

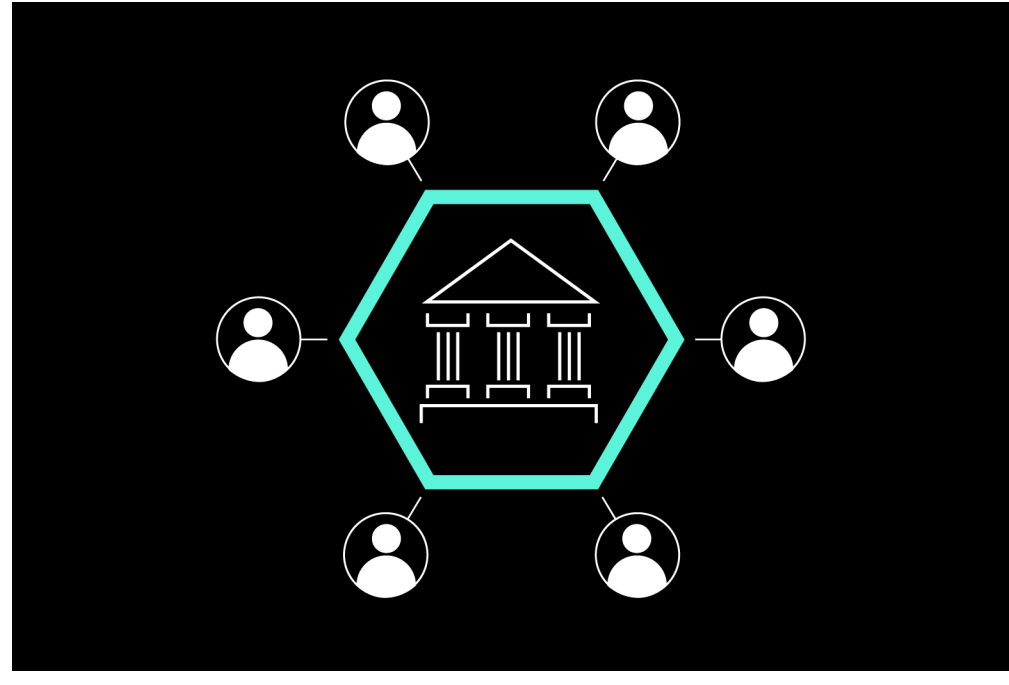
What is decentralized finance (DeFi)?



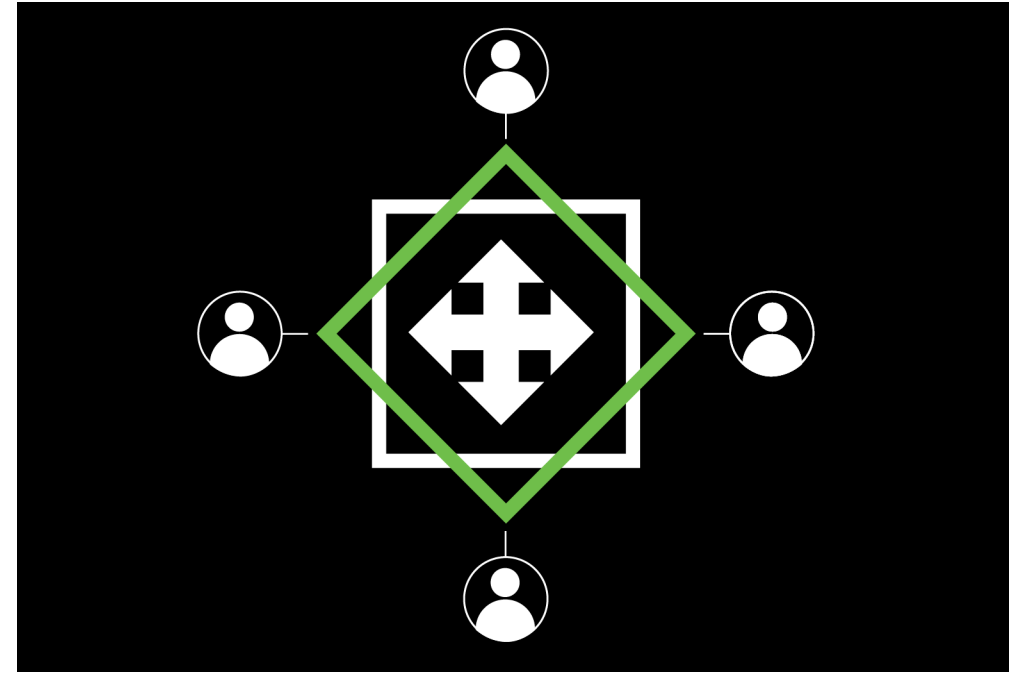
What is DeFi?

