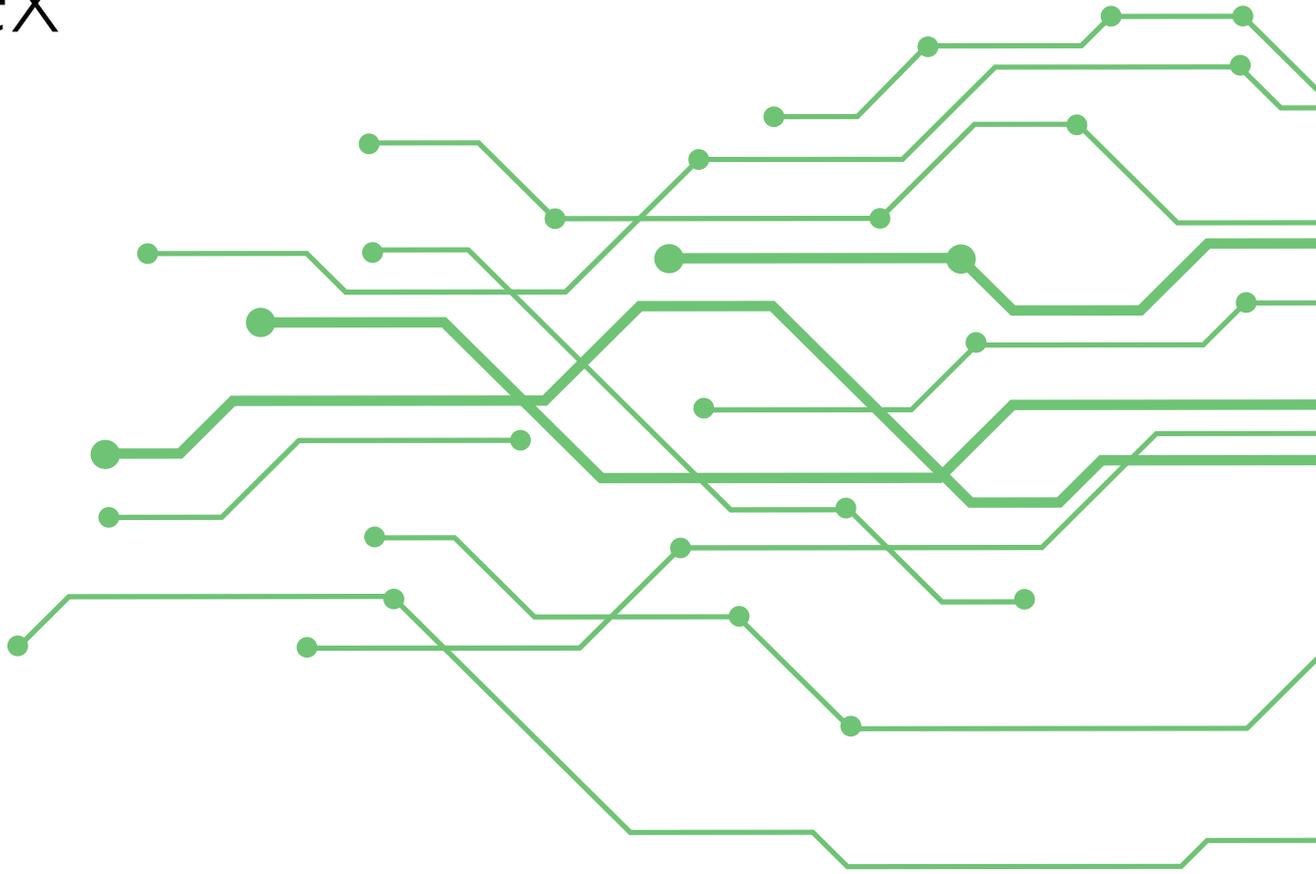




# Banking in the digital arena: are we heading towards the Meta-Bank?

How banks can face the digital paradigm shift and catch the long-term opportunity of the Metaverse

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# 01

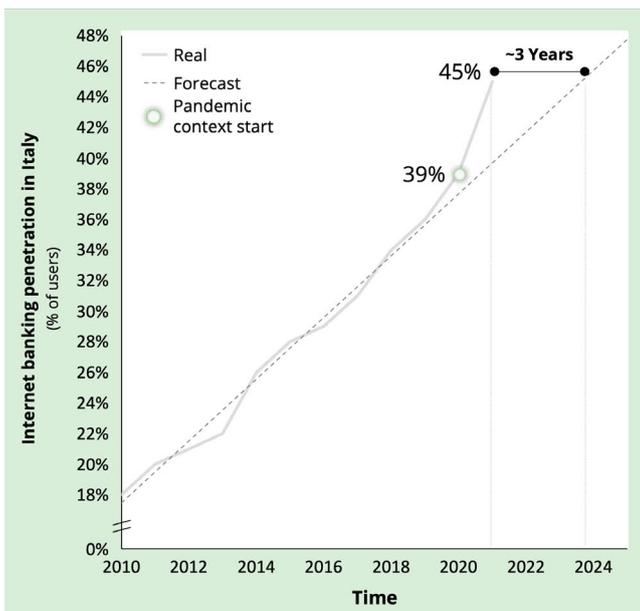
# The evolution of customers' behaviors and needs

**Over the past few years, the banking industry has experienced a radical paradigm shift towards digital adoption, driven by a progressive change in needs and habits of its customers, further accelerated by the Covid-19 pandemic context.**

The implementation of quarantine and social distancing imposed on Italian citizens accelerated a shift towards digital, leading to a 45% internet banking penetration rate<sup>1</sup> in 2021, strongly beating its forecasted adoption percentage by ~3 years (+6 pp in 1 year vs. +6 pp in 4 years expectations).

