

Central versus decentralized crypto exchanges

Choosing an exchange is one of the first decisions every crypto investor must make. You can use centralized or decentralized exchanges.

What is a centralized exchange?

Central exchanges (CEX) are comparable to traditional banks that customers trust with their money. So, a centralized exchange acts as a third party between buyers and sellers. It monitors trading and manages users' assets.

So customers trust the exchanges' ability to keep their assets safe and provide the liquidity for effective transactions

What is a decentralized exchange?

With a decentralized exchange (DEX) there is no third party. Instead, users hold their assets and conduct peer-to-peer transactions, i.e. deal directly with each other. With DEXs, users ensure sufficient liquidity among themselves via a liquidity pool mechanism. Basically, users pool their assets in the smart contract of a decentralized exchange to provide liquidity that facilitates the exchange of assets between traders.

In 2022, decentralized exchanges will be less common than centralized exchanges, but they will make great strides. They embody the actual character of Web3

Central versus decentralized exchange – the differences:

1. Ease of use

Central Exchange:

Usually user-friendly platforms that are easy to use. Good option for crypto newbies.

Decentralized Exchange: Often very complex, especially for new users. Steep learning curve.

2. Regulation

Central Exchange: Are often regulated.

Decentralized Exchange: Bypass regulations as they work on a peer-to-peer basis.

3. Liquidity

Central exchange: Many active users who buy and sell assets and therefore have a high trading volume. This leads to high liquidity.

Decentralized exchange:

Comparatively few users, therefore low liquidity. This hampers seamless Transactions, which can be detrimental to investors.

4. Impermanent Loss

Central Exchange: No problem.

Decentralized exchange: Big problem for liquidity providers due to cryptocurrency volatility.

5. Security and Privacy

Central Stock Exchange: The security of assets depends on that of the stock exchange. No anonymity due to KYC and AML regulations.

Decentralized Exchange: The security depends on the owner of the assets. Anonymity as they do not comply with KYC standards