

DEFI



UNDERSTANDING DECENTRALISED FINANCE (DEFI): THE FUTURE OF FINANCE?

ARPIL 2023



WHY IT MATTERS

DeFi (Decentralised Finance) is a new way of providing financial services without the need for traditional banks or financial institutions. It uses blockchain technology to create open-source and decentralised financial applications, such as lending and borrowing platforms, prediction markets, and insurance services.

DeFi matters because it makes financial services more accessible, transparent, and secure for everyone, especially those who lack access to traditional banking services.

Its key components are decentralisation, smart contracts, interoperability, transparency, and tokenisation. This allows DeFi to create a more inclusive financial system that provides greater financial freedom and opportunities for all, regardless of their location or financial status.

Benefits of DeFi include accessibility, transparency, decentralisation, efficiency, and security. It provides financial services to anyone with an internet connection and automates transactions with smart contracts.

Challenges of DeFi include complexity, volatility, regulation, hacking, and scalability. It can be difficult to navigate the legal and regulatory landscape, and the value of DeFi assets can be volatile. DeFi also faces challenges in terms of scalability and security, with the risk of hacks and exploits.

MAIN LAYERS

The DeFi ecosystem is made up of different layers that work together to provide a range of financial services to users.

Blockchain Layer: The underlying technology that provides a secure and transparent way to store and transfer data.

Infrastructure Layer: The tools and infrastructure that developers use to build DeFi applications.

Application Layer: The DeFi applications that users interact with, such as lending and borrowing protocols, decentralised exchanges, stablecoins, and insurance platforms.

Liquidity Layer: The layer that provides the necessary liquidity for DeFi applications to function.

Governance Layer: The layer that allows users to participate in the decision-making process of the DeFi ecosystem.

Identity Layer: The layer that provides a way for users to verify their identity on DeFi applications.

Together, these layers create a decentralised, open, and transparent financial system that provides new opportunities for users around the world.

ADOPTION & GROWTH

DeFi has experienced remarkable growth, with its total value locked (TVL) rising from under \$1 billion in 2019 to over \$200 billion in 2021. Here are some current trends and projections:

- More people are using DeFi for financial services, such as borrowing, lending, trading, and staking.
- DeFi is being integrated with traditional finance by institutional investors and large companies.
- Other blockchains, such as Binance Smart Chain, Solana, and Polkadot, are gaining popularity and driving DeFi growth.
- Privacy is increasingly important, leading to more focus on anonymity and private smart contracts.
- DeFi is a rapidly evolving ecosystem, with new protocols and applications being developed all the time.

Projections for DeFi are optimistic, with TVL expected to reach \$1 trillion by the end of 2022. However, risks like regulatory uncertainty, security vulnerabilities, and market volatility may slow adoption and growth.



FUTURE

The future of DeFi is influenced by regulatory frameworks, market trends, and technological advancements. Below are some possible scenarios and recommendations for the future of DeFi:

- Continued growth and mainstream adoption can be achieved by focusing on user experience, privacy, security, and regulatory frameworks.
- Increased competition from centralised finance can be addressed by innovation, interoperability, and providing unique value propositions.
- Increased regulatory scrutiny can be mitigated by working proactively with regulators, prioritising compliance, and implementing robust security measures.
- Market consolidation can be addressed by prioritising innovation, exploring partnerships and collaborations, and providing unique value propositions.

DeFi must remain agile and adaptable by prioritising user experience, privacy, security, compliance, and innovation to shape the future of finance.

