



**SUMMARY OF EVENT CELEBRATING THE FIRST YEAR ANNIVERSARY  
OF  
THE CENTRE OF FINTECH  
14 June 2023**

**FINANCIAL SERVICES AND THE METAVERSE**

**Rationale for the Event**

The rationale for this event, which took place strictly under Chatham House Rules, was to create an opportunity for discussion among key players in the space on the evolution of the metaverse; its meaning; and identifying opportunities and risks of the concept as it relates to the future of financial services. This event was to galvanise further research on the subject of the metaverse, with a focus on financial services.

**Opening Address**

The opening address was titled, 'Digital futures: Fintech in a global context'. This focused on the UEL's strategy for industry 4.0 and 5.0 and considered how the Centre of FinTech's work fits within this agenda. The speech emphasised the need for global coordination in the effort to building sustainable FinTech.

**Keynote Speech**

The Keynote speech, 'Financial Services and The Metaverse' highlighted that the 'metaverse' is not a new concept. The term itself is derived from science fiction, but the experiences that it aspires to, namely to enable spatial, embodied and immersive experiences through digital technology, have been central foundations of online worlds for years – from Second Life nearly twenty years ago to today's popular game worlds like Minecraft and Roblox.

The speech highlighted that multiple technology areas come together to form the metaverse, including 5G, artificial intelligence (AI), the internet of things, distributed systems including blockchain, immersive technologies like virtual and augmented reality and potentially quantum, enabling virtual replicas of the physical world (such as digital twins) and a new cyber physical internet where information and experiences augment real life. The metaverse will bring together these existing, fragmented technologies, into a single technological cluster, to fully unlock their potential. These can have significant potential for financial services including banking, investment and payments services through centralised and decentralised platforms.

**First Roundtable**

This roundtable considered questions of: the possibility of the application of metaverse technology to financial services and whether this is a fad or a potential in the near/distant future; the possibility of adopting digital assets (crypto-assets, stablecoins, NFTs or CBDCs) in this space and what the constraints and opportunities are here; what degrees of advancements, from a business and consumer perspective, would need to be attained prior to the realisation of financial businesses operating in the metaverse space or if this is even a



possibility? What investments, technologies and approaches may businesses need to consider and what may be the impact of the adoption of these on businesses? What preparation would be needed from a payments and settlement systems perspective e.g. would a DLT based system be more applicable to transactions in the metaverse? What degrees of interoperability would be required, if at all and is this possible? Are there other considerations?’

The speaker opening the session considered where we are today with advancements in the application of technology to financial services. This contribution highlighted that the metaverse is not a new concept and as some of the technologies which could apply to it have been central foundations of online worlds for years, dating from Second Life nearly twenty years ago to today’s popular gameworlds like Minecraft and Roblox. It was also highlighted that it is not clear what the metaverse means and it was considered whether it could be another environment. In the discussions that followed, analogies were drawn between what could be termed by the metaverse and transactions using virtual meetings like zoom, (the ‘zoomverse’) and considering whether this could be deemed as the metaverse or just as another virtual platform. The conversation highlighted, clearly, that a lot needs to be done in arriving at a consensus as to what the metaverse is or what it could be. We would need some form of global consensus and acceptance on what the metaverse means before we can begin to explore what sorts of transactions can occur there.

In considering whether there is the possibility of adopting digital assets (crypto-assets, stablecoins, NFTs or CBDCs) in this space and what the constraints and opportunities are here, the second speaker noted that we would need to get regulation right in the real world before thinking of getting it right in the metaverse or virtual world. So far, this has been problematic. The discussions that followed highlighted that as regulation always followed technology, the ideal approach was not to wait for regulation to catch up. As such, waiting to get it right in the real world could potentially inhibit innovation. It was argued that technology, particularly, built by smaller firms, needed space to grow and contribute and not to be regulated against. Clarification was made that we needed to work on aspects that were problematic in the current crypto-assets regimes as they would be problematic and not be resolved in the metaverse world.

Discussions around the degrees of technological advancements, skill, training and onboarding needed to be in place prior to the operation of a financial business in the metaverse, considered the perception of staff in adopting new technologies. Some staff in companies do not like embracing technology and firms needed to focus on investment in training and onboarding of staff in the use and implementation of new technologies by the firm. There would also be the need for staff to change their perspective and be more willing to engage with new technologies. Discussions then dovetailed to the potential of metaverse technology to further exclude certain categories of people. It was highlighted that there was the need for balancing the tension between financial inclusion through innovation and the digital exclusion that may arise from the use of the technology among certain categories of people, such as the elderly.



In the assessment of the preparation needed from a payments and settlement systems perspective, it was highlighted that the metaverse, as a platform for transaction, would be reliant on open and free access to personalised data - a very US-centric approach to data sharing which sits in conflict with the more conservative approach to data sharing taken in the EU under the GDPR Regulation. These issues would need to be carefully thought out when contemplating what data protection rules will apply to metaverse transactions.

The issue of the absence of a global single currency to facilitates transactions in the metaverse was raised. The potential use of CBDCs was considered but deemed not feasible, at the moment, since interoperability between potential CBDCs does not exist and would need to be built into the system for global use to be possible. There were discussions about bitcoin being the global currency and this was disputed by some participants who contested the use of a hugely volatile asset as the global currency. They argued that although, originally designed to be used as money, bitcoin had not fulfilled the characteristics of money and cannot be used as a unit of account due to it hugely volatile nature.

### **Second Roundtable**

This roundtable comprising regulators, considered the opportunities identified and regulatory concerns raised by financial services activities occurring in the metaverse. The roundtable included senior regulatory staff from the Office of Communications (Ofcom), the Competition Markets Authority (CMA) and the UK Financial Conduct Authority (FCA).

The roundtable opened by considerations of the impact of FinTech more broadly on various categories of people needing protection - particular focus being on gender and age. The implications of FinTech on digital exclusion was repeated in the introduction.

It was highlighted that overlap between the work of regulatory authorities exists - including among Ofcom, FCA, CMA and the Information Commissioner's Office (ICO), who was not represented on the day. This was so, given the metaverse's potential implications for finance, content, competition and data. It was acknowledged in the session that it is essential that regulators cooperate in engagement with and learning about these technologies given the relative overlap in their regulatory remit as regards potential financial services in the metaverse. The session acknowledged the very vital work of the Digital Regulation Cooperation Forum (DRCF) (a forum of regulators concerned about all matters business in the metaverse) which is needful especially as products and services with their associated opportunities and risks become increasingly interconnected, to ensure that consumers' and citizens' interests are at the heart of digital innovation. Contributions from the audience considered possibilities of building out the work of the DRCFs on a global scale but recognised there would be significant challenges achieving cohesion although this would be a step in the right direction in planning ahead for what may very well be a reality in coming years.

### **Summation**

With the drastic pace in technological innovation come significant policy and regulatory challenges. Whilst new devices, standards, applications and services are emerging quickly, the



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potential impact on existing market structures and dynamics, privacy, competition, and consumer data, remain unclear.

This event highlighted the importance of continued communication between industry, analysts, academia, government and regulators on the potential risks and opportunities of financial services in the metaverse.

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