

# What is DeFi and how does it work?

Decentralised finance is here, and has the potential to become the driving force of a more open economy. Evgeny Yurtaev, CEO at Zerion explains what DeFi is in detail.

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Financial markets can drive the prosperity of society by enabling great ideas to become reality, but power in finance is centralized: most people are locked out of decisions about what gets funded and only get a small portion of the profits from the projects that do. Evgeny Yurtaev, CEO at [Zerion](#) explains what is DeFi in detail.

More than half of global VC funding goes to U.S. startups, most of which are in a few cities like San Francisco and New York City. In the U.S., the bottom 80% of society own only 7% of company shares, and individuals in many other nations do not even have access to stock markets. Finance is central to the global economy, but it is not an open system, rather it is a closed group for the select few.

## How centralised finance works

The mechanism behind this is that ordinary people pass control over their assets to banks and other financial intermediaries so professional managers can work wisely with the money in the markets. Their logic is that they will make higher returns and therefore the account holders also benefit.

However, the result is keeping control and risk at the centre of the system. We

know that bankers, as experienced as they may be, are fallible and can fail to see risks in the markets, as witnessed in the 2008 collapse. When they control all the money, risk accumulates at the centre and can endanger the entire system.

## Incomplete decentralisation

Satoshi created the Bitcoin in 2008 as the first-ever solution giving global peer-to-peer trade settlements with no intermediaries required, allowing individuals to could keep control over their assets. However, Bitcoin and early cryptocurrencies only decentralized the issuance and storage of money, not access to the financial system.

Two major issues with the current crypto space stand out. Firstly, although protocols are decentralized and based on consensus algorithms, many access points to the system, like exchanges, are still centralized. In addition, many crypto projects are managed through fundamentally centralised organisations or companies that lack transparency or accountability, and do not openly show the development of new parts of the ecosystem. As a result, blockchain has not yet fully found its place in the finance world.

## The question of access

It is not surprising that fields like finance and cryptocurrencies, where participants must have high degrees of knowledge and access to be able to enter, are not very open to large parts of the world.

Knowing the key role that finance plays today and the emerging role of blockchain-based finance in the future of global economies, it is problematic that the majority of humanity should be locked out. Diversity helps decision-making, and we could avoid a lot of fights over taxation if our financial system was fairer and more open at the outset.

*“The solution is not being ordinary and accepting being locked out. It is building and using the tools to take control of our assets, and our decisions about them.”*

# Decentralising finance

Many fintech firms and challenger banks promise to give more control to the consumer. These are misleading promises because in most cases, banks still manage the assets, and the customer has to trust the bank to take good care of it. They are faster and more convenient, but not fundamentally different from old banking.

True disruption only comes with full individual control over assets and access, and technology is now enabling this reality. Many builders for innovative financial products are moving towards open-source protocols for exchanging assets through decentralized platforms. The new platforms have two huge advantages over finance as it exists today.

Firstly, individuals will be able to unlock many known and new forms of value while not having to trust any intermediary to take care of their assets for a commission. Anyone has access and there is no central control.

Secondly, all protocols are open-source, so anyone can build new financial products on top of them and people from across the globe can collaborate and come up with new forms of creating value. This can lead to ever-faster innovation and strong network effects as more and more users and builders move onto the platforms.

Decentralised finance, or DeFi, already provides a range of common financial vehicles and marketplaces that ensure that the individual is the sole custodian of their assets at all times.

Today, all these protocols are based on Ethereum smart contracts. Some of the most promising and advanced ones are:

Decentralized exchanges like [0x](#) or [KyberNetwork](#),

Non-asset-backed [stablecoins](#) like [Dai](#), with a reliable value for hedging and transferring,

Token baskets, a decentralized equivalent to ETFs, through [Set protocol](#),

Smart contract-based asset management funds like [MelonPort](#),

Tokenized debt platforms like [Dharma](#) or [Compound](#) for lending and borrowing.

The markets for them are small for now, but they promise, for the first time, a global financial marketplace with programmable stores of value that do not just

serve but actually belong to the individual. You can find a full list of projects in [this](#) great list.

To put these ideas into perspective, here's how DeFi is upgrading all the functions of finance:

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