

2020 Global DeFi User Survey Report

Preface

2020 is the year when Decentralized Finance (DeFi) becomes a hot topic. It has many applications, including decentralized exchanges, lending platforms, stablecoins and more, and hundreds of DeFi projects have emerged in the market around these application fields.

Compound, the dominator in DeFi lending, attracts users to participate in deposit and loan with COMP tokens, which is a governance token issued by Compound protocol. As a result, its crypto asset locked in DeFi increased tenfold since June, and the valuation of COMP skyrocketed, kicking off the carnival of DeFi across the whole industry. Since then, new DeFi concepts emerged one after another, lending platforms, decentralized exchanges, decentralized autonomous organizations, stablecoins, oracles are popping up continuously. At the same time, the best DeFi projects have been using token liquidity mining to enable users bootstrapping. All these make DeFi one of the fastest growing areas in crypto.

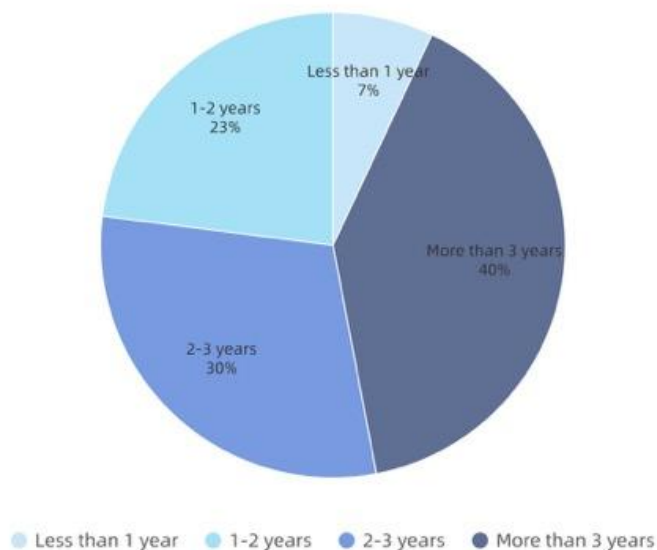
Among the many business applications of DeFi, three stand out: stablecoin, decentralized exchange, and lending & borrowing business. Among those, DeFi's lending & borrowing business is growing particularly rapidly.

Questionnaire Background

In July 2020, ARPA team administered a DeFi questionnaire targeting blockchain practitioners, blockchain users, crypto holders, cutting-edge technology enthusiasts, and other blockchain-related users in ARPA communities. The questions in the survey concerned the use of wallets and DApps, the participation of liquidity mining, and the pain points of using

DApps in China and abroad. The Chinese version of the questionnaire collected more than 300 valid responses. The English version received more than 400 valid responses.

The majority of the respondents (about 70%) are senior users who have known crypto for two years or more, 23% of the respondents have used crypto for 1-2 years, and 7% of the respondents are new users who have just gotten to know crypto for less than one year. This user survey covered different regions, age groups, occupations, and genders. Therefore, the respondents are representative of user demographics. We analyzed the survey results, which will be used to understand and explore the awareness level, potential needs, and usage preferences of blockchain-related users towards DeFi. Thus, we can better design DeFi products, address the users' needs, and ultimately facilitate the DeFi industry's growth.



Executive Summary

1. Most of the respondents of this survey are senior crypto users, which does not fully represent the behavior of the inexperienced ones. With reference to the number of active addresses of Compound, Uniswap, and Curve, we expect that the current number of DeFi users is around tens of thousands, with a penetration rate of only 1% compared to the 5 million crypto traders worldwide.
2. The survey shows that the level of DeFi awareness and its extent of being hyped is much higher than users' actual participation rate. The single most important reason for user participation is to get rewards from liquidity mining, or significant interest income. The total annualised return would need to exceed 15% to be sufficiently attractive for users to use DeFi products.
3. Liquidity mining is an innovative and effective mechanism to attract seed users through subsidizing financial returns for lending & borrowing.
4. Although decentralized wallets are very popular among senior users, both Chinese and global, they are mainly used to transfer and save money. The users of various DApps account for only one-third of all respondents. Using DeFi requires proficiency with wallets, a skill with a long user journey and steep learning curve.
5. Some respondents feel insecure using the DeFi products powered by smart contracts. The slow interaction speed and poor user experience of smart contracts can lead to user loss. Smart contract gas fees are often as high as \$10-\$20, significantly higher than the average user's expectation of \$2. This creates a situation where only large crypto holders can participate. Ethereum network is in dire need of upgrading to meet the needs of average users.

