PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: Armor
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Season/competition: Season 2

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	10 / 15
b) Market fit/demand	5 / 15
c) Target Market Size	6 / 10
d) Competitiveness within market sector(s)	4 / 10
e) Integrations & Partnerships	7 / 15
Total Points - Value Proposition	**32 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	2 / 15
b) What is the extent of the token's capabilities?	2 / 10
c) Is the issuance model able to improve the coordination of the protocol?	1 / 10
d) Is the value capture model able to accrue and distribute value?	1 / 10
e) Is the token sufficiently liquid to enable active use and trade?	1 / 5
f) Are there any extrinsic productivity use cases?	0 / 10
Total Points - Tokenomics	**7 / 60**
3. Team	**Points**
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	9 / 15

b) Does the team have relevant experience?	**7 / 10**
c) Does the team participate and help shape the public debate?	**2 / 5**
d) Is the team able to effectively attract and coordinate resources?	**8 / 10**
Total Points - Team	**26 / 40**
4. Governance	**Points**
a) Admin Keys	**2 / 20**
b) Extent of Governance capabilities	**2 / 15**
c) Active Governance contributors	**0 / 5**
d) Governance infrastructure	**3 /10**
e) Robustness of Governance process	**2 / 10**
Total Points - Governance	**9 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	**0 / 15**
b) What is the quality of the legal jurisdiction?	**0 / 10**
Total Points - Regulatory	**0 / NA**
Total	**74 / 225**

1. Value Proposition

The Value Proposition section describes the value a protocol delivers to its users. Based on the proportion of the problem the protocol aims to solve and the potential of the protocol to effectively solve the problem - better than other industry solutions - a Value Proposition rating is created.

a) Novelty of the solution (15 points)

This score evaluates the novelty (uniqueness) of the protocol. Has the protocol introduced any new innovations that help solve user's problems more efficiently? Is the project a fork? To what extent did they copy/fork the original?

Answer:
Armor finance offers decentralised insurance cover against smart contracts across a range of Ethereum based DeFi protocols including Balancer, Compound, Aave, Uniswap, Sushiswap, Dodo, and Curve. They also offer cover for centralised services such as Celcius, BlockFi, Kraken and Binance.

Armor provide several cover products which each cover smart contract risks using different methods:

- arNXM allows users to stake wNXM tokens in the Nexus Mutual ecosystem and earn yield without requiring KYC. Nexus Mutual issues wNXM for users contributing to the mutual fund but their platform requires KYC.
- arNFT can be minted to represent cover for an asset in a smart contract over a period of 90-365 days. These NFTs can then be traded or staked to earn yield.
- arSheild allows users to deposit tokens into dynamically insured vaults. The insurance cover is automatically subtracted from the yield earned in the vaults.
- Reciprocally Covered Assets (RCA) is a new, currently unreleased product in which users essentially cover each other against risk. Payments are only made when loss occurs in one of the vaults of the ecosystem, at which point a small percentage of every vault is liquidated to compensate for the affected vault.

Insurance in DeFi is a very new market and Armor are innovating to find ways to provide cover in a “DeFi native” manner.

Score: 10

b) Market fit/demand (15 points)

This score evaluates the degree to which the protocol satisfies a strong market demand. The market fit evaluates if the protocol is able to satisfy the needs of a specific market (can also be measured by user adoption/ #of users). To what extent has the protocol proven to meet the demand of a specific market? Is the timing of the product right for the market? Is the protocol targeting the right market?

Answer:
Hacks and scams are common in DeFi. Approximately $ 2.3 billion has been lost in these incidents. As more money flows into these smart contracts they will be bigger targets for hackers, and more users would like to reduce their risk with insurance.

To date 765 covers have been purchased with arNFT covering $ 1.2 billion in assets and bringing in $ 8 million in premiums. There is currently over $ 100 billion in total value locked in DeFi on Ethereum alone. Armor has yet to capture a significant amount of that market however, this shows that there are a massive amount of assets locked in smart contracts that could benefit from Armor cover.
Score: 5

c) Target market size? (10 points)

The target market size evaluates the current and future size of the problem the protocol is aiming to solve. The category of the Open Finance solution can be used as a reference to the target market (for example: Lending). Because Open Finance is by definition global, the global market for a specific problem equals the target market size.

