Continuum

THE GREAT CONVERGENCE - ANALYSING THE RISK GAP BETWEEN TRADFI AND DEFI

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Introduction

The boundary between traditional finance and decentralised finance is dissolving faster than the rules governing either. In the twelve months ending June 2025, the Asia-Pacific region became the fastest-growing market for on-chain crypto activity, with transaction value rising sixty-nine percent year-on-year to USD 2.36 trillion.[1] Institutional allocators that two years ago treated digital assets as a speculative satellite are now routing capital through tokenised treasury funds, custodial DeFi vaults, and stablecoin payment rails. At the same time, digital asset firms that built their operations on permissionless infrastructure are seeking licensing, custody partners, and the credibility of regulated counterparties.

The convergence is not theoretical. Tokenised fixed income products are anchoring a new layer of on-chain finance, with institutional capital using regulated tokenised instruments to earn yield directly on-chain.[2] Hong Kong's stablecoin ordinance came into effect on 1 August 2025, with thirty-six entities applying for licences in the first batch.[3] Singapore's Monetary Authority moved its digital token service provider regime live on 30 June 2025, fundamentally redrawing the scope of what activity requires a licence.[4] Japan's Financial Services Agency is in the process of moving certain crypto assets out of payments regulation and into the securities framework altogether.[5] Thailand's two royal decrees on digital assets, effective 13 April 2025, brought foreign platforms serving Thai users into scope for the first time.[6]

What none of these regimes resolve, and what no global standard yet addresses, is the structural mismatch at the heart of the convergence. Traditional financial regulation was built around intermediaries that hold customer assets, take responsibility for compliance, and sit at clearly identifiable points of accountability. Decentralised finance operates without intermediaries, often without identifiable counterparties, and frequently without a defined jurisdictional home. When TradFi institutions touch DeFi rails, and when DeFi firms operate across regulated regimes, they sit in a zone where compliance frameworks designed for one side do not respond to the risks of the other.

For insurance, the consequence is acute. Professional indemnity, directors and officers, cyber, and crime policies were written with TradFi structures in mind. Most legacy wordings either say nothing about smart contracts, protocol risk, or autonomous on-chain operations, or they exclude them through definitions buried in policy schedules.[7] Firms that believe they are insured for the activities they are conducting often discover, only when a loss event occurs, that the coverage does not respond.

This report examines where those gaps sit, how the major APAC regulatory regimes are shaping them, and what firms operating across the TradFi-DeFi intersection need to understand about their actual risk exposure. The compliance work is doable. The coverage work is the part most firms have not yet done.

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