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BRIGHTUNION

LITEPAPER

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ABOUT BRIGHT UNION

Bright Union was founded in February 2021. We are on the mission to make risk markets work for the crypto space. We are a collection of experts in crypto, technology and insurance ready to bring web3.0 to the insurance industry.

MAKE RISK MARKETS WORK

We match supply and demand of crypto coverage and facilitate easy and transparent transactions on multiple decentralized risk platforms



Matching supply & demand



Creating diversified products & secondary markets



Optimizing the capital structure

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SUMMARY

Since early 2021 multiple risk products for crypto assets have launched. Smart contract coverages now protect holders of crypto against exploits based on bugs in the code.

Due to the public and transparent nature of the blockchain, anyone in the community can provide risk coverages, not only insurance companies. The swift rise of multiple parties offering these new and complex products provides an opportunity for a single platform to aggregate and match supply and demand.

As an aggregator, Bright Union will be uniquely placed to offer structured products which provide more diversified investment opportunities and liquidity to the community.

Bright Union will be organized as a DAO (Decentralized Autonomous Organization) and premium products will only be available to DAO members. The premium products will offer liquidity, diversification and the opportunity to optimize capital structure. These products will support the market of risk coverages to reach the next level of maturity.

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THE INSURANCE INDUSTRY

The key to successful investment management is to balance risk and return. Regardless of one's risk appetite, diversification is key. For risks with a low probability and a high impact, insurance has been a good method to mitigate risk.

Over the years, insurance moved from small scale communities where people all knew each other, to large scale national and international firms with anonymous policy holders, underwriters and claims managers. Large risk pools help to to make the statistics more accurate, which increases the likelihood that all claims can be paid from the premiums in the risk pool. In addition, professional and qualified case managers can assess the risk upfront (underwriting) as well as determine the merit of submitted claims (claims management).

However, the development of building large insurance companies has also increased transaction costs due to increased agency costs, adverse selection and fraud. There is limited social cohesion between the policy holders and there is an implied conflict of interest between the policy holders and the insurance company. The insurance company makes more profit by denying claims and makes less than by paying claims. The policy holder may only decide to get insurance if they expect to make a claim.

Making fraudulent claims can be attractive if the likelihood of being caught is small. In today's traditional Property & Casualty markets, we see that only a limited share of the premium is used for paying claims and that 40% - 50% of the premium is spent on sales, marketing, operations, administration, IT and reinsurance.

Since its inception, the insurance industry has contributed to the safety of holding financial assets through low-likelihood events, which negatively impact the value of the asset. Being able to hold assets in a safer way supported unprecedented economic growth. Bringing investment management to crypto assets will allow the community to benefit from the same individual security and collective growth.

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Birth of decentralized risk markets

The beauty of decentralized risk platforms is that all transactions are traceable. Due to the immutable storage of the blockchain. It is clear which transactions were completed, the amount and the time.

It is possible to create a marketplace for risks where people seeking to buy risk are matched to those wanting to sell. In an efficient market with sufficient volume, it should be possible to find a counterpart for every risk. There is no need to have a trusted intermediary between the buyer and seller. This reduces a big chunk of transaction costs, especially since the insurance company and banks as an intermediary are not that well trusted.

This is why decentralized marketplaces for risks with low probability and high impact are being developed and some have already launched. Protocols like Nexus Mutual, Cover Protocol, Bridge Mutual are matching parties that want to get exposure to risks in return for a premium with parties who wish to offload certain risks and are willing to pay a premium. Independent claims managers, who do not have an interest in denying a claims, assess policy holders' claims. This solves a major conflict of interest and source of costs.

We expect that before the end of 2021 an additional 5-10 risk platforms will enter the market offering crypto insurances. All these players will have different levels of liquidity, premiums as well as claims processes and risk management policies.

Road to maturity for decentralized risk: liquidity, diversification and transparency

Though the decentralized marketplaces for risks are a great new development, there are aspects of the decentralized risk model which can be improved.