DeFi stands for decentralized finance, which means everything from simple transfers to complex financial functions are facilitated without any third-party involvement. To help you understand DeFi, let's first cover traditional, centralized finance.

Centralized finance vs. Decentralized finance



Centralization means a central authority, like a bank, has complete control of all decisions and actions.



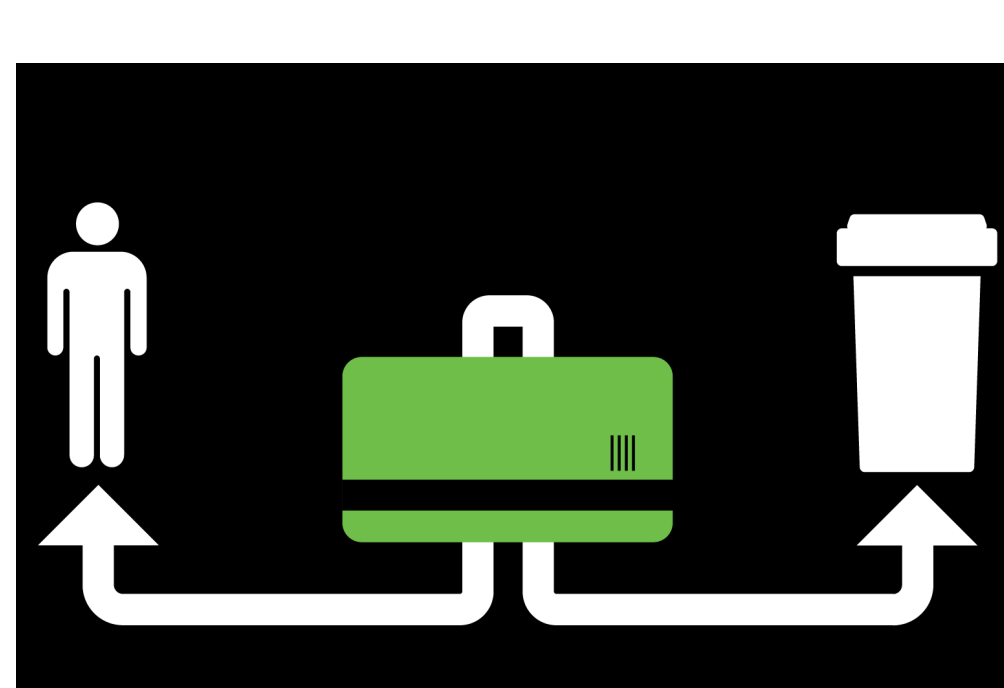
Decentralization means that control is distributed among a network's users, like Bitcoin.



Did you know?

The term DeFi was first used in August 2018 via a Telegram chat with Ethereum developers and entrepreneurs.¹

How does DeFi work?



