

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



البنك المركزي المصري
المعهد المصرفي المصري

March 2022

Current Trends

Banking in the Metaverse

www.ebi.gov.eg

March 2022

Current Trends



| Concept

- The metaverse is a seamless convergence of physical and digital lives, creating a unified, virtual community where people can work, play, transact and socialize. The concept of the metaverse is still early in its evolution, and there is no singular, all-encompassing definition to which people can turn. A key point is that there is no one virtual world but many worlds that enable people to deepen and extend social interactions digitally. This is done by adding a three-dimensional layer to the web, creating more authentic and human natural experiences.
- The virtual world will become a regular habitat in near future, necessitating enterprise investments for customer engagement. In fact, Gartner predicts that by 2026, 25% of people will spend at least one hour a day in the metaverse for work, shopping, education, social interaction and entertainment. This move is also associated as per Bloomberg Intelligence by the evolution of NFT¹ market cap that is currently above \$41 billion (\$54 billion has been spent on virtual goods in 2021).

| Background

- Several consulting firms and analysts claim metaverse could represent a substantial new market for banking with PwC estimating the global metaverse market growing from \$45.5 billion in 2019 to \$1.5 trillion in 2030. Companies of all shapes and sizes entering the metaverse in different ways, including Walmart, Nike, Gap, Verizon, PwC, Adidas, and others. The metaverse is gaining the market traction across industries, including the banking sector as well. Business leaders around the world are now asking themselves, “What is my metaverse strategy? What am I supposed to be doing in the metaverse?”
- As the metaverse becomes the norm to play, work and socialize, demand for an economic system and a trusted mechanism to drive value exchange in the metaverse will rise up. The progress already made in the realm of decentralized finance and NFTs can enable financial institutions to imagine and strategize a long-term plan around the metaverse. Most global banks already offer digital assets/exchange/custody platforms that can be

¹An NFT is a digital asset that represents real-world objects like art, music, in-game items and videos. They are bought and sold online, frequently with cryptocurrency, and they are generally encoded with the same underlying software as many cryptos. NFT is taking center stage to unlock value in the metaverse.

Importance/ Opportunities for banks

extended to support the requirements of the virtual world. Banks can consider developing their own virtual world platforms (a private metaverse), enabling new products and even marketplaces and tying them back to traditional infrastructure. For Example: virtual real estate is one area where we could eventually start seeing banks and credit unions offer services much like in the physical world, including credit and debit cards, mortgages and loans.

1. Engaging with customers in meaningful new ways

The metaverse provides banks with a much-needed avenue to bring humanity into banking and deepen connections with current and new customers by meeting them in more meaningful ways. Banks can identify potential customers, onboard them through crypto wallets, payments, lending and custody services. It's an opportunity to address new customer segments including a younger NFT-savvy generation, creators, gamers and artists—aggregating multiple sources of income, instant loans, income smoothing, financial planning, concierge services and more. Banks will need to connect with this audience in new ways: Bank customers can visit virtual branches for high-touch customer service, take a tour with a mortgage broker, conveniently discuss retirement plans with an avatar advisor, attend an investor event or participate in a bank-sponsored community program.

2. Inventing new channels and creating new markets

Banks will need to decide on the role they will play and take advantage of this opportunity to extend their brand. Banks will be able to virtualize familiar customer interactions like cash withdrawals from virtual ATMs, branch storefronts and real sponsorships for virtual events. But, when it comes to marketing in this new environment, roles will evolve. Marketing in the metaverse will not be about marketing to customers but with them. As consumers shift to become collaborators in the metaverse, marketing's relationship with them will change from defining to partnering. How a brand remains relevant will need to evolve and banks will need to find new ways to build trust. As consumers build spaces across metaverse worlds, banks should not expect to simply move in and monetize. Instead, they should work to proactively build community.

Steps to start

Financial institutions can follow some steps to explore the metaverse:

- 1- Learn:** There are many different interpretations of the metaverse, and various angles to learn about this new environment.
- 2- Assess:** Evaluating if there are relevant opportunities for the business.
- 3- Create:** Gain experience through internal development. Take the opportunity to explore creative consumer engagement through new channels, services, experiences, digital assets.
- 4- Define a purpose, strategy, and value proposition:** Communicate the approach to customers, employees and investors.
- 5- Connect:** Start building a network of metaverse ecosystem participants and engage in reasonable collaborations and partnerships. Connect with a new generation and tap into alternative talent pools.
- 6- Take small steps.** Instead of going all-into the metaverse, demonstrate capabilities in fundamental elements of what constitutes the metaverse. For example: build a bank-grade crypto wallet that lets customers access the metaverse; launch a credit card that customers can use in metaverse, etc.
- 7- Experimentation is a must:** Introduce new products; build educational billboards and interactive ads where customers can learn about products, or even games customers can play that help with learning a product. In other words, “make it meaningful for customers” to visit the virtual environment, even during the experimentation phase.

Challenges

- **Ecosystem Maturity and Regulations Framework:** Wherever there are exchanges of goods, even in virtual. However, the ecosystem needs to develop further, products need to be more mature, trust needs to be built, and the metaverse needs frameworks and guidelines to satisfy banking and financial demands, including a clear value proposition for customers. How banking that crosses between metaverses and real word is going to be regulated remains an open question.

- **Not for average customer Not for every business:** The metaverse holds potential for the banking industry. However, if most consumers can't quickly access and navigate through it, frustration will result. Perhaps the metaverse will not be a place where the average customer will go open a checking account. In the metaverse, some of the existing services and business models we are familiar with will continue to exist, but the metaverse opens a whole new realm of ways to engage which we expect will lead to uniquely new services and business models. Not everything in the metaverse will be relevant for every business.
- **Elevating Employees Experience and Talent Gap:** Employees play a critical role in amplifying a bank's brand and driving meaningful interactions with customers. Enabling 3D customer and employee experiences will be crucial for banking's future in the metaverse, and those looking to gain early advantage will need to start enhancing capabilities now. To explore this area, banks should start educating their teams now on the technology extending beyond simply "lifting and shifting" existing experiences into new AR/VR channels and start to reimagine how they can connect with clients, deliver advice and build relationship in a completely virtual world. They should develop rapid prototypes to help executives better understand the potential of the metaverse. Show leaders how the metaverse brings together people, spaces and things in both the virtual and real worlds, and how it can evoke a sense of belonging and foster collaborative engagement.

| Cases

1-JP Morgan: JPMorgan Chase JPM became the first bank in the United States to enter the metaverse. The biggest U.S. bank by assets has opened a virtual lounge named "Onyx lounge" in Decentraland, a virtual world based on blockchain technology. Within Decentraland, users can acquire virtual plots of land in the form of non-fungible tokens (NFTs), making purchases using cryptocurrency backed by the Ethereum blockchain.

2- Industrial Bank of Korea (IBK) is expected to enter the Cyworld metaverse platform to offer a range of financial products in the virtual market, such as an IBK “dotori” bank account.

3- BNP Paribas has launched a VR app that allows customers to use VR in their banking transactions, including account opening.

4- Citi has tested holographic workstations for financial trading.

5- Bank of America’s deployment of VR training for 50,000 employees, simulates real customer service scenarios for branch employees so they can detect emotions and adjust behavior in a risk-free environment.

Links

1. <https://www.nasdaq.com/articles/jpmorgan-jpm-enters-metaverse-unveils-virtual-onyx-lounge>

2. <https://group.bnpparibas/en/press-release/bnp-paribas-contributing-development-virtual-reality>

3. <https://forkast.news/headlines/metaverse-banks-ibk-kb-kookmin-nh-nonghyup/>

4. <https://8ninth.com/case-study/citi-holographic-workstation/>

March 2022

Current Trends

HOTLINE
15200
One number to better serve you!

Headquarters – Nasr City
22 A, Dr. Anwar El Mofty St., Tiba 2000
P.O.Box: 8164 Nasr City, Cairo, Egypt

www.ebi.gov.eg



Like us on
facebook.com/EgyptianBankingInstitute



Follow us on
twitter.com/EBItweets



Join us on
linkedin.com/company/egyptian-banking-institute



Watch us on
YouTube Channel: Egyptian Banking Institute (EBI)