Firstly, as long as the decentralized markets for risks are relatively small, there can be a mismatch between supply and demand. Investors may stake funds to buy risks and get a premium, for which there is no demand from parties who want to buy cover. Alternatively, parties seeking cover may find no staker to buy the risk from.

Secondly, traditional trusted intermediaries like banks and insurance companies manage their risk through diversification. Not one single claim can wipe out the capital base. We see that decentralized risk platforms can still improve on risk diversification. Stakers currently have more concentration risks than necessary. Bright Union wants to bring more risk diversification options into the market.

Thirdly, although all transactions can be monitored and traced on blockchain, the specific governance of a risk cover protocol is not always very transparent. Risk management models and especially tail end risks exposure are not very clear for normal users. The protocols use capital allocation models whereby all claims can be paid with a very high likelihood of 99.x%, but how are these small tail end risks managed? Who is taking which risk and how are these risks mitigated?

Bright Union believes there is a need for a party that addresses these points. and create additional levels of trust by providing the offerings of the different decentralized insurance platforms, both in premiums as well as in the main terms & conditions, capital allocation, risk diversification and risk management models.

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BRIGHT UNION PRODUCT OFFERING

Bright Union will offer a range of products which will support the market to reach the next level of maturity. The ability to compare, buy and sell risk coverages will be available to the entire community. In order to use premium services from Bright Union, membership of the DAO is required. Benefits offered to DAO members is proportional to the amount they stake in the DAO.

Products	Availability
Comparing risk products	Open
Aggregator to buy/sell coverage	Open
Buy/Sell coverage at a discount	Membership
Bright Risk Index(BRI)	Open
Providing capital for coverage providers	Open
Excess of Loss collateral	Membership

Comparing risk products

Decentralized risk products are new, complex and continuously evolving. Therefore, there is need for a credible third party to create – together with the community – an independent and fair assessment of these products.

The Bright Union community can rate these products on important aspects like: User friendliness, liquidity and claims process of the different platforms. Bright Union believes that it will be well positioned to give independent advice and help the community to interact with risk products in a more customer friendly way.

Aggregator to buy/sell coverage

Bright Union will be an aggregator of services across multiple risk platforms. It will allow users to directly make transactions with Nexus Mutual and Bridge Mutual from a single interface. Bright Union has a partnerships with both Nexus Mutual and Bright Mutual, making it possible to Bright Union and access both protocols.

The aim is that Bright Union will partner with additional risk protocols in the future for users to create a seamless service.

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Bright Risk Index (BRI) diversification

Bright Union wants to offer diversification for the portfolio of investors. Rather than staking funds against a specific risk on a specific platform, investors can stake their funds with Bright Risk Index (BRI) who then uses the funds to stake certain baskets of risks, thereby mitigating concentration risks.

Bright Union will make multiple Indexes available for different risk appetites. Indexes for well known protocols will provide a lower return and Indexes for recently hacked protocols are likely to be riskier but offering a hefty return.

Since Bright Union is buying and selling on behalf of multiple clients, cost savings will be achieved by combining multiple transactions together and only trading the net result of multiple buy/sell transactions. This is more efficient than to create a risk-weighted-fund for an individual user.

Provide capital for coverage providers

Through the Treasury, Bright Union wants to assist Bright Union users by acting as counterparty for transactions where no counterparty can be found in the primary market. Of course, this is subject to the risk matching the risk appetite of the Treasury.

The Treasury can assist the users by wrapping the coverage in a NFT(Non Fungible Token) so it can be resold in the market. Bright Union will also create an internal market for DAO members for these wrapped coverages. Members who are willing to buy the wrapped tokens can earn additional fees for providing this liquidity.

Excess of Loss collateral

Currently capital allocation in the crypto risk markets is not efficient as the required collateral is high. In case multiple users provide coverage for 10 protocols up to 200 ETH (20ETH for each protocol), they need to store 200 ETH with the risk platform. Since it is highly unlikely that all 10 protocols will be hacked on the same moment there is room to optimize the capital allocation.

