

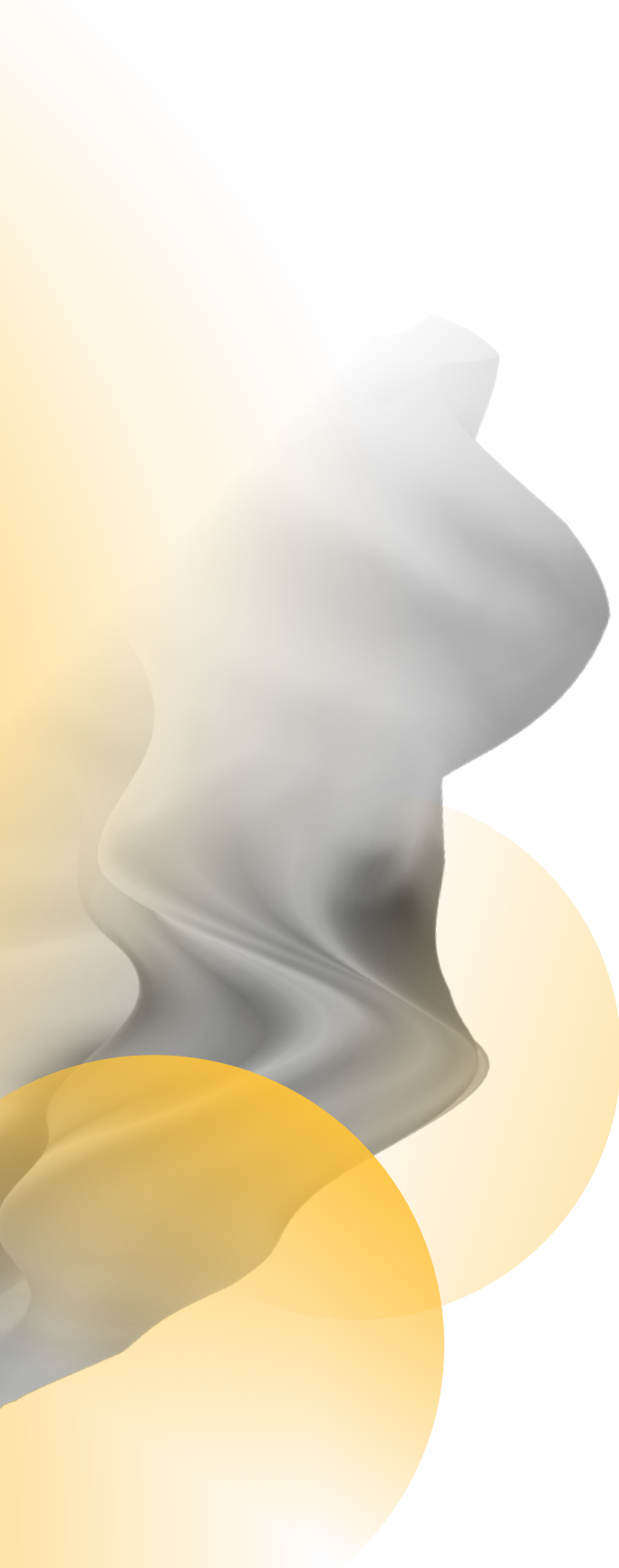
CAPCO



**WILL APAC
GUIDE FINANCIAL
SERVICES INTO
THE METAVERSE?**

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WILL APAC GUIDE FINANCIAL SERVICES INTO THE METAVERSE?

As extended reality (XR) technologies begin to mesh with traditional services, metaverse commerce is likely to take off as a revenue stream for firms and could increase exponentially. Big-name tech companies have already formed the Metaverse Standards Forum, with a vision to create open standards for all things metaverse. Furthermore, many Asia-Pacific consumers are excited about the prospect of using financial services within virtual and augmented realities, according to Capco's recent Bank of the Future survey of attitudes towards retail banking (see box).

In our view, financial institutions need to start seriously considering the metaverse in their omnichannel strategies. However, far from being a single 'big bang' revolution, the metaverse will go through a long period of multi-stranded evolution, including commercial dead-ends – not unlike the early internet. The rate of progress may be fast but it will also be uneven and the end goal, in terms of what the metaverse will eventually look and feel like, remains very uncertain.

