Designing a Mini Escrow Service for Digital Banks and Payment Service Providers

Objective:

To create a mini escrow service for digital banks and payment service providers, targeting merchant transactions of up to PKR 25,000. This service will be designed to increase trust between buyers and small-scale merchants, freelancers, and service providers by holding funds in escrow until the transaction is completed and confirmed by both parties.

Key Features

Transaction Limit

- Focus on transactions of up to PKR 25,000.
- Tailored for small-scale merchants, freelancers, and service providers, and their customers using digital wallets for payments.

Time-Bound Escrow

- Funds are held for a maximum of 14 days.
- Automatic release of funds after 14 days if no dispute is raised, ensuring minimal friction.

Flexible Payments

- The escrow can accommodate milestone-based payments for services or lump-sum payments for product purchases.

Dispute Resolution

- A lightweight dispute resolution process where both buyer and merchant can raise concerns within a 7-day window after the service/product is delivered.
- Automated tools (like delivery verification) can assist in resolving disputes.

Escrow Service Fee

- 1-2% service fee split between the buyer and the merchant, ensuring affordability while covering operational costs.

Audience for Digital Banks and Payment Service Providers Mini Escrow Service

Small-Scale Merchants

-Merchants using digital wallets to sell products online or through social media platforms.
-These include sellers of consumer goods (electronics, clothing, etc.), who rely on mobile wallets for transactions.

Freelancers & Service Providers
- Freelancers offering services (e.g., graphic design, content writing, software development) who require secure payment methods to ensure they are paid after project completion.
- Service providers like tutors, personal care providers, or home repair services where payments are made upon delivery of a service.

Individual Buyers
- Individuals purchasing high-value products (electronics, household goods, etc.) who need payment protection when dealing with small merchants or service providers.

Online Marketplaces
- Platforms enabling peer-to-peer commerce (e.g., Facebook Marketplace, OLX) or informal e-commerce businesses that require a trusted payment intermediary.

User Experience Flow
Transaction Initiation
- Buyer chooses escrow: When purchasing a product or service, the buyer selects the Mini Escrow Service.
- **Agreement setup:** Both parties agree to the terms (price, delivery timeframe), and a contract is created.

Funds Held in Escrow
- Buyer deposits the agreed amount (up to PKR 25,000) into the escrow account.
- Notifications are sent to both parties confirming that funds are securely held.

Product/Service Delivery
- The merchant delivers the product/service and provides proof (delivery confirmation, work completion).
- The buyer is notified and has 7 days to confirm they are satisfied with the delivery.

Fund Release:
- Once the buyer confirms delivery, the funds are released to the merchant.
- If no confirmation is made within the 7-day window, the funds are automatically released after 14 days.

Dispute Management
- If there's a dispute, both parties can submit evidence through the app, and the payment service provider reviews the dispute.
- Disputes are resolved within 7 additional days.

Revenue Model

Transaction Fees

- Charge a 1-2% service fee on escrow transactions, split between buyer and seller, as the primary revenue source.

Premium Features

- Offer optional paid features such as faster dispute resolution for time-sensitive cases, higher transaction limits, and delivery verification integration.

Subscription Plans for Merchants

- Offer merchants a subscription model for frequent users, providing discounts on escrow fees and premium support for dispute management.

Marketplace Integration

- Partner with smaller online platforms and marketplaces, integrating the escrow service and sharing revenue through fees.

KPIs for the Pilot Program

Adoption & Usage

- Number of Escrow Transactions: Aim for at least 0.5-1% of the total user base to use the escrow service in the pilot phase.
- New User Acquisition: Track how many new users are attracted by the escrow service, especially small merchants and freelancers.
- Repeat Users: Measure the percentage of users who use the service more than once, indicating satisfaction and trust.

Transaction Performance

- Successful Transactions: The percentage of escrow transactions completed without disputes (target: 90%+).
- Dispute Rate: Monitor the percentage of transactions that enter dispute resolution, with a goal to keep this below 10%.
- Dispute Resolution Time: Ensure disputes are resolved within 7 days, and monitor the speed of dispute handling to improve efficiency.

User Satisfaction

- Net Promoter Score (NPS): Gather feedback on the user experience, aiming for a high NPS (above 40) from both buyers and sellers.
- User Feedback: Use surveys to gather qualitative feedback from users regarding ease of use, transaction security, and dispute resolution.

Revenue & Profitability
- Revenue from Fees: Track total revenue from escrow service fees and premium add-ons.
- Average Transaction Value: Monitor the average value of transactions through the service to ensure the model is attracting higher-value deals.

Operational Efficiency
- Escrow Setup Time: Measure the average time it takes users to set up an escrow agreement, aiming for a seamless process (within 2-3 minutes).
- Dispute Automation Rate: Track the percentage of disputes resolved through automated processes, reducing manual intervention.

Market Penetration
- Merchant Participation: Measure the number of merchants who adopt the service, aiming for engagement from at least 5,000 small businesses in the pilot phase.
- Marketplace Partnerships: Track the number of small online platforms and marketplaces that integrate the escrow service.

Recommendations for Scaling After Pilot:
Expand to More User Segments
- After successfully running the pilot, expand to a broader audience within the large user base, including both rural areas and higher-value segments.

Increase Transaction Limits
- Offer a tiered escrow service where users can access higher transaction limits (above PKR 25,000) for a premium fee, attracting more high-value users.

Refine the Dispute Resolution Process
- If disputes are common, consider introducing third-party verification systems or partnering with logistics providers to ensure secure product delivery and reduce disputes.

Integrate with Other Financial Services
- Bundle the escrow service with other financial products offered by the provider, such as loans, savings, or insurance, enhancing the value proposition for merchants.

Marketing and User Education
- Invest in user education campaigns to explain the benefits of the escrow service and drive adoption, particularly targeting new users who may be wary of digital transactions.