Bright Union will provide a collateral pool to the risk platforms so the members of the DAO will be allowed to provide coverage with a lower capital requirement. This is similar to a reinsurance scheme in the existing insurance world. In case the amount of the approved claim exceeds the individually staked amount of the DAO members, the excess can be taken by the protocol from the collateral pool. Once more coverage can be provided with a lower capital requirement, the APY of the user will increase compared to staking directly with the risk platforms, offering immediate value to DAO members.

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BRIGHT UNION DAO

Bright Union will become a Decentralized Autonomous Organization which is governed by the members to provide products to the members. In order to facilitate this three topics will be further discussed: BRIGHT token governance & utility, DAO treasury and supply and demand of the BRIGHT token.

Governance & utility

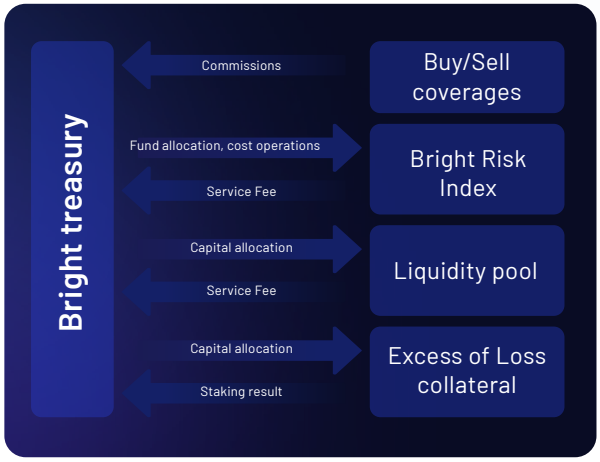
The Bright Union protocol follows the common practice of Decentralized Autonomous Organizations (DAO). Owners of the BRIGHT token can vote on various topics: e.g. Governance topics (e.g. operational cost for platform development), allocation of reserves from the treasury towards the treasury and parameters for the Risk indexes & liquidity products.

As explained in the product offering section, the BRIGHT token also offers premium services to members of the DAO. Token holders will get priority access to products.

DAO Treasury

At Bright Union we believe that trust is the foundation to make decentralized risk markets work. An important pillar of improving trust is by establishing the Bright Union treasury which is managed by the DAO members. The Treasury will be used to support the premium products.

As capital from the Treasury is allocated to the various products, the treasury will receive service fees and staking results in return.



In case the Treasury is used to take positions in the market which are adversely affected due to a risk position taken, the fund will be used to cover the loss (e.g. for the excess of loss product). In case there are not sufficient reserves available in the Treasury, the token holders may decide to issue additional tokens to bring the capital base back to adequate levels.

In a growing market for decentralized risks, the expectation is that reserves in the Treasury will grow with the size of the market. It means that with more reserves, the Treasury can be more active in taking positions and invest in services beneficial to the community. Not only does the fund benefit from the growth of the market, but it will also enable the market to become more mature and to grow creating a positive fly-wheel effect.

In case the reserves become a lot higher than required, the community can decide to buy back issued tokens.

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Token Model: Supply & Demand

Any successful DeFi (Decentralized Finance) token needs a healthy balance between supply and demand. For the BRIGHT token part of the demand will come from the utility described in the previous section. Nevertheless, users providing risk products and investing in trackers will be looking for a return which is independent of the volatility of the price of the BRIGHT token. Therefore, it is expected that they prefer to invest using stablecoins (e.g. DAI) and/or more mature currencies (e.g. ETH). The proceeds in these currencies will be used for an automatic buy-back strategy which will create additional demand for the BRIGHT token.



The treasury will be aiming to hold multiple currencies in a set ratio defined by the community governance. On a recurring basis (e.g. weekly) the Treasury will be rebalanced by selling/buying BRIGHT in the market using DAI and ETH.

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FUNCTIONALITY ROADMAP

July
Token Generation Event

August
Launch Bright Staking

August
Launch main net
(inc. cover & staking)

September
Launch Bright Risk Index

Q3/Q4
Exchange Listings

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