

Modernizing Archaic Financial Infrastructure

Blockchain technology has the potential to modernize existing financial infrastructure by addressing inefficiencies, security vulnerabilities, and outdated processes that have long plagued traditional financial systems. One example of this outdated infrastructure is the reliance on central clearinghouses for settling trades. With blockchain, trade settlements can be executed nearly instantaneously through decentralized systems, eliminating the need for intermediaries and reducing both costs and counterparty risks.

Another example is the SWIFT network, which facilitates international money transfers among banks. This system is slow, expensive, and prone to errors. Blockchain-based solutions offer faster, cheaper, and more secure cross-border transactions, enabling real-time settlements and increasing transparency.

Furthermore, the traditional financial system still relies on cumbersome, paper-based processes for record-keeping and verification of assets, such as real estate titles or share certificates. Blockchain technology can digitize these records, creating a single source of truth, and streamlining the verification process. This not only reduces the risk of fraud but also significantly cuts down on the time and resources required for due diligence.

In addition, the current credit scoring system relies on data from a limited number of credit bureaus, which can lead to incomplete or inaccurate credit histories. Blockchain can enable the creation of a decentralized and tamper-proof credit scoring system that incorporates a wider range of data, allowing for more accurate and inclusive assessment of creditworthiness.

Overall, blockchain technology can help modernize existing financial infrastructure by introducing greater efficiency, transparency, and security into various aspects of the financial system. By embracing these innovations, we can build a more resilient and inclusive financial ecosystem that better serves the needs of individuals, businesses, and institutions globally.

Promising Use Cases for Real World Assets and MakerDAO

In its early days, MakerDAO was solely dedicated to using cryptocurrencies and digital assets as collateral for Dai loans. However, to bridge the gap between decentralized finance and traditional finance, MakerDAO has expanded its collateral offerings to encompass a diverse range of real-world assets (RWAs). Despite this growth, both MakerDAO and the broader DeFi sector are in the nascent stages of integrating with real-world assets.

As the Spring Ecosystem Actor, we are thrilled about the numerous opportunities to incorporate new asset classes into the blockchain. We believe that there are several readily accessible options for MakerDAO to seize, which can generate value for every stakeholder involved. By continuing to broaden its horizons and explore these untapped areas, MakerDAO can further solidify its position as a key player in the integration of decentralized finance and traditional financial systems.

Below are some asset classes, some familiar to MakerDAO and some new, that we feel best suit MakerDAO's risk profile while simultaneously innovating and creating value for the borrower:

Trade Finance

MakerDAO has already tested the waters of Trade Finance with some of its early RWA transactions such as Fortunafi and Harbor Trade Credit, but there is seemingly endless demand for this type of financing across the globe, especially in markets without access to traditional capital providers. Trade Finance generally facilitates different types of trade by bridging the gap between buyers and sellers. This asset class involves various financial instruments like letters of credit, bills of exchange, and as in MakerDAO's previously mentioned transaction, receivables factoring and revenue-based finance.

To date, Maker's activity has mostly been with US based counterparties, but the highest social impact and greatest innovation is needed around the globe and in emerging markets. We believe there are a host of promising counterparties around the globe that would make great partners for MakerDAO in new markets. With these relationships, Maker could provide vital businesses with more accessible, transparent, and cost-effective financing options while reducing the reliance on traditional banking institutions that have historically underserved these areas.

Structured Credit Bonds

Through partners like Monetalis and BlockTower, MakerDAO has been able to onboard US Treasuries in various formats to create a safe, liquid use-case for Dai that helps enhance the overall stability of the protocol, while diversifying risk away from any one particular counterparty. We believe Structured Credit bonds can provide a similar benefit to MakerDAO and allow for a larger variety of risk and duration profiles. Structured credit bonds are debt securities created by pooling together various cash-flow-generating assets like corporate loans, auto loans, and credit card receivables. These asset-backed securities can be further divided into tranches with varying levels of risk and return. In many cases, the senior parts of that capital structure provide very strong credit protection (as high as AAA) and short duration profiles in a highly liquid product. We believe these assets could provide a highly compelling alternative to the US Treasury solutions already implemented.

