

We are thrilled to launch InsureDAO on the Optimism ecosystem and enhance the ecosystem growth by providing a security backbone for every user and protocol.

**Project name:**

InsureDAO

**Author name and contact info (please provide a reliable point of contact for the project):**

Rubio (Discord: rubio | InsureDAO#9154, TG: [@rubiokishi](#))

**I understand that I will be required to provide additional KYC information to the Optimism Foundation to receive this grant:**

Yes

**L2 recipient address:**

0x29C8942C7fDDDe7fCFB46eb6d0FE62f9dED75361c

**Which Voting Cycle are you applying for?:**

Voting Cycle #8

**Grant category:**

Governance Fund Phase 1

**Is this proposal applicable to a specific committee?:**

Yes

DeFi Committee

**Project description (please explain how your project works):**

InsureDAO is a DeFi insurance protocol, where users can purchase&sell insurance against any DeFi protocol, and the only DeFi insurance protocol on Optimism now.

Currently, insurance against smart contract vulnerability is available to purchase, and we are now preparing for stablecoin de-peg insurance, which is planned to be live in October.

Single pools & Index pools

There are two types of insurance pools on InsureDAO: Single pool and Index pool.

The single pools underwrite each single protocol's insurance and are isolated from other insurance pools. These pools won't be affected by payout that occurred in other insurance pools.

The Index pools consist of multiple single pools and underwrite multiple protocols' insurance at once. Liquidity in the pool is diversified across underlying pools and it is leveraged to increase the cover capacity so that returns for underwriters are leveraged.

Reserve Pool

The reserve pool is the liquidity pool in the case of insolvency. Each time an insurance purchase occurs, a certain percent of the protocol fee is accumulated in the InsureDAO Reserve Pool for reserve.

Since index pools leverage their liquidity, there would be a chance that the amount of insurance payment might surpass the actual liquidity if several protocols got hacked at once.

If any index pool becomes insolvent, the accumulated liquidity in the reserve pool will be used to pay out surpassed amount.

ReportingDAO

ReportingDAO is the third party committee, which consists of security experts, such as Quantstamp. The committee is responsible for insurance payment decisions based on its investigation and voting when an incident occurs.

#### API for the integration

We have developed an API for insurance integration to other DeFi protocols, which enables users to access insurance for a certain protocol from the partner protocol UI. The partner protocols can earn a referral fee every time insurance is purchased on their end.

#### De-peg insurance (to be launched in October)

We are now developing stablecoin de-peg insurance and planning to launch the insurance for sUSD in October.

Insurance purchasers will be instantly compensated when a subject stablecoin goes below a target price.

On the underwriting side, provided liquidity will be used to make and keep a short position for a subject stablecoin. When a de-peg incident occurs, profit from the short position will be used to compensate insurance purchasers so that underwriters' funds remain in the pool.

#### Liquidity Investment (to be launched in October)

Underwriting liquidity in insurance pools will be utilised in external protocols for capital efficiency. This function allows underwriters to get not only insurance premiums but the additional yield from investment.

At the launch, liquidity will be supplied in the Aave USDC pool.

#### Security

The protocol got audited by Quantstamp, Peckshield, Solidified, and Code4rena.

Also, we are working together with WatchPug for development and security.

### Project links:

- Website: <https://www.insuredao.fi/>
- Twitter: <https://twitter.com/insuredao>
- Discord: [Discord](#)
- Gitbook: <https://insuredao.gitbook.io/insuredao/>

### Additional team member info (please link):

Kohshi (Discord: kohshiba#6911, TG: [@kohshiba](#))

Oshun (Discord: Oishun#3920, TG: [@oishun](#))

)

Motoki (Discord: Motoki#5208, TG: [@MotokiTakahashi](#))

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### Please link to any previous projects the team has meaningfully contributed to:

Koshiba is the inventor of ERC2615, and he built a decentralised prediction market, which is called Forecastory, previous to InsureDAO.

### Relevant usage metrics (TVL, transactions, volume, unique addresses, etc. Optimism metrics preferred; please link to public sources such as Dune Analytics, etc.):

#### TVL

InsureDAO is currently deployed on Ethereum, Optimism, and Astar with a TVL of \$693k.

- Optimism \$200k
- Mainnet \$333k
- Astar \$160k

We are currently not distributing INSURE rewards to underwriters on any chains, and not opening an underwriting function publicly for users on Optimism and Astar.

As we are not rewarding underwriters, most liquidity on Mainnet is not in insurance pools but in INSURE staking pool and liquidity mining pool for the INSURE-ETH pair on Uniswap v2, which are currently rewarded with INSURE.

Moreover, as the underwriting function is not public, liquidity on Optimism and Astar are provided by the InsureDAO team & partner protocols. We will soon open the underwriting function to any individual users and start rewarding them.

Covered protocols: 18 protocols on Optimism

Arrakis, Beefy, BeethovenX, dForce, dHEDGE, Hop, Kwenta, Lyra, Rubicon, Perpetual, Pika, Polynomial, PoolTogheter, Synthetix, Tarot, Thales, Velodrome.

