

## Learn About Financial Intermediaries

### Key Terms

- **Insurance Broker:** An insurance broker tries to help customers find the policy best fit for their particular insurance needs and receives a commission for the policy that they sell.
- **Cryptocurrency:** Blockchain is a fairly new ledger-based, transactional technology upon which cryptocurrencies operate. It has many benefits, the most significant being decentralization of transactions, but is complex and still very new.
- **DeFi:** DeFi is an abbreviation for Decentralized finance. DeFi is a type of finance that uses blockchain technology to eliminate the need for intermediaries. Instead, trades occur directly between people using Smart Contracts.

### **The World Of Finance Is Full Of Middlemen**

Between the different sides of the market are "middlemen" that facilitate transactions or bridge various parties. These include Banks, Credit Unions, Pension Funds, Insurance Companies and Stock Exchanges:

**Banks:** Banks serve various parts of the market through lending, saving and investing services. They connect lenders and borrowers, corporations with investors and facilitate the flow of capital from employers to employees.

**Credit Unions:** Credit Unions focus more on lending. They bridge the gap between people who need a loan, and people who have money to loan by utilizing deposited savings to fund loans. Credit unions also liaise between consumers and credit agencies.

**Pension Funds:** Help employees save for retirement. Employees choose which proportion of their salary to put into the account, and frequently get their contribution matched by their employer. Within the account, the money is invested in safe assets and continues to grow until the employee retires and withdraws the money.

**Insurance Companies:** Insurance companies function by pooling customer's funds, and dipping into the pool to cover insurance claims. This same operational structure applies for all types of insurance, and banks on the insurance company attract enough volume to cover potential claims.

**Stock Exchanges:** Stock Exchanges are electronic platforms that generate fees by connecting investors with corporations through securities. When an investor places a market order, the exchange purchases the stock from the corporation and delivers it to the investor.

### **The Bottom Line**

Intermediaries have helped consumers, investors, corporations and employees to raise and spend capital. There are usually fees associated with intermediaries such as exchanges. The rise of blockchain technology has kickstarted some interest in Decentralized Finance. Blockchain is still very new, but the future of banks and exchanges may look different than it does now.