BRIGHT RISK INDEX LITEPAPER

EARN FOR MAKING DEFI A SAFER SPACE

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WHY BECOME A **DEFI INSURANCE CAPITAL PROVIDER?**

The DeFi industry is booming. More and more DeFi investors realize that insuring their assets against hacks, exploits and stablecoin de-pegging greatly reduces the risk exposure of their portfolio. In order to underwrite these insurance covers with sufficient capital, an attractive reward is given to those who provide the capital. This provides the DeFi community with a **new investment opportunity backed by a real business model**. The rewards for providing such capital are expected to be 30%-50% APY and, in principle, independent of general market conditions, like bull or bear markets. This is because the investments consists of stable coins as much as possible, which have limited market risk. The rewards paid are based on the demand for insurance coverage and fees paid.

Although being exposed to risks, insurance has shown to be a highly profitable industry for hundreds of years. This is due to the well known modern portfolio theory: Exposing yourself to a set of **independent diversified risks**, will create a portfolio with the highest possible return for the lowest level of risk. Investing in individual insurance pools is risky as the value at risk can be as high as 100% on a single claim, in case of a hack or protocol failure. The Bright Risk Index creates a diversified portfolio, spreading the risk across multiple pools reducing the value at risk to only 12%.

Not only will you be earning an excellent return on your capital, you will also **be helping to make DeFi a safer space**. Your capital will allow other users to buy insurance and sleep well at night; it's a win-win!

ADVANTAGES OF THE BRIGHT RISK INDEX

WHY INVEST IN AN INDEX INSTEAD OF DIVERSIFYING YOURSELF?

As the crypto space is largely permissionless, why wouldn’t you just invest in insurance pools yourself? The Bright Risk Index simplifies DeFi insurance pool investing.

Not only is the Bright Risk Index inherently **diversified,** representing an investment in many different insurance pools across multiple risk platforms. The BRI also will have the **best risk/reward ratio** in DeFi insurance land, as the BRI strategy is to invest based on the covers which are in highest demand. The DAO will vote to allocate the capital to the pools, saving you time to focus on finding other investment opportunities. **Gas fees are greatly reduced** by combining many transactions into a single bulk transaction.

Providing capital through the BRI is more **liquid** than investing directly: you’ll receive the BRI token which is freely tradable on the market. Users do not have to deal with lock-ups or cooling down periods, which are in place with direct investments in any of the insurance pools. Finally, investment rewards are claimed and re-invested into the insurance pools. This means that the BRI is **compounding on bi-weekly basis**, and will accrue in value itself without any action required from the investors side.

One of the innovations “under the hood” is that staking positions are made permissionless, meaning you can become a cover liquidity provider without providing KYC.