Insurance pool for Aave is now suspended, to implement an investment function, using underwriting liquidity on Aave. You can check further detail here ([Commonwealth](#)).

Total Cover Amount: \$298k

The total cover amount of \$298k of insurance has been sold on Optimism since the launch in July 2022. The list below shows the best-seller insurances on Optimism in August.

1. Hop protocol: \$70,000
2. Velodrome: \$67,250
3. Aave: \$63,498
4. Tarot: \$35,000
5. Synthetix: \$21478
6. Beefy: \$3585
7. dHEDGE: \$3,040
8. Lyra: \$2,355
9. Rubicon: \$350
10. PoolTogether: \$216

Other metrics

You can check further metrics in the links below.

Dune: <https://dune.com/insuredao/insuredao-stats-dashbord>

DeFi Llama: <https://defillama.com/protocol/insuredao>

## **Competitors, peers, or similar projects (please link):**

[Nexus Mutual](#)

[Risk Harbor](#)

[Insurace](#)

There is no other DeFi insurance protocol deployed on Optimism than InsureDAO.

## **Is/will this project be open sourced?:**

Yes

## **Optimism native?:**

No

## **Date of deployment/expected deployment on Optimism:**

We deployed InsureDAO on Optimism on 6th July.

## **Ecosystem Value Proposition:**

### **Problem**

There are lots of risks in the crypto space, such as smart-contract vulnerability. We have seen lots of hackings in the DeFi space, and this year alone, there were more than 40 incidents occurred and over \$1.3 billion got hacked.

Security remains one of the primary bottlenecks for crypto growth. And also, security is an important component of the growth of any respective chain ecosystem.

Potential risks&obstacles to sustainable ecosystem growth

- One big exploit may drain users' funds on the chain.
- A Diligent team may end up giving up the protocol growth due to one mistake.
- A major incident may slow down the chain's own growth.
- Conservative users may not deposit into protocols on the chain if insurance is not available.

There is so far no DeFi insurance protocol on Optimism.

By providing the insurance market available on Optimism, we believe InsureDAO will accelerate the further growth of the Optimism ecosystem.

### **Value Proposition**

With this proposal, InsureDAO would like to increase cover capacity (TVL) and encourage users to purchase insurance, thereby protecting more liquidity on Optimism from an unexpected incident.

InsureDAO already launched insurance against smart contract vulnerability on Optimism. Our product enables users to cover their funds in DeFi protocols by providing smart contract vulnerability insurance for DeFi protocols on Optimism.

Adding to the smart contract vulnerability insurance, we will launch stablecoin de-peg insurance in October to tackle another substantial risk in the DeFi ecosystem. In addition to the deep liquidity in the existing DEXes, de-peg insurance introduces further security for stablecoins on Optimism.

In short, we are aiming to strengthen the security of the Optimism ecosystem with insurance, and we believe that introducing the security backbone drives more protocols to be deployed on Optimism, and more users and liquidity to join the ecosystem.

## **Has your project previously applied for an OP grant?:**

No

## **Number of OP tokens requested:**

100,000

## **Did the project apply for or receive OP tokens through the Foundation Partner Fund?:**

No

## **How much will your project match in co-incentives? (not required but recommended, when applicable):**

InsureDAO is designed to incentivise users to provide underwriting liquidity in the form of INSURE emissions, which is the same mechanism Curve uses. That is to say, emissions are allocated across pools by veINSURE voters and therefore it is hard to say how much INSURE incentive will go to the pools on Optimism.

However, most insurance is currently purchased on Optimism. Thus we expect that more underwriters to come to Optimism compared with our product on other chains once we open the underwriting function and start incentive distribution and that these underwriters will be motivated to vote for more weight Optimism pools.

## **Proposal for token distribution:**

**How will the OP tokens be distributed? (please include % allocated to different initiatives such as user rewards/marketing/liquidity mining. Please also include a justification as to why each of these initiatives aligns with the problem statement this proposal is solving.)**

Underwriters: 65% (65,000OP)

65% of OP will be distributed to underwriters for both smart contract vulnerability and de-peg insurances that provide liquidity on InsureDAO for one year. We plan to distribute a fixed quantity of OP per week, in the amount of 2,600 OP/week. By calculating the weekly gauge weight allocated to Optimism pools, we can determine the proportional OP allotment toward each pool.

InsureDAO is currently not accepting liquidity provisions from users on Optimism. In order to provide liquidity for a larger cover amount, we will open the underwriting function on Optimism, and incentivise underwriters with OP along with insurance premiums and INSURE rewards.

By accumulating more liquidity for insurance, more funds on Optimism can be protected. This prevents potential damage to the Optimism ecosystem due to a huge incident and gives users more confidence to join the ecosystem with larger funds. Good projects and their users would be protected, and even if they became victims of hacking they could recover and commit to their growth.

Refund half of the insurance premium: 20%(20,000 OP)

20% of OP will be allocated to refund half of the insurance premium to insurance purchasers. Given that the average annual insurance cost on InsureDAO is 4%, this amount will compensate for half of the insurance premium for approximately \$750k cover amount of insurance.

