



DEFI: THE FUTURE OF FINANCE

PROF DR ALEKSANDER BERENTSEN – UNIVERSITY OF BASEL SWITZERLAND





TRADITIONAL MONEY AND FINANCE

„TRUST IN HUMANS”

TRADITIONAL MONEY AND FINANCE

- HH **delegate control** of their **digital** assets to intermediaries.
 - Must trust the banker
 - to not run away with their money (unlike FTX, Madoff,).
 - to make good use of their deposits (unlike Credit Suisse,).
 - Must trust the government
 - to not confiscate their money (unlike Argentina,)
 - Must trust the central bank to keep inflation low (unlike Turkey,).

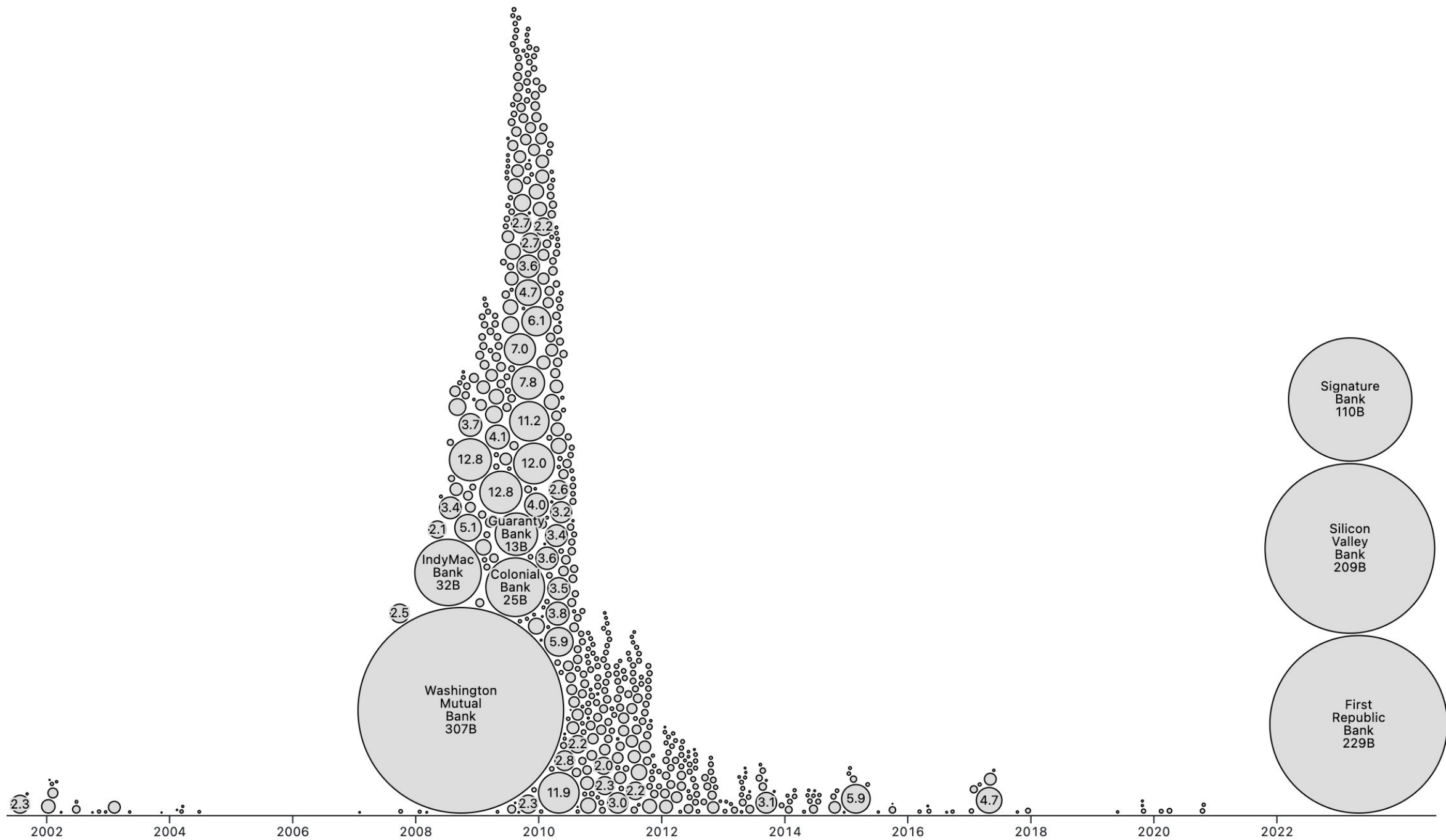
FTX: EXAMPLE OF TRADITIONAL MONEY AND FINANCE



"Never in my career have I seen such a complete failure of corporate controls and such a complete absence of trustworthy financial information as occurred here,"