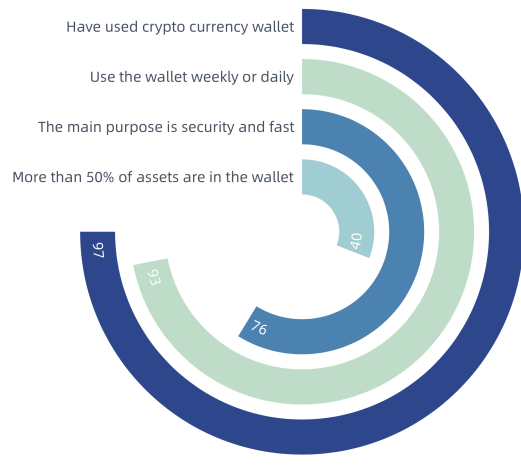
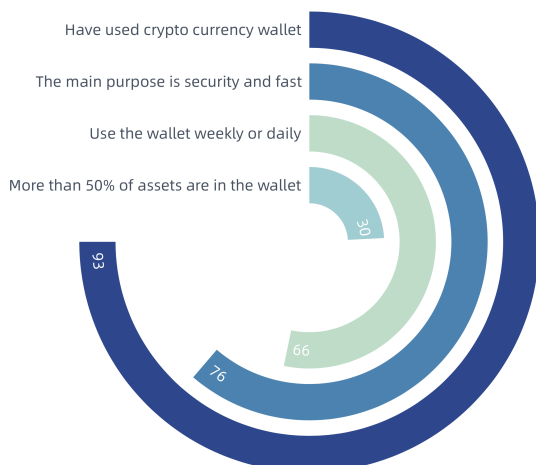
- Currently, DeFi is mainly focused on ERC-20 tokens and has a relatively low asset richness. Especially lacking BTC collaterals that are secure, offer a better user experience, and low in gas fees to support it. The current emergence of WBTC and RenBTC is expected to open new markets.

Survey data summary

	Chinese Users	Global Users
Users of wallets	93%	97%
Users have heard of DeFi	86%	97%
Invested in DeFi tokens	58%	78%
Three main reasons to use DeFi	liquidity mining(58%) convenient (52%) significant interest rates(42%)	liquidity mining(74%) significant interest rates(29%) no need of KYC (27%)
Three main reasons not to use DeFi	Concern about security (52%) Don't know how to assess dApp or have no wallet (25%) Slow deposits and loans speed (25%)	Interest rate not attractive (58%) Poor user experience (20%) Concern about security (17%)
Annualized return 15%	74%	75%
Maximum transaction fee lower than \$2	76%	65%
Involved in liquidity mining	22%	60%

Specific data

1) Decentralized wallet usage status

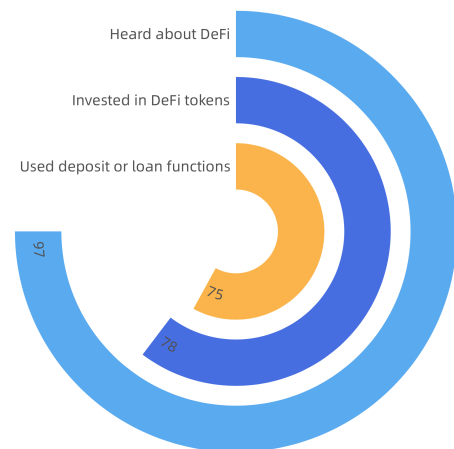
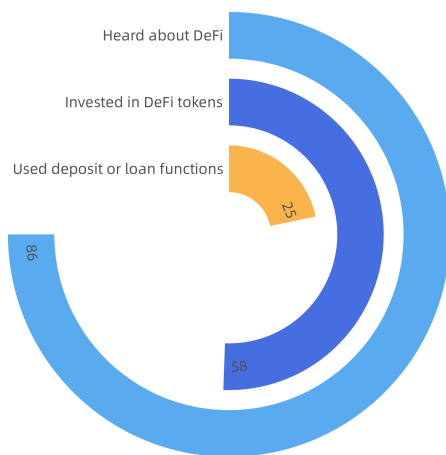