Answer:
The DeFi insurance market is still relatively small with less than $ 1 billion TVL. The market has not matured yet and currently only covers users for smart contract risks in DeFi protocols.

If the scope of DeFi insurance can broaden, the growth potential is massive. The global insurance market is estimated to be over $ 5 trillion and employs around 3 million people in the US alone. Insurance is a tightly regulated industry with strict licensing requirements, so the growth of DeFi insurance could be hampered by this red tape.

It must be noted that the traditional insurance industry is looking to integrate blockchain technology into its systems, and this centralised solution may threaten the decentralised model proposed by Armor.
Score: 6

d) Competitiveness within market sector(s) (10 points)

This score evaluates the competitiveness of the protocol within the market sector(s) it operates in. This score offers a relative comparison of the protocol and other protocols operating in the same market sector(s). To evaluate this, metrics to directly compare with the competition can be used (e.g. TVL, trading volume, number of users).

Answer:
Nexus mutual is the market leader in terms of market cap ($ 500 million), but Armor ranks ahead of Nexus in TVL ($ 400 million).This shows that Armor is certainly competitive but the valuation is held back by poor tokenomic design and distrust after Azeem Ahmed's departure (see sections 2 and 3).

Another way to compare Nexus and Armor is by current active covers. Currently Nexus has $ 400 million in active covers whereas Armor has just $ 15 million. Even with the double counting in these numbers (since Armor is underwritten by Nexus) Armor has an order of magnitude less cover than Nexus.

Overall this gives a mixed picture that is difficult to evaluate. The DeFi insurance sector is not as mature as other crypto sectors and there is not as much competition. Taken as a whole the segment has yet to establish itself in DeFi. Nexus is the clear market leader and Armor still has a lot of work to do to establish itself in the market.

Score: 4

e) Integrations & Partnerships (15 points)

Due to crypto's open-source nature, the code of most protocols can easily be forked. This score represents a piece of "unforkable value". Some indicators to look at are the number of applications built on top of the protocol (vertical integration), other entities integrating the protocol's services (horizontal integration) or the number of relevant partnerships (be careful of logo collections/ partnerships without much purpose).

Answer:
Armor utilises Nexus Mutual as an insurance underwriter and the NXM tokens are key components to Armor's protocol.

In January 2021, Armor announced a number of high profile strategic backers including Collider Ventures, Delphi Ventures, Divergence Ventures, DeFiance Capital, Alameda Research, 1kx, The LAO, Blocksync and Bering Waters Ventures.

Armor has partnered with ImmuneFi to form the Armor Alliance bug bounty. Other protocols that have joined the Armor Alliance are Idle Finance, Perpetual Protocol, Alpha Finance Lab, Cream Finance, Synthetix, Harvest Finance, Dodo, and BadgerDAO.

In September 2021, Armor announced partnerships with EPNS to push notifications to users of their vaults, and Umbrella's oracle service.

Armor provides cover for many other DeFi protocols as shown below:

The Armor partnerships are strategic partnerships towards common goals, but so far, no other protocols are building on top of Armor or integrating their services directly.
Score: 7

2. Tokeneconomics

The Tokeneonomics section assesses the function of a protocol's token. This includes the token distribution, functionalities of the token, the ability of the token to incentivize positive behavior in the protocol, and the ability of the token to capture a portion of the value created.

a) Is the token sufficiently distributed? (15 points)

The token distribution can be an indicator of a healthy protocol. When the protocol tokens are widely distributed among different stakeholder groups and contributors, this genuinely improves the coordinating capability of the token and strengthens the resiliency of the protocol. Was the initial distribution balanced between relevant stakeholders? Are the tokens distributed over sufficient participants (10, 25, 100 largest addresses)?

Answer:
The initial ARMOR tokenomics are described here. In November 2021, it was announced that the founder vesting schedule was ended because the founders received too many tokens.