This increase has propelled and allowed Italy to reduce the internet banking usage gap from other benchmarked European countries, allowing the country to join the "Digital Experienced" nations. These represent one of the three clusters in which it is possible to divide European countries according to their internet and internet banking usage (EXHIBIT 1). Among these, "Digital First" nations show the best performance and are likely to be approaching saturation in internet banking usage, therefore they show a limited growth between 2016 and 2020, while the least digitalized ones (the "Traditionalists") are showing the largest growth in both absolute and relative terms in the same period.

**EXHIBIT 1 - INTERNET BANKING PENETRATION IN ITALY AND IN EUROPE<sup>2</sup>**



European clusters	2020			2021		
	Avg. internet usage	Avg. IB usage	IB usage growth (2016-2020)	Avg. internet usage	Avg. IB usage	IB usage growth (2017-2021)
<b>EUROPE</b>	87%	55%	44%	90%	58%	48%
<b>DIGITAL FIRST</b>	98%	94%	6%	98%	95%	5%
<b>DIGITAL EXPERIENCED</b>	90%	65%	30%	90%	68%	31%
<b>TRADITIONALIST</b>	79%	20%	113%	82%	24%	112%

**Digital First:** IB usage > 90%  
**Digital Experienced:** 40% < IB usage < 90%  
**Traditionalist:** IB usage < 40%

<sup>1</sup> Individuals using the internet for internet banking

<sup>2</sup> Monitor Deloitte analysis on Eurostat data (considering countries for which data is available)

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The path undertaken so far has consequently led to an increase in **relevance of digital customers<sup>3</sup> who, in retail banking, make up close to 50% of the net banking income (NBI)** in 2021 (**EXHIBIT 2**) and are expected to grow even more in the coming years. This evidence makes a strong case that the digital customer experience is the competitive arena companies should be playing in to attract prospects, limit churn rates and enable value generation.

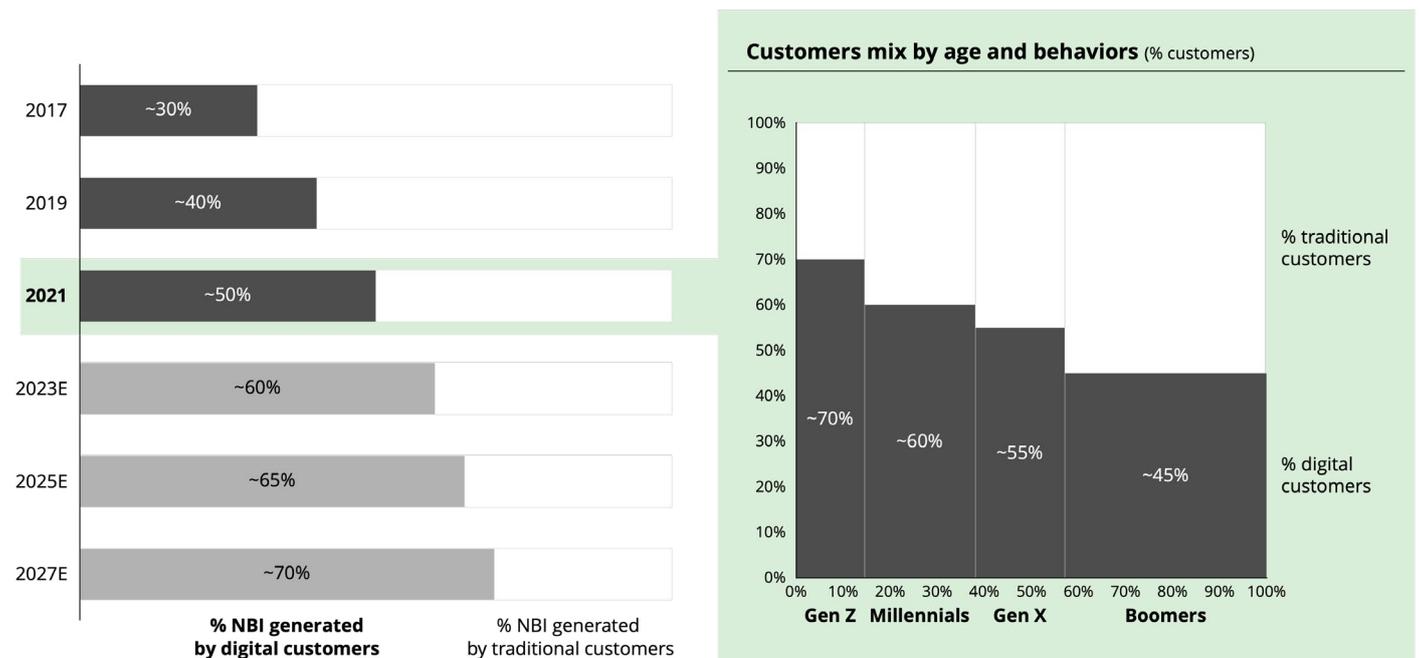
In particular, at this very moment in history, with the increase in interest rates (+375 bps between July 2022 and May 2023<sup>4</sup>) and with 25% of deposits expected to move to digital-only banks by 2025 (Monitor Deloitte, 2021), it is critical for incumbents to attract digital customers (mostly Gen Z and Millennials – **EXHIBIT 2**).

