Transformation of Banking & Finance sector by Metaverse

The banking and finance sector has undergone a massive transformation in the last few decades. The ever-changing world of digital technologies has given rise to new ways of doing business and creating value for customers. In such a scenario, the financial institutions must adapt themselves to the changing environment, or they may perish due to their ignorance. The financial ecosystem has long relied upon legacy systems. But as the doors for innovation have opened in this sector, a better consumer experience calls for large scale adaptation of intuitive systems.

The backbone of modern banking and financial services

It is essential to understand that digital technologies are the backbone of modern banking and financial services. Banks can use digital technologies such as P2P and blockchain for processing transactions, cloud servers for storing and retrieving data, and AI/ML for communicating and transmitting data. These technologies all form part of the thriving metaverse culture comprising spatial interactions in the digital media.

Digitization of financial services brings a spectrum of benefits

The banks can provide a more efficient service to their customers, which helps them reduce costs substantially. It also helps reduce the time taken for transactions by making them faster and easier for the customers to conduct. The customer experience is enhanced with technology like AI chatbots and automation, which many banks use. With digitization, there is a better chance of preventing data privacy and security risks from relaying critical financial information across servers.

Digital identity is key to secure digital finance

A digital identity, aka digital twin in the metaverse, is essentially an online representation of one's real-world identity. It can be used to verify the user's identity and help users create their unique signature, which can be applied across different platforms.

Suppose you use a digital wallet as your primary payment method when shopping online or using other Fintech services such as taking credit or making an investment. This wallet stores your data, passport details, other identification numbers, and all associated information. Since this information is stored on blockchain technology with high levels of security built into its platform, it becomes easy for third parties like banks to verify you and your relevant financial records.

Predictable and consistent access to information

With digital identity, banks can now cost-effectively and reliably access information about their customers as required under the KYC mandate. Banks can use this information to give financial services to those who need it the most, which will help them penetrate underserved communities. With the ability to verify customer identity, banks can make accurate risk profile assessments based on alternate data from social media or other public sources that may not have been previously considered under conventional methods. The underwriting process also becomes seamless through these data points, given their level of transparency. Plus, all the data related to a single digital identity needs to be stored just once and can then be made available to service providers through restricted access.

Newer Digital Products

The metaverse has elevated customers to the position of partners with the use of participatory products such as cryptocurrency, NFT, and open banking. The element of trust brings in the possibility of developing utility-based features to fulfil an actual need in society rather than merely promoting consumerism in the name of marketing. Banks and other traditionally centralised institutions need to reciprocate the public's trust by accepting digital assets foundational to a new era of ownership in this interconnected world.

Final Thoughts

Metaverse offers the scope of existing in the virtual world with the same drill as in the real world. This autonomy in the virtual world comes from taking responsibility for their digital presence akin to their physical self. When people move around and transact in the metaverse, they also become answerable for their actions in that world. And the traceability of their actions makes all the difference in the economy and society.

The financial institutions have an immense opportunity to leverage this cultural change. Banks can offer people technologically advanced products that allow metaverse avatars to avail themselves of services freely in the virtual world, just like the NFC cards in the physical world.