2) The Status Quo of DeFi Awareness and Engagement

The survey data shows that global users are generally more aware of the DeFi concept and more engaged with products. As many as 97% of the respondents have heard of the concept of DeFi, and 78% have purchased DeFi related tokens.

In contrast, the percentage of Chinese respondents who have heard of DeFi or purchased DeFi related tokens is slightly lower than that of global users; at 86% and 58% respectively.

Among the respondents, 75% of global users and 25% of Chinese users have used the decentralized deposit or loan functions. In comparison to global users, Chinese users are less aware or accepting of DeFi and DeFi products, so that they have more room for improvement.



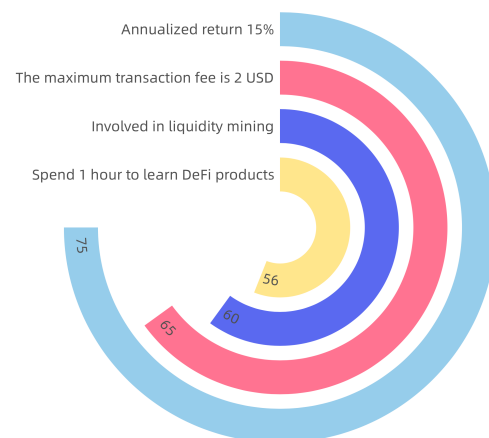
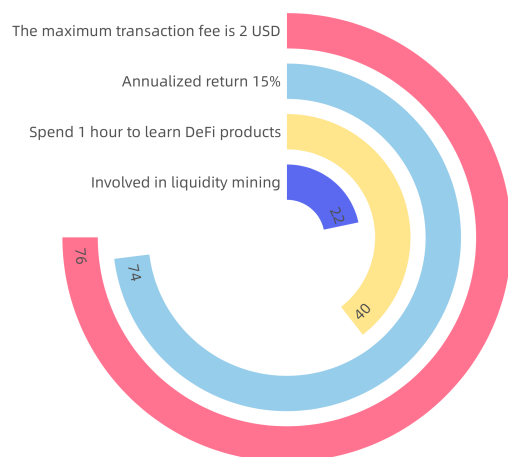
3) DeFi user demands and learning curve

We asked both Chinese and global users about their expectations of using DeFi products. The survey data shows that both Chinese and global users are sensitive to gas fee for DeFi products. The general expectation of gas fee is not higher than \$2 (76% Chinese vs. 65% global).

In terms of expected returns on deposits, more than half (75%) of global users and 74% of Chinese users said that annualised returns would need to exceed 15% to be sufficiently attractive for them to use DeFi products.

About two-thirds (60%) of the global respondents said they had participated in liquidity mining. Compared to that, the percentage of Chinese users who had engaged in liquidity mining is much lower, at 22%. It's worth noting that the survey data shows that the amount of money that most users participating in DeFi deposit or liquidity mining is in the range of \$10,000 to \$50,000.

From the perspective of the willingness to learn to use DeFi products, Chinese users are more likely to spend time learning to use DeFi products. 40% of Chinese users expect the time spent on learning a new DeFi product is less than an hour; that percentage of the global respondents is about 56%. About 12% of Chinese users and 2% of global users don't want to take the time to learn how to use DeFi at all.

