

CHAPTER I

INTRODUCTION

Finance is a broad term that refers to managing money and other assets. It involves investing, budgeting, lending, borrowing, and managing risks. The primary goal of finance is to allocate resources efficiently, optimize the use of funds, and maximize the value of assets. It is crucial in personal, corporate, and governmental decision-making (Sun et al., 2021).

However, it's important to note that while decentralization makes the process more efficient by not relying on third parties, these third parties in finance are also crucial. They play a significant role in guaranteeing security, preventing the loss of money, and mitigating the risk of fraud, among other essential functions (Alamsyah et al., 2024). The financial landscape has undergone significant changes over time, setting the stage for the evolution of financial systems and practices.

The evolution in finance signifies continuous development and changes in systems, technologies, and instruments, progressing from traditional banking to electronic trading platforms, online banking, and the emergence of fintech companies. Innovations such as credit cards, ATMs, and mobile payment apps have played a crucial role in transforming the delivery of financial services and opening new possibilities in the financial world. Simultaneously, decentralization involves distributing control and decision-making across a network without relying on a central authority. As a distributed ledger technology, blockchain ensures secure and transparent transaction recording across computer networks.

The concept of decentralization within blockchain has given rise to decentralized finance (DeFi), encompassing various financial services, such as lending, borrowing, and trading. These DeFi services operate on blockchain platforms, eliminating the need for traditional intermediaries such as banks and marking a significant shift toward a more inclusive and transparent approach to financial services. Integrating Real-World Assets (RWA) into DeFi aims to enhance market efficiency, liquidity, global accessibility, and transparency. Tokenizing assets on decentralized platforms streamline transactions, reduces costs, and boosts liquidity. It also democratizes investment opportunities,

empowering a broad range of investors. Blockchain technology ensures transparent and secure transactions, reducing fraud risks. The goal is to unlock value, improve efficiency, and broaden access to investment opportunities while ensuring transparency and security (Alamsyah et al., 2024).

DeFi has the potential to disrupt traditional finance due to several advantages, including transparency, elimination of middlemen, accessibility, low fees, high interest rates, and programmability. Apart from providing alternatives to banking and investment services, DeFi protocols facilitate global lending and borrowing at lower costs than traditional finance. During uncertain times, the DeFi space offers insurance mechanisms using both on-chain and off-chain data, enhancing security.

Despite its transformative potential, there's a lack of scientific publications and user awareness about DeFi. To address this gap, our research uses a structured approach, including literature review, phenomenological research, and interviews.