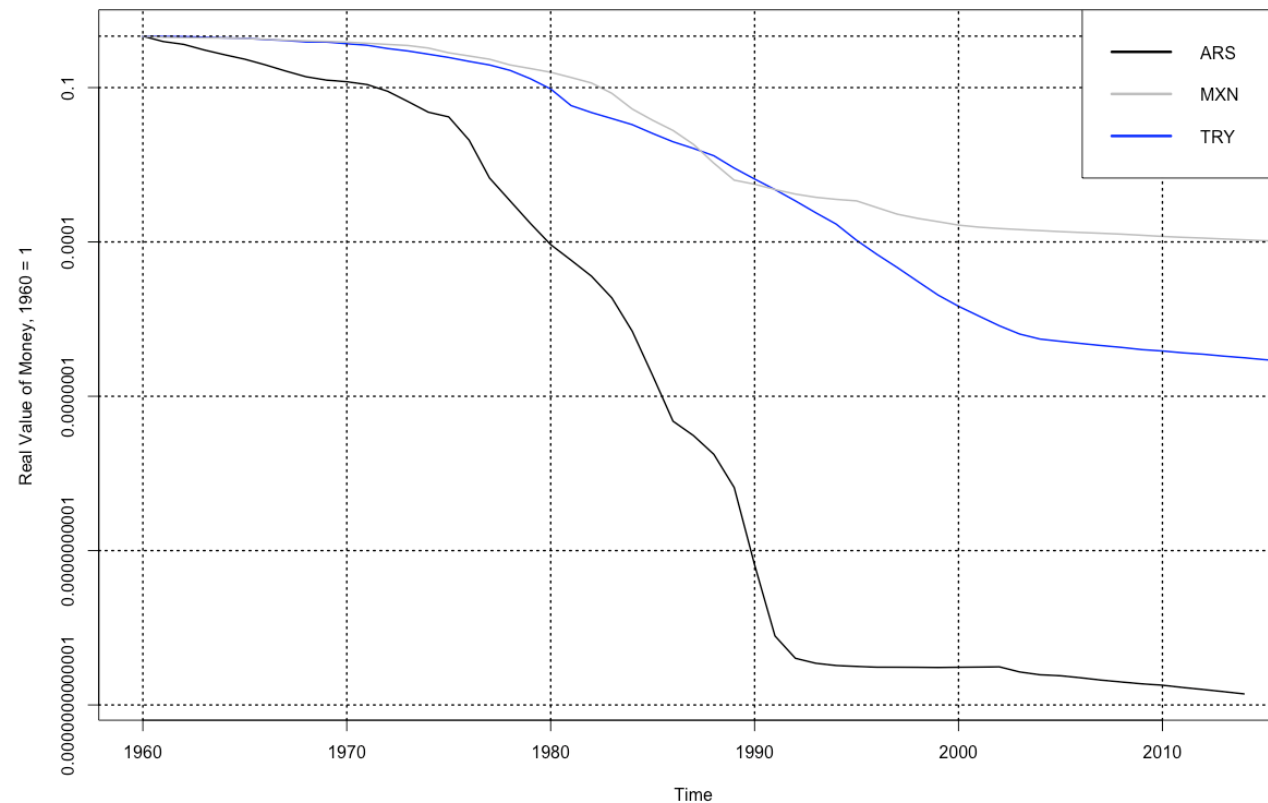
John Ray, who also oversaw the Enron bankruptcy proceedings said in a court filing on Thursday.

<https://abcnews.go.com/Business/ftx-ceo-complete-failure-corporate-controls-career-including/story?id=93488990>



TRADITIONAL MONEY AND FINANCE

Is the traditional financial system working well?



TRADITIONAL MONEY AND FINANCE

- The core assumption of **trust in humans** is fundamentally flawed.
- Result is a gigantic web of incoherent and costly financial regulations:
 - Regulatory capture
 - Large barriers to entry
 - Massive bureaucracies
 - Lackluster innovation

IS THERE A BETTER FINANCIAL SYSTEM?

Wouldn't it be socially beneficial if we could build a financial system that doesn't require trust in humans?



DECENTRALIZED FINANCE (DEFI)

„TRUST IN CODE”

DECENTRALIZED FINANCE

- DeFi is a rapidly evolving new blockchain-based financial infrastructure.

DECENTRALIZED FINANCE

- DeFi is a rapidly evolving new blockchain-based financial infrastructure.
- A financial product's logic is written into a “smart contract.”

DECENTRALIZED FINANCE

- DeFi is a rapidly evolving new blockchain-based financial infrastructure.
- A financial product's logic is written into a “smart contract.”
- “Smart contract” code is deployed on the blockchain and is **immutable**.

HOW DOES IT DIFFER FROM THE EXISTING FINANCIAL SYSTEM?

- Permissionless.
 - Use of financial contracts.
 - Creation of financial contracts.

BENEFITS OF DEFI

- Immediate settlement (few seconds)
- Open 24/7
- Borderless
- Very low costs
- Scalability through L2s
- Privacy (some L2s)

EXISTING DEFI APPLICATIONS

- Permissionless financial products
 - Payments
 - Trading
 - Borrowing and Lending
 - Derivatives/Perpetuals
 - etc

Protocol/ Company	Annualized Revenues (\$Bn)	Market Cap (\$Bn)	P/S	Employees	Revenue/ Employee (\$MM)
Uniswap	\$1.21	\$9.43	7.81	37	\$32.64
Coinbase	\$4.64	\$47.98	10.33	2590	\$1.79
Nasdaq	\$3.40	\$29.22	8.58	4724	\$0.70

*Uniswap data projected based on fees generated for LPs on v2 and v3 on June,
 Coinbase revenues projected based on self-reported average fee of 0.5% and June volumes,
 Nasdaq data based on q1 earnings report, all employee data based on LinkedIn*

WWW - WEB3

WWW

Web3

- Permissionless worldwide:
 - Anyone can create and distribute **content**
 - Anyone can offer **services** and sell **products**

WWW - WEB3

WWW

- Permissionless worldwide:
 - Anyone can create and distribute **content**
 - Anyone can offer **services** and sell **products**

Web3

- Permissionless worldwide:
 - Anyone can create **value (digital assets)**
 - Anyone can own and transact

BACK TO THE PANEL

- What are the key financial innovations (defi, crypto, etc.) that have/will exert the greatest impact on banks in general and on Swiss banks in particular?
- Do these innovations represent a threat or an opportunity for the Swiss banks' domestic-international operation?
- How best to respond to them?



THANK YOU VERY MUCH FOR YOUR ATTENTION.