Leveraging FOLD Tokens via Captive Insurance for the Relay

XGA, the new Auction platform, is built on our existingSecureRPC.com Relay service. Part of this solution requires that preferential treatment be made on the validator side regarding how MEV-Boost handles relay queries and responses. The TLDR is that since we need preferential treatment for v1 (XGA V2 eliminates this preferential treatment requirement entirely!) we need to provide a guarantee against service outages for the participating validators. Thus, we have a solid proposal regarding the solution set that will also be forward compatible (meaning it will still be relevant in XGA v2+, not just v1) solution regarding not only service-level guarantees but also providing MEV Boost compatible relay's the chance to make incentive aligned revenue as part of their service offering without

imposing fees or collateral requirements on builders/searchers/ or normal users.

Part of the insurance mechanism provides for FOLD to be used as an incentive for external 3rd parties to provide service connectivity during an outage. These 3rd parties do not have to coordinate with the Manifold Finance team to provide such connectivity, nor do they have to purchase any FOLD to participate in said mechanism.

FOLD token's use as an incentive for external third parties to provide service connectivity during an outage. This nuanced functionality impacts the analysis concerning the expectation of profit and the efforts of others.

Liability Collateral in a Captive Insurance scheme

The FOLD token is used to provide a backstop collateral for the purposes of insurance against service level agreement outages for Ethereum Validators. This system constitutes a 'Captive Insurance' scheme for providing protection to participating validators as part of connecting to Manifold Finance's MEV Relay. Manifold Finance is an infrastructure provider for Ethereum Validators, and to ensure that its clients do not suffer monetary damages as a result of network outages, Manifold Finance provides a guarantee against lost revenue for the duration of such service outages. In order to prevent an actual service outage from occurring, 3rd party service providers who operate MEV Relays are eligible to participate in the captive insurance protocol. These 3rd parties do not have to coordinate with the Manifold Finance team to provide such connectivity, nor do they have to purchase any FOLD to participate in said mechanism…

Captive Insurance using FOLD: Understanding of the instrument and Its Use Case

- Incentive Mechanism

: FOLD is used as an incentive for third parties to provide service connectivity during outages, enhancing the token's utility beyond just insurance collateral.

- Not available generally or publicly

: The coverage provided is for participating validators only. This is not available for consumers to purchase and use in a private at-home staking setup for example. Validators must be onboarded and pass client due diligence to be able to be considered for enrolment.

- Token Value

and Efforts of Others

: Since FOLD acts as a backstop to excess potential liabilities, by incentivizing 3rd Party service providers to participate and provide a fail-over capacity that is independent of Manifold Finance, the mechanism seeks to avoid a pro-rata funding event from FOLD that is deposited into the captive insurance vault. It is directly the actions and performance of external entities (i.e. the 3rd Party Relay service providers) that influences the token value performance.

The insurance protocol seeks to provide coverage against a validator not having access to both MEV Boost Auction and the XGA Auction. The MEV Boost auction is protected by failover capacity of 3rd party relays. So long as this mechanism is correctly working, this greatly limits the liability that FOLD could end up being on the hook for.

Decentralized Incentives for Service Continuity

Key Elements of the Captive Insurance Incentive Mechanism

1. Decentralized Participation

: The incentive mechanism's decentralized nature allows third parties to contribute to network resilience independently, potentially challenging the traditional notion of a common enterprise.

1. Service Compensation

: Third parties earn FOLD tokens as compensation for providing connectivity services during outages, shifting the focus from speculative investment to service-based earnings.

1. Individual Efforts

: The direct earning of FOLD tokens by third parties for their services suggests that any profits are more attributable to their efforts rather than the overall efforts of Manifold Finance.

1. Exclusive Coverage

: The insurance coverage is exclusively available to participating validators, who must pass client due diligence to enrol. This coverage is inaccessible to general consumers or private at-home stakers.

1. Influence on Token Value

: The value of the FOLD token is influenced by the performance of external third-party relay service providers, who contribute failover capacity, reducing the likelihood of a pro rata funding event from the FOLD deposited in the captive insurance vault.

Mechanism of Coverage

The insurance protocol offers coverage against validators not having access to both the MEV Boost Auction and the XGA Auction. The MEV Boost auction is safeguarded by the failover capacity provided by third-party relays, significantly limiting the potential liabilities that FOLD may cover. The captive insurance protocol takes a gross percentage of the underlying insured protocol's revenue (i.e. XGA). This is set at 2.5%.

Conclusion

In summary, the use of FOLD tokens in a captive insurance scheme presents a practical solution for safeguarding participating validators against service outages. The decentralized nature of the incentive mechanism enhances the resilience of the network and shifts the focus from speculative investment to compensation for services rendered. By leveraging third-party service providers, Manifold Finance can ensure continuous connectivity and protect its clients from financial losses due to network disruptions stemming from the usage of the XGA Platform.

Feedback is always welcomed!