

**Decentralized Finance (DeFi)** is the merger of traditional bank services with decentralized technologies such as blockchain. DeFi can also go under the name Open Finance due to its inclusive format. Importantly, the DeFi community seeks to create alternatives to every financial service currently available. These services include items such as savings and checking accounts, loans, asset trading, insurance, and much more.

### Importance of DeFi

DeFi continues to play an important role in the evolution of the financial sector for many reasons. For one, DeFi expands the functionality and reach of money. Since all you need to participate in the DeFi sector is a Smartphone, there is huge potential to expand the global economy. Consequently, analysts see this sector as one of the most important currently under development in the crypto space.

This commitment to the development of a DeFi ecosystem is easy to recognize. Importantly, DeFi is the *fastest growing* sector in blockchain. According to recent reports, DEFI tokens continually outperform their counterparts. Additionally, since this time period represents the beginning of this integration stage, the market now possesses the unique opportunity to see an entirely new industry blossom.

### Dapps

DeFi depends heavily on Dapps. To understand DeFi's capabilities, you need to grasp the concept behind Dapps. Dapps are programs designed to function within decentralized networks. These networks can be blockchains, Tor networks, or Distributed Ledgers Technologies (DLT). The key component of these protocols is their decentralized nature. There is no central authority, corporations, or agency that monitors and approves the business functions of these applications.

In fact, Dapps require very little human intervention. Instead, these platforms integrate advanced smart contracts to streamline their business systems. Smart contracts are preprogrammed protocols that initiate upon receiving crypto to their address. Importantly smart contracts can handle a huge variety of tasks from customer approval to making payments.

### Key Components of DeFi

Today, there are more DeFi apps than ever. These applications are already saving businesses and customer's time and money. In fact, DeFi platforms have begun to emerge across nearly every financial sector. As the DeFi sector expands, it's important to understand what characteristics all DeFi Dapps have in common. Here are the most common.

### Open-Source

DeFi application should be open source. Open source coding refers to the fact that the coding is made public. In this way, anyone can audit it and validate its functionality, security, and capabilities. Open-source codes are far more stable and secure than private codes because of this community interaction. Additionally, it provides more confidence in the platform because users can rest assured that no hidden malicious coding is operating in the background.

## Transparency

DeFi provides the world with new levels of transparency. Since most DeFi apps function on public blockchains such as Ethereum, all transactions are publicly available. In fact, all activity on the blockchain is public. The main difference in this approach versus a traditional bank account is that the accounts are not tied to anyone directly. Instead, accounts are pseudo-anonymous and only list a numerical address.

While the accounts are not directly linked to anyone's name, in particular, there are ways for researchers to figure out who owns them if required. Programs such as block explorers can help people track and trace decentralized transactions of non-privacy focused coins.

## Global Audience

Dapps represent an expansion in the way developers envision financial platforms. Anyone from around the world can participate in DeFi platforms. You just need a Smartphone with internet access and you can enter the DeFi community in minutes.

Consequently, DeFi Dapps have the ability to provide the unbanked of the world with access to financial services for the first time in recorded history. This openness is a huge upgrade from the current banking system that leaves around 40% of the global population without any form of banking.

Importantly, when you think of unbanked populations it's easy to picture a village somewhere in the tropics or desert but the reality is much different. For example, a recent study found that 25% of US households remain unbanked. It's in these locations that DeFi has an immediate effect.

## Permissionless

The DeFi sector functions without gatekeepers. As such, anyone can develop a DeFi application and offer it to the world. Additionally, anyone can participate in DeFi Dapps without concern for approval. This strategy is far cry from today's financial system that requires potential users to traverse a myriad of regulatory verification systems before they can participate in the global economy.

## Interoperability

Another pillar of the DeFi community is interoperability. Interoperability is critical because it ensures that as more developers enter the space, all the previous work is not lost. Instead, users can stack their DeFi products to expand their exposure to this new age economy. For example, it's common for a single user to utilize stablecoins, decentralized exchanges, and wallets together. This strategy is possible due to the seamless integration DeFi applications possess.

## Flexibility

Due to the open nature of the DeFi environment, developers are able to exercise more flexibility in their platforms. Users gain considerable options through the integration of third-party application integrations as well. In fact, users can even choose to build their own interfaces if they find the current options insufficient.

## DeFi in Lending

One of the sectors most affected by the introduction of DeFi is the lending sector. If you have ever applied for a loan, you know the process is time-consuming. Worst of all, you are forced to work with lending companies specially designed to maximize their returns. Luckily, the DeFi community has come up with some interesting ways to improve this market.

## Compound

The Compound Dapp showcases the true power of DeFi and how it has the ability to transform how the world envisions the financial market's role. Compound allows users to lend their crypto out to other users. In exchange for providing the loan, users receive interest in the form of cryptocurrency. Importantly, the platform utilizes smart contracts to match lenders and borrowers. Additionally, these smart contracts automatically make interest adjustments based on the market's current state.

## Decentralized Exchanges

Many consider decentralized exchanges as the logical next step in the evolution of the crypto sector. These peer-to-peer trading platforms provide users with a more streamlined UX, tighter security, and more flexibility. Traditional exchanges function via a centralized organization that facilitates, monitors, and approves all trades within the platform.

The problem with this approach is that it leaves too many attack vectors open. Hackers can target the exchange and make off with millions. A quick Google search demonstrates numerous examples of exchange hacks in which the central organization suffered huge losses. In many instances, these firms were forced to discontinue operations due to the losses.

Decentralized exchanges eliminate many of these concerns. When a user exchanges an asset via a decentralized exchange, the platform never holds the assets directly. Instead, smart contracts are used to enable a simultaneous wallet-to-wallet swap. In this way, there is no main point of weakness within the platform for a hacker to exploit.

## Uniswap

The Uniswap platform introduced an innovative mechanism known as Automated Market Making. This protocol enables near-instant settlement between parties. Importantly, the protocol is set to close trades as close to the current market value as possible. You can even lend out your crypto and earn some interest via the platform's Pooling feature.

## New Age Savings with DeFi

DeFi enables some of the most basic financial actions to regain a new life. For example, the *PoolTogether Dapp* is a platform that savers can meet up at and participate in a no-loss game. In the game, everyone deposits crypto into an interest gaining wallet. At the end of the month, one lucky winner walks away with all of the interest earned. Amazingly, everyone else leaves with their initial investment in place.

## Predict the Future with DeFi

Another interesting development in the sector is the birth of prediction platforms. A prediction platform is used to analyze the current public opinion of a certain event. Tapping into the wisdom of the masses can be a valuable tool for businesses seeking more market insight.

## Guesser

The platform Guesser allows you to make predictions and examine the results of others in the pool. Critically, you even earn crypto for your participation. Simply put an amount with your prediction, if you are right, you earn extra crypto for your wisdom.

## DeFi is Here to Stay

As the main systems of our society undergo a transformation towards decentralization, there will be more demand for DeFi Dapps in the future. These new-age applications continue to disrupt the current business systems in remarkable ways.

Soon, decentralized applications will set the new standard for the economy moving forward. Consequently, the global economy could receive a huge boost in participation in the coming years. For now, DeFi provides the world with a glimpse into a more democratic existence.

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