Currently, ARMOR has around 16,000 holders however, according to coinmarketcap, 93 % of ARMOR tokens are held by large holders.

The price has also declined sharply since its all time high of $ 1.95 in February 2021 to just $ 0.02 today. Part of this poor price action is due to one of the co-founders, Azeem Ahmed, dumping his tokens in August.
Score: 2

b) What is the extent of the token's capabilities? (10 points)

Is the token useful within the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way? Does it serve any other purposes?

Answer:
The ARMOR token provides limited utility and rights to the holders. It can be staked in the vARMOR contract to receive vARMOR tokens. These vARMOR tokens can then be used for voting on Armor DAO governance proposals. However, only one vote has been held to date. This staking rewards stakers with ARMOR tokens. These ARMOR tokens come from the treasury (i.e. inflation) not revenues. There are no other uses for the token.
Score: 2

c) Is the issuance/distribution model able to improve the coordination of the protocol? (10 points)

To what extent does the issuance of the token support the advancement and function of the protocol? Are the tokens justifiably being issued? Does the issuance model incentivize the right behavior? Are all relevant stakeholders benefiting from the issuance model?

Answer:
ARMOR can be bought on the open market or earned by staking LPs in the Armor rewards pools. This encourages holders to provide liquidity in DEXs and improve the liquidity of the token. However, the low trading volume in these pools suggests trading demand is very low.

ARMOR is distributed to stakers in the vARMOR staking pool at a rate or 32 % APY. However the largest vARMOR holder is the founder Robert Forster, and it is likely that other large vARMOR stakers are also ARMOR insiders. Therefore this mechanism is currently just rewarding ARMOR whales with more ARMOR.

The only Armor DAO governance proposal held led to burning 250 million ARMOR tokens. This was expected to be the first step in a new, as yet unannounced tokenomics structure, however this seems to have failed and had no impact on the price.
Score: 1

d) Is the value capture model able to accrue and distribute value? (10 points)

A value accrual and distribution mechanism can help improve the utility of a token and its ability to be used as an effective coordination mechanism. Does the protocol have mechanisms to distribute some of the value created to the token holders?

Answer:

The ARMOR token can be staked to receive vARMOR tokens. This staking pool has an auto compounding yield. The value of vARMOR is calculated by:

vARMOR Value = ARMOR in contract ÷ vARMOR supply

This ARMOR in the contract currently increases in value by 500k ARMOR tokens per week, paid by the Armor treasury. This means vARMOR tokens can be redeemed for more ARMOR at a later date. The current return on staking is 32 % APY.

This staking encourages ARMOR holders to hold their token and participate in the Armor DAO governance process (this is discussed in section 4).

There is no mechanism which relates the value of ARMOR and vARMOR to the success of the protocol.

Score: 1

e) Is the token sufficiently liquid to enable active use and trade? (5 points)

Is the token widely available and is there sufficient liquidity available to facilitate all protocol functionalities?

Answer:
ARMOR is available on 3 centralised exchanges (MEXC, HotBit and Gate.io) and 2 decentralised exchanges (UniSwap and Bancor). The 24 hour trading volume is just $ 33,000. This lack of exchange support and trading volume means ARMOR is largely illiquid.
Score: 1

f) Are there any extrinsic productivity use cases for the token? (10 points)

Besides the protocol's value distribution model as described in 2. d), can the token be used productively on other protocols (e.g. as collateral, for lending, LPing, yield farming, etc.)?

Answer:
ARMOR can be paired with ETH in a UniSwap LP. However, daily trading volume is just $ 10,000 for this pair so it is unlikely to be profitable.
Score: 0

3. Team

The Team section describes the quality of the team behind the protocol. The current version of Prime Rating favors teams that are publicly identifiable. In the case of an anon team, the track record of the specific anons involved can be taken into account

a) Is the team credible and public? (15 points)

Are the identities of the core contributors and team publicly identified? In the case of anon team members, is there any way to track their background/record?

