

## The metaverse as a strategic inflection point

What financial institutions need to know about the next generation digital platform and why it matters to their future

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Towards the end of 2021 came a resurgence of interest in the metaverse, opening a door on the subject to many more people.

First, Facebook rebranded to Meta, and shifted focus from social media to a new platform—the meta universe (or metaverse for short). Within a few weeks, both Microsoft and Nvidia updated analysts on their own metaverse ambitions. And, soon after, The Economist magazine announced to its global readership that “something metaverse-shaped lying in the relatively near future is an idea worth taking seriously.”<sup>1</sup>

The metaverse represents a strategic inflection point for today’s financial institutions. Its arrival accentuates and accelerates three big trends that were already in play. Financial institutions need to address these trends to enable future success – both within the metaverse itself and across the wider world of digital commerce.

### Defining the metaverse

You can think of the metaverse as a 3D sequel to today’s two-dimensional internet. The New York Times said: “Remember hearing about ‘the internet’? Get ready for ‘the metaverse.’ It refers to a fully realized digital world that exists beyond the analog one in which we live.”<sup>2</sup>

Right now, it’s too early to say exactly how the metaverse will be manifested. But, as a useful reference point, it’s worth looking back to the framework first developed by the Acceleration Studies Foundation:<sup>3</sup>

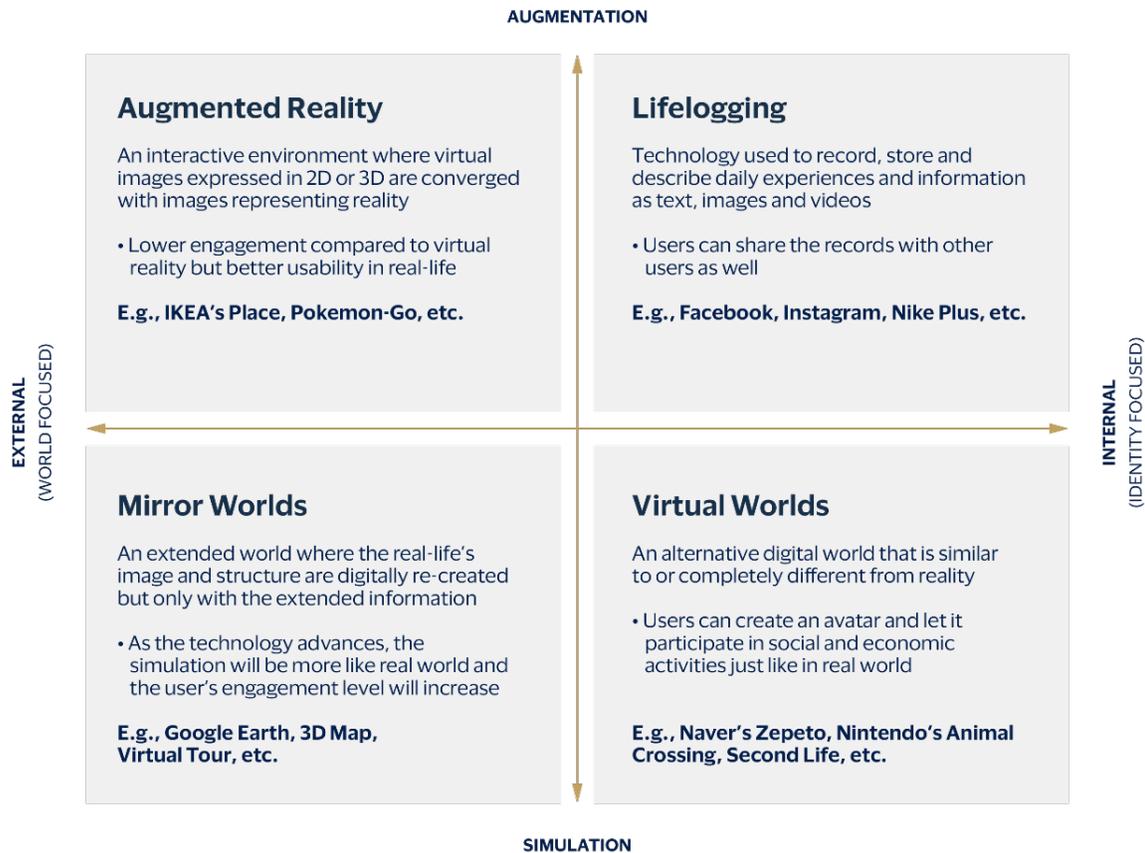
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<sup>1</sup> The Economist, Future of the Internet, 20 November 2021, <https://www.economist.com/leaders/dont-mock-the-metaverse/21806354>

