**Financial inclusion: How DeFi and Web3.0 can empower the underbanked**

*Absence of centralised control allows greater autonomy of operational functions*

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Decentralised Finance (DeFi) is today one of the fastest growing sectors of the broader Web3 [economy](https://www.financialexpress.com/policy/economy/) whose importance has long been known in the world of blockchain and crypto. However, recent years have seen the concept gain increasing acceptance around the world and is now even seen as a potential alternative to the current financial system, offering newer ways of conducting financial transactions not limited by the constraints of centralised systems or human errors.

According to the 2021 Global DeFi Adoption Index report by blockchain data platform Chainalysis, [India](https://www.financialexpress.com/india-news/) ranked sixth in terms of DeFi adoption in 2021. The adoption of DeFi is likely to have further increased over the past few years. Today, major global financial giants such as Blackrock and Fidelity have also shown support or begun adopting DeFi in their applications.

DeFi leverages blockchain [technology](https://www.financialexpress.com/life/technology/) to provide financial services without the need for intermediaries and disrupt traditional financial intermediaries by allowing for more direct control over one’s assets. DeFi uses smart contracts, a program where contract terms are automatically fulfilled when executed to automate transactions, minimizing human error and bringing more transparency than the present financial system.

The absence of such centralised control thus allows greater autonomy and customisation of operational functions without the need for an intermediary, helping to minimise costs. Further, the transparency and immutability of the blockchain ensure that all participants can have confidence in the accuracy and validity of the data.

While DeFi is making a massive impact globally, it also holds immense potential in the Indian context, where traditional banking practices face numerous challenges and where it can help offer financial services to the unbanked and underbanked populations. With the use of just a smartphone and the internet, individuals can access DeFi platforms and avail of financial services such as borrowing, lending, and investing. Currently, the most widely used application of DeFi is peer-to-peer borrowing and lending. While in traditional finance, borrowers need to go through a bank and complete a complex loan application, DeFi allows borrowers to secure loans through smart contracts, eliminating the need for intermediaries, and simplifying, thus speeding up the process.

This has the potential to significantly transform the Indian banking landscape, where despite massive progress over the past decade, many still find it hard to access the financial system. The [MSME](https://financialexpress.com/about/msme-news/) sector, for example, has long faced issues of access to credit from banks, leading them to obtain finance from other sources at higher rates. As per a recent report on MSME lending, only 14 per cent of [MSMEs](https://financialexpress.com/about/msmes/) in the country have access to credit. Such a credit gap massively hinders the potential of India’s MSME sector, raising the cost of finance, which results in less investment and slower economic development.

As DeFi platforms are built on open-source technology, developers can build new financial products and services that meet the specific needs of different groups of users, offering greater flexibility and customization in financial products. This can be seen in the emergence of new and innovative insurance solutions, which eliminate the need for extensive paperwork, outdated audits, and other tedious processes that plague the current Insurance [industry](https://www.financialexpress.com/business/industry/).