**Rug Pull Insurance: A Scam Protection Service on Cardano**

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*Abstract*

Rug Pull Insurance is dedicated to safeguard the investments of the Cardano community, thereby fostering a secure trading environment for all. Through a multifaceted approach compromising one-time and subscription-based services, token-holder, and complimentary offerings, Rug Pull Insurance’s objective is to mitigate the risks associated with fraudulent activities. This whitepaper delineates the comprehensive framework of our initiative.

1. *Introduction*

The cryptocurrency space, while potentially lucrative, is fraught with scams and uncertainties, posing significant risks to investors. Rug Pull Insurance endeavors to greaten the integrity of the landscape by minimizing losses from fraudulent schemes. It is imperative to emphasize that Rug Pull Insurance does not insure poor investment choices. Any investment where price declines in accordance to conventional price action will not be insured by Rug Pull Insurance. Insurance is extended solely against scams and fraudulent activity such as rug-pulls/liquidity pulls, inflated liquidity scams, additional tokens, pre-sale scams, and other selected scams. Any policy granted must be preapproved and all specifications are decided on a case-by-case basis. Within these, the investment and corresponding policy must be mutually agreed upon by Rug Pull Insurance and the investor to be insured. The following sections provide some details of the general terms, coverage, and operational procedures of Rug Pull Insurance.

1. *The Rug Pull Insurance Terms of Service*

This whitepaper cannot adequately describe the intricacies of individual services provided. These specifications will be predominantly based on the individual circumstance based on the following factors: investor track record, project investing into, safety score of project, Rug Pull Insurance assets held (tokens, CNFTs, etc), investment amount, and more based on service member’s discretion. Types of scams protected against remain on a case-by-case basis. Projects that are chosen to insure the investments remain on a case-by-case basis. Fee (if applicable) as well as amount insured remain on a case-by-case basis and are usually dependent on each other. It is crucial to specify that all policies, agreements, and claims will be handled on a case-by-case basis. Everything in regards to this service does not serve as financial advice; the investor should always do his or her own research. This is including, but not limited to: project investments insured, safety scores provided, audits performed, individual protected investments, and project collaborations. Details of each type of scam protected against follow.

1. *Rug-Pull Scams*

A liquidity pull, infamously known as a “rug-pull” consists of removing liquidity from a pool by usage of a decentralized exchange. When a liquidity pool is created on Cardano by the addition of a token and the corresponding ADA, the creator’s wallet receives liquidity pool tokens. These serve as keys for the entirety of the liquidity pool. If 100 percent of liquidity pool tokens are entered into a decentralized exchange and all liquidity is removed, the transacting wallet receives all of the token and ADA in that pool and the pairing pool is no longer functional. A known way to protect against this is for the founder to “burn” 100 percent of the liquidity pool tokens by sending them to the $burnsnek Cardano wallet address. These tokens are no longer accessible and cannot be used to remove liquidity from the pool. Rug Pull Insurance serves to protect against this type of scam. Please note that this method is largely avoidable by ensuring all of the liquidity pool tokens are properly “burned”. However, if an investment prior to liquidity pool token burn is insured, this remains on a case-by-case basis. This type of insurance will mostly consist of tokens immediately at launch as “burning” the liquidity pool tokens can take up to a few minutes. Otherwise, Rug Pull Insurance will protect investments from liquidity pulls predominantly as an incorporation to other insurance services/policies. Rug Pull Insurance will not insure any liquidity pulls consisting of “zapping” liquidity into a token after launch as a part of this base agreement. It should be understood that when liquidity pulls are insured against, this specifies insurance of liquidity added at token launch. Any insurance for liquidity added after the initial liquidity to launch a pool will be insured separately under a separate policy upon request on a case-by-case basis.

1. *Inflated Liquidity Scams*

An inflated liquidity scam occurs when a founder or team of founders artificially inflates the liquidity in a pool by methods of making multiple buys using multiple wallets. This gives the appearance of buys from numerous different holders. In reality, it is one founder or the team of founders using individual trades from many different wallets. This is then followed by sending all of the tokens to one wallet to dump them all at once. This is substantially more difficult for investors to detect which makes it useful to insure utilizing Rug Pull Insurance. Afterwards, the test to verify it was an inflated liquidity scam is to verify a large percentage of the token was dumped by one wallet consisting of numerous transactions receiving said tokens from other wallets. This procedure must be completed to be insured by a Rug Pull Insurance policy under the inflated liquidity policy. If the person or team sells directly from the various wallets at one time, it is considerably more difficult to know if it is a true inflated liquidity scam or a massive investor sell-off. In this scenario, Rug Pull Insurance will closely monitor the transactions of ADA after the sales. If there is strong evidence of an inflated liquidity scam such as transactions of all this ADA to one wallet, it will be covered by the inflated liquidity scam insurance policy. These events will be handled on a case-by-case basis.

1. *Additional Tokens*

A scam involving additional tokens includes a variety of scams. A frequent adaptation occurs when tokenomics dedicate a certain percentage of tokens to be withheld from the presale/liquidity pool for various reasons; they are instead sold by the founder or founding team into the liquidity pool at an unannounced time. This oftentimes causes a massive decline in token price as a large percentage of the total supply not initially put into the liquidity pool were sold at one time. An example would be if they dedicated 40 percent of tokens into the liquidity pool and withheld the rest for other project reasons (project development, collateral, etc). Then, the founder or founding team takes the withheld 60 percent and sells it into the liquidity pool. This is easily verifiable because additional tokens were added into the liquidity pool that indicated in the tokenomics. Policies insuring this type of scam are handled on a case-by-case basis. To aid in prevention of this, Rug Pull Insurance offers to hold any withheld tokens for a previously designated amount of time for the respective project at a cost, but this is not mandatory. Another frequent scam involving additional tokens includes minting more tokens without prior announcement under the same Policy ID as the original tokens. This is largely preventable by locking the Policy ID but in select cases, this may be insured by Rug Pull Insurance. This is easily recognizable by finding the transactions of the minting of additional tokens not previously indicated. This will be evaluated on a case-by-case basis.

1. *Pre-Sale Scams*

A pre-sale scam is when a project is operating a pre-sale for their token and fails to send the appropriate amount of their token or ADA in the event of a refund. This is recognizable after a period of time. This period of time will be decided upon on a case-by-case basis. If an investor is insured and sends ADA to a presale wallet, and after this designated period of time, does not receive a proper ADA refund or their share of the project’s token, their insurance policy will take effect. This insurance extends to pre-sales run through third party organizations or applications as is oftentimes seen. Rug Pull Insurance offers to handle pre-sale operations for projects for a fee as a method to ensure pre-sale safety but this is in no way mandatory. Insurance policies do not extend to projects ending before LP launch unless the project ceases to exist. This is to ensure that recovery policies are not enacted while a project is waiting to launch a liquidity pool. In the event that the pre-sale is operated in a fair way and the project ceases to exist afterwards but before liquidity pool launch, the appropriate recovery policy will be enacted. Policy details are on a case-by-case basis.