<sup>2</sup> The New York Times, “Are We In The Metaverse Yet?”, July 10, 2021, <https://www.nytimes.com/2021/07/10/style/metaverse-virtual-worlds.html>

<sup>3</sup> Metaverseroadmap.org, <https://www.metaverseroadmap.org/MetaverseRoadmapOverview.pdf>

## Types of Metaverse



The common denominator is **immersive experiences, generally accessed via virtual reality headsets or augmented reality glasses, in which people work, play, buy, and sell.** Several popular platforms already attract millions of users, including Roblox, Zepeto, Fortnite, and Sandbox.

### Emergence of the metaverse: Fad or signal?

We are seeing serious momentum building behind the metaverse. At first it played host to cultural and creative happenings, like the release of BTS' "Dynamite" music video on Fortnite, or the unveiling of Gucci's clothing collection on Zepeto, where users can dress their avatar in pieces from Gucci through in-app purchases. Through 2021, media coverage of virtual events, like graduation and wedding ceremonies gained momentum.<sup>4</sup> Then, of course, came the Facebook rebrand, pushing the term "metaverse" into the mainstream.

<sup>4</sup> Forbes, "Welcome To The Metaverse", Mar 23, 2021, <https://www.forbes.com/sites/stephenmcbride1/2021/03/23/welcome-to-the-metaverse/?sh=151b8c10720c>

## #1 The increase in importance of millennials and Gen Z –as the new generation of consumers

The typical metaverse user is young – for example, 80 percent of Zepeto users are teenagers, and 54 percent of Roblox users are less than 13 years old.<sup>5, 6</sup> Both millennials and Gen Z are digitally active groups who spend a considerable amount of time online and are more likely to be cashless and attracted by digital currencies. Expansion of the metaverse will likely increase the significance of millennials and Gen Z consumers as a customer base for financial institutions and accelerate the transition into financial services products designed specifically for a new generation.

### How should financial institutions respond?

Providing new finance solutions for millennials and Gen Z presents the most immediate opportunities:

- **Product and service development**

Products and services for millennials and Gen Z are critical in this new era. There are many successful cases to learn from, such as UK based Go Henry, a prepaid card/pocket money management service for teenagers, with more than 1.5 million account holders. Also, several large financial institutions now offer a suite of financial service solutions for younger people, such as buy now, pay later, which can directly increase customer acquisition and retention rates.

- **Sales and marketing solutions**

The metaverse represents an interesting marketing channel for millennials and Gen Z. Collaborating with companies that benefit from exceptionally loyal followers, such as those in the gaming, entertainment, and sports industries, can be effective in attracting customer attention and participation. For example, Visa achieved unusually high response rates when video booths and team shirts using the Tokyo Olympics logo were promoted on Zepeto.

- **Underwriting and risk management approaches**

Alternative credit scoring models are being developed for millennials, Gen Z, and other segments to fill a gap left by traditional credit scoring models, that used to focus primarily on financial data. For example, alternative algorithm-based credit models can use other types of data to provide a broader view of a consumer's reliability and financial behaviors.<sup>7</sup>

Globally, many fintech players specialize in these alternative credit scoring models and see a vast untapped market for their solutions. For example, Cred.ai, a U.S.-based fintech, developed a new credit card aimed at younger age groups featuring its "credit optimizer" – a self-developed algorithm that enables customers to build credit record by using the card.<sup>8</sup> The company also plans to license the algorithm to other fintechs, which could become a new revenue source.<sup>9</sup>

