

How European DeFi startups are changing the finance world

The media's focus might be on Bitcoin's bull run but the real crypto revolution is in decentralised finance. Any crypto holder is understandably delighted by Bitcoin breaking the \$19,000 barrier but this is only one small thing happening in the cryptocurrency world today.

Temps de lecture : minute

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Decentralised Finance (DeFi) startups remain one of the strongest forces for innovation in the cryptocurrency sector. And for the moment, Europe (particularly London) is an important centre for the next step in the crypto revolution.

Isn't Bitcoin Enough? Why Should We Care About DeFi

Bitcoin was, and still is, an important invention in its own right. But it has a limited innovative potential. BTC functions as an excellent store of value and speculative instrument for futures traders and retail players, but it lacks many of the features needed to decentralise major financial institutions.

In the past, altcoins (e.g., Ripple) have attempted to alleviate this. But the crypto ecosystem was too immature to take full advantage. This is where Ethereum and DeFi step in.

Ethereum is the second largest altcoin on the market today and with good

reason. Its ERC20 token protocol forms the foundations of some of the most significant DeFi projects.

Any project compliant with this protocol is able to use a programming language in order to create decentralised projects that operate on top of the Ethereum blockchain. This enables startups to do some pretty impressive stuff without requiring a centralised validator.

One of the most popular ways this has been utilised is for crypto lending. The smart contract connects a willing lender with a buyer, who agreed to follow the terms of the contract. In exchange for locking their cryptocurrency, the lender is given an interest rate, allowing them to make their crypto assets work for them.

Most platforms also have some kind of system in place to compensate lenders should something go wrong and the borrower not follow through.

Total Value Locked (USD) in DeFi

TVL (USD) | ETH | BTC

All | 1 Year | 90 Day | 30 Day



Crypto lending is just one example and the same principle can be applied to everything from crypto exchanges to corporate governance. In theory, it could form the foundation of a fully decentralised economy.

Indeed, crypto investors appear to have correctly understood the opportunity on offer and there is currently over \$14B in crypto assets locked into the DeFi ecosystem.

Europe is becoming a DeFi hotspot

For the moment, America remains the largest center for DeFi projects. But Europe is slowly catching up. This is largely thanks to UK based DeFi startups, which make up around 12% of the total ecosystem on their own.

British startups are joined by their continental counterparts and compromise a growing slice of this innovative sector. Given Europe's history of fintech innovation there is fertile ground to build some truly innovative DeFi projects.

Centrifuge: Putting real world assets on the blockchain

Germany's Centrifuge is taking on the significant challenge of taking real-world assets and putting them on the blockchain. The company's project focuses on allowing the underwriting, securitization, and tokenization of invoices, streaming royalties, loans, etc.

It is built on a Proof of Stake (PoS) blockchain platform called the Centrifuge chain. This blockchain comes full of features, including a P2P messaging protocol, an Ethereum Bridge, and a set of Ethereum based smart contracts on Ethereum called Tinlake.

Centrifuge is particularly interesting because it is designed to directly hook into the DeFi loan ecosystem, creating a window for traditional companies to take advantage of the flexibility of crypto based smart contracts through the Tinlake smart contracts.

The Tinklake smart contracts pool works by using a two token system. These are risk and yield tokens that are designed to allow people to invest in two different kinds of interest-bearing tokens:

- TIN: Designed to work as the risk token. This means that it takes the risk of defaults first, but TIN holders also receive higher returns.
- Drop: Operates as a yield token. It is protected against defaults by the TIN token but this means that it typically takes lower returns.

This system also gives more flexibility to asset originators. Each pool can be individually configured with different interest rates and collateralisation ratios. This enables a company to create dedicated pools for different kinds of assets.

The aim of the project is to diversify the types of assets that back DeFi currencies, helping to stabilise the overall market and make it more usable on a daily basis. However, it should be noted that Centrifuge is still relatively centralised compared to many DeFi projects, which could limit scalability down the line.

Radix - a Decentralised Financial services platform

UK-based [Radix](#) is one of the purest DeFi projects today. The company describes itself as a decentralised service platform. It is seeking to solve many of the perceived problems with Ethereum such as congestion and high transaction fees.

To this end, the company has created a layer-1 protocol built specifically to serve DeFi. Essentially, it is building an alternative to the Ethereum network that will be designed from the ground-up to fit the needs of the DeFi sector directly, rather than to create smart contracts generally.

It uses a network consisting of a consensus mechanism named Cerberus and a development environment dubbed the Radix Engine. Cerberus uses a sharded Byzantine fault-tolerant solution. This allows multiple nodes to process information without needing to sacrifice message complexity. Each shard on the network can represent anything on the platform. This removes the need for Proof of Work consensus, one of the major bottlenecks on Ethereum today.

The Radix engine is an application layer that allows a smart contract to interface with the blockchain layer. Additionally the Radix team has made it easier to develop smart contracts via its component catalogue, which acts like a template for developers. The platform also offers royalties to encourage skilled developers to work on the platform.

The company's vision is ambitious and it seems to have struck a chord with investors. In July, it raised \$4.1M from LocalGlobe and Transferwise's own Taavet Hinrikus to help bring its idea to life.



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Solving DeFi's problems and improving access

These two examples are interesting because they highlight the two big problems in the DeFi world at the moment. The first is access. For the moment, it is difficult for most people to actually use decentralised finance because all the windows to it are in the crypto world. Solutions like Centrifuge could provide a better way to enable non-crypto companies to take advantage of the benefits of crypto.

Before that can truly happen, though, the DeFi sector needs to fix many of its own issues. As Radix has correctly identified, many of these are related to the system that underpins DeFi, namely Ethereum. If a DeFi-focused solution can solve these, then it will significantly increase the scalability of DeFi, and smooth the path to mass adoption.

In any case, while the bulk of DeFi projects are currently based in the US, it seems increasingly likely that the most impactful developments will be built in Europe.

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