Bond Insurance

Bond insurance, or financial guaranty insurance, is a policy that guarantees the timely repayment of principal and interest to bondholders in case of issuer defaults. This type of insurance is often used by municipalities and corporations to enhance their credit ratings and lower borrowing costs. By writing bond insurance or “wrapping bonds” through MakerDAO, borrowers could benefit from reduced borrowing costs and lenders could gain additional credit protection in event of a default. Structurally, this type of transaction could be very simple for MakerDAO, while simultaneously innovating and creating new use cases for Dai. Unlike the traditional credit business of issuing loans to individual borrowers, any capital used for this type of insurance could be held in a single trust and managed by local servicers and administrators with on the ground expertise. The Spring Ecosystem Actor is excited about all the potential in this space and looks forward to exploring more opportunities in this market.

Warehouse Financing

Warehouse lending is a specialized form of asset-based lending, where financial institutions extend short-term credit to asset managers who are in the process of collecting and pooling assets for securitizations. These asset managers use the financing to purchase a variety of assets like mortgages, auto loans, or student loans, which are then packaged into asset-backed securities (ABS). Warehouse lending can provide a valuable source of funding for asset managers and an attractive opportunity for institutions like MakerDAO.

By participating in warehouse lending, MakerDAO can support asset managers in creating new securitization transactions and help bring more liquidity to the ABS market. This type of lending can be very attractive on a risk-adjusted basis, as MakerDAO would be able to generate stability fees on the loans provided to asset managers while maintaining collateralized exposure to a diversified pool of underlying assets. Importantly, the warehouse loans can be highly customized, allowing MakerDAO to tailor each transaction for its own liquidity and credit needs. Lastly, this type of activity provides the opportunity to create important partnerships with established institutions, further cementing Maker’s position in the broader financial system. We believe warehouse lending can be a significant growth area for MakerDAO and provide a wealth of new opportunities for tokenized investments.

Commercial Paper and Short-Term Corporate Loans

Commercial paper and short-term corporate loans represent another promising avenue for MakerDAO. Commercial paper is a type of unsecured, short-term debt instrument issued by corporations to finance their short-term liabilities, such as accounts payable and inventory. These instruments typically have maturities of up to 270 days, which can help MakerDAO manage the duration of its loan book. By providing commercial paper or short-term loans directly to corporations, MakerDAO can offer an alternative source of funding to traditional financial institutions and tap into a vast market of creditworthy borrowers around the world.

MakerDAO in particular is well suited for this type of activity, as its technology stack can easily create revolving lines of credit and new capital in an automated fashion. In general, we believe that the best way to provide value in well established financial markets is to leverage the unique features of smart contracts and Dai to provide benefits to borrowers that are not possible through traditional financial rails. Commercial Paper and Short-Term Corporate Loans provide such an opportunity to leverage the DAO’s technology. Ultimately, this approach can help diversify MakerDAO’s broader lending strategy, giving exposure to a range of industries while helping create positive economic impact around the world.

Pioneering the DeFi Frontier

As MakerDAO delves into the diverse real-world asset classes discussed above, the protocol is poised to push the boundaries of decentralized finance, pioneering new connections with traditional financial systems. Integrations like these will not only solidify MakerDAO’s position as a trailblazer in the DeFi landscape but also open up a myriad of opportunities that benefit borrowers, the protocol, and the entire ecosystem alike.

As the Spring Ecosystem Actor, our enthusiasm is fueled by the innovative spirit of MakerDAO, boldly venturing into uncharted territories and continuously striving to create value for all stakeholders. The union of DeFi and traditional finance marks a pivotal moment in the evolution of the financial world, and MakerDAO’s commitment to embracing these new opportunities is a testament to its visionary approach. As we continue to explore and navigate this exciting frontier, the possibilities are boundless, and we eagerly anticipate the future successes and breakthroughs that will shape the landscape of DeFi and beyond.