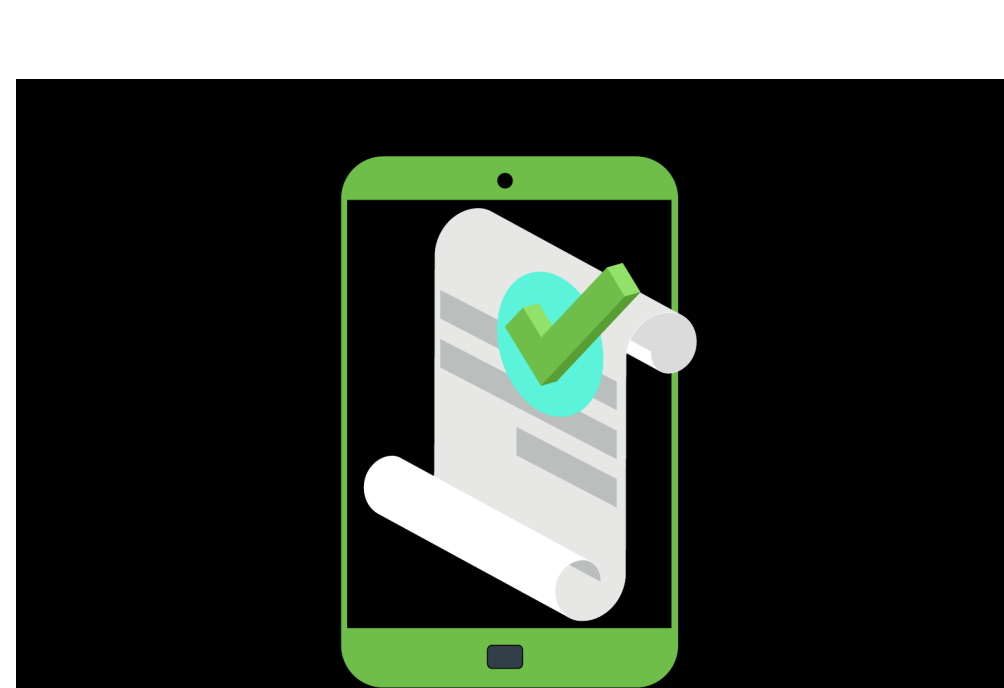
Picture this—you use a payment service to send money somewhere, like to a friend, or use a credit card to buy a coffee. That payment service becomes the middleman.

DeFi cuts out the middleman entirely and operates under the idea of open, direct finance.



Did you know?

The first dApp on Ethereum to gain real user traction was a game called CryptoKitties.²



Users tend to engage with DeFi on cryptocurrency networks like Ethereum on decentralized applications—aka **dApps**. Essentially, dApps are similar to the normal apps we use every day, but they're powered behind the scenes by **smart contracts**—digital agreements that execute automatically when the contract terms are met.

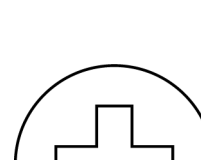
Some popular ways people are using DeFi include lending crypto, receiving a loan, trading and/or exchanging, and saving.



Did you know?

There are over 50.5 million smart contracts on Ethereum.³

Potential benefits of DeFi



Accessible

Data is shared publicly, and all users need is an internet connection and a wallet to get started.

Private

You don't have to provide any personal information. All DeFi transactions happen under your wallet's private key (like a randomized username).

Fast

Depending on your wallet, most assets can be moved anywhere, anytime, and transactions can be completed within minutes.

Potential risks of DeFi



Trust

There have been instances of scams that may make people skeptical and nervous to start or continue using DeFi.

Fluctuating rates

Interest rates and transaction fees change frequently and could potentially get expensive.

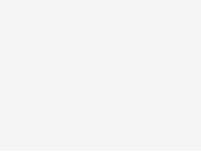
Volatile

DeFi is still considered new technology and experiences high volatility. Watch this [video](#) to learn why.

The bottom line

DeFi is a collective term for anonymous financial services available 24/7 without a middleman. That means no paperwork, no owners, and no downtime.

However, DeFi is still new and is vulnerable to technical bugs, high price swings, and skepticism. Also, regulations vary region to region, so make sure you know your responsibilities.



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1. Camilia Russo, "What Is Decentralized Finance?: A Deep Dive by The Defiant," CoinMarketCap, November 2020, <https://coinmarketcap.com/alexandria/article/what-is-decentralized-finance>

2. Christine Kim, Shuai Hao, "Ethereum History in 5 Charts," CoinDesk, July 30, 2020, <https://www.coindesk.com/tech/2020/07/31/ethereum-history-in-5-charts/>

3. "What is Ethereum?" Ethereum, November 8, 2022, <https://ethereum.org/en/what-is-ethereum/>

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