settlement speed, boost liquidity, and enable fractional ownership, significant barriers are slowing broader adoption, especially among insurers. Regulatory uncertainty and jurisdictional fragmentation remain primary obstacles, as legal frameworks for tokenized assets are evolving and lack international harmonization, creating compliance risks and operational complexity.

Integration with legacy systems remains a major obstacle. Distributed ledger technology must be integrated with existing back-end systems, custodial models, and settlement processes before many insurers can participate at scale with confidence. Interoperability issues and gaps in common standards can also limit adoption.

Finally, liquidity limitations and market depth in secondary trading venues make many tokenized instruments less attractive to insurers.

Collectively, these barriers highlight that technological maturity alone is insufficient. Broader adoption by insurers will depend on clearer legal frameworks, infrastructure integration, the development of standards, and the evolution of a more mature secondary market.



Is the development of stablecoins relevant to insurers?

Stablecoins are digital tokens designed to maintain a stable value, typically pegged to a fiat currency such as the US dollar. Fiat-collateralized stablecoins are generally backed on a one-for-one basis by reserves held in cash and short-dated government securities. In principle, stablecoins can integrate with traditional financial infrastructure to enable continuous, near-instant, cross-border settlement, with potential applications across payments, collateral management, and liquidity workflows. These features can be particularly attractive to global insurance and re-insurance firms with cross-border liabilities. If stablecoins were to offer interest or other yield-like features, they could potentially amplify bank funding pressures and creating systemic risk for the banking system. At the same time, the market is rapidly evolving and subject to substantial regulatory, operational, and governance risk.

Stablecoin growth may also have broader market implications. Empirical research from the BIS and academic sources suggests that large stablecoin inflows are associated with modest declines in short-term Treasury bill yields, on the order of 2-2.5 basis points, following significant issuance.¹⁵ As stablecoin adoption expands, these dynamics could increasingly influence short-term funding markets and contribute to steeper yield curve conditions.



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How are emerging digital and crypto insurance policies likely to affect insurers' approach to crypto and their business models?

Demand for crypto-related insurance remains significantly underserved. An estimated 11% of global crypto holders currently have insurance coverage, yet roughly 42% indicate they would purchase protection if it were available, suggesting a potential market opportunity of around \$3.3 trillion.¹⁶ As insurers begin to underwrite digital asset risks, asset-liability considerations become increasingly relevant. Where liabilities are denominated in crypto, holding matched crypto or stablecoin assets may help mitigate any currency mismatch.

Early market developments clearly indicate a rise in experimentation. Currently, AXA Switzerland permits Bitcoin premium payments for certain non-life policies, converting receipts into Swiss francs immediately. At the same time, some US insurers, including Universal Fire & Casualty Insurance Company, accept crypto premiums as part of their broader innovation efforts. Lloyd's-backed structures now support digital asset protection policies with claims payable natively on Ethereum via smart contracts. In parallel, firms such as OnRe are developing regulated, blockchain-native reinsurance models that align on-chain capital with real-world insurance risk.



Will insurers eventually facilitate crypto in unit-linked business?

Some insurers and regulators acknowledge crypto assets as underlying investments in unit-linked life insurance products (EIOPA).

1. Academic and industry reviews suggest crypto ETFs or ETNs could be included, but regulatory and legal constraints limit deployment, especially in Europe.¹⁷
2. Luxembourg regulators have clarified that virtual currencies are not financial instruments under certain unit-linked rules, restricting direct crypto inclusion but allowing indirect exposure via funds.
3. EIOPA reports that most crypto exposures are structured within funds held on behalf of unit-linked policyholders rather than direct holdings.¹⁸

Direct crypto in unit-linked products is limited by regulation (especially in Europe), so most exposure is provided indirectly via funds.



Endnotes

- ¹ Bloomberg News — “169-Year-Old MassMutual Invests \$100 million in Bitcoin.” Published 10 December 2020.
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