

CENTRALIZED FINANCE

VS

DECENTRALIZED FINANCE

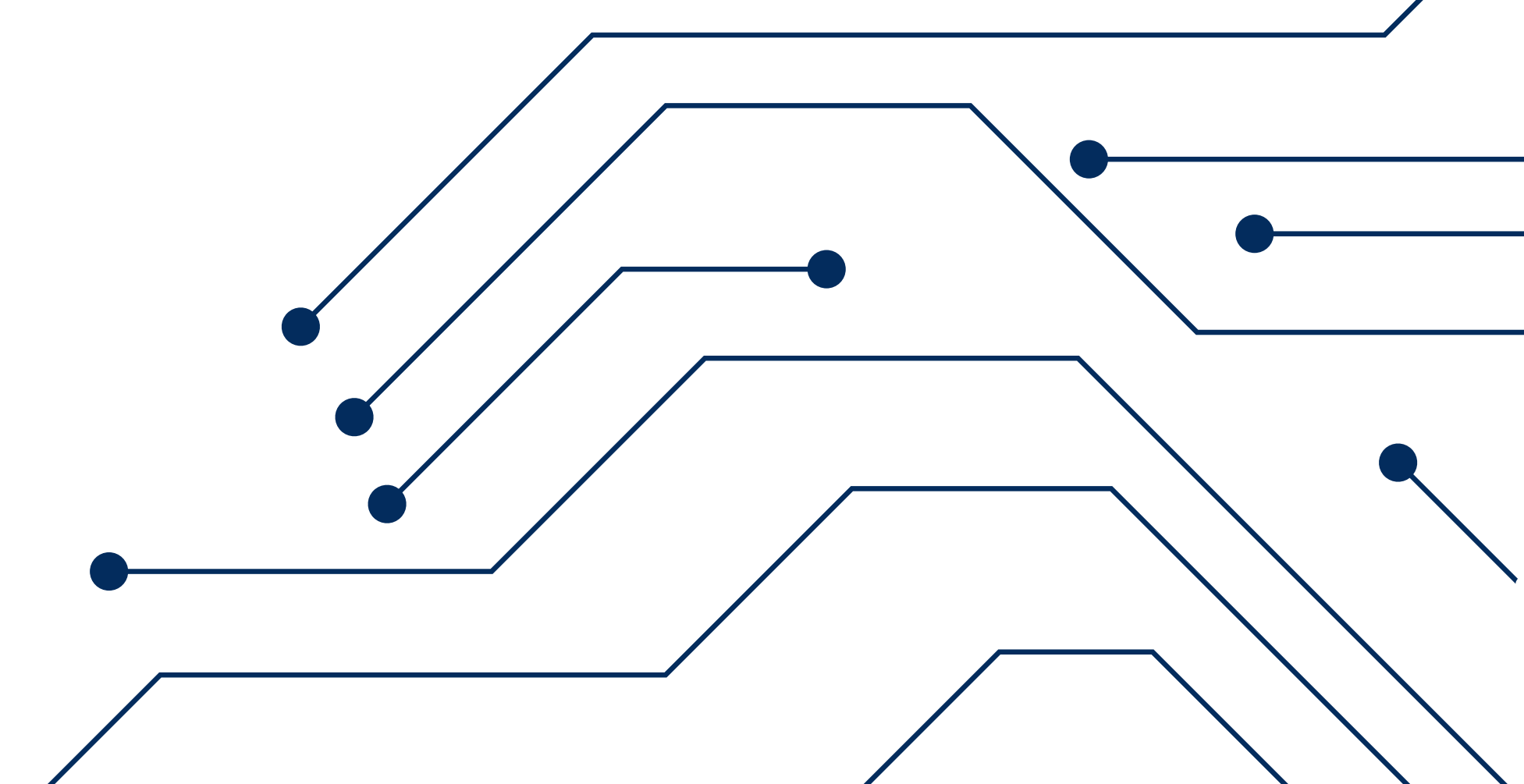
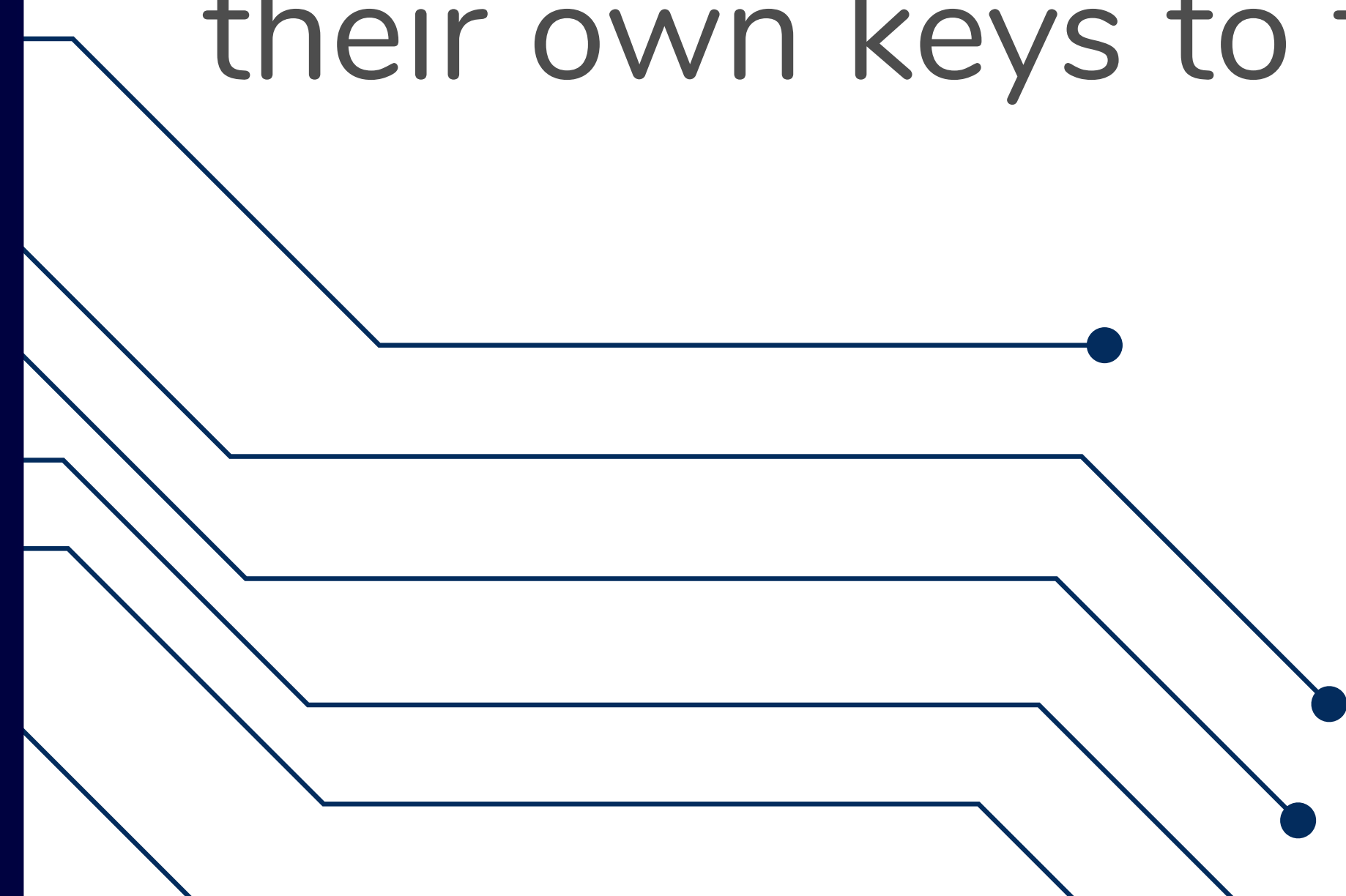


