

### APPLICATION OF ESCROW FUNDS AS AN OBJECT OF DEPOSIT GUARANTEE COVERAGE

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#### Abstract

This thesis examines the economic, legal, and practical aspects of applying funds held in escrow accounts as an object of deposit guarantee coverage. An escrow account is interpreted as a special banking instrument that serves the purposes of conditional safekeeping, secure settlement, and protection of the beneficiary's interests. The study substantiates that the inclusion of escrow funds in the deposit guarantee system may increase confidence in banking services, reduce settlement risks in large-scale transactions, and expand the resource base of commercial banks.

**Keywords:** escrow account, deposit guarantee, object of guarantee coverage, beneficiary, conditional funds, compensation limit, commercial banks, financial stability.

In the banking system, the deposit guarantee mechanism is one of the key institutions ensuring financial stability. As the confidence of depositors and customers in banks increases, the temporarily available funds of households and business entities are more actively attracted into the banking system. This, in turn, strengthens the resource base of banks and expands the volume of credit and investment funds directed to the economy.

In recent years, the demand for secure settlement instruments has increased in real estate transactions, construction projects, investment agreements, e-commerce, and public-private partnership relations. Under such conditions, escrow accounts have acquired particular importance. This is because, under the escrow mechanism, funds are kept separately in a bank and transferred to the relevant party only after the pre-agreed conditions have been fulfilled. The Law of the Republic of Uzbekistan No. ORQ-1031 "On Guarantees for the Protection of Deposits in Banks," adopted on February 18, 2025, recognizes funds held in separate accounts within the framework of escrow services as deposits when determining the object of guarantee coverage. This

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further increases the relevance of the topic.

The relevance of the topic lies in the fact that escrow accounts are not merely ordinary settlement instruments, but also financial mechanisms that strengthen trust between the parties to a transaction. Therefore, guaranteeing such funds reflects the adaptation of the banking system to modern financial services.

An escrow account differs from an ordinary deposit or settlement account. In an ordinary deposit, the owner of the funds usually has free disposal over their money. In an escrow account, however, the funds are kept separately by the bank until the contractual conditions are fulfilled. In other words, the money remains temporarily in a “neutral” state: neither the depositor nor the beneficiary can use it immediately.

An escrow account is based on a tripartite relationship. The first party is the person placing the funds, the second party is the beneficiary entitled to receive the funds once the condition is fulfilled, and the third party is the bank that holds the funds. In this process, the bank performs the functions of a financial intermediary, controller, and trusted custodian.

The main advantage of the escrow mechanism is that it reduces the risk of advance payment and the risk of non-fulfilment of obligations. For example, the buyer does not transfer the money directly to the seller but places it in an escrow account at the bank. The seller, in turn, is assured that the funds will be received once the contractual conditions have been fulfilled.

**Table 1. Economic essence of an escrow account**

Main feature	Explanation	Practical significance
Conditionality	Funds are transferred only after the condition has been fulfilled.	Balances the interests of the parties.
Temporary safekeeping	Funds are held in a separate bank account.	Ensures secure control over the funds.
Tripartite relationship	The depositor, beneficiary, and bank participate in the process.	The bank acts as a trusted intermediary.
Risk reduction	The risks of advance payment and non-receipt of payment are reduced.	Large-scale transactions become more secure.
Protection of the beneficiary's interests	The entitlement to funds depends on the fulfilment of the condition.	Compensation is directed to the actual interested party.



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The most important feature of an escrow account is the conditional safekeeping of funds. This mechanism reduces distrust between buyers and sellers, investors and project initiators, or customers and contractors. For this reason, escrow accounts may be used as a secure settlement instrument in high-value transactions.

From the perspective of deposit guarantee coverage, the key issue is to determine whose economic interest the funds held in the bank belong to. If the contractual conditions have not yet been fulfilled, the depositor may be considered the interested party. If the conditions have been fulfilled but the bank has not yet transferred the funds, the beneficiary should be recognized as the interested party.

Therefore, when guaranteeing an escrow account, attention should be paid not only to the name of the account but also to the actual beneficial owner of the funds. This approach enables fair organization of compensation payments and full protection of customers' rights.