To do this, the strategy to follow should not be focused only on pricing, but should also take into account quality, speed and simplicity, common customer's expectations addressed by challenger banks (Deloitte, 2021), as key success factors to face a potential "deposit war".

In this context, the evolution of customers' behaviors, combined with generational change and technological evolution, is pushing banking boundaries beyond 2D digital. Tech-savvy younger generations spend a large amount of time using Extended-Reality technologies (XR) such as Augmented Reality (AR) and Virtual Reality (VR). These technologies provide

users with immersive experiences that in the next future could lead financial institutions to embrace a new digital paradigm shift and play in a new battlefield characterized by 3D digital spaces (**EXHIBIT 3**).

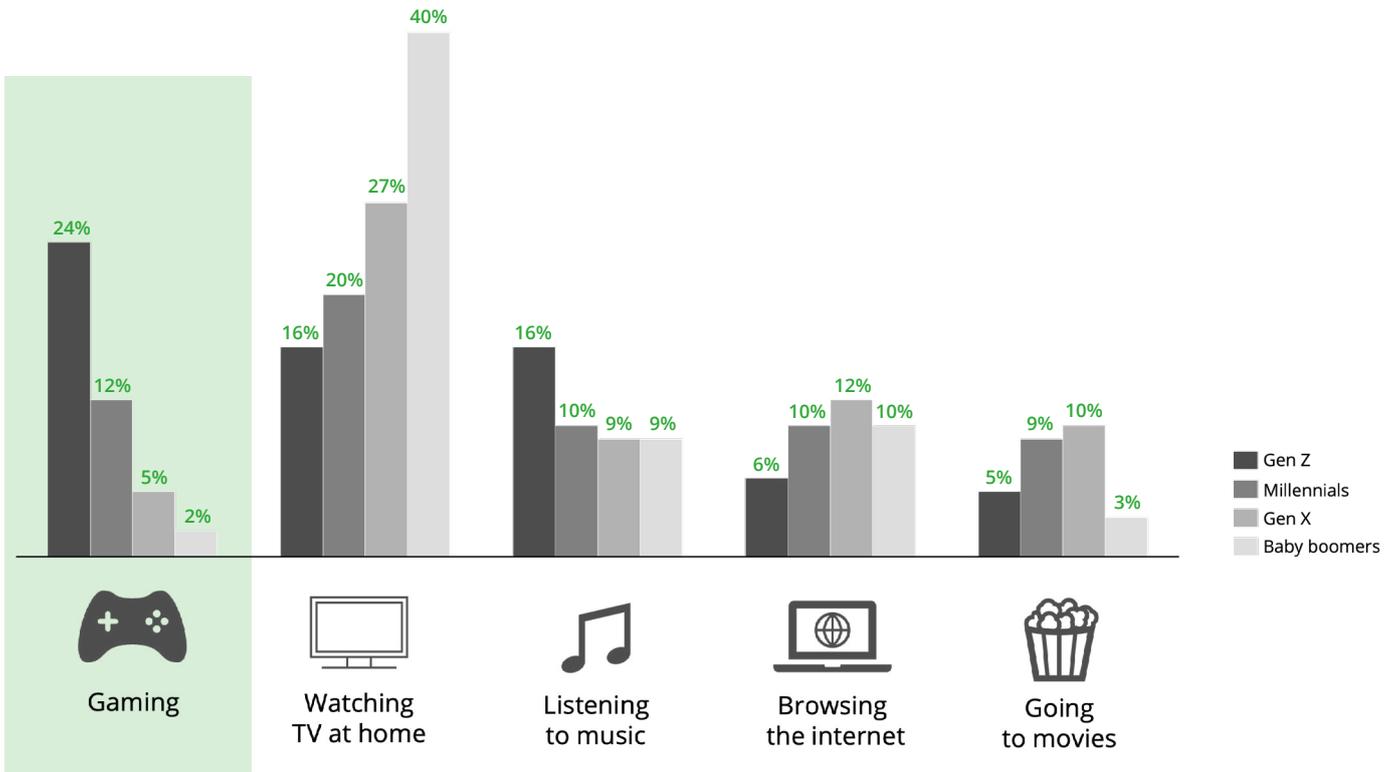
**EXHIBIT 2 – DIGITAL CUSTOMERS RELEVANCE FOR BANKS IN TIME<sup>5</sup> (% OF NET BANKING INCOME)**



<sup>3</sup> Customers characterized by a number of internet banking (desktop and mobile) touchpoints higher than in-branch touchpoints and performing >90% of the total financial transactions through direct channels  
<sup>4</sup> European Central Bank rates on deposit facility: +50 bps in July 2022; +75 bps in September 2022; +75 bps in November 2022; +50 bps in December 2022; +50 bps in February 2023; +50 bps in March 2023; +25 bps in May 2023  
<sup>5</sup> Monitor Deloitte analysis on market and proprietary data

**EXHIBIT 3 – CUSTOMERS' BEHAVIORS AND GENERATIONAL CHANGE** (DELOITTE, 2022)

**SHARE OF LEISURE TIME SPENT ON ENTERTAINMENT**



**KEY FIGURES**

60%

USERS

Gen Z represents 60% of digital gaming and virtual platform users

11

HOURS/WEEK

Gen Z and Millennials respectively spend an average of 11 and 13 hours per week on gaming platforms (e.g., Fortnite, Roblox)

23%

GAMERS

About a quarter of the gamers take part in-game events, unique opportunity for brands and franchises

82%

GAMERS

82% of gamers attending live in-games make a purchase because of the event, both digital goods (65%) and physical merchandise (34%)