<sup>5</sup> Korea Herald, Metaverse rises to cultural mainstream, Jan. 3, 2022, <http://www.koreaherald.com/view.php?ud=20220103000633>

<sup>6</sup> Roblox Corporation, Form S-1 Registration report

<sup>7</sup> See, for examples, <https://www.juvo.com/> or <https://www.destacame.cl/>

<sup>8</sup> Cred.ai, <https://cred.ai/>

<sup>9</sup> Forbes, The 'Tesla of banking', Startup Cred.ai Unveils Its AI-Powered Credit Card, <https://www.forbes.com/sites/michelamoscufo/2020/08/06/the-tesla-of-banking-start-up-credai-unveils-its-ai-powered-credit-card/?sh=724669b53cd6>

Financial institutions can consider this model as a potential new revenue source utilizing their underwriting capabilities.

## #2 The emergence of the next-generation platform

The metaverse is expected to become the next generation platform because of its two main attributes: young customer base and unique monetization model.

Following the initial influx of young users to the platform, high-quality content helps to maintain user growth. A monetization model that incentivizes users to participate actively both in content creation and consumption is therefore a strong asset. Many of the most successful metaverse platforms have a Creator Economy approach, which incentivizes content creation and earns funds. A good example is Roblox with its surging popularity and its built-in economic system – the platform is already home to more than 1.2 million creators who earn more than U.S. \$10,000 a year.<sup>10</sup>

### How should financial institutions respond?

Some financial institutions have already started to build branches in the metaverse platform. For example, in South Korea, KB Kookmin Bank built KB Financial Town in Gather Town, offers advisory services to customers,<sup>11</sup> and expects the metaverse to enable new ways of communicating with and servicing customers by combining online and offline services in one place.

However, in addition to thinking of the metaverse as a new delivery channel, financial institutions should consider virtual universes as meaningful data sources. If customer spending moves from the current online platform to the metaverse, which existing financial institutions cannot yet access, financial institutions could lose their access to customer spending and activity data. Of course, in some metaverses like Roblox or Zepeto, you can buy the in-house currency – Robux for Roblox or Zem for Zepeto – with credit cards, making credit cards the source of commerce. Financial institutions, however, cannot access the detailed purchase activity data, whether the user buys a concert ticket or a pair of shoes when the actual commerce becomes available.

Especially in a metaverse based on web 3.0<sup>12</sup> internet tools and infrastructure, which is a vision for a future version of the internet based on the blockchain, the need for alternative data analytics and intelligence will become even more pressing, since users will own their data and have control over whether the platform can access it.

Therefore, financial institutions should consider developing a new platform strategy, including partnerships with emerging metaverse platforms that can provide enhanced user data and have a relevant proposition, such as those involved in shopping.

## #3 The mainstreaming of digital assets

The popularization of non-fungible tokens (NFTs), or certificates to say that you own something that has been digitally recorded on a blockchain, began with Cryptokitties, a blockchain-based game in which users can create unique game characters and sell them at a high price.<sup>13</sup> The NFT phenomenon

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<sup>10</sup> Roblox Corporation, Form S-1 Registration report

<sup>11</sup> Newsbreeze, "Go as an avatar to a virtual bank, video counseling for home workers", Jul 18, 2021, <https://newsbeezer.com/koreaeng/go-as-an-avatar-to-a-virtual-bank-video-counseling-for-home-workers/>

<sup>12</sup> NBCnews.com, "What is web 3", January 9, 2022, <https://www.nbcnews.com/science/science-news/web3-s-silicon-valleys-latest-identity-crisis-rcna9846>

<sup>13</sup> Decrypt, Beginner's Guide to NFTs, October 22, 2021, <https://decrypt.co/resources/non-fungible-tokens-nfts-explained-guide-learn-blockchain>

has been extending its reach ever since, notably in areas such as art and collectables, encouraging more people and companies to regard them as digital assets or alternative investments.<sup>14</sup> For example, in August 2021, Visa purchased a CryptoPunk – one of 10,000 highly sought-after digital characters on the Ethereum blockchain – for 49.5 ETH, or roughly U.S. \$150,000.<sup>15</sup> At the close of the year, the global market for NFTs was valued at U.S. \$7 billion.<sup>16</sup>

