Can You Trust Decentralized Finance With Your Money?

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The idea behind decentralized finance is to allow financial services like investing, lending or transferring crypto assets without the usual sort of intermediary used in traditional finance. This happens by setting up software programs and using the blockchain to mimic the processes traditionally used by banks, other lenders, commodity exchanges, and other actors in the usual financial system. Today the traditional financial network is undergoing a **crisis of confidence** that started with the collapse of SBV (Silicon Valley Bank), the 16th largest bank in the USA. Can you trust decentralized finance with your money? Will decentralized finance be spared the pain of the banking confidence crisis or be pulled into it?

Decentralized Finance Versus Traditional Financial Services

In an ideal world, DeFi (decentralized finance) should be spared the pain that traditional banks like SVB or **Credit Suisse** are going through. A computer-code-based DeFi entity should not have any centralized fund of money that they need to have on hand to pay depositors if all they are doing is facilitating transactions between interested parties. But when a DeFi business starts taking deposits, promising interest payments in excess of what the world markets are paying, they are engaging in speculation and now are at risk of a “run on the bank.”

Such businesses that use stablecoins backed by hard currencies like the dollar, euro, yen, or British pound, ought to be able to cover their obligations. But, many stablecoins are based on algorithms that modify how the token is traded in order to “adjust” its value or, more recently, they are “adjusted” to **keep up with inflation**. When crypto winter devalued so many crypto tokens many stablecoin operations collapsed adding to the rising chorus demanding regulation of all aspects of cryptocurrencies including decentralized finance.

DeFi or Traditional Finance Regulation and a Confidence Crisis

In the current banking crisis, Credit Suisse has been having financial problems for years. So long as depositors kept their money in the bank, they had sufficient assets to cover any obligations but the value of their stock as an investment suffered. Finally, the Swiss bank UBS bought out Credit Suisse in a Swiss government-brokered deal. This should have satisfied bank creditors and depositors but it panicked those who have investments in bank stocks. **Risky bank stocks** have fallen dramatically but bank stockholders still got something. Holders of risky bonds of Credit Suisse got nothing which fact threatens the viability of a critical link in the chain of bank financing. As such the banking crisis of confidence continues.

Decentralized finance has had its own crisis of confidence as **crypto lost its way** over the years and DeFi businesses **headed into bankruptcy**. The root cause of loss of confidence in all things crypto has nothing to do with the inner workings of the system or that fact that many crypto entities fell away from what the system is supposed to be. It is because people lost money, lots of money. Heroes of the brave new worlds of crypto and decentralized finance turned out to be **robber barons** who defrauded investors.

Trouble in the Banking World Helps Crypto

Crypto needed a break after more than a year of losses and mounting bad news. The crisis in the financial system has given Bitcoin a huge boost. The senior crypto token is up 75% in value since the first of the year. Promoters of crypto and all crypto-related businesses are saying "I told you so" as banks suffer. What remains to be seen is how good the memories are of those who might get back into crypto, DeFi again. One might say that they have seen this (Bitcoin surge) before and the rise is always followed by a fall. For folks whose only interest is putting aside something for retirement and earning better than the interest rate of passbook savings, can they trust decentralized finance any more than banks with their money. At least US bank depositors have the **FDIC** to protect $250,000 in every single banking account.

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