# The eras of customer-bank interaction: the innovation waves

According to the theory of "Creative Destruction" (Shumpeter, 1942), the business cycle moves under long waves of innovation. Markets go through a process of incremental development and, when it has reached its potential, they are disrupted by a radical change that shifts the journey of technological development forward. This trend is evident also in the analysis of the banking sector evolution. If we look at the banking path, it is interesting to notice how the interaction between customer and bank has changed following the technological development and a new innovation wave is expected in the near future. More in detail, it is possible to identify three main waves of customer-bank interaction related to **three main technological paradigms (EXHIBIT 4)**:

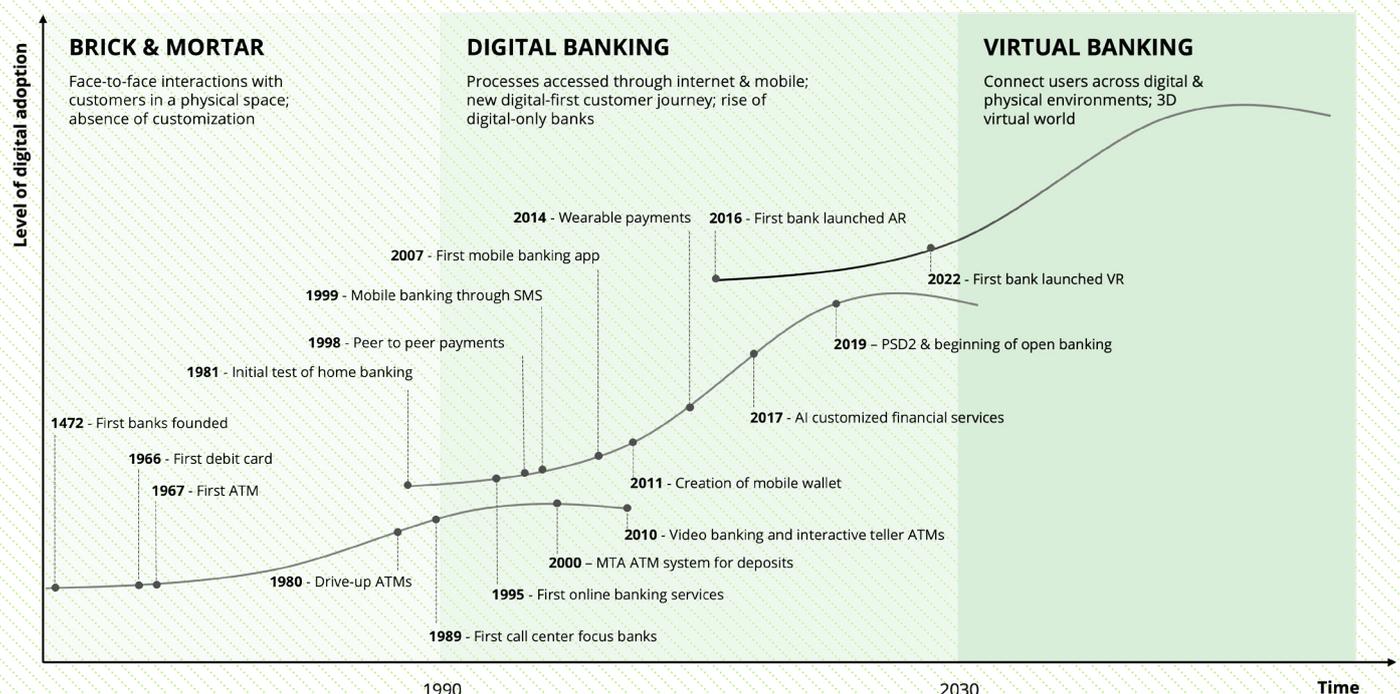
as mixture of physical and digital, it has just entered its early stage with expectations to reach a mature stage around 2030. Its potential future is not clear yet, but it will be defined by the efforts of banking players that are looking to remain relevant and new entrants

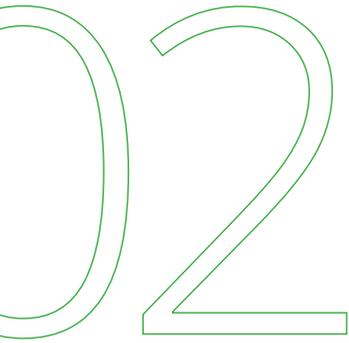
- **Brick & Mortar:** model adopted by all banks until 1990, focused on face-to-face interaction and technology as enabler of internal processes (progressive informatization from the fifties – e.g., debit/ credit cards). Today it has reached its digitalization maturity stage and is characterized mainly by limited and incremental innovation (branch layouts innovations – e.g., interactive teller ATMs)
- **Digital Banking:** industry transformation of the last 30 years and of the next future, characterized mainly by 2D customer journeys and virtual touchpoints (e.g., new experiences and services) enabled by internet & mobile technologies. Today this era is characterized by the launch of digital-only banks
- **Virtual Banking:** new step of the digital banking evolution

Focusing on "Virtual Banking" (the last wave of innovation), the disruption is brought by the so-called **"Extended Reality" (XR) technologies**. XR technologies are playing, and will play, the crucial role of enabler for the third wave of customer-bank interaction and can be divided in:

- **Virtual Reality:** technology that creates a simulated world around the user, replacing the physical world with a fully immersive digital experience. Virtual Reality is mainly experienced through headsets that simulate sight and sound
- **Augmented Reality:** where simulated and physical world co-exist. The user is still able to experience the physical reality, while virtual elements are superimposed on it. The best-known use of Augmented Reality was Pokémon Go, the 2016 mobile game by Niantic that was played by 71 million people in 2021 with \$1.21 billion revenue. It peaked at 232 million active players in 2016 (Business of Apps, 2023)
- **Mixed Reality:** where, like in Augmented Reality, physical and digital worlds are blended, except that the simulated item is fixed in the world and numerous users can interact with it at the same time. The most accomplished example for Mixed Reality is Microsoft HoloLens (Microsoft, 2022)

## EXHIBIT 4 – BANKING SPACE OF INTERACTION AND TECHNOLOGICAL PARADIGM EVOLUTION





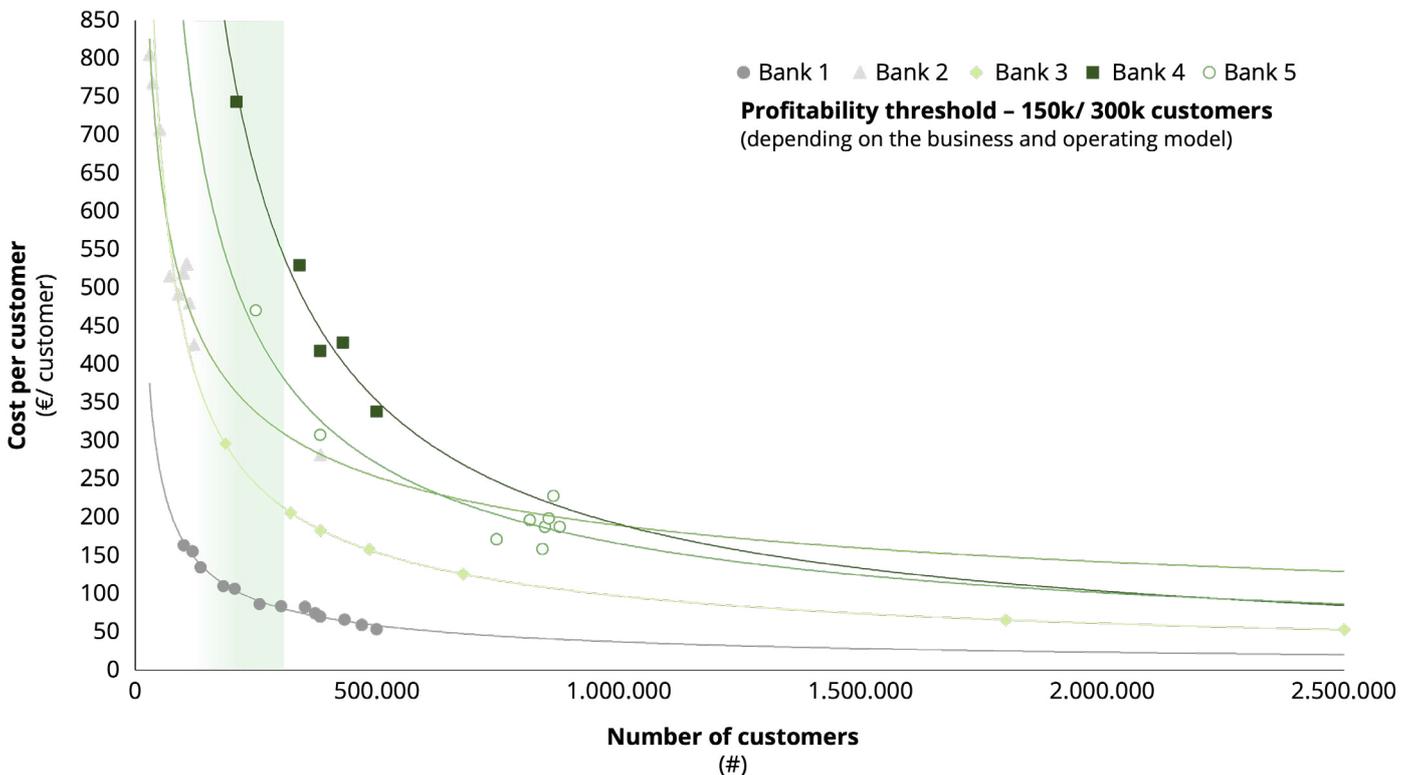
# How banks are addressing the digital challenge

**In response to the demand-side change of banking preferences and expectations, in the current stage of banking digital maturity (i.e., 1990-2030 digital banking paradigm), banks' digital channels are quickly moving beyond a simple channel to becoming the core of banking value propositions (Deloitte, 2021).**

Neobanks are the forefront of the digital revolution looking to succeed. Many of these players are only a few years into their journey and have not become profitable yet. To achieve

economies of scale and generate a payback they have to counterbalance their massive IT investments with a fast and significant customer base growth (e.g., in Italy the main neobanks all together present only 5-6 Mln of customers<sup>6</sup> - EXHIBIT 5) and with value generating services. For them, the critical success factor lies in the scalability of their business model (e.g., geographies, segments, offering) and their ability to evolve along the stages of the typical digital banking strategy (i.e., attract customers, diversify revenue streams, grow business portfolio - Monitor Deloitte, 2021).

