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DeFi as an alternative to traditional financial markets

DeFi (Decentralized Finance) is a collective term for financial products, also a new and alternative form of the financial market built on the basis of blockchain technology. The main difference between DeFi and traditional finance is that there is no centralized operator that can block access to your assets. The creation of the Ethereum blockchain has opened up the possibility of creating financial products. In DeFi, a smart contract replaces a financial institution in a transaction. A smart contract is an Ethereum or other blockchain account that can store funds and send/return them based on certain conditions. No one can change a smart contract while it is valid [1].

Table 1 “Comparison of DeFi and traditional finance”

DeFi	Traditional finance
User's money is on a smart contract which builds DeFi products, and only you are the only the person who has access.	User's money is held by companies.
Users control where their money goes and how it's spent.	Users have to trust companies not to mismanage their money, like lend to risky borrowers.

Transfers of funds happen in minutes. DeFi is open to everyone. It's built on transparency – anyone can look at a product's data and inspect how the system works.	Payments can take days due to manual processes. Users must apply to use financial services. Financial institutions are closed books: you can't ask to see their loan history, a record of their managed assets, and so on.
The markets are always open.	Markets close because employees need breaks.

Built on data [1].

Analyzing Table 1, we can conclude that DeFi has several opportunities that are not available in traditional financial markets. The main advantages of DeFi are the speed of cross-border payments that take minutes, free access to DeFi products and their use around the clock, as well as independent ownership of their assets through cryptocurrency wallets.

Main disadvantages of DeFi

- DeFi Products could be difficult to use for beginners;
- Bugs and exploits in DeFi products, as a result, users can lose their funds.
- Not regulated market.

Conclusion

DeFi is a new and innovative financial market built on technology blockchains. DeFi is here not to replace traditional financial markets, DeFi is here to give access to financial markets for everyone in the world and be an alternative to traditional finance. The main advantages of DeFi are transparency, fast transactions that are processed in minutes, and round-the-clock access from different parts of the world. But users of DeFi must know, that DeFi is not a regulated market and it is very technological for those who use DeFi products for the first time.

Resources:

1. DeFi. URL: <https://ethereum.org/en/defi/>

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