

Fundamental

Prime Rating Report

Protocol: Nexus Mutual

Version: V1.0

Previous Report: None

Date: 19/04/2021

Author: [LuukDAO](#)

Please fill in all questions with a written explainer, any relevant links and score per variable based on the [Fundamental Review Process V 1.0](#). Insert the scores per variable in the scorecard at the end of the report. Please follow the [Rating Process](#) when creating and submitting a report.

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.

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? In general, forks without any newly added functions are considered subordinate to the protocol they forked.

Answer: Nexus Mutual is an Ethereum based decentralized insurance protocol. The platform aims to become an alternative to traditional insurance companies by providing a wide range of products to protect users against smart contract vulnerabilities. Nexus Mutual spearheaded the Decentralized Insurance space and have paid out multiple times.

Score: 14

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. 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: Nexus Mutual is the largest Insurance protocol in DeFi with \$364M in TVL. The Insurance market itself is still rather small with under \$500M TVL. One of the downsides of the current

insurance protocol is their limited coverage. Only a small subsection of DeFi users actually use insurance protocols, it seems the insurance as such has not been able to find the right product market fit.

Score: 12

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 market for decentralized insurance is still rather small (under \$0.5B TVL). The current insurance protocols are limited only to smart contract risk in DeFi protocols, limiting the underwriting potential. Insurance is however a large market in traditional finance (multi Trillion dollar industry) thus there is a lot of room for growth.

Score: 8

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). The relative comparison can become rather subjective, to solve this the score standardizes the results in fixed categories.

Answer: Nexus Mutual is, by far, the largest player in the decentralized insurance sector. One potential limitation would be the KYC needed to get insurance on NXM. Other alternatives are popping up quickly.

Score: 9

Tokenomics

The Tokenomics section of the review 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.

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: Nexus Mutual initially created 3,000,000 NXM tokens. 1,000,000 were distributed to Nexus

Mutual Foundation (Collective Risk Services). Additionally, the team received 1,300,000 while the remaining 700,000 were allocated to the protocol's seed investors. Through a bonding curve new tokens can be created. Currently 6,923,597 NXM tokens are in circulation and 3500 NXM token holders. There are some lagers holders with 8%, 6%, 4% of the Tokens. Overall there is a good balance between users, funders, and core team.

Score: 11

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

What are the different merits of the token? Is the token useful in the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way?

Answer: NXM tokens can be used to purchase cover as well as participate in claims assessment, risk assessment and governance. All funds raised from token purchases belong to members. NXM tokens can be burned to claim ETH in the NXM curve.

Score: 9

Is the issuance 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: The NXM token can be created by buying into the NXM token curve - which reflects the value of the NXM collective. The issuance of tokens is therefore aligned with value created in the ecosystem. Besides issuing from the NXM curve NXM tokens are not being distributed to active contributors.

Score: 7

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

A value accrual and distribution mechanism can help improve the merit 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 value created by NXM covers is directly allocated to the NXM holders. NXM holders are also able to stake on projects they deem secure to earn rewards. Through this model token holders directly benefit from value created by the protocol.

Score: 9

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: The NXM token is available through the wrapped NXM (WNXM) token on some exchanges. (\$110,000 +2% depth).

Score: 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

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 core contributors are visible [on the website](#). The team is public and their background are traceable.

Score: 15

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: The team has a strong track-record in being able to work at high professional levels. The Founder Hugh Karp has over 10 years of insurance and financial experience. Other key people have worked at Facebook and Adyen.

Score: 8

Does the team participate and help shape the public debate? (10 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: Hugh Karp plays an active role in the public debate, especially around DeFi risks and insurance. He is also part of Venture DAO, further extending his reach. Other team members have a small voice in the space.

Score: 7

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? How well are resources managed and used?

Answer: Nexus Mutual raised a small seed round in [2018 \(~\\$200K\)](#) - with which it was able to build the first version of the protocol. In Feb 2021 the project raised another [\\$2.7M from strategic investors](#). It also attracts funds to the Collective through the token bonding curve. Based on the products shipped and resources attracted it seems Nexus Mutual is able to successfully attract and coordinate resources.

Score: 9

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.

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: Admin keys are managed by the NXM governors with a 7 day closing time.

Score: 20

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: Nexus Mutual Governance includes a wide range of proposals ranging from Parameter Changes to Treasury Management. Claims are also checked by Governors.

"Initially, we have a member token-voting process overseen by an advisory board (comprised of experts from the worlds of insurance, mutual management and smart

contract security). Note that any member can replace an [Advisory Board](#) member via a vote at any time.

Any member may delegate their vote to any other member with rewards available for participating in governance actions. Nexus Mutual will launch with [some aspects](#) which are not fully decentralised. These will be reduced over time as the system becomes battle-tested and gains scale."

Score: 13

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: The governance is directed by Members votes, however the Quorum isn't always reached, leading to a Advisory board vote. Forum seems rather quiet.

Score: 3

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. Does the protocol have a formal governance process? How robust is the governance process and does it promote good governance?

Answer: Their Governance process is separated into different Categories each with their own weight and time period. This seems like a good approach. One downside would be the fact that nearly 40 categories are created, making it somewhat hard for token holders to actively vote.

Score: 7

Governance 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: The protocol uses a native governance solution. It provides decent voting information, yet is quite limited.

Score: 6

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.

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 Legal entity in UK with complete KYC

Score: 15

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: UK regulatory environment is well developed for insurance.

Score: 8

Is the protocol (able to become) legally compliant? (5 points)

Is the protocol able to acquire the necessary licenses and supervision to be able to operate in the traditional regulatory environment? Has the protocol already acquired such licenses?

Answer: As the Members are KYCed - there is an option for the protocol to become legally compliant.

Score: 5

Scorecard

<u>Value Proposition</u>	Points
1. Novelty of the solution	14 / 15
2. Market fit/demand	13 / 15
3. Competitiveness within market sector(s)	10 / 10
4. Novelty of the solution	8 / 10
<u>Tokenomics</u>	Points
1. Is the token sufficiently distributed?	11 / 15
2. What is the extent of the token's capabilities?	4 / 10
3. Is the issuance model able to improve the coordination of the protocol?	4 / 10
4. Is the value capture model able to accrue and distribute value?	7 / 10
5. Is the token sufficiently liquid to enable active use and trade?	5 / 5
<u>Team</u>	Points
1. Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	9 / 15
2. Does the team have relevant experience?	7 / 10
3. Does the team participate and help shape the public debate?	9 / 10
4. Is the team able to effectively attract and coordinate resources?	8 / 10
<u>Governance</u>	Points
1. Admin Keys (Yes, Multisig, Multi-sig and Timelock, None)	11 / 20
2. Extent of Governance capabilities	9 / 15
3. Active Governance contributors	3 / 5
4. Robustness of Governance process	5 / 10
5. Governance infrastructure (rituals, docs, UI)	4 / 10
<u>Regulatory</u>	Points
1. Does the protocol have any legal accountability?	X / X
2. What is the quality of the legal jurisdiction?	X / X
3. Is the protocol (able to become) legally compliant?	X / X
Total	141 / 205

Author: