



Escrow Transactions and Crypto Governance

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Abstract

Emergence of innovation, the IT world has grown from the Turing machine to Internet and has now been evolved up to distributed, peer-to-peer communication channel. One of the most disruptive invention of recent time is considered as Blockchain. It is the latest global revolution which will take over the current information system and will rule for decades. A new era of internet which can be called as Internet V 2.0 (Blockchain) is almost in the phase of implementation and take on most of the internet exchange systems. The time has already arrived for “cryptogovernance”, in which a piece of data, document, transaction, certificate, event or identity could be outsourced to computer code. A primary area for blockchain development is focused on various financial services and highlight the escrow transaction services which is active and needs to shifted to the Blockchain network at the earliest possible. This research paper is a result of efforts taken to evaluate the role of third-party players involved in escrow transactions and how they earn a high margin over a transaction.

Keywords: *Blockchain, Escrow Transactions, Escrow, EscrowCoin, Financial transactions, Cryptocurrency, Letter of Credit (LoC)*

1. INTRODUCTION

An escrow is a legal financial arrangement in which a financial instrument like cash or an entity is held by a third party who regulates payment of funds between two parties involved in a transaction. It is very useful in case of a transaction where parties are in the process of completing a transaction. Sometimes if the parties involved in the transactions needs to block the funds until the obligations of transaction has been fulfilled, they can prefer to deal with Escrow. If one party is absolutely sure about moving funds forward to the other party, this is where the use of escrow comes into play. A software company selling software internationally want to be certain that it will get paid when the promised services of the software is delivered to the client. Conversely, the client wants to pay for the software only if the required services has been fully functional. The client can place the funds in escrow with an agent and give irrevocable instructions to disburse them to the software company once the said services are implemented. This way, both parties are safe and the transaction can proceed. Escrow works includes buyer and seller agree the terms, buyer pays the amount to escrow agent, Seller implements and delivers the promised services, Seller accepts and agrees for the delivered services and the escrow agent makes the final payment to the software company.

Advantages of Escrow transactions will provide mutual beneficial for both parties (Client and Agency). It is less expensive when compared to a letter of credit and that it ensures the agency does not bear the same risk as in open account trade. Escrow services are less complex than a letter of credit transaction. The escrow agency will not release the funds to the seller until the buyer has authorized it.

Although an escrow service is considered as a safe way for international trading, one cannot possibly deny the fact that there are few disadvantages of it as well. Let's highlight few of these services are third party contractors, whose credibility must be evaluated the same way a bank's should be. It remains a risky trade when escrow services are new and have not yet established the reputations that banks have. The obligation of transaction is totally dependent on the client. The funds won't be released to the seller until the buyer is satisfied and authorize the completion of services. These have been the subject of fraud. The phony escrow sites exist. The seller and buyer should conduct proper due diligence into any service to prevent against fraud.

To minimize these transactions issues, EscrowCoin has been introduced in 2018. Their team claim that this coin can be used by Domain Name Holding agencies, General Merchandise agencies, Brokers, Vehicle agencies, and many more. EscroCoin will help the early investors in getting higher returns and at the same time it can maintain the decentralization of transactions, keep it private and transparent [1,2].

2. CRYPTOGOVERNANCE AND BLOCKCHAIN

The time has already arrived for "crypto governance", in which a piece of data, document, transaction, certificate, event or identity could be outsourced to computer code. There are four major sectors related to governance and sustainability could be benefitted from this technology.

Ownership

From a fish or a forest, the blockchain can maintain the existence of ownership and can make it digitally available 24/7. The detailed record with timestamp can be recorded on blockchain. The issued certificate of authenticity can easily get verified once it matches the required hashvalue of blockchain network. Start-up companies like BenBen in Ghana have already started digital land transaction services. Republic Of Georgia have also announced to Pilot Land Titling on Blockchain with Economist Hernando De Soto, BitFury.

Traceability

Physical goods export can be traced throughout their life cycle. A London based start-up Everledger has enabled Time-Lapse Protocol to trace Diamond export globally, assisting in the reduction of risk and fraud for banks, insurers and open marketplaces; built on a blockchain-based platform for the diamond and jewellery industry. Another London based firm Provenance is building a traceability system for materials and products using blockchain. The Provenance's software enables retailers and producers to open product data, track the journey of goods, and empower customers with access to knowledge. It would become a very handy job for custom official to trace the illegal trading of animal parts or plants by using portal DNA barcode scanner. Building a blockchain based life-cycle record of goods would help to develop the sustainable economy

Incentives

The blockchain could ensure the conservation and development funding is used as intended. Money can be tracked, attached to a purpose, have an expiry date and released when the timeline is met. Middleman will be thrown out of financial cycle. Privileged communities of natural resources and ecosystem could receive direct funds using bitcoin for their services. Claiming your crop insurance becomes easy with blockchain. Payments can be made immediately, with less risk and delay. On March 20, 2017; IBM announced that it had launched the world's first blockchain-based carbon asset management platform built on top of the Hyperledger Fabric distributed ledger in cooperation with Energy-Blockchain Labs [3,4].

Policy-making

The blockchain will revolutionize all government agencies and public bodies. A decentralized shared and immutable register of assets and transactions can help these institutes to hold politicians accountable. The officials cannot alter or withdraw evidence nor can shut down the blockchain based institutions. E-vote can be recorded on blockchain. Sierra Leone has become one of the world's first countries to deploy and use a blockchain-based voting system in recent presidential elections of 2018. The blockchain can create the possibility for "shared economy" by giving control back to users [5,6].

3. WORKING STRUCTURE

The Escrow network based on blockchain will play the role of a third party for all the payments resolution. The system will be a transparent and free of any human error. Flow chart of the complete escrow are shown below. Refer Fig1 for more details.

The EscrowCoin platform plays the role of an agent and avoids any possibility of middle-men involvement and their expenses for the services. The Client and company can make their payment process more transparent and feasible for all the parties involved in the service lifecycle. The Fig 1 has been drafted to showcase 2 parties involved for a financial transaction but it can be expanded to unlimited users of the network. What makes this platform unique is its ability to offer the exchange of digital currency and will be built on the blockchain technology, ensuring security and anonymity of the beneficiaries.

The core of this system will be to act as a substitute of any third-party involvement and to maintain the trustworthiness of both parties involved for the particular service or a range of services. This system is able to replace any traditional online payment methods such as PayPal. The EscrowCoin platform will be able to replace traditional banking systems for businesses related to the escrow services. The payment instrument of Escrow wallet will be EscrowCoin token, which can be purchased in limited quantity during its token sale and later on through an exchange. The payment system will be electronic based and the delivery channel will be the any wallet dedicated for EscrowCoin.

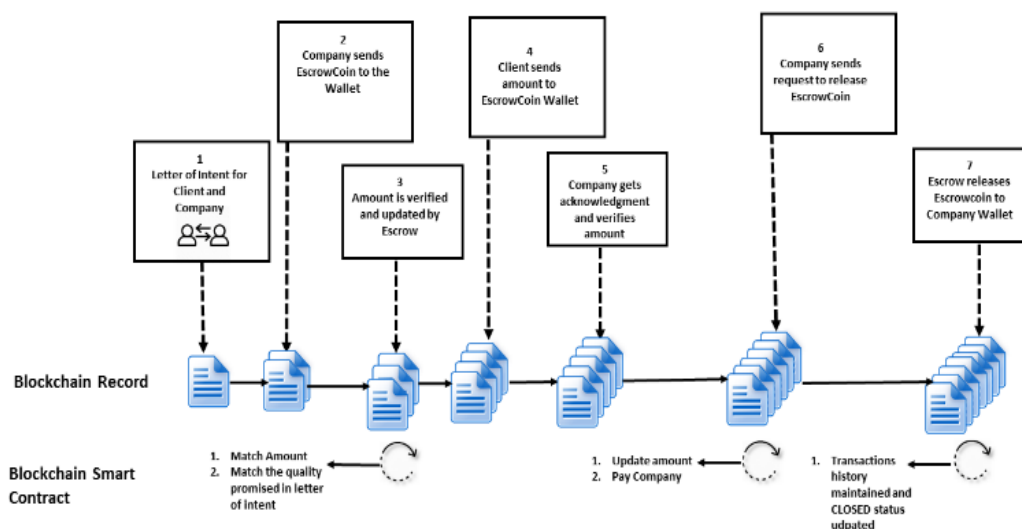


Fig. 1: Flowchart of Escrow Wallet ICO

To avoid any misunderstanding of letter of intent, this prototype can always digitize the Letter of Credit (LoC) paperwork process and create efficiencies by sharing the data using digital ledger technology (DLT) between company and clients. Digitizing the LoC process on blockchain will help the users avoid any manual process of transaction and brings efficiency to trade finance and ensures cost effectiveness, quicker turnaround and unlocks liquidity for businesses.

4. POTENTIAL ADVANTAGES FOR ESCROW

Currently, blockchain's "smart contracts" are used to transfer cryptocurrencies like Bitcoin. But the possibilities are nearly endless. If someone agrees to purchase goods or deliver the services, the blockchain can be used to execute the contract without use of a middleman. A protocol programmed into the blockchain transaction automatically pays funds on a given date if the goods are delivered.

Escrow with Smart Contracts

These "smart contracts" could alter major financial transactions by combining ID verification and escrow. Rather than relying on a title company, buyers could make purchases in cryptocurrency. The blockchain would automatically send funds to one party and a title to another – no escrow needed. The cryptocurrency would be held within the virtual block, much like an escrow account.

Fraud Prevention

Because all cryptocurrency transactions are protected by blockchain protocols and cryptography, fraud is nearly impossible. That should be music to the ears of the industries, which suffers wire fraud. Financial transactions have many moving levels, which means fraud can occur at many levels. Fraudsters can forge closing documents, IDs, deeds and banks statements or pose as the title company and get the buyer to wire their funds to the wrong account. Blockchain-based digital certificates would be linked to a single business entity in the system, which would make it impossible for a fraud to present themselves as real. It would also make it impossible for a fraudster to put themselves between the buyer and the title company to steal the funds.

Eliminating Intermediaries

Escrow transactions are relatively cumbersome. On numerous occasions intermediaries must be utilized and paid, increasing the possibility for mistakes, increasing the time each transaction takes, and increasing the cost for the consumer. By assigning each escrow a unique digital address that includes all physical, financial, and historical transactional information, blockchain technology could significantly reduce the number of third parties needed to move a process forward and reduce transaction time from days or months to minutes.

Ease of traceability

Today, it is already possible to apply the blockchain technology in various aspects of industries. Applying the same technology in the escrow can bring the possibility of overseas cash transfers to its best in many countries where the currency exchange is still considered a hectic overhead or the businesses. At the same time tracing these transfers and exchanges of EscrowCoin for the cash exchanges becomes easy.

5. CONCLUSION

Blockchain has great potentials. However, it is not a solutions for every real-life problems. The right ecosystem and governing bodies are needed to sustain any kinds of solutions and same goes for blockchain. Blockchain solution development for any real-life challenges needs a careful situational analysis of the existing state of the problem, including infrastructure, users' adaptability, digital literacy, and other available parameters involved. Denying the importance of any of these components would result in unnecessarily increasing the overheads of the beneficiaries and could result in the initiative falling miserably.

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