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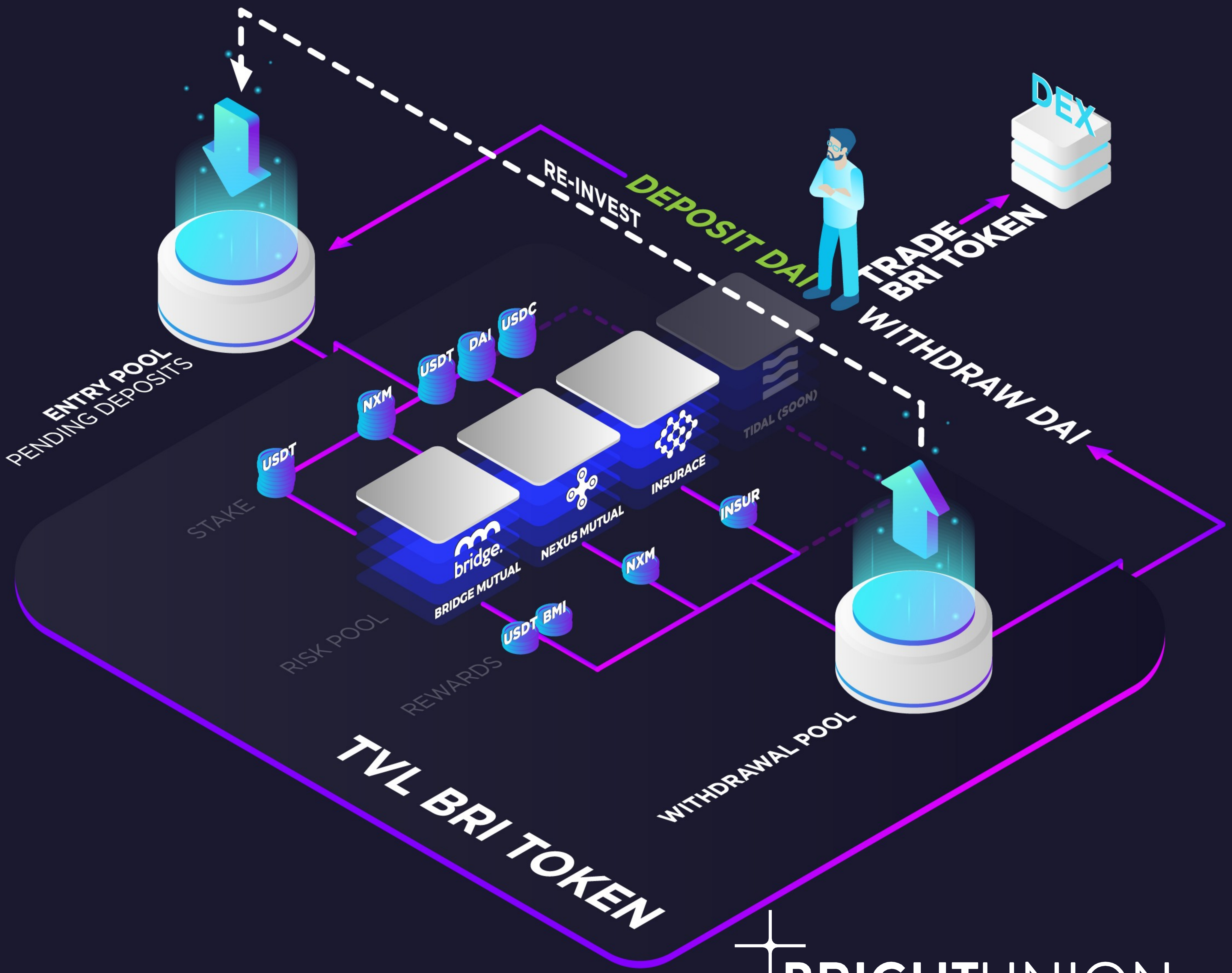
1) HOW THE BRIGHT RISK INDEX WORKS

The user **deposits** in the Bright Risk Index using DAI stablecoin starting from 1500 DAI. As investing in multiple risk pools is gas intensive, the DAO covers the gas cost of multiple investors in a bulk transaction.

The Bright Union DAO will organize that **staking** risk pools will be done in bulk. Minting the BRI token requires the investment asset (DAI) to be swapped to the required tokens to take a position (USDC, DAI, NXM, ….) and to be staked in the underlying risk pools. When the staking process is completed, BRI tokens are minted and sent to the wallet address of the investors. During staking a streaming fee of 2% annually will be deducted from the returns.

The BRI token represents a pro rata ownership of all assets of the BRI, thus the investments in the insurance pools, accrued but not yet re-invested rewards as well as assets in the withdrawal pool.