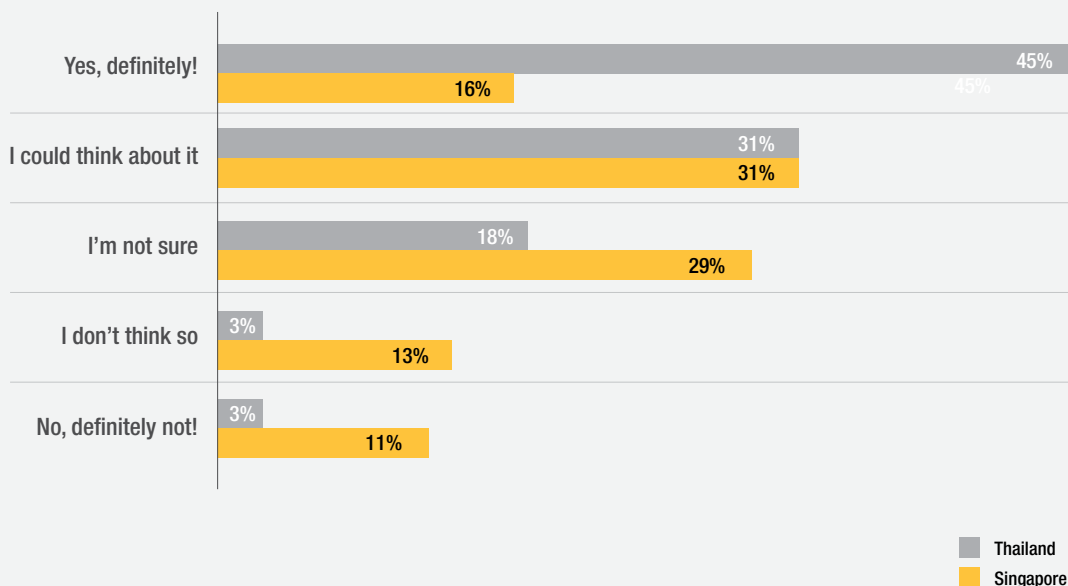
This article explores what we mean by a 'metaverse', why the Asia-Pacific region will be central to shaping the early metaverse, and initial bank responses to metaverse opportunities. Firms will need a flexible set of strategies to help them take advantage of the new virtual realms, whatever shape these realms take.

RETAIL BANKING AND THE METAVERSE – ASIA-PACIFIC CONSUMER ATTITUDES

Consumer attitudes towards the concept of banking in the metaverse tend to be open-minded or enthusiastic, according to Capco's Asia-Pacific focused [Bank of the Future](#) survey of almost 5000 consumers across five markets – Hong Kong, Greater Bay Area (ex Hong Kong), Singapore, Thailand and Malaysia.

For example, well over half of the respondents in Hong Kong said that they were either enthusiastic (26%) or could think about (32%) buying banking services via the metaverse. However, the degree of enthusiasm varied significantly by market with Singapore respondents adopting a more cautious stance, and respondents in Thailand a distinctly bolder stance, as the bar graph below illustrates.

ATTITUDES TO THE METAVERSE – SINGAPORE VS. THAILAND WOULD YOU BUY BANKING SERVICES VIA THE METAVERSE?



DEFINING THE METAVERSE

The metaverse has been sold as a single concept that represents both a new immersive, virtual universe and an exciting frontier opportunity for investors and organizations, including in the financial services sector. In reality, the metaverse is an elusive term, and both defining and building the metaverse is a work in progress. Today's early version of the metaverse – really a series of proto-metaverses – involves multiple stakeholders, operating distinct technologies and virtual realms under different banners.

These virtual realms have very **different characters** and immersive intensity, varying from 'imaginary' virtual 3D worlds, to augmented versions of reality, with supporting technologies that will also vary from headsets to full-body haptic suits and brain-computer interfaces. Their goals range from building virtual cities and communities, and venues for gaming, learning and staging virtual live events, to adding an extra layer of information to our real-life daily world.

Most importantly, the realms are so far unconnected to one another – virtual visitors cannot travel between them – and true interoperability to unite them is a distant promise. There is no unified metaverse economy or platform for virtual labor. For the moment, therefore, the concept of a single, universal metaverse is an *aspirational notion*, which may be gradually coming to life, driven by a mix of science fiction, gaming, digital currencies, block chain technologies, and commercial enthusiasm.

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The metaverse

An immersive and persistent virtual world where users can communicate and interact with other users and the surrounding environment and engage in social activities, similar to interactions in the physical world.

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Congressional Research Service:

The Metaverse: Concepts and Issues for Congress,
August 26, 2022, p.3:

<https://sgp.fas.org/crs/misc/R47224.pdf>



SUPPORTING TECHNOLOGIES FOR THE METAVERSE

Extended Reality (XR)

Umbrella term encapsulating all the Reality technologies (VR, AR, MR) that enable an immersive metaverse experience

Virtual Reality (VR)

Computer-generated three-dimensional experience, which can be screen-based or immersive 3D, e.g. head-mounted displays

Augmented Reality (AR)

Overlay of virtual content/information onto a user's real-world environment, e.g. through AR glasses

Mixed Reality (MR)

Combination of AR with VR, designed to allow fuller interaction than AR with virtual representations of real-world environments, people or objects, e.g. for training or prototyping

Web 3.0

Still-evolving third generation of the Web which will offer a decentralized backend to the metaverse

Avatar

The embodiment of the user in the metaverse

Artificial Intelligence (AI)

An enabler to create personalized and impactful metaverse experiences for users

Non-Fungible Token (NFT)

Tokenized representation of an asset on a blockchain that can be transacted in the metaverse

Digital Twin

Digital representation of a physical object, system or place

We don't know what the metaverse's evolutionary path will look like over time, though it is likely to be organic, decentralized and consumer led – and we can make educated guesses on how it will interact with other trends shaping financial services such as the shift to the cloud, hyper-personalization, ecosystem building, and embedded finance.

In the US, a lot of recent interest – and some cynicism – has been driven by Facebook's decision to rebrand to Meta in late 2021 to sharpen its focus on bringing a social metaverse to life by improving virtual and augmented reality. However, we think that, as with the mobile-based internet and super apps, a key foundry for the metaverse will be the Asia-Pacific region.

THE ASIA-PACIFIC ADVANTAGE

The fundamental challenge to the success of the metaverse is whether – and why – people would want to spend more time in a virtual world. We think that success is unlikely to be driven by a ‘build it and they will come’ stance. Instead, critical mass is more likely to be achieved through making the metaverse an easy and interesting extension of present behaviors.

That’s why it’s important to consider the metaverse in the context of Asia’s AR/VR gaming and eSports market, for which continuing phenomenal growth is expected. According to [Juniper](#), 50% of the over 1 billion eSports and games viewers in 2025 will be from the region, an indication of the region’s significant appetite for extended reality (XR) experiences. The prevalence of gamification culture is why Asia may lead the charge in metaverse developments, despite the recent focus on US technology giants.

China is fast becoming a dominant player in the gaming and eSports market, with both government and tech giant support. Investment and development will continue in XR technologies and their integration, and we think that eventually the metaverse and its early economy may prove to be a natural extension of this booming market.

Meanwhile, tech centers in APAC including Hong Kong, Singapore and Thailand have been [working hard](#) to attract the talent and startups to build key components of the metaverse, such as mobile augmented reality and AI-driven avatar technologies. These may ease the difficult cross-over point as the early metaverse seeks to attract gamers into non-gaming activities and then to attract non-gaming consumers – for example, through live events and retail opportunities.

Competition for the metaverse has also taken on a more global view with, for example, Dubai [launching](#) a Metaverse Strategy aligned to their overall vision for attracting a next- generation virtual work force. The metaverse is not just a technology revolution, it’s also being used as a vehicle to attract talent and high-growth companies.

Consumers navigating with their avatars will seek frictionless payment journeys in the metaverse marketplace, to carry out their off-chain and/or potentially on-chain financial transactions. The relationship between financial services and the metaverse may therefore also deepen fastest in Asia.

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The prevalence of gamification culture is why Asia may lead the charge in metaverse developments.

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BANKS – METAVERSE AS PART OF AN EVOLUTION

It may be difficult to imagine the future shape of banking services in this kind of truly immersive, virtual world. But the history of banking is one of profound change, not only in products but in how customers interact with banks and banking products.

Up until the 1980s, banking services were based around face-to-face interactions at a physical branch. Then came ATMs, followed by online banking and, today's increasing focus on mobile-based digital banking. The constant theme of increasing distribution and reducing friction continues to replace the human element with technology-enabled self-service and chatbots.

However, as we evolve to a world where banking services will be pervasive and embedded in virtual interactions, the design of virtual experiences will become critical. The metaverse offers a unique opportunity for banks to experiment in hyper-personalized interactions with AI-powered virtual assistants. But it will also offer efficient and exciting ways to interact with a real person, virtually – a new channel of high-touch services for customers looking for sophisticated products and personalized advice, e.g. in 3D virtual financial planning sessions.

EARLY BANK RESPONSES

The [early interest](#) in the metaverse amongst banks has been driven largely by their internal innovation incubators. When it comes to investing in innovation, there's usually a fine balance between FOMO (Fear of Missing Out) or JOMO (Joy of Missing Out), and the metaverse will be no different.

As with Web 1.0 and 2.0, and today's Web 3.0, early versions of the metaverse will sometimes be clunky and not all will thrive. However, buying or leasing plots of virtual land offers banks the chance to develop representative spaces in the early metaverse.

It also offers a direct exploratory path to engage with the wider metaverse and web 3.0 community, exploring aspects such as 'gamified' ways to interact with and educate consumers, as well as hands-on building experience in the virtual space. Co-investment and co-creation with partners and fintech firms is another strategic route to harnessing innovations in this space.

As with the early stages of the internet, banks are currently focused on understanding how the emerging metaverse can help to increase customer engagement. Banks see the metaverse as a way to engage with tech-savvy millennial and Gen Z consumers, including the gaming community – an exploratory journey that could allow them to redefine the financial services' experience. It could also offer a way for banks to leverage the high trust levels they have among consumers, who may feel insecure about financial activities on the emerging metaverse.

We have observed that exploration is not limited to big institutions with big budgets. Smaller institutions are also exploring novel ways to deliver value to their customers and leverage first-mover advantage.

The metaverse could potentially benefit multiple business lines within banks. However, e-commerce is likely to be the biggest economic lever for metaverse expansion and our present thinking is that the biggest winners will be payments and lending services within retail banks. The payments function, in particular, will be at the center of early metaverse developments – a series of metaverse patents and trademark filings by leading payment processing providers testifies to its potential.

In the early stages of metaverse development, bank marketing, branding and HR will also seek to gain benefits by using the metaverse to attract new digital savvy customers and talent.

HOW CAN BANKS PREPARE?

With the metaverse developing at a very uneven rate and in many different directions, banks should establish and periodically review their metaverse/Web 3.0 strategy and continue to upskill their internal capabilities. There will be considerable differences in the pace and breadth of regulatory guidance from central authorities across different jurisdictions, regarding the metaverse directly but also components such as digital assets and crypto-currencies. Banks with the agility to pivot their metaverse strategies will be in the most favorable position.

Banks will need to begin educating their workforce and customers on metaverse technology to enable adoption, as well as to ensure safety and security in this new world. They will have to demonstrate how the metaverse connects the virtual and real worlds, and showcase how it can encourage a sense of both freedom and belonging.

Banks and financial institutions need to prepare for the future in terms of their technology platforms and partnership strategies. They will need to grapple with issues such as how to proto-type metaverse business models, design metaverse products, handle advances in the use of blockchain, and deal with issues such as metaverse data, security and – particularly – identity.

The ability to define who you are and how you are represented is fundamental to the metaverse, and financial institutions will need to explore different approaches to digital identity, such as self-sovereign identity (SSI), a block-chain approach which gives users control over the identity information they disclose. Given the layers of data that will be exchanged and interpreted using AI as users interact with the metaverse, there are also wider trust, privacy and data management implications.

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TWO FINAL CHALLENGES

One final challenge will be adapting to a more open and potentially less regulated environment. However, that is a common risk of industry-scale innovation and we think that banks as a whole will adapt to the metaverse as they have in the past to innovations such as the ATM and mobile banking.

The bigger risk is that individual banks will fail to adapt at the right speed and get left behind. For an extended period, all players will be learning as they go, since the technology is still in early development and exploratory phases.

Timing is everything when taking advantage of technological revolutions. Banks need to be watchful and flexible — and to build the fundamental skills, data and technology architectures that will help them enter and experiment in the metaverse as it evolves over time.

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ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy focused in the financial services industry. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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