**EXHIBIT 5 - DIRECT BANKS' COST-TO-SERVE EVOLUTION IN RELATION TO THE NUMBER OF CUSTOMERS**



<sup>6</sup>Monitor Deloitte analysis on market and proprietary data

**Banking in the digital arena: are we heading towards the Meta-Bank?**

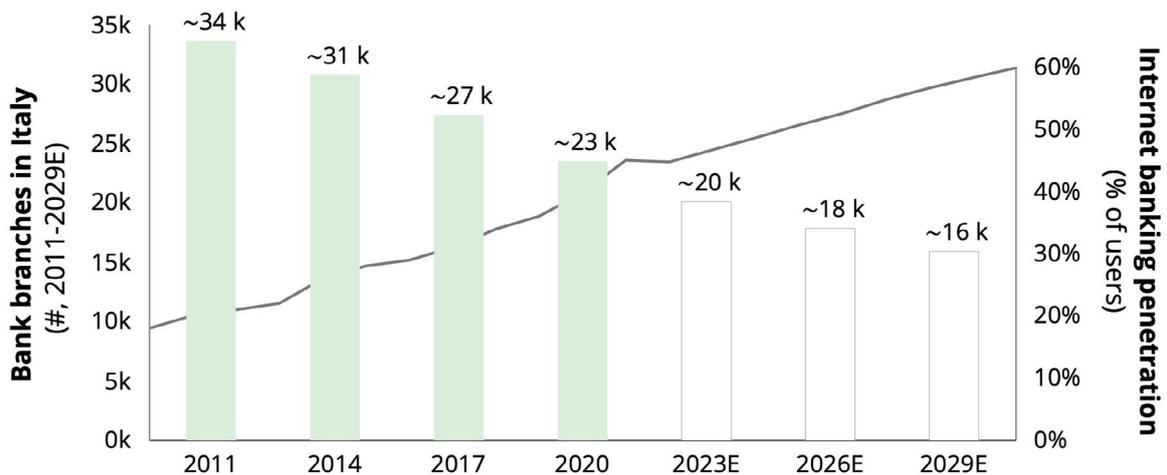
On the other side of the competitive landscape, incumbents are broadening their digital banking offering in terms of both products and services provided online (also monetizing on value-added services), achieving better performance. Our global digital banking benchmark (Deloitte, 2022) shows that "Digital Champions", banks with a large range of relevant digital functionalities with a distinctive omnichannel UX, present on average +1,5 pp of ROE worldwide. These digitally advanced players are not only capable of offering a more captivating proposition on banking, but they adopt "open" and "platformized" business models leveraging on partnership ecosystems to cover beyond banking untapped needs and reduce time-to-market (83% of Digital Champions have developed partnerships with FinTechs and third parties - Deloitte, 2022).

At the same time, digital players are undertaking a progressive streamlining process of the existing physical channels in

order to subsidize the digital transformation. In Italy, banks are balancing banking attractiveness and customers' digital maturity to optimize networks cost-to-serve and limit churn rates, acting selectively in specific areas (banking transformational level is directly connected to customer shift potential towards digital channels – EXHIBIT 6). The challenge in this case is to completely get over the way of working of the past decades, overcoming business model legacies (e.g., large branch networks, manual processes) and organizational inertia towards a digital lean service and operational model (typical of new entrants), developing a new value proposition and customer experience (CX). To face it in the quickest way possible, incumbents have launched or are in the process of implementing their "pure digital bank" offerings with the aim to meet new customers' needs and reduce costs, enabling core transformation.

**EXHIBIT 6 - ITALIAN BANKING NETWORK TRANSFORMATION<sup>7</sup>**

**ITALIAN BANKING FOOTPRINT EVOLUTION...**



**...IN LINE WITH DIGITALIZATION LEVEL AND COMPLEMENTARY INITIATIVES**

**Geographical pattern of digitalization level**

6x vs. Southern Italy  
1.5x vs. Central Italy  
4x vs. Southern Italy

Level of digitalization (2022)

**Monitor Deloitte Digitalization Index**

Microterritorial Index based on the EU Digital Economy and Society Index (DESI) indicators – e.g., human capital, connectivity, integration of digital technology, digital public services

**Complementary initiatives**

**DIGITAL AWARENESS PROMOTION**

Digital ambassador task forces, pricing models, loyalty programs, ...

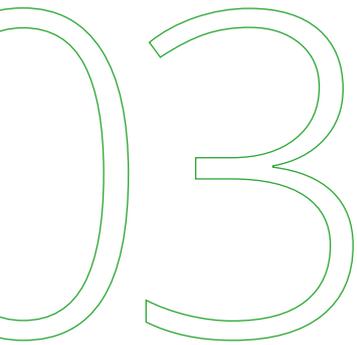
**COST-SHARING MODEL ADOPTIONS**

Shared hubs & ATMs pooling to optimize branch and machine costs, ...

**ALTERNATIVE NETWORK MODELS**

3° party channels for banking operativity – e.g., tobacconists, shops, ...

<sup>7</sup> Monitor Deloitte analysis on Eurostat and proprietary data



# The upcoming competitive arena: towards the Meta-Bank

**As institutions still look to address and overcome the digital paradigm shift, a new business space where to play and compete is unfolding thanks to technology advancement and is knocking at the door of disruption and innovation: "the Metaverse".**

The concept of Metaverse was first mentioned in Neal Stephenson's 1992 novel, "Snow Crash" and was described as the ultimate development of the internet – a type of Virtual Reality where any virtual interaction could directly impact the real world. In 2022 the venture capitalist Matthew Ball has defined it as **"a massively scaled and interoperable network of real-time rendered 3D virtual worlds that can be experienced synchronously and persistently by an effectively unlimited number of users with an individual sense of presence, and with continuity of data, such as identity, history, entitlements, objects, communications, and payments"**.