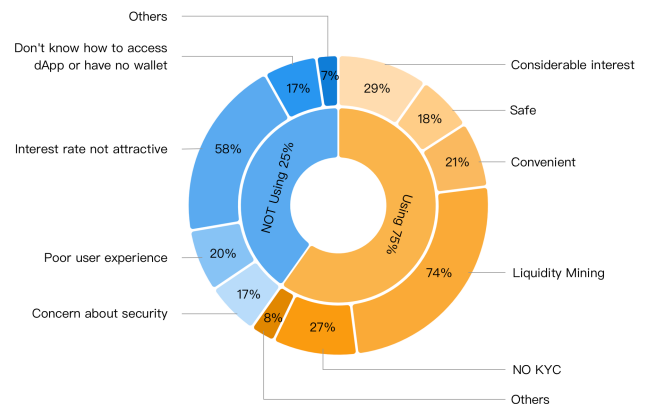
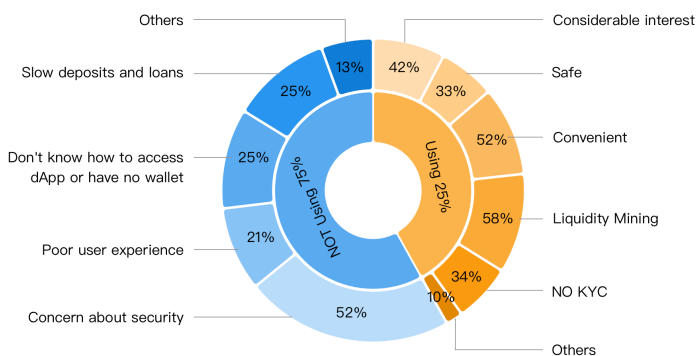


4) The Reasons to Use and not to Use DeFi Products

The survey data shows that 74% of the global respondents use DeFi products.

This is a multiple choice question where the respondents can select multiple reasons for use/non-use. The biggest driving force is liquidity mining, and others are significant interest rates (29%), no need of KYC (27%), convenient (21%) and secure (18%).

The main resistance for global users to use is unattractive interest rates (58%), poor user experience (20%), concern about security, and Don't know how to access dApp or have no wallet (17%).



The total percentage of Chinese users who have used DeFi products is 25%; the main reasons are liquidity mining (58%), convenience (52%), significant interest rates (42%), no need for KYC (34%), secure (33%) .

The main resistance for Chinese users to use is concern about security (52%), slow deposits and loans speed (25%), Don't know how to access dApp or have no wallet(25%), and poor user experience(21%).

Therefore, higher interest rates and trustworthy security are imperative if DeFi products are to increase their attraction.

Our Vision for Open Finance

From a macro perspective, blockchain is a paradigm shift from traditional finance. Blockchain is decentralized in nature, so there are two traits that it will have for the foreseeable future: first, crypto is speculative in nature; second, it is an upgrade for finance. From the perspective of DeFi, the bigger market in the future is in the Central Bank Digital Currency (CBDC). The emergence of official cryptocurrency will bring more and more assets on-chain. At that time, DeFi will become mainstream and enter the public consciousness.

In the next year or two, DeFi's total addressable market will be even larger than the blockchain it's built upon. The stablecoins that DeFi relies on will have a higher market cap than bitcoin, due to its ability to continually increase the dollar value of on-chain assets.

There will always be tremendous opportunities in paradigm shifts, from the Internet to mobile internet, from WeChat and Instagram to TikTok, these phenomena all attest to this. Blockchain, a decentralized settlement system, was destined to change the financial industry from the moment it was born. DeFi will one day step out of the small circle of crypto users and

become a pioneer of open finance. Bitcoin, as a forerunner, has created the media for decentralized exchange. Lending, as an ancient financial tool, will become the cornerstone of open finance with the help of DeFi. From the rise of USDT, USDC, DAI, and other stablecoins in the past two years, we can see that the market cap of stablecoins will be the fundamental liquidity for open finance, and will provide the funding supply for DeFi.

Ultimately it will be the state-led cryptos CBDC and Libra that will carry DeFi and open finance forward. At that time, the collateral for cross-border mortgages will be highly liquid assets, commodities, and bonds, but not just cryptos like Ethereum. Then its capital supply side will be the cryptos that are issued by countries. Trading, settlement, lending, and financial derivatives together will form a resplendent eco-environment of open finance, a whole new market.