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DeFi: How decentralized protocols are restructuring the lending markets

Decentralized credit markets are one of the fastest-growing segments of the blockchain economy. They enable borrowing / lending without intermediaries – transparently, globally and around the clock. The DeFi credit market benefits directly from the strong growth of stablecoins and so-called real-world assets (RWAs) – i.e. tokenized assets.

Compared to traditional settlement systems, blockchain networks enable the transparent, efficient and cost-effective processing of transactions around the clock, across borders and without central intermediaries. It is no longer just about cryptocurrencies, but increasingly about the processing and collateralization of [tokenized real-world assets \(RWAs\)](#) – such as digital representations of currencies, bonds or other assets.

DeFi lending protocols: open, efficient, global

Decentralized lending markets represent a functional, albeit still young, digital capital market—with high transparency, 24/7 availability, and global access. For institutional players, they offer opportunities in the following areas:

- **Yield generation** through decentralized lending with manageable risk (e.g. via US-Treasury-backed RWAs)
- **Efficiency gains** in collateral management, settlement, and clearing
- **Access** to new target groups and global capital flows

In this context, decentralized lending protocols are becoming a serious alternative to traditional lending. With a market volume of over \$40 billion in so-called lending protocols, this sector has established itself as a stable and innovation-driven

pillar of the crypto ecosystem. Users deposit digital assets as collateral and receive loans in return – completely without banks, credit checks, or a central counterparty. Interest rates are dynamically determined by supply and demand within the protocol.



Total supplied	2.85B \$2.85B
Supply APY	3.05 %
Total borrowed	2.04B \$2.04B
Borrow APY, variable ⓘ	4.78 %

[View details](#)

Figure 1: Example of a dollar market on a leading platform / source: Aave.com

Market mechanics: how DeFi lending works

Unlike traditional finance, lending in DeFi is fully programmatic via so-called smart contracts. These digital contracts encode the rules for collateralization, interest calculation, and repayment directly in the code – without intermediaries, manual checks, or central processing. Users deposit digital assets like Bitcoin, etc., as collateral and receive a



loan in return - typically in stablecoins. Position liquidations occur automatically once the undercollateralization hits a predefined threshold.

DeFi lending markets are divided into four main types:

- **Overcollateralized Lending** (e.g., Aave, Compound): Users must deposit more collateral than they are allowed to borrow. This minimizes default risk; liquidations are automated via the protocol
- **Stablecoin-based Lending** (e.g., MakerDAO): Users independently generate stablecoins like DAI by depositing digital assets into a so-called vault system
- **Optimized Lending** (e.g., Morpho Blue): These protocols connect lenders and borrowers strategically to adjust interest rates, collateral, and terms individually - often more efficiently than traditional pool models
- **Undercollateralized Loans** (e.g., Maple Finance): These models target institutional players, where creditworthiness is secured through external vetting processes (KYC, due diligence) and real cash flows

The fees generated through lending mostly flow to liquidity providers who supply capital. A small portion is redirected to holders of the protocol's native cryptocurrency at leading protocols. This creates sustainable business models that generate annual profits in the triple-digit million range - fully transparent and on-chain verifiable.

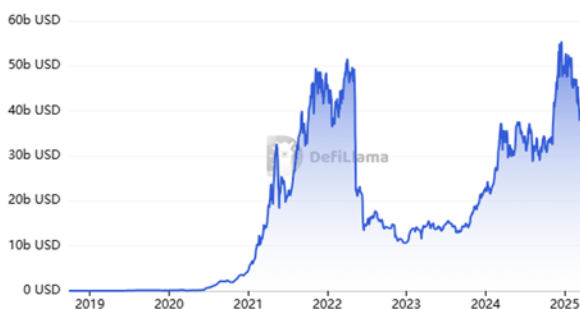


Figure 2: Total value of all tokenized assets
/ Source: DeFi Llama

Huge potential - but not without challenges

The global secured lending market, with an estimated volume of over \$15 trillion, is one of the largest segments in the financial industry. It is currently dominated by traditional instruments such as mortgages, car loans, and lombard loans. With the ongoing tokenization of real-world assets and automation via smart contracts, a digital infrastructure is emerging that has the potential to fundamentally transform existing structures.

"Decentralized finance (DeFi) is an extraordinary innovation. It makes markets faster, cheaper, and more transparent." - Larry Fink, CEO of BlackRock

Not only specialized crypto protocols but also giants such as BlackRock, Franklin Templeton, and Fidelity are investing in this development - whether through tokenized government bonds, proprietary stablecoin structures, or infrastructure partnerships. At the same time, investors benefit directly: Those who invest in the native tokens of leading lending protocols participate in the fee streams and governance mechanisms of these new digital lending markets. The current market capitalization of decentralized finance platforms stands at around \$34 billion - and is increasingly competing with traditional financial institutions, whose market value is measured in trillions.

Despite inherent risks - such as technical vulnerabilities, lack of legal certainty, or liquidation volatility - the DeFi lending market is rapidly evolving from an experimental idea to a structured, regulable asset class.

Investors who recognize technological developments early, anticipate regulatory trends, and strategically position themselves within the DeFi ecosystem secure access to a developing global financial infrastructure - independent of switches, business hours, and central control.