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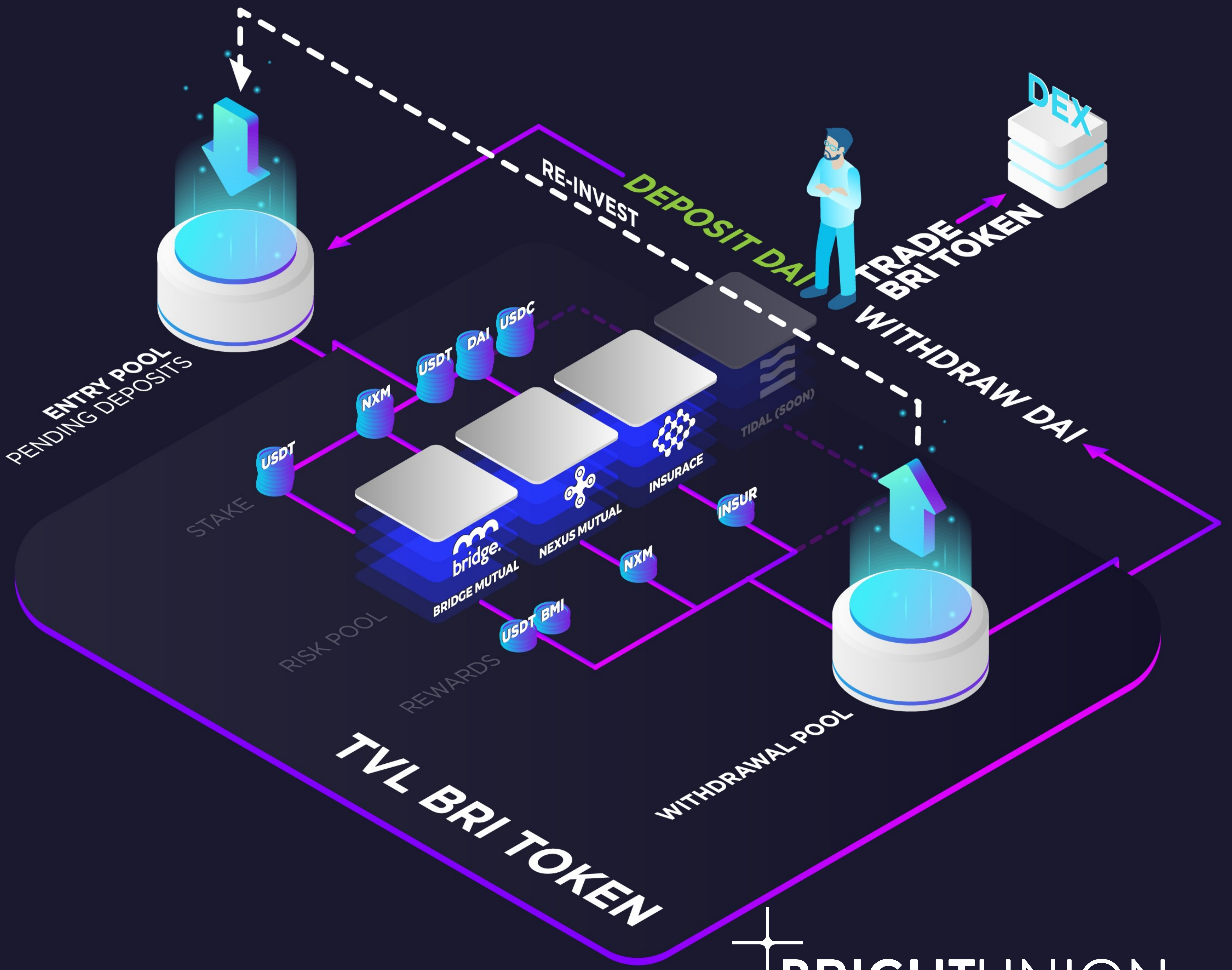
2) HOW THE BRIGHT RISK INDEX WORKS

Any user can **collect the rewards** earned across all investors to the withdrawal pool. This is required because the risk platforms pay-out a large chunk of the rewards in their own native token. For some of the risk pools the rewards are also subject to a cooldown period. During the collection, the rewards (USDC, NXM, INSUR, BRI) will automatically be swapped to DAI.

Every other week the DAO will target to **re-invest the rewards** without any effort from the investors. During the rebalancing, the rewards will be collected and swapped to DAI so they can be reinvested into the risk pools.

In order to take the invested amount from the risk pool, the invested amount will be **unstaked**. Risk pools typically have a waiting period for unstaking (15-30 days) which needs to be taken into account. After the waiting time has passed, the invested amount is transferred to the withdrawal pool.

Users can withdraw their funds immediately from the Index if there are sufficient tokens in the **withdrawal pool**. The DAO will decide on the size of the withdrawal pool, as any tokens in this pool will be idle and not be earning rewards. Their BRI tokens will be burned and DAI will be sent to their wallet.



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PRINCIPLES FOR THE SELECTION OF RISK POOLS

The investment strategy is curated and optimized by the DAO. This convenience is a key reason for users to invest in the Bright Risk Index. Because the investments in the risk pools are dynamic, a set of investment principles is established which take into account 4 parameters:

Return - The APY of individual pools is driven by the popularity of its cover. Capital will be allocated to pools where capacity is wanted.

