This insurance policy would ensure the staked ETH balance remains stable in the unlikely event of slashing or offline penalties that could happen to one or several Node Operators.

Overview

Unslashed Finance has designed a policy against slashing and offline penalties for the Lido DAO.

Slashing and offline penalties are “punishments” that validators incur when either they mistakenly double sign or when they are offline for long periods of time.

Problem

Currently, if a slashing event was to happen involving one or several validators, the balance of the slashed validator would decrease over a period of time (up to 2 months). This decrease would have an impact on stETH price which might lose the peg against ETH.

The same reasoning applies to offline penalties which could be the result of the validator facility taking fire or some other fat tail event.

These risks and their consequences could be mitigated using an insurance product that allows them to be covered.

Proposal

The policy here was designed specifically to cover these scenarios and the losses that might result from it. The policy focuses on a slashing rate of 5% that could happen over a period of 2 months starting from the moment the triggering event takes place.

The policy also covers offline penalties that amount to more than 1% of the staked ETH for a single validator or Node Operator and a 5% maximum limit.

The pricing for this cover will vary between 1% and 1.5% per year of the slashable amount and is justified by the history of Lido’s Node Operators who have been running validators over more than 20 PoS networks during the last 2 years.

Out of the more than 100 000 ETH being currently staked, 5 000 ETH would be slashable and the yearly cost would be 75 ETH maximum. Unslashed smart contracts being designed to work in cycles of 6 months, a deposit of around 37.5 ETH would allow to buy the cover and pay the insurance premium.

The non-consumed ETH at the end of the cycle will be automatically rolled over to provide insurance over the following cycle or could be withdrawn by the Lido DAO.

The Lido DAO will receive and hold Protection Tokens that will allow them to make a claim and get a reimbursement whenever a slashing event happens. The Lido DAO can stop the cover and get all non-used ETH back whenever they want, the premiums are being streamed in real-time and the model is a pay as you go model.

This policy will be subject to Cover Mining, which means the Cover bought by the Lido DAO will make them eligible to receive $USF tokens once these are released early march.