

## **DeFi**

DeFi or Decentralized Finance is an emerging financial technology that aims to democratize finance amongst the set of users, groups or community. It eliminates intermediaries by allowing people, merchants, and businesses to conduct financial transactions through emerging technology. It is a collection of software and protocols that run on Blockchain.

**Blockchain** is a record keeping tech that can be understood as a digital decentralized ledger, where all transactions (like those based on cryptocurrency) are recorded anonymously in blocks and then verified by other users. If the verifiers agree on a transaction, the block is closed and encrypted. Then another block is created that has information about the previous block within it. This continues till the project or transaction is complete.

The blocks are interlinked or 'chained' together, through the information in each proceeding block, thus, the name blockchain. Information in previous blocks cannot be changed without affecting the following blocks, making it secure. Thus, if a hacker were to hack, he/she would have to alter the entire chain before doing the damage.

### **Advantage**

1. Works towards financial inclusion without any 'eligibility' criteria, as followed by traditional banks or financial institutions
2. Facilitates lending, borrowing, currency exchange, insurance, trading etc of different assets
3. It is fast and cost effective
4. It uses open software and anyone can audit it
5. Is 'Trustless', meaning no govt/banking/authoritarian entity needs to authentic the users or parties involved, as it works under the framework of Smart Contracts

**Smart Contracts** are self-executing contracts based on pre-set conditions, and when those conditions take place, there is an exchange of value that happens automatically. For eg, 'if this, then that.'

### **Disadvantage**

1. Blockchain transactions are irreversible making rectification of incorrect transaction difficult
2. Because it is an evolving technology, regulations vary between region and countries. One needs to be wary of fly-by-night operators/platforms
3. Hard to know if a dApp/platform was created by reputable people or not, or whether it will perform as promised
4. Cryptocurrencies or tokens are very volatile. Many may not have the stomach to ride such volatility

Despite the disadvantages, govts, financial institutions, investors and informed individuals are following this space closely. The promise of a secure, cost-effective, fast-paced fintech is attractive. It could have many positive implications. Amongst its many other benefits, it could be used to distribute govt. subsidies, attenuate farmer loans, track healthcare schemes and so on.