How DeFi Will Reshape Financial Services

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If you have been an active or casual participant in the blockchain industry, you have likely heard of decentralized finance (DeFi). The industry is on a rampage, with more than $4 billion in assets locked up in DeFi projects. Currently, the DeFi industry is growing by nearly half a billion dollars per week as investors and entrepreneurs find refuge in a financial system that is not tied to any government or corporation.

Arguably even more interesting is the movement of institutional investors and traditional finance professions to DeFi as a way to break free from what is often considered to be an outdated and insular financial system. The current DeFi movement is being powered by Ethereum, which offers an open and permissionless system that is easily available to everyone. This interoperability helps companies scale products by easily leveraging other innovations in the industry.

As the industry matures, more resources will be allocated to build DeFi solutions. Currently, there are a handful of exciting developments and projects, either recently launched or launching soon, that have the DeFi community excited, and for good reason — community involvement is at the core of DeFi and one of the leading advantages over the traditional financial services markets.

Entrepreneurs should keep DeFi on their radar as the industry

matures and continues to attract significant capital investment. To learn more about the current applications of DeFi, here are some of the fintech verticals being disrupted by decentralized finance.

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1. Financial Data

Data within financial markets are controlled by a small group of stakeholders that control pricing, access and what kind of data is being provided. In the U.S. alone, the industry is estimated at $15 billion, but only a handful of players control it. Decentralized finance will help democratize data, how data is sourced, how it is presented and create a rewards system that incentivizes market participants.

One company, DIA, is a Swiss no-profit is aiming to become the open-source Bloomberg for both crypto and traditional finance. Its platform uses crypto-economic incentives to drive the supply, share and use of transparent, crowd-verified price data and oracles on financial and digital assets. Using DeFi, DIA will provide financial institutions with an immutable and verified single source of financial market data for any market and asset type. This will ultimately help alleviate the problems seen currently with financial markets data providers around the world.

2. Lending

DeFi lending is based on the benefits brought by the Ethereum blockchain, which allows for transparent and secure protocols to source and secure funds that are incentivized with various crypto rewards. DeFi has seen innovation such as no-collateral loans, compounding interest rates that are much higher than traditional banks and P2P lending that helps eliminate

intermediaries that operate their businesses around fees.

DeFi lending is currently seeing massive growth as companies leverage the industry’s composability, which allows applications to integrate and build on top of one another creating a vast network effect. This open-source approach helps promote innovation and encourages healthy competition, something that the cutthroat financial services industry desperately needs.

3. Decentralized Exchanges

Decentralized exchanges (DEX) are one of the most important innovations in the blockchain industry, as users are always in control of their funds, which are stored in external wallets. This alleviates the risk that comes with depositing crypto into exchanges, which can lead to losing all of your funds in the case of a hack.

In the past 30 days, decentralized exchanges have processed over $537 million in transactions and are currently taking market share from more traditional centralized exchanges. As more traditional assets become digital assets, it is safe to assume that these will eventually be tradeable on exchanges that are decentralized. Naturally, regulatory hurdles could make this a delayed process, but industry experts are confident in the power of DeFi with how we control our assets.

4. Asset Management

When thinking about asset management, Defi offers distinct advantages. According to DeFiRate, these benefits include non-custodial ownership of assets, composability to seamlessly plug in DeFi products with other products, automation, global access and financial inclusion and pseudo-anonymity.

The one potential downside is that users are completely responsible for their funds and there are no safeguards to protect funds that are lost in wallets or sent to the wrong address. This is not for everyone, but the good news is that DeFi products are evolving at a rapid pace to become more user-friendly and educational to help teach people how to properly manage their assets within the industry.

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5. Insurance

As mentioned in the last point, there are no automatic safeguards or custodians to protect users against user errors. Thankfully, there are DeFi insurance products that can help mitigate risk. This insurance can be applied to pools, personal wallets and smart contracts that are used to pool money for lending and staking.

Currently, there are nearly 10 DeFi insurance providers that are all helping to create an ecosystem that is based on transparency and accessibility. Their goal is to eliminate costly traditional insurance agencies that run as monopolies over certain sectors and make insurance more affordable and flexible to both institutional and casual users.

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