NFTs are just one example of digital assets in the metaverse. Another important example of digital assets in the metaverse is its cryptocurrencies. SAND in Sandbox, MANA in Decentraland, and AXS in Axie Infinity are well known cryptocurrencies, each of which is used and traded in its own metaverse.<sup>17</sup> Ultimately, we believe the metaverse will likely draw many more people to digital assets, including NFTs and cryptocurrencies, and the market size will grow accordingly.

### How should financial institutions respond?

The metaverse brings another way to facilitate the trading of digital assets such as NFTs and cryptocurrencies, the total market value of which already is more than \$2 trillion dollars.<sup>18</sup>

PayPal recently launched a new ‘super app’ and outlined its vision to become a digital wallet platform, not just a payment app.<sup>19</sup> And, outside of the traditional payments sector, many other organizations, including big techs and platform players like Apple, Samsung, Facebook/Meta, and Rakuten, have developed their own propositions. For example, Facebook rolled-out a pilot for its own digital wallet, ‘Novi.’<sup>20</sup> Meanwhile, Rakuten, which launched its digital wallet back in 2017, recently announced a new service to top up Rakuten Cash (online e-money issued by the Rakuten group) via cryptocurrency and make payments at on/offline merchants such as 7-Eleven.<sup>21</sup>

With digital wallets becoming a focal point of digital asset trading and having the potential to become a form of digital identity, financial institutions should consider building a strong position in digital wallets and pursuing the associated opportunities.

Organizations in all sectors should plan now on how to best capitalize on the opportunities this new digital revolution will bring, just as online marketplaces two decades ago revolutionized the way consumers shopped. One thing is clear: **The metaverse will change the rules of the game as we move from an internet of information to an internet of value.**

<sup>14</sup> Artnews.com, A Collecting Category Emerges: How NFTs Took the Art World By Storm, October 13, 2021, <https://www.artnews.com/art-news/market/nfts-collecting-category-1234605598/>

<sup>15</sup> Visa.com, NFTs mark a new chapter for digital commerce, August 23, 2021, <https://usa.visa.com/visa-everywhere/blog/bdp/2021/08/18/nfts-mark-a-1629328216374.html>

<sup>16</sup> Business Insider, Global NFT market worth \$7 billion, , November 19, 2021, <https://markets.businessinsider.com/news/currencies/nft-market-worth-7-billion-legal-issues-could-hinder-growth-2021-11>

<sup>17</sup> Techtimes, Top 12 metaverse tokens, November 17, 2021, <https://www.techtimes.com/articles/268107/20211117/top-12-metaverse-tokens-mana-sand-axis-more.htm>

<sup>18</sup> Bank of America newsroom, “BofA Global Research Launches Coverage of Digital Assets”, Oct. 4, 2021,

<https://newsroom.bankofamerica.com/content/newsroom/press-releases/2021/10/bofa-global-research-launches-coverage-of-digital-assets.html>

<sup>19</sup> PayPal, “PayPal Introduces Customers to the Next Digital Payments Era”, Sep 21, 2021, <https://newsroom.paypal-corp.com/2021-09-21-PayPal-Introduces-Customers-to-the-Next-Digital-Payments-Era-with-the-New-PayPal-App>

<sup>20</sup> The Verge, Facebook’s digital wallet finally launches... without Diem cryptocurrency, Oct. 19, 2021,

<https://www.theverge.com/2021/10/19/22734487/facebook-novi-digital-wallet-pilot-program-payments-diem-cryptocurrency>

<sup>21</sup> Rakuten, Bitcoin and Other Crypto Currencies Can Now Be Used to Charge E-Money, Feb. 24, 2021,

[https://global.rakuten.com/corp/news/press/2021/0224\\_03.html](https://global.rakuten.com/corp/news/press/2021/0224_03.html)