


Chapter 2

Blockchain Technologies and Call for an Open Financial System: Decentralised Finance

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ABSTRACT

Blockchain technology may reduce the cost of transactions, enable decentralised platforms, and generate distributed trust, laying the groundwork for novel business models. Better, more accessible, decentralized, imaginative, linked, and interlinked decentralised financial services are possible to develop with the use of blockchain technology. Decentralised financial services have the ability to lower transaction costs, increase financial accessibility, enable open access, promote autonomous innovation, and open up novel possibilities for entrepreneurs and innovators. In this chapter, the authors examine the advantages of decentralised finance, uncover current company models, and discuss potential problems and constraints. Decentralised finance, as a new sector of financial technology, has the ability to redefine the framework of contemporary finance and establish an entirely fresh environment for entrepreneurship and creativity, demonstrating the promise of decentralisation as a basis for new business models.

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INTRODUCTION

Intermediaries prevalently assumes crucial functions in mitigating transaction costs and enhancing transaction opportunities, as they facilitate the identification of transacting parties, foster confidence, and facilitate transaction settlement. The absence of intermediaries can impede the ability of transacting parties to establish contacts, engage in contract negotiations, or enforce agreements. However, it is important to note that intermediaries have the potential to operate in a self-serving manner, utilizing their influence to manipulate economic transactions in order to further their own interests. The societal stance towards dominating intermediaries in economic transactions is characterized by a tension between the imperative to ease transactions and the apprehension over monopolistic power. The aforementioned conflict is particularly evident within the financial system, since the facilitation and regulation of financial transactions are mostly carried out by prominent financial firms (Cohen et al., 2020; Singh and Hassan, 2024). IEEE. Financial institutions play a crucial role in enabling economic transactions by serving as intermediates. Their principal purpose is to reduce transaction costs through the facilitation of connections among market participants and the cultivation of trust. Transacting parties are frequently linked through the establishment of a shared platform, facilitating communication and transactions between them. Trust is frequently established among parties involved in transactions through the processes of identity verification, rule enforcement, risk underwriting, dispute resolution, and record-keeping. In the context of transitioning to the digital economy, financial technology (FinTech) has begun to assume some responsibilities that were conventionally held by prominent financial organizations (Singh and Hassan, 2024). Digital technology can, in certain instances, surpass financial institutions in reducing transaction costs, hence stimulating a fresh surge of innovation in the field of FinTech.

According to Lee and Shin (2018), the implementation of FinTech has the potential to enhance the effectiveness of conventional financial services while also enabling the emergence of novel financial activities, including peer-to-peer payments, lending, and fundraising. However, it is important to note that FinTech frequently does not entirely eliminate the middleman involved in economic transactions. Conversely, it often substitutes an intermediary that it formerly served, such as a technology company, with another mediator, such as a banking institution. A significant proportion of present-day financial transactions, which include those facilitated by FinTech, still require the involvement of centralized institutions. These establishments are of the utmost importance in fostering trust among the participants of the exchanges and in overseeing digital platforms. An prospective future trajectory entails the progression of blockchain-based technology and decentralized finance. Recent developments in blockchain technology have spawned an innovative paradigm

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