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Apr 24 · 4 min read

## Should You Wise Up to Smart Contracts?

*Even if you have no idea what a smart contract is, it is entirely possible you are in one now and don't know it. That's the beauty of automation. It helps you without much fuss. Here's what you should know about smart contracts today.*



With the Internet of Things, an ever-increasing number of business transactions are occurring online or electronically. It makes sense that contracting would be automated.

The folks at [Blockgeeks](#) say the best way to describe the process behind smart contracts and the blockchain is to think of a vending machine: Instead of going through the hassle of finding, contacting, waiting on, and of course, paying for a lawyer to draft your contract, you simply drop a bitcoin into a “vending machine” and everything required for the contract appears in your account. And voila! You're good to go. In addition, “smart contracts not only define the rules and penalties around an agreement in the same way that a traditional contract does, [they] also automatically enforce those obligations.”

Like many other things that have been automated in our lifetime, the idea is that if you remove humans from much of the process, mistakes are less likely to occur, costs can be reduced, efficiency increased, and

in this case, our reliance on expensive and time-consuming litigation to solve disputes is greatly lessened—smart contracts take care of that, too. And all of this is run and stored on the blockchain... sometimes.

Fergus Parkinson wrote his Master's thesis on finance industry applications for blockchain technology and is currently responsible for enterprise development at ROSS Intelligence. He says, "Smart contracts can be pretty difficult to understand, mostly due to the fact that people have different definitions of what they are. The two things people do agree on are: a smart contract represents an agreement between two or more parties and that it's automated." With a description this vague, you don't necessarily need a blockchain to facilitate the transaction (which explains the "sometimes" above). You can use traditional computing systems to process a smart contract, according to Parkinson. "That said, a blockchain is an accurate and immutable means of processing smart contracts, which makes it preferable."

**A blockchain is encrypted; its contents are continuously updated and reconciled. It is publicly shared, cannot be controlled by one person, and it can offer more security, transparency and integrity than the traditional contract setting.**

According to Don Tapscott, a leader on innovation and technology and co-author of *Blockchain Revolution*, "the blockchain is an incorruptible digital ledger of economic transactions that can be programmed to record not just financial transactions but virtually everything of value." A blockchain is encrypted; its contents are continuously updated and reconciled. It is publicly shared, cannot be controlled by one person, and it can offer more security, transparency and integrity than the traditional contract setting.

In fact, you may already be in a blockchain contract and not know it. For example, says Parkinson, "RBC (Royal Bank of Canada) clients may or may not know that their loyalty plan is managed by a blockchain. Users only know that their points behave like any currency: you exchange points for goods or services as seamlessly as buying anything online."

With the Internet of Things, an ever-increasing number of business transactions are occurring online or electronically, and in order to reduce costs and improve profits, it makes sense that contracting would be automated. Plus, the more contracts people enter into, the more benefits there are to this technology. This is why certain industries where countless transactions happen between countless people, such as financial services, insurance and healthcare, have a lot to gain from this new way of doing business. Same with governmental authorities that deal on a daily basis with thousands, if not millions, of citizens for things analogous to contracts, such as permits, licenses, birth and death certificates, property ownership, and so on. It could even be used to register votes in an election.

“Smart contracts represent a change in the plumbing of how a lot of technology works,” says Parkinson, “but the interface would be just the same. People probably wouldn’t even notice, aside from maybe lower administrative costs.”

Says Parkinson, “Smart contracts are still somewhat early days, and much like the early days of the internet innovators are finding new and creative applications for the technology every day. It’s like AI in the sense that it’s been around for a while but new applications are being developed for the technology.” Just like smart contracts, many of us have already dealt directly with AI in some way and not know it. You may have chatted with a customer service agent, a conversation so banal, you may not have noticed he or she wasn’t real, says Parkinson. “That’s AI at work. Smart contracts are the same.”

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