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What Is DeFi 2.0? The Confusing Term, Explained

DeFi 2.0 is only a short description of the second generation of decentralized finance. This guide explores everything that is relevant to DeFi 2.0 and its relevance in the technology world. Every technological innovation always brings the world from the initial stage to a new revolutionary stage, because these innovations always have space for new models and revolutionary concepts.

As an innovation based on [blockchain](#), Decentralized Finance ([DeFi](#)) is no exception, because the world has been discussing DeFi 2.0, that is, the next generation of DeFi protocol that appears just a few years after the birth of DeFi. As decentralized finance begins to approach the dawn and enters a new era of concept upgrading and model reshaping, let's have a comprehensive and in-depth understanding of what DeFi 2.0 is.

DeFi 2.0. Second Generation DeFi Protocol

As the name implies, DeFi 2.0 is a second generation decentralized financial protocol. A correct understanding of decentralized finance will make it much easier to understand the new version.

DeFi is an ecosystem sheltering all decentralized platforms and projects. It aims to introduce a new blockchain based financial model and economic elements, while breaking away from the traditional financial system.

The distribution of decentralized applications and projects relies on a mature model based on financial agreements. The development basis of these agreements is that they have unlicensed composability and open source development culture, so that the industry has exclusive interests.

In just a few years of development, DeFi has won high significance in the blockchain field. Since 2021, due to the efficiency brought by decentralized finance to the financial system, the adoption of decentralized finance has been growing at an alarming rate.

Therefore, it is ushering in a new era of decentralized finance. It is generally marked as DeFi 2.0, which is an upgraded and revolutionary version of the existing DeFi model. Among the limitations of DeFi 1.0, the system began to make breakthroughs in yield cultivation, mobility restrictions, etc. as a pioneer, it triggered people's expectations for the second version of DeFi.



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Why is DeFi 2.0 Important

The iteration of DeFi 2.0 brings the world into a new era of revolutionary DeFi protocol, which tends to solve the limitations of early decentralized finance. The second version of DeFi puts forward new innovations and solutions, which only means the progress of DeFi space, while providing consumers with new and exciting mechanisms to promote their financial freedom.

Scalability issues and unfriendly user interfaces have always been the main challenges of early DeFi protocols, because most DeFi solutions are built on the Ethereum blockchain. The complexity of the model structure makes it challenging for users, especially novices, to use decentralized products.

The high gas fee and long waiting time for transaction execution have always been the core challenges in the field of DeFi, which makes many people lose interest in using the DeFi platform. However, DeFi 2.0 will deploy the necessary infrastructure to contain the expansion problems of Ethereum.

Another noteworthy challenge facing the DeFi field is that most assets are static and underutilized, which is related to liquidity problems. There is no doubt that due to poor liquidity solutions, the utilization of the DeFi protocol is very low.

Although, AMM allows exclusive access to working capital. Due to the design of AMM, this model has not been effectively utilized, which prevents the concentration of liquidity. At the same time, DeFi 2.0 allows the deposited assets to be fully used. Therefore, it is making way for effectively maintaining and supporting the good cash flow of the project. At present, the next version of the DeFi protocol attempts to contain other challenges, including Oracle and intermediary information, centralization, security issues, and more.

Example of DeFi 2.0

Some emerging projects are already using the tool kit of DeFi 2.0 to establish their agreements, so as to prepare for the next stage of decentralized financial industry. Some examples of these projects include.

- Olympus Dao (OHM), a decentralized reserve currency model with bonds, LPS, bets, etc.
- Avalanche (AVAX) — a rapid, low-cost programmable smart contract platform, on which you can build decentralized applications of DeFi 2.0.
- Year finance (YFI) is a yield and loan aggregator and insurance provider on the Ethereum blockchain.

- Curve Finance (CRV) and converge (CVX) are the leading TVL of the DeFi protocol. Curve is Dao, exchange, LP, stable currency, etc. the yield breeding platform convex is established on this basis.

Benefits of DeFi 2.0

The second generation of DeFi promises many functions, making the DeFi space easy for users to deploy. With DeFi 2.0, users can obtain insurance for specific smart contracts to reduce the risks related to smart contract compromise. In addition, DeFi 2.0 ensures that users are protected from the risk of impermanent losses. Finally, the second generation of decentralized finance also curbed the risks associated with the lending process and eliminated the interest payable on loans.

Other exclusive benefits in the area of DeFi include reducing costs associated with executing transactions. As a result, the industry has achieved low gas costs and a rapid trading process. In addition, DeFi 2.0 promises efficient liquidity supply. Agreements that require liquidity can effectively obtain them.

Risk and Prevention of DeFi 2.0

Although there are many advantages that DeFi 2.0 promises, the system also tends to face some risks. First, investment risk. Investing in any financial instrument is always risky, so the decentralized application on DeFi 2.0 will not be an exception. Therefore, DeFi 2.0 may also expose users to investment risks, because there may also be some loopholes in the smart contract of the new era. Therefore, it is recommended that investors conduct in-depth research on any project before setting foot in it.

Secondly, there is liquidity risk. It is worth noting that the risks related to liquidation can be reduced, but not completely. Although DeFi 2.0 protects users from liquidity risks, such as volatile losses, people who intend to conduct liquidity mining may still face some loss of funds. Therefore, if the willing mobile miners can have enough ability, they will have better development.



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Conclusion

With the continuous progress in the general field of science and technology, DeFi 2.0 is worth waiting because it is ready to combat the risks associated with DeFi 1.0. As a result, it is making the decentralized financial system better and giving people access to it. Therefore, in the new stage, the use of DeFi will become more flexible, thus promoting the blockchain technology to the mainstream attraction.

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