Insurance has not attracted many DeFi users so far and InsureDAO is still not well known to the public on Optimism. However, many existing users repeatedly purchase insurance with InsureDAO and we think that if we can reach more people, we can increase the number of insurance purchases and covered funds on Optimism.

Protocol Integration: 10% (10,000 OP)

10% of OP will be distributed to the integration partners.

In addition to the refund campaign, we would like to expand the partnership with protocols for the integration to provide a more user-friendly insurance buying experience. OPs are distributed to our partners for half of the premium paid by users to purchase insurance through the integrated UI.

Bribe for INSURE-WETH on Velodrome: 5% (5,000 OP)

5% of OP will be allocated to incentivise INSURE-WETH LP on Velodrome through bribes for one year.

In order to incentivise liquidity providers on Uniswap v2 on mainnet to migrate \$liquidity into Optimism, we will allocate OP to bribe INSURE-WETH LP on Velodrome. With enough liquidity on Optimism, users will be able to swap INSURE with a low gas fee and will be motivated to stay in the Optimism ecosystem.

**Over what period of time will the tokens be distributed for each initiative? Shorter timelines are preferable to longer timelines. Shorter timelines (on the order of weeks) allow teams to quickly demonstrate achievement of milestones, better facilitating additional grants via subsequent proposals.**

The distribution to underwriters and bribes will take place over 25 weeks.

The distribution for refund is unpredictable since it depends on how long it will take to use the allocation to refund. We expect to use the allocation within 6 months by selling a \$750k cover amount for both smart contract vulnerability insurance and stablecoin de-peg insurance.

The distribution for integration is unpredictable again since it depends on how much insurance will be sold through integration. We expect to use the allocation within 6 months by selling a \$375k cover amount of insurance through the integration.

**Please list the milestones/KPIs you expect to achieve for each initiative, considering how each**

**relates to incentivizing sustainable usage and liquidity on Optimism. Please keep in mind that progress towards these milestones/KPIs should be trackable.**

By incentivising insurance selling, we aim to build a sustainable security backbone in the Optimism ecosystem with a large cover capacity. We also need to create an opportunity for people to know more about insurance and its significance. We believe both the large cover capacity and the risk management by each user are vital for the sustainable growth of the ecosystem.

Adding to that, by creating liquidity on Velodrome, users will be able to swap INSURE with a low gas fee and will be motivated to stay in the Optimism ecosystem.

Underwriting liquidity: \$2M

Our target APR for underwriters is around 10%.

If we assume that we achieve to match the amount of INSURE rewards with OP rewards, we will distribute about \$97.5k of rewards to underwriters in total in 6 months. Including organic returns from insurance selling and yields from investment function, we would expect \$2M liquidity in the insurance pools.

Total insurance selling: \$750k

& Insurance selling through integration: \$375k

By promoting insurance for DeFi users on Optimism with a cashback campaign, we would like to achieve to sell a \$750k cover amount of insurance in total. We expect that half of the total cover amount will be purchased through integrations.

INSURE-WETH LP: \$45k

If we assume bribes yield a 1.5x return in emission value per bribe on Velodrome, we could reward about \$5625 to LPs in 6 months. We would expect \$45k liquidity with around 25% APR.

### **Why will incentivized users and liquidity on Optimism remain after incentives dry up?**

As for the purchaser-end, insurance becomes more reasonable to purchase with lower gas costs since launched the protocol on Optimism. Indeed, most insurance purchases have occurred on Optimism.

With this proposal, we aim to reach more DeFi users on Optimism and accelerate the demand for DeFi insurance. By integrating insurance into other DeFi protocols, users can deposit funds into a certain DeFi protocol and purchase insurance for the protocol at once, which is more user-friendly.

Once the demand for insurance starts growing, underwriters will earn a higher organic return (real yield), and the attractive return entices underwriters to deposit more liquidity in insurance pools.

Other than organic return, we are going to implement the investment function for further sustainable return, and we will also continue rewarding underwriters with INSURE after the end of the OP incentive. Moreover, we will increase the leverage rate for the index pools in accordance with the liquidity accumulated in the reserve pool, which increases the return for underwriters.

Therefore, underwriters will be incentivised to remain liquidity and thereby liquidity becomes anchored on InsureDAO even after the end of OP rewards.

Furthermore, InsureDAO has the potential to bring more liquidity and users to other DeFi protocols on Optimism rather than to attract liquidity only on InsureDAO.

Mitigating risks by providing insurance, more users and liquidity, including conservative ones, potentially come to the Optimism ecosystem.

Also, InsureDAO helps new projects to launch and join the Optimism ecosystem by allowing them to create their own insurance pool.

Ultimately, they would be anchored to the Optimism ecosystem even after our incentives dry up, and support its sustainable growth.

Edit

Based on the feedback we received, we have changed the allocation as follows:

- Underwriters 50% → 65%
- Refund 20% → 20%

- Integration 5% → 10%
- Bribe 25% → 5%

Also, we re-calculated and updated the KPIs with the current price of OP (\$0.75).