Over the years since blockchain technology started advancing, the idea of decentralized finance has been introduced. To understand the difference between centralized and decentralized finance, we have to delve deeper into the two different entities. By the end of this article, you should have a good idea about the two and how they differ in the financial world.

Centralized finance is how cryptocurrencies were originally bought and sold. By exchanges owned by a central group or person, an individual would buy the cryptocurrencies and sell them on the exchange. The centralized exchange manages the cryptocurrencies for the customer and also holds the keys to any crypto on the exchanges.

In crypto they say, “Not your keys, not your crypto.” The exchanges also decide which cryptocurrencies they decide to list for sale and how much they are going to charge you in exchange fees for buying and selling each cryptocurrency.

Decentralized finance on the other hand allows for the user to own their own keys to their crypto, allowing them to be the only ones able

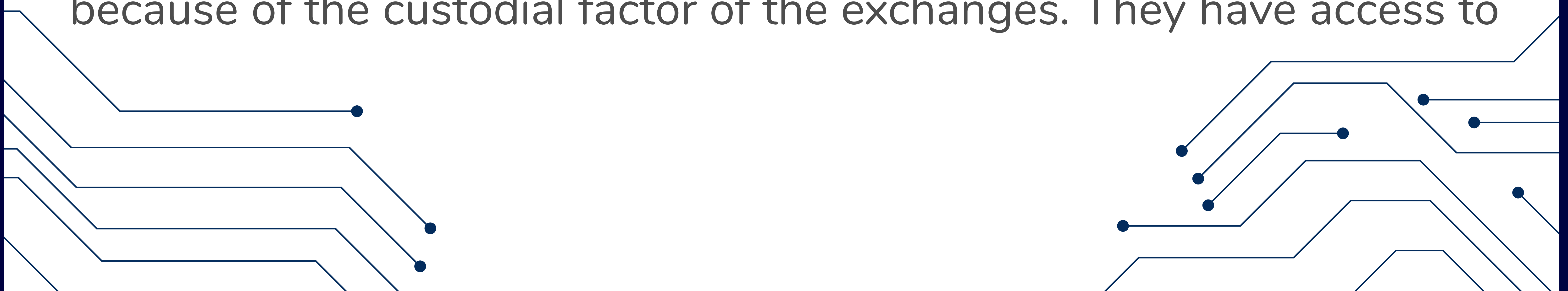


to send it anywhere or spend it anywhere. Also, using DeFi is a popular way for the unbanked to use crypto services and get involved with cryptocurrencies using specific apps built on blockchain technology.

There are no exchanges involved with decentralized finance, and all processes happen in an automated fashion through applications designed on the blockchain. Decentralized applications for finance allow the ability to lend, borrow, earn interest, and stake certain cryptocurrencies with no interference from an exchange.

The biggest difference between the two is the involvement of the exchange. While centralized finance requires the crypto exchange to purchase, sell, and trade, decentralized finance only relies on the specific technology. The user using the crypto owns the keys to the cryptocurrency and is free to use decentralized apps on the blockchain without verifying identity information or dealing with the fees associated with centralized exchanges.

Crypto assets are more vulnerable on exchanges in centralized finance because of the custodial factor of the exchanges. They have access to



your crypto, and not you in this case. So, using decentralized finance, it is much safer and cheaper to stake, or create more crypto using your current crypto, trade, buy, or sell using decentralized apps. Since centralized exchanges have the risk of getting hacked, it is always smart to store your crypto on decentralized apps.

Exchanges on centralized finance are mainly the only ways to buy into cryptocurrencies using fiat money, and are most commonly used for doing so. The exchanges have the risk of keeping everyone's crypto investments secure, and also making sure their customers are educated on the different complicated use cases of each cryptocurrency. This allows for further adoption in the cryptocurrency space.

Decentralized finance is most commonly used through the Ethereum blockchain using apps built on Ethereum and requiring transaction fees to make most transactions go through correctly. Called “gas fees,” the Ethereum network uses this gas to complete transactions and smart contracts throughout the blockchain network.



With the recent rise of DeFi and yield farming in particular, the cryptocurrency industry is getting very interesting. Using DeFi platforms like Cake, an individual can yield farm to get APY percentages on their particular crypto in the hundreds which is very enticing. Yield farming is done by staking a particular cryptocurrency in order to earn more of that crypto or others by allowing another DeFi application to custody the crypto.

While using DeFi applications, it can be confusing starting out. My best advice is to Google what you are trying to figure out, and usually you can find an article exactly about the problem you are facing.