Today, Augmented and Virtual Reality use cases are growing exponentially in line with customers' behavioral shift. This, combined with the raising customer usage of blockchain-based technologies, is attracting more and more sectors thanks to strong market growth expectations. At the moment, blockchain and NFTs are the main technologies enabling interoperability in virtual worlds. They allow users to own and transfer digital assets and data from one world to another (in form of a NFT), in addition to the possibility of performing transactions, creating their own assets and being present in the virtual world using a form of digital identity such as avatars. This is particularly important considering the relevant growth that the social commerce market is going through reaching sales expectation of more than \$1 trillion within 2023 (Deloitte, 2022). Indeed, the interconnection that has characterized social networks so far is changing, giving more space to online shopping and one-to-one advertisement, with the Metaverse representing a further step in this evolution. However, despite the relevant attention towards Metaverse, the new digital paradigm has just entered its early stage and it is still far from the peak of the wave, where technologies reach their sweet spot and companies battle to secure their position in a new-trending technology. Indeed,

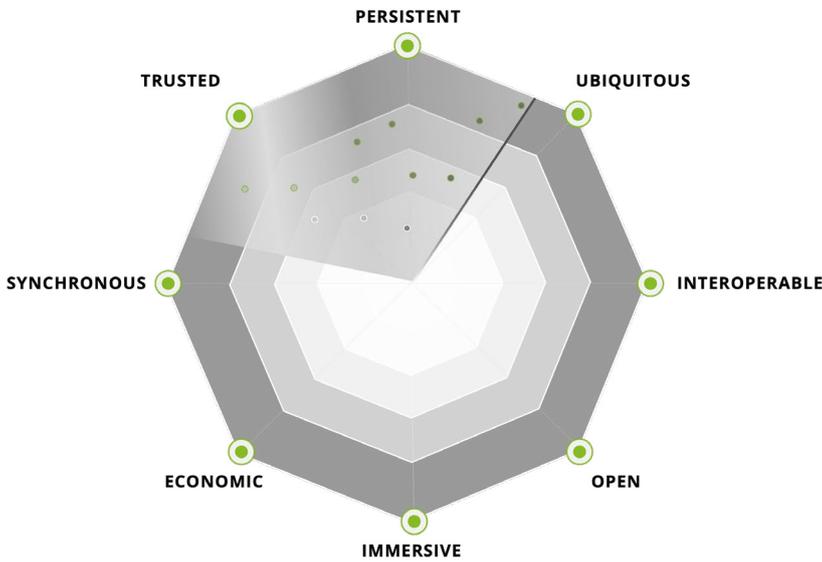
Metaverse is expected to reach a mature stage around 2030 (with a global annual GDP impact in the range of €1.6-3 trillion by 2035 - Meta, 2023), with the development of an affordable, wearable device (e.g., smart glasses - in this sense Meta and EssilorLuxottica have already launched the new Rayban Stories, while Apple is expected to launch in 2023 its Apple Reality Pro) that will make the Metaverse easily accessible for all users.

Why act now? Today's context gives corporations the right amount of time to act as thought leaders within the space, create partnerships with facilitators and build offerings as Metaverse technologies progress. Soon, Metaverse digital adoption, and its role in daily life, will be enabled by technology advancement in the same way as smartphones evolution boomed internet usage. At the moment we can only see "Miniverses" (e.g., meeting spaces), but in the future, through investments of tech giants like Apple, Meta and Samsung, we will see the potential of "the Metaverse economy" (e.g., pay, own and consume in a Virtual Reality). To identify the strategic choices to pursue and understand which sustainable investments to make in order to generate value in the short/medium term, it is critical to figure out how customers' needs and expectations will evolve. In order to support this process, **Deloitte's Metaverse Transformation Engine, a uniquely multidisciplinary offering to assist clients in understanding and navigating the Metaverse ethically, developed the "Deloitte Radar"**, a tool based on the 8 dimensions that define the Metaverse, to help clients assess, understand and generate value. (EXHIBIT 7).

The Deloitte Radar has the aim to identify which initiatives are truly applicable in the Metaverse space, looking at what exist in the real world than can be brought to the virtual one (something than can be done better or in a different way) or that do not exist yet and that can be enabled in a virtual world. Nowadays, industries present a different level of "Metaversability" related to the number of potential use cases applicable in the short term and their relative value (EXHIBIT 8). Looking at the European market, it presents relevant growth expectations itself as the second largest market in the world<sup>8</sup> with engineering and retail industries leading the way.

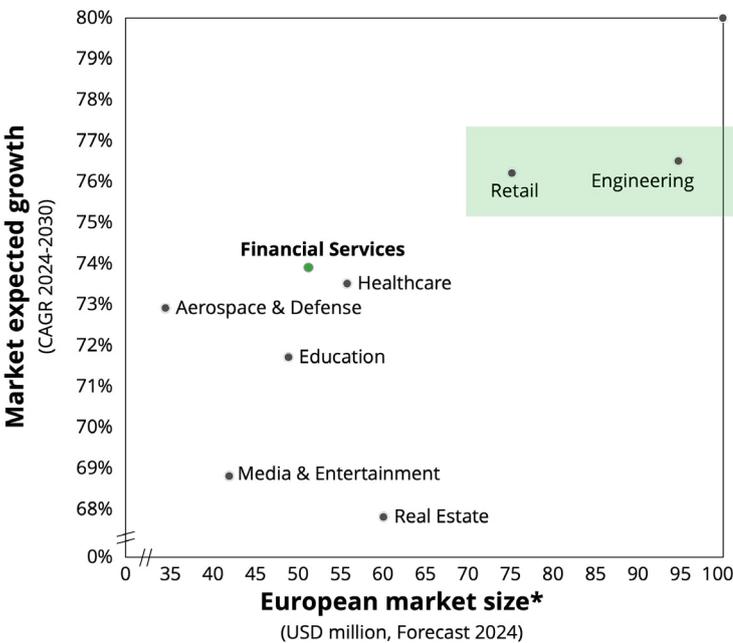
<sup>8</sup>European market accounted for 28% of global Metaverse market revenue in 2021 and it is expected to grow with a 40% CAGR between 2022 and 2030 (Grand View Research, 2022)