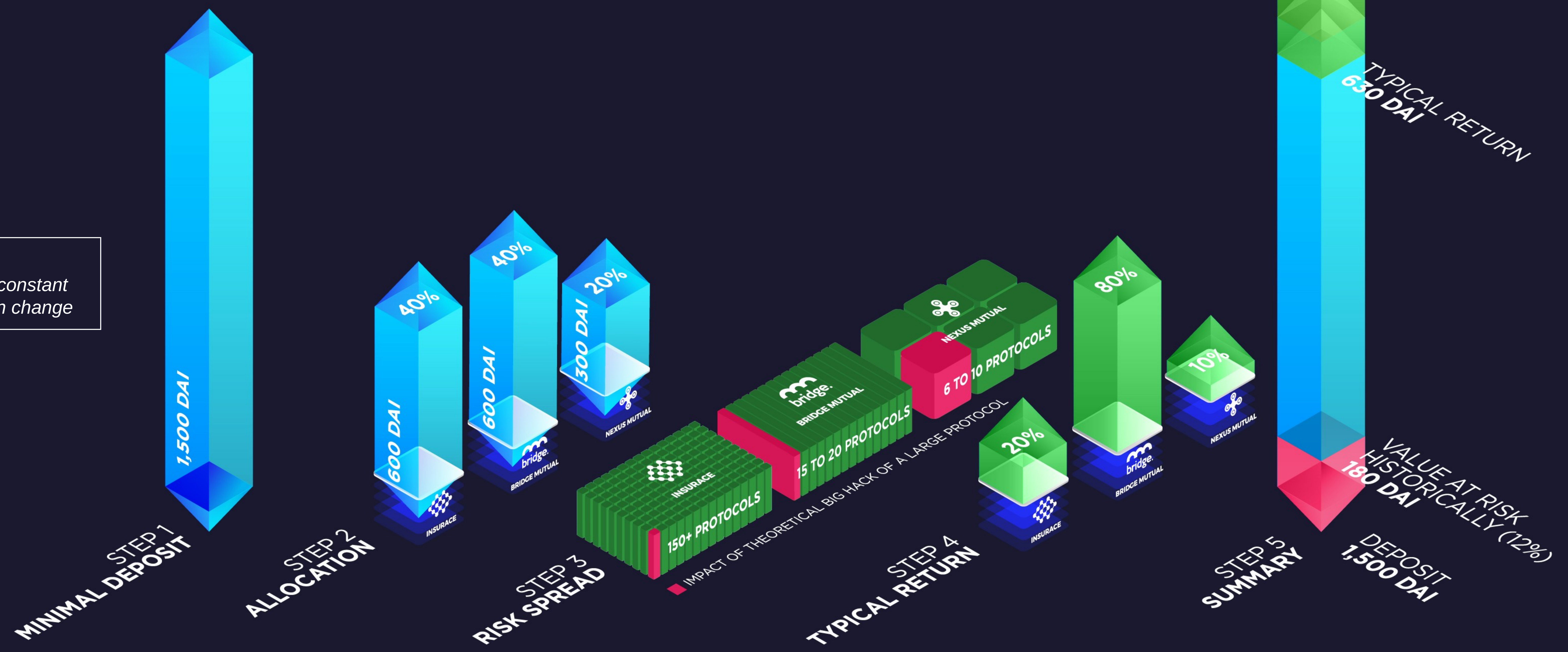
Stablecoin preference - Whenever possible the investment in risk pools will be made in stablecoins as not to expose our investors to FX risk

Diversification risk platforms and protocols - A guiding principle is that the value at risk is targeted to be below 12% for any claim. To do this, the assets will be spread across risk pools of multiple insurance platforms

Protocol Risk – The DAO will do an assessment of the quality of the insured protocol (code quality, extend of decentralization, past claims)

Based on the above parameters the launching investment strategy will invest ~40% of capital with InsurAce, 40% with Bridge Mutual and 20% with Nexus Mutual

Example graph:
Market conditions are subject to constant change so risk & return profile can change



TOTAL VALUE LOCKED (TVL) CALCULATION EXPLAINED

The TVL of the Bright Risk Index can be broken down into 3 components:

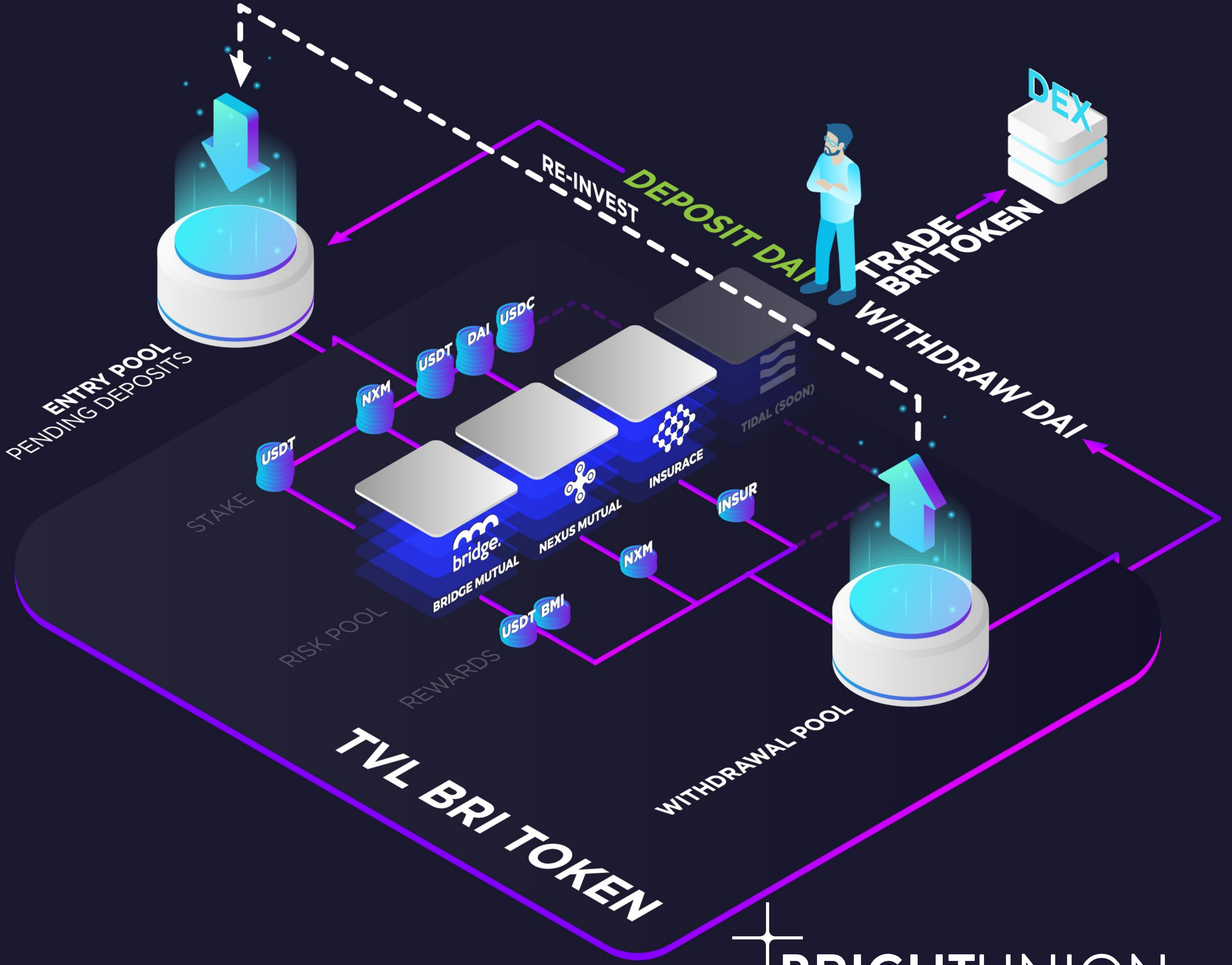
Pending deposits - users' total assets waiting to be staked by the Bright Union DAO.

Staked assets - total assets staked within the risk pools and total unclaimed rewards.

Withdrawal pool - total unstaked investments and claimed rewards. These funds can now be used by users to burn their BRI tokens and withdraw DAI. In case no user withdraws their investments, the withdrawal pool will be reinvested into the risk pools.

The Total Fair Asset Value of BRI is the sum of all assets which are represented by the BRI token (Staked assets, accrued and unclaimed rewards and withdrawal pool). To calculate the Fair Asset Price of 1 BRI token, the sum of the Staked Assets, accrued but unclaimed rewards and the Withdrawal Pool need to be divided by the circulating supply of BRI tokens.

The total assets in the index are subject to a 2% annualized streaming fee which is collected by the Bright Union DAO treasury.



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BRIGHT RISK INDEX ROADMAP

- Additional BRI strategies with enhanced risk profile
- Investing in individual pools of Bridge Mutual
- Queuing for withdrawals

- Automation of distribution of loyalty rewards
- Integration of other successful risk pools and chains - Tidal and InsurAce risk pools considered for Polygon network
- Make a smart contract cover available for BRI
- Store historic Fair Asset Value of BRI

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