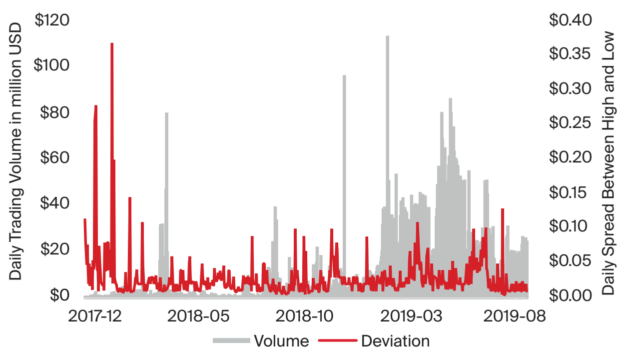
Decentralized cryptocurrencies, such as Bitcoin and Ether, and stablecoins, such as MakerDao Dai, can be used to send value over the internet without intermediaries.[10] The largest decentralized finance stablecoin is MakerDao Dai with approximately $317 million worth of Ether or 1,753,031 ETH locked up in MakerDao Dai collateralized debt positions or "vaults" (at the time of writing).[11] This amounts to 1.62 % of all outstanding Ether. Locking up Ether allows users to create Dai. There are currently 96 million Dai in circulation, which has a USD value of approximately $96 million because Dai is pegged one-to-one with the US dollar. The amount of Dai locked up has had a positive correlation with the price of Ether in the past, which means that as the price of Ether increases the amount of ETH locked up in MakerDao Dai vaults has increased.



Source: coinmarketcap.com, Incrementum AG.

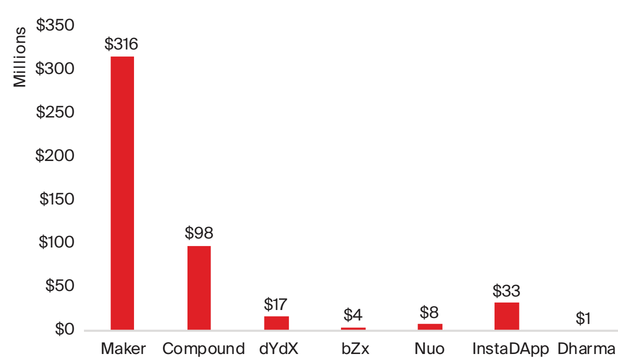
MakerDao Dai Intraday Volatility and Daily Trading Volume

The stablecoin market is expected to grow larger in 2020. Investors in low-interest-rate and negative-interest-rate countries, such as Switzerland, can earn higher annual returns on stablecoins via staking and lending interest rates. For example, Dai deposited on Compound is earning 5.7 % APR.[12] Germany's recent regulation enabling banks to store cryptocurrencies on the behalf of clients is likely to extend federal deposit insurance to stablecoins, further professionalizing the industry.[13]

Decentralized Lending Will Become a Billion Dollar Industry in 2020

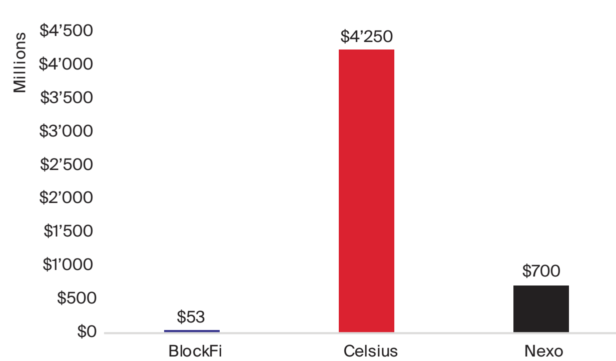
The main service of banks is to pool risks and match maturities of clients that want to lend and clients that want to borrow. Smart contracts enable pooling of risks and matching maturities to be automated and executed on a blockchain. Therefore, one of the largest impacts of decentralized finance applications on banking is peer-to-peer lending and borrowing that allows clients to keep control of their private keys. Decentralized crypto lending platforms, such as Maker, Compound, and dYdX, have approximately $477 million in assets loaned. In contrast, centralized platforms, such as Celsius, Block Fi, and Nexo, have completed over $5 billion in cryptocurrency loans to date.

The advantages of decentralized finance loans are that they are lent on non-discriminatory basis, meaning that the same rates are available to any borrower regardless of that individual's characteristics. The terms and conditions of DeFi loans vary depending on the platform; however, many DeFi loans do not have a minimum loan amount or lending period. On average, decentralized lending platforms have lower interest rates than centralized cryptocurrency lending platforms. Interest rates for truly DeFi lending platforms such as Compound have much lower interest rates (0.02% per annum for ETH) than centralized crypto lending platforms like Celsius Network (3.40 % per annum for ETH).[14]



Source: defipulse.com, Incrementum AG.

Total USD Value of Loans or Borrows from Decentralized and Centralized Crypto Lending Platforms in Millions of USD



[10] Decentralized finance stablecoins do not include stablecoins such as Tether that require a central party to manage reserves of tangible or physical assets.
[11] https://mkr.tools/system
[12] https://compound.finance/
[13] https://www.coindesk.com/german-banks-allowed-to-sell-and-custody-crypto-assets-from-2020-report
[14] https://www.bitcoinsuisse.com/research/decrypt/on-chain-derivatives-and-insurance/