

Title: Can DeFi Solve Real Problems as it Matures?

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I started reading *DeFi and the Future of Finance* by Campbell R. Harvey, Ashwin Ramachandran, and Joey Santoro and it gives me some hope for the direction DeFi is heading. It is volatile and isn't user friendly now, but I think if it is given the chance to develop and evolve, there is a lot of potential there.

The authors believe that it provides solutions to the following five problems (text pulled and summarized from the book):

1. Centralized control: Banks control rates and fees. The four largest banks have a 44% market share of insured deposits and one consolidated entity attempts to set short-term interest rates and to influence the rate of inflation.
2. Limited access: About 1.7 billion people are unbanked which makes it difficult for them to obtain loans and to participate in internet commerce. Many must resort to payday lending to cover liquidity shortfalls. Additionally, banks may not bother with small loans for individuals and new businesses. Instead, it may suggest using a credit card with an extreme interest rate.
3. Inefficiency: An example is the credit card interchange rate that causes consumers and businesses to lose up to 3% of a transaction's value with every swipe. Remittance fees are 5-7%. Time is wasted in the days it takes to "settle" a stock transaction (officially transfer ownership). In the current banking system, deposit interest rates are low and loan rates are high because banks need to cover their costs.
4. Lack of interoperability (this one loses me a little): The current environment for financial institutions lock interconnectivity. The U.S. financial system is siloed and designed to sustain high switching costs. Moving money from one institution to another can be unduly lengthy and complicated.
5. Opacity: The current financial system is not transparent. Customers have very little information on the financial health of their bank and instead must place their faith in the limited government protection of FDIC insurance on their deposits. Further, it is difficult to know if the rate they are offered on a loan is competitive. Even the lowest price still reflects legacy brick-and-mortar and bloats back-office costs.

Number four seems less and less of an issue these days (at least in the US). But other people may struggle with this. With all of the people in this sub, I'd like to know your thoughts.

Does DeFi help alleviate these problems?

Are they problems worth solving?

Are there more issues that should be discussed?

TLDR: DeFi has solutions for some of the current financial industry's problems: centralized control, limited access, inefficiency, lack of interoperability, and opacity. What are your opinions?