

# Metaverse: Implications for the Financial Sector

## Introduction

The technological evolution witnessed in the last two decades or so has been exponential to say the least; the velocity with which the technology has evolved, particularly in the cyber space, is difficult to fathom. People in their 30s and 40s could still reminisce about the struggle of finding a stable internet connection or could recall the never-ending wait to download a MB size file. As of the beginning of 2022, total estimated global internet users amount to 5.2 billion (66% of the world population), a number that has grown from 16 million in 1995 when the internet was launched in the public domain (Internet World Stats, 2022). The cyberspace has fast progressed from being a medium of communication and stored knowledge to being an efficient platform for business and trade; the aforementioned transformation has been further accentuated by the onset of COVID-19. To put things into perspective, in 2019 (pre COVID-19) annual e-commerce sales were estimated to be USD 3.3 trillion, whereas, the figure has reached an estimated USD 5 trillion for the year 2021 (Shepherd, 2022). It is estimated that the e-commerce sales will cross the USD 6 trillion mark by 2023 accounting for more than 22% of global retail sales (Keenan, 2022).

## The Next Leap

The next phase in this techvolution (*technological-evolution*) is the advent of web 3.0 and penetration of Metaverse (virtual reality) in financial services. A crude way of defining Metaverse would be that *“it is a way for consumers and businesses to interact in the virtual space using enhanced virtual reality technologies, where goods and services can be traded”*. Human interaction with the virtual world is not a novel idea as it has been used in some shape or form in gaming platforms. Metaverse will extend the application of virtual reality technologies from the entertainment and gaming industry to other aspects of life.

Experts envisage Metaverse reshaping the landscape of global economy and particularly the financial services sector. Metaverse is expected to have a 360° impact on the financial services sector from customer engagement and onboarding to creating new products and business divisions, while rendering others redundant.

## Recent Developments in the Financial Sphere

Using the metaverse as a way of interacting with customers is probably the most likely way that financial services companies will initially utilize the metaverse. For example, Kookmin Bank (one of the largest banks in South Korea),



has created a virtual town consisting of a business center, a telecommunications center, and a recreation area on a Metaverse platform (Penn, 2022). BNP Paribas has launched a VR (virtual reality) app that allows customers to use VR in their banking transactions, including account opening while Citibank has tested holographic workstations for financial trading. Employees play a critical role in amplifying a financial institution's brand; in this regard, Bank of America intends to conduct VR training for 50,000 employees. A recent research conducted by the **Digital Banking Report** shows that 47% of banking executives believed that customers will use augmented reality/virtual reality as an alternative channel for transactions by 2030.

Web 3.0 hinges on “*decentralization*” and DeFi (decentralized finance) institutions are already emerging on the horizon, such as EQI Bank. Founded in 2018, EQI Bank is a fully regulated financial institution that allows its customers to deposit crypto and traditional assets. The bank offers payment solutions for the real and the virtual world; e.g. the bank issues a debit card to its customers that can be used to pay for assets such as buying a piece of virtual land in certain Metaverses (Lee, 2022).

Advancement of Metaverse economies will be based upon adoption of cryptocurrencies as a medium for financial transactions. Cryptocurrency is very important for virtual financial ecosystems as it gives users a simple, secure and transparent way to transact (Watson, 2022). Thus, the importance and the role of fiat currencies (*currencies issued by central banks*) is expected to diminish as more and more business is undertaken in these virtual financial ecosystems.

Metaversials (users of Metaverses) can fully own their virtual lands and spaces in the Metaverse. The underlying blockchain enables users to prove ownership of the asset and develop their virtual real estate as they wish. The implications of this digital real estate revolution are being felt in an emphatic fashion; Republic Realm (*a digital property investment fund*) bought a parcel of virtual land for more than USD 900,000 (Watson, 2022).

As evident from the above, progression in the development of Metaverse will create new types of transactions and novel modes of ownership, necessitating a need for transparent insurance products and services and also for policies and regulations that consider the vastly different landscape of decentralized finance. Collaborations and partnerships between traditional institutions and FinTech companies will be key as we move towards adopting web 3.0. Insurance companies might have to create policies to cover specified risks to smooth functioning of Metaverses such as non-physical losses of virtual assets, hackings, data theft and network outages, etc. Metaverse and Web 3.0 will use blockchain

technologies in ways previously unimagined, for insurers, that means a strong commitment to innovation and tech adoption will be crucial for success (Fischer, 2022).

## Challenges

The advent of web 3.0, Metaverse and digital assets and currencies will cause serious disruption to the financial status quo. At this point it is difficult to comprehend the scope and depth of this disruption and cumbersome to envisage, with certainty, the future of the financial services sector. Having said that, one thing that is certain is the complexity involved in regulating decentralized digital assets and virtual market places. Regulators around the globe already had their hands full with regulating crypto assets, and their woes will only increase with the emergence of Metaverse.

Financial integration of global financial markets and economies has been the backbone of globalization. Furthermore, financial services have become increasingly centralized as regulators find it easier to implement controls in a centralized system. The arrival of decentralized financial institutions and market places will pose a serious challenge to the existing financial order which relies on centralization. Moreover, as mentioned earlier, decentralized currencies (crypto currencies) will have an impact on the effectiveness of fiat currencies, which in turn will have an impact on the ability of central banks to implement desired monetary policies.

## Conclusion

The cornerstone of the prevailing financial order is control, centralization and concentration of wealth. Rapid advances in technologies in the past decade have certainly paved the way for an alternate financial order and Metaverse might be the big bang event for the existing financial order. Metaverse and related technologies may democratize the financial system and may enable communities to manage their economies rather than following the diktat of a centralized institution. The existing financial system is dominated by systemically large financial institutions (*institutions that are too big and important to fail*); decentralization of the financial system may erode the hegemony of such financial institutions. These technological advances will create new avenues of wealth creation for the financial sector and may require a totally different set of skills to be employed in the financial sector workforce.

Change is not always synonymous with prosperity; it is arduous to predict whether the paradigm shift brought on by Metaverse will be beneficial or detrimental. However, one thing is certain, ***Change is coming.***

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