Answer:
The public team members of Armor are:

- Azeem Ahmed - Co-Founder
  Ahmed co founded Armor after a dispute with the founder of Safe protocol, which had taken over yInsure by Yearn Finance. Ahmed left Armor in 2021 to start up Mochi.
  Forster alleges "[Ahmed] stole millions in LP tokens on April 15th [1]. He took developers from Armor to work on Mochi [2]. He dumped 14M tokens behind our backs in August [3]. He then held the social media channels hostage so we wouldn't say anything [4]"

- Robert Forster - Co-Founder
  Forster co-founded Armor in Sptember 2020 acting as CTO. Previous to Armor he has worked as a web developer, solidity developer and blockchain architect.

- Harry Kikstra - Operations Lead
  Kikstra joined Armor in January 2021. He has a background as a mountain guide and photographer.

- Rus Hughes - Tech Lead
  Hughes joined Armor in November 2021. He has experience as systems administrator to senior developer, team lead, CTO, co-founder, and fire performer.

- Christopher Heary - Community Manager
  Heary was hired in November 2021. He has a background as a pharmacy technician, crypto investor and blockchain community member.

- Romke Jonker - Development Manager
  Jonker was hired in December 2021. He has held various software engineering positions in payment oriented start-ups, both in crypto and traditional finance.

- Taek Lee - Lead Smart Contract Engineer
  Lee has a background as a smart contract auditor at Haechi.

- Corey Jackson - Lead Front-end Engineer / Co-founder
  Jackson joined Armor in January 2021. He has a background as a computer programmer and software developer.

The current team appears to be credible and public, this would warrant a high score. However Azeem Ahmed's rug pull and blackmail has severely dented the credibility of the project.
Score: 9

b) Does the team have relevant experience? (10 points)

Are there any documents or trails available to showcase the track record of the team? Do the team members have relevant backgrounds and skill sets?

Answer:
As outlined above in 3a, the current team at Armor appears to be a skilled team with relevant experience.
Score: 7

c) Does the team participate and help shape the public debate? (5 points)

To what extent do the protocol contributors participate in the public debate around open finance? Are the team members giving presentations, sharing their thoughts and opinions, and do they help raise the collective intelligence of the industry?

Answer:

Forster is active on twitter and has featured on several podcasts. The team has also hosted an AMA on Cryptotalkz. In these public appearances the aim of the team has been to educate on the DeFi insurance issue and promote Armor as a solution. They do not contribute to the wider public debate.
Score: 2

d) Is the team able to effectively attract and coordinate resources? (10 points)

How effective is the team at attracting and coordinating resources for the benefit of the protocol? Has the team raised sufficient funding or are there mechanisms in place to attract resources when needed?

Answer:
Armor have been able to attract resources in many ways:

- In January 2021, Armor announced a number of high profile strategic backers including Collider Ventures, Delphi Ventures, Divergence Ventures, DeFiance Capital, Alameda Research, 1kx, The LAO, Blocksync and Bering Waters Ventures.
- As discussed above in 1e, Armor have successfully partnered with other protocols to coordinate bug bounty programs.
- The bug bounty has been claimed, demonstrating the effectiveness of this program to attract white hat hackers.
- Armor has been able to attract good technical talent as shown by the recent permanent hires.
- As discussed in 1b, Armor has attracted enough customers to become a market leader in DeFi insurance and has maintained a large TVL despite the market downturn, showing that customers are staying.

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Score: 8

4. Governance

The Governance section evaluates how the protocol is governed and who the governors are. The different governance functionalities and processes are evaluated to determine to what extent the Protocol will be able to self-govern in a way that ensures the development of the protocols while respecting the needs of all current and future stakeholders.

a) Admin Keys (20 points)

Admin Keys allow some critical functionalities of a protocol to be controlled by an admin. This allows the developers to react to potential bugs, but also creates a risk as the developers could potentially misuse the admin keys to exploit the protocol. Does the protocol have admin keys and how are they managed?

Answer:
Armor claims to have hybrid decentralisation where there is a timelock owned contract which controls everything with two owners: a team multisig and a full DAO.