Article 25 of Law No. ORQ-1031 recognizes funds held in escrow accounts as deposits when determining the object of guarantee coverage. This provision clarifies the legal status of escrow funds and creates a basis for guaranteeing them through the deposit protection mechanism.

The significance of this provision lies in the fact that funds held in escrow accounts could previously have been interpreted differently, either as ordinary settlement funds or as conditional obligations. The new legislative approach reduces legal uncertainty by recognizing such funds as deposits.

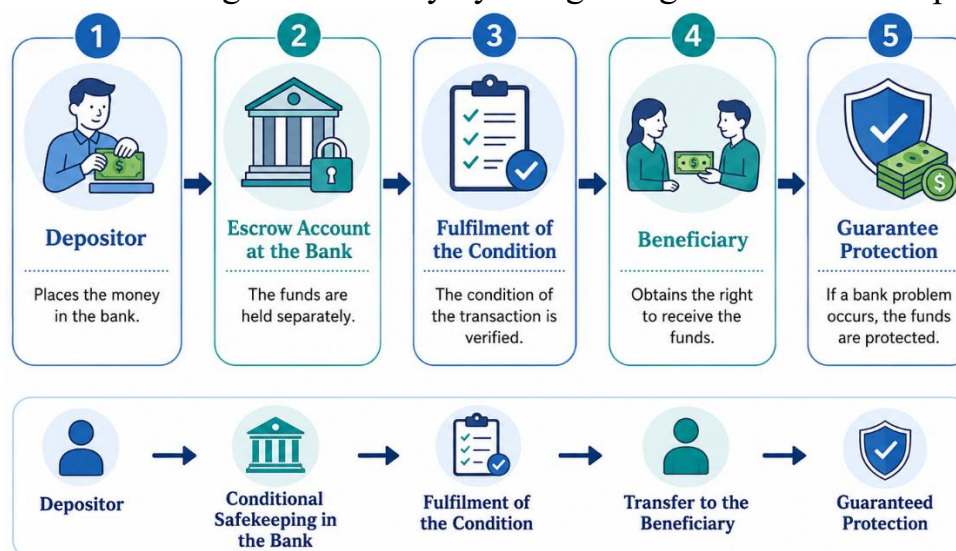


Figure 1. Escrow funds guarantee mechanism

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Unlike an ordinary payment, the escrow mechanism is based on the conditional safekeeping of funds through a bank. In this case, the bank holds the funds until the conditions are fulfilled, and after their fulfilment, transfers the funds to the beneficiary. If a guarantee event occurs, the person entitled to compensation is determined based on the current economic beneficiary of the funds.

The application of funds held in escrow accounts as an object of deposit guarantee coverage produces several positive outcomes. First, it increases customer confidence. Second, it reduces payment risks in large-scale transactions. Third, it expands the range of banking services. Fourth, it strengthens the resource base of banks through temporarily held funds.

This mechanism is particularly important for real estate transactions, construction projects, corporate deals, e-commerce, and investment agreements. In such transactions, the parties often do not fully trust each other. An escrow account protects the interests of both parties by ensuring the secure safekeeping of money in a bank.

Escrow services may also be beneficial for banks. Funds temporarily held in such accounts expand banks' short-term resource base, create a source of commission income, and enhance opportunities for providing comprehensive services to corporate clients.

In conclusion, the application of funds held in escrow accounts as an object of deposit guarantee coverage is a relevant and practically significant area for the banking system of Uzbekistan. This mechanism protects the interests of customers and beneficiaries, reduces payment risks in large-scale transactions, and increases confidence in banking services.

An escrow account combines the functions of conditional safekeeping, secure settlement, and banking intermediation. Therefore, it cannot be equated with an ordinary deposit or a regular settlement account. In the event of a guarantee case, it is important to clearly determine whose interests the funds belong to.

In the future, it would be advisable to maintain a unified electronic register of escrow accounts, improve the procedure for identifying beneficiaries, apply the compensation limit by interested party, and strengthen digital information exchange between banks and the deposit guarantee institution.

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