**How DeFi will define the future of financial products**

*Experts believe that the regulatory framework must keep pace with the evolving technology*

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DeFi is a rapidly growing movement that utilizes blockchain technology to offer financial services in a decentralized network, replacing traditional financial intermediaries. The availability of blockchain, the growth of digital assets, and the slight distrust in centralized entities’ finance drove this shift. DeFi offers a transparent, accessible, and democratic alternative based on smart contracts, eliminating intermediaries. Smart contracts are self-executing agreements with the terms of the contract automatically enforced by code, eliminating the need for intermediaries. They are integral to decentralized finance (DeFi) and operate on a blockchain network.

While the current scenario in [India](https://www.financialexpress.com/india-news/) is very complex and delicate, countries abroad and financial behemoths have taken huge steps and initiatives to harness the power of DeFi and blockchain. The global payments network SWIFT has partnered with the decentralized data protocol chainlink ($LINK). Chainlink is a decentralized oracle network that connects smart contracts to real-world data, enabling them to securely access off-chain information. This allows for the creation of more advanced decentralized applications and a wider range of use cases for blockchain technology. Stripe has partnered with polygon to create a global network to facilitate stablecoin commerce for its customers across a wide geography. While these institutions are heavily involved in global trade, some institutions have made a legacy for being financial titans like Fidelity and Blackrock. Such institutions have also shown a good amount of adaptation and support. A big point to note is that Blackrock has already taken a huge chunk of holding in the USDC provider circle.

Last year in December, The CEO of BlackRock, Larry Fink, spoke about the potential for tokenization to revolutionize the financial markets. He believes that tokenization, which involves representing physical assets in digital form as tokens on a blockchain, will create new opportunities for investment and help bring new assets into the [market](https://www.financialexpress.com/market/). While highlighting the opportunity, he also emphasized the importance of ensuring that the tokenization process is appropriately regulated to protect investors. He believes that the regulatory framework must keep pace with the rapidly evolving technology and that regulators should take a collaborative approach to ensure that the [industry](https://www.financialexpress.com/business/industry/) develops safely and securely.

While the benefits of blockchain and DeFi primitives are extremely obvious to the crypto community, an amalgamation with existing infrastructure or markets can increase adoption in financial markets and thus create opportunities for the broader population. But how do these products look or function, let’s find out

The central tenets that blockchains and DeFi bring to financial markets are Tokenization, higher transparency, unforeseen Business models, and global interaction and opportunities.

To emphasize a few Unique Selling Points.

**Global from day one**

Products based on DeFi protocols are global from day one. This essentially opens up the opportunity for products and teams to cater to a large size of users and thus capture global value.

**Accessibility**

Many financial products and institutions are limited to a set number or category of users or investors. Tokenization and smart contract infrastructure helps to break down big and complex financial offering or models into more innovative offerings and thus make it available to the masses. This enhances the participation from different sections of society that weren’t able to participate previously.

**Transparency**

In traditional finance, many movements happen behind closed doors; thus, most public data is either delayed or opaque. This creates a divide between participants across the market. Blockchains provide a public infrastructure where all transactions are transparent and trackable. This creates a huge level playing field for participants with different capital and background.

**Trustless**

Blockchains are designed to be trustless, meaning that they eliminate the need for intermediaries or central authorities to verify transactions. This is achieved through a combination of cryptographic algorithms, consensus mechanisms, and a distributed network of nodes that collectively maintain a tamper-proof ledger of all transactions. The transparency and immutability of the blockchain ensure that all participants can have confidence in the accuracy and validity of the data, making it possible to securely and efficiently exchange value and information without relying on intermediaries. This enables a huge amount of permissionless innovation that leads to high value products

DeFi also offers greater flexibility and customization in financial products. DeFi platforms are built on open-source technology, which means that developers can build new financial products and services that meet the specific needs of different groups of users. This is in stark contrast to traditional finance, where financial products are typically designed and controlled by a small number of large financial institutions. DeFi also offers greater accessibility to financial products, as users can participate in financial markets and access financial services through a simple [mobile app](https://www.financialexpress.com/about/mobile-app/) or web-based interface.

Multiple innovative products have been developed in interesting ways with the help of blockchain technology. A few examples of the same are as follows.

**Stocks**: In 2018, accessing exposure to Tesla stock from non-US countries was challenging due to the high entry barrier and minimum purchase requirements. However, in recent years, companies like Vested have made it possible for individuals to invest in fractional shares of such companies. The advent of tokenized stocks has taken this experience to a new level, becoming a highly sought-after instrument on [cryptocurrency](https://financialexpress.com/about/cryptocurrency/) exchange platforms.

The tokenized stock market, particularly for US-based stocks, has faced intense scrutiny from regulatory bodies, leading to a slowdown in innovation. Despite this, tokenized gold and other assets have seen a decent adoption. It is expected that over time and with greater regulatory clarity, the tokenized stock market will experience increased participation.

The recent launch of derivatives, options, and forex trading protocols in the DeFi space has seen moderate to good adoption. However, these products require a deeper understanding and may require further updates before they become more widely adopted. Regardless, the development of these instruments highlights the continued growth and evolution of the DeFi market.

**Real Estate:**

Real Estate Investment Trusts (REITs) have proven to be effective in gaining exposure to the real estate market with a lower investment threshold. However, in India, the availability of this investment vehicle is limited. Although some [startups](https://financialexpress.com/about/startups/) have attempted to bring this offering to the market in a boutique model, the benefits of tokenization cannot be overlooked. Countries such as South Korea and the United States have already seen the emergence of companies exploring tokenized real estate models. However, the industry is still in its nascent stage and taking time to mature. Given that land ownership and regulations vary significantly by geography, the development speed in each region will differ.

The key takeaway is the opportunities that tokenized primitives and blockchain technology bring to the real estate industry by expanding access to a wider range of investors. The ability to streamline processes and increase transparency through the use of these technologies has the potential to drive significant growth in the tokenized real estate market.

**Bonds:** The European Union has demonstrated its commitment to incorporating blockchain technology into its financial sector by implementing several projects utilizing blockchain platforms like Ethereum. This has led to the initiation of pilots for tokenized financial products, including bonds, stocks, and other financial instruments. The decentralized finance (DeFi) space is leading the way in this transformation, with companies like Ondo Finance offering innovative solutions. Through Ondo Finance, a broad range of users now have access to indirect services provided by established asset managers such as Blackrock and Goldman Sachs. This is made possible due to the collaboration and synergies between various financial disruptors and innovators in the DeFi space. This exciting development highlights the potential for permissionless innovation in the financial sector through the use of disruptive technologies like blockchain. The ability to offer such a comprehensive and valuable product is a testament to the power of DeFi and its impact on the traditional financial landscape.

DeFi has the potential to revolutionize the financial sector by unlocking opportunities that are currently limited by traditional financial offerings. Through the use of tokenization, increased transparency, and a permissionless approach to innovation, DeFi has already brought about a multitude of innovative products and services. However, this is merely the beginning. The next decade holds immense potential for DeFi to disrupt multiple industries with these new financial primitives.