As discussed below, the Armor DAO exists in name only and it is likely the biggest vARMOR holder, founder Robert Forster, has control of the DAO keys. Thus, it is very likely that both sides of the multisig are in the Armor team's control.

Furthermore, the hostile departure of Azeem Ahmed along with Armor devs raises a critical security concern: Does Ahmed or any of the past devs still hold any of the admin keys?

Score: 2

b) Extent of Governance capabilities (15 points)

Distributed governance allows the token holders to participate in the governance of open finance protocols. How much influence does the governance mechanism have? Are the votes affecting on-chain changes or do they function solely as signals to the team?

Answer:
The Armor DAO was formed in December 2021 and is governed by the vARMOR token. ARMOR tokens can be staked to receive vARMOR tokens in a single staking pool. These vARMOR tokens can then be used to vote on DAO proposals. As explained in section 2a, currently, there are 161 vArmor token holders and the Armor team holds the majority of those tokens. Only one proposal has been voted on by 19 voters, and the governance sections of the forum and discord are quiet.

The reality is that the Armor team has complete control over the direction of the protocol. Therefore Armor could be described as a DAO in name only (DINO).

Score: 2

c) Active Governance contributors (5 points)

Governance is a process that can be rather resource-intensive if executed well. To ensure good governance is practiced by the protocol, it's important to have a sufficient number of governors allocate resources to the governance process of the protocol. How many individuals participate in the debate around the protocol? How active are voters?

Answer:
To date, only one proposal has been voted on by 19 voters and the governance sections of the forum and discord only saw activity around that vote in December 2021. Since then all governance activity has ceased.
Score: 0

d) Governance technology/infrastructure (10 points)

The Governance infrastructure relates to the technology, software, and models used by the protocol's governance. Does the protocol have a reliable and usable voting mechanism? Are there channels for governance debate? Is there sufficient documentation available?

Answer:
According to the DAO announcement, this is the voting process:

1. To make a proposal you must have at least 1 million vARMOR.
2. Proposals must be made on the forum.
3. Once there is “clear support” for a proposal it goes to voting.
4. Users can vote with their vARMOR for or against the proposal.
5. The vote must then meet quorum (currently 30 million vARMOR) to be passed.
6. The Armor team then decides how to implement the results.

However, this infrastructure is largely untested and has only been used once. The voting occurs on-chain, meaning voters must pay an ethereum gas fee to vote (although it has been suggested that the DAO will reimburse this).

Score: 3

e) Robustness of Governance process (10 points)

This score requires documentation specifically on the governance process that sets the basic framework in terms of agreements, norms, and language for governing the protocol and to create social consensus. Does the protocol have a formal governance process? How robust is the governance process and does it promote good governance?

Answer:
Although the protocol has a formal governance process, it has only been used once for a vote proposed by the Armor team. The proposal passed unanimously. There has been little debate, discussion or dissension. Therefore the process has not yet been tested and has not been used to actually resolve any conflict.
Score: 2

5. Regulatory

The Regulatory section describes the extent and quality of the regulatory environment that affects the Protocol. To be able to guarantee functionality, security, and legality the protocol should comply with regulatory requirements, or limit itself to facilitating services to users who are willing to operate outside of the traditional regulatory environment.

a) Does the protocol have any legal accountability? (15 points)

Does the protocol have any form of legal accountability? Can users and partners hold the protocol accountable in case of a breach of the agreement?

Answer:
Armor is listed as located in privately held offices in San Francisco USA, but searches on the company do not bring any results. Since insurance brokers require licenses, it is likely that the DAO is intentionally set up to avoid legal accountability.
Score: N/A

b) What is the quality of the legal jurisdiction? (10 points)

If the protocol has a legal entity, what is the quality of the jurisdiction the entity is established in? Will the jurisdiction be able to facilitate the legal framework for the protocol to expand while remaining accountable.

Answer:
Although Armor is a decentralised organisation, it was founded in the USA and most of its recent hires are in the US, Europe and Korea - top tier justifications.
Score: N/A

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