**EXHIBIT 7 – DELOITTE METAVERSE FRAMEWORK: THE DELOITTE RADAR**



- PERSISTENT:** continuity of the experience
- UBIQUITOUS:** physical and digital
- INTEROPERABLE:** transfer across worlds
- OPEN:** individual agency for all
- IMMERSIVE:** more than today's internet
- ECONOMIC:** functioning economies
- SYNCHRONOUS:** in real time
- TRUSTED:** secure environment

**EXHIBIT 8 – METAVERSE MARKET: SIZE, GROWTH AND USE CASES**



\*Including only specific metaverse related technologies and applications (e.g. gaming, shopping, content creation)

**Use Cases**

**Engineering – European Automotive OEM**

**Augmented Reality Prototyping**

A European Automotive OEM uses an Augmented Reality engineering space, based on the use of data goggles, to verify assembly processes at an early stage and adjust them for series production

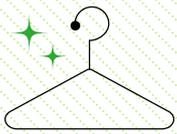
**Retail – Spanish Fashion & Luxury Brand**

**Virtual Outfits Design and Sale**

A Spanish Fashion & Luxury Brand has designed four virtual outfits (or “skins”) that players can purchase through Fortnite, alongside accessories, weaponry and a virtual destination in-game (complete with a store)

# First Metaverse use cases in Italy

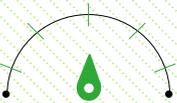
In Italy, although the Metaverse market is still at its infancy (first cases emerging in 2021), some companies and institutions have already set foot in the Metaverse landscape leveraging on virtual ecosystems in different industries. More than 1.4 million of Italians access virtual worlds every day and more than 60 Metaverse related projects are carried on by Italian companies. Numbers that are going to grow even more with €6.1 billion allocated to digitalization in Italy's National Recovery and Resilience Plan and expectation of Metaverse economic impact of around €28-€52 billion by 2035 (Meta, 2023).



**Retail – Luxury Fashion:** several luxury brands have joined the Metaverse with their online experience, collections or directly investing in AR/ VR technologies. Bulgari has opened in the Asian Metaverse platform "Zepeto" its pop-up store to allow customers to discover the latest products of the boutique and have fun participating to Bulgari's virtual games and events. Gucci has collaborated with the Metaverse shop "10 KFT" to launch Gucci's NFTs collection. Fendi, with its "Hand in Hand" project showcased at Viva Tech 2022, promotes the Italian artisans' craftsmanship allowing visitors to experience their hand movement through a digital experience



**Education & Research:** early applications of AR/ VR technologies are transforming education in Italy, as students and professionals can live new, immersive experience: learners can put a foot into completely different worlds living particular moments in history or exploring space, training for difficult conversations or danger situations. Looking at the academic world, Federico II University of Naples is the first Italian university to experiment the Hybrid Learning Spaces by Hevolus Innovation and Microsoft while Politecnico di Milano has recently signed a partnership with Meta to explore risks and opportunities of the Metaverse. Furthermore, thanks to the grants provided by the PNRR, a boost in the experimentation of Metaverse technologies in the field of education is expected in 2023



**Automotive:** Italian luxury car makers have joined Metaverse in different cases with different initiatives. Ferrari is experimenting a product preview with the release of the 296 GTB model to the Fortnite community, who got to try it out first for a test-drive in the battle royale arena before its physical debut. Lamborghini, on the other hand, created its tour-themed NFT collections offering, via Metaverse, an exclusive tour of its iconic headquarters in Italy to its collectors across New York, Japan, and Dubai



**Food & Beverage:** also food and beverage brands are entering the Metaverse aiming to promote their products and provide customers with immersive experiences from long distances. Consorzio del Prosciutto San Daniele has created a virtual ham seasoning room, that customers can visit with an avatar, where the productive process is explained. Ente Fiera Internazionale del Tartufo Bianco d'Alba, in collaboration with Hevolus Innovation and Microsoft Italia, has developed a Metaverse that consumers can navigate with an avatar getting to know the excellence of the Alba white truffle through a phygital interactive experience (e.g., description of searching areas, detection and extraction techniques, gourmet cooking shows). Maia Wine, producer of soft luxury sparkling wine, has created a collection of unique bottles certified with an NFT that customers can purchase/ sell in the Metaverse, gaining also access to exclusive community events



**Media & Entertainment:** Italy has experimented Virtual Reality in cinema and sporting events through a gamification-focused experience. Rai Cinema has partnered with The Nemesis, the platform made by Alessandro De Grandi, to create a virtual space with the possibility to watch free film content, experience streaming events and interact with posters and iconic cinema objects for an exclusive and immersive experience. Serie A has been the first major soccer league to broadcast a live game in the metaverse, bringing AC Milan-Fiorentina match to The Nemesis platform in the MENA region

**Banking in the digital arena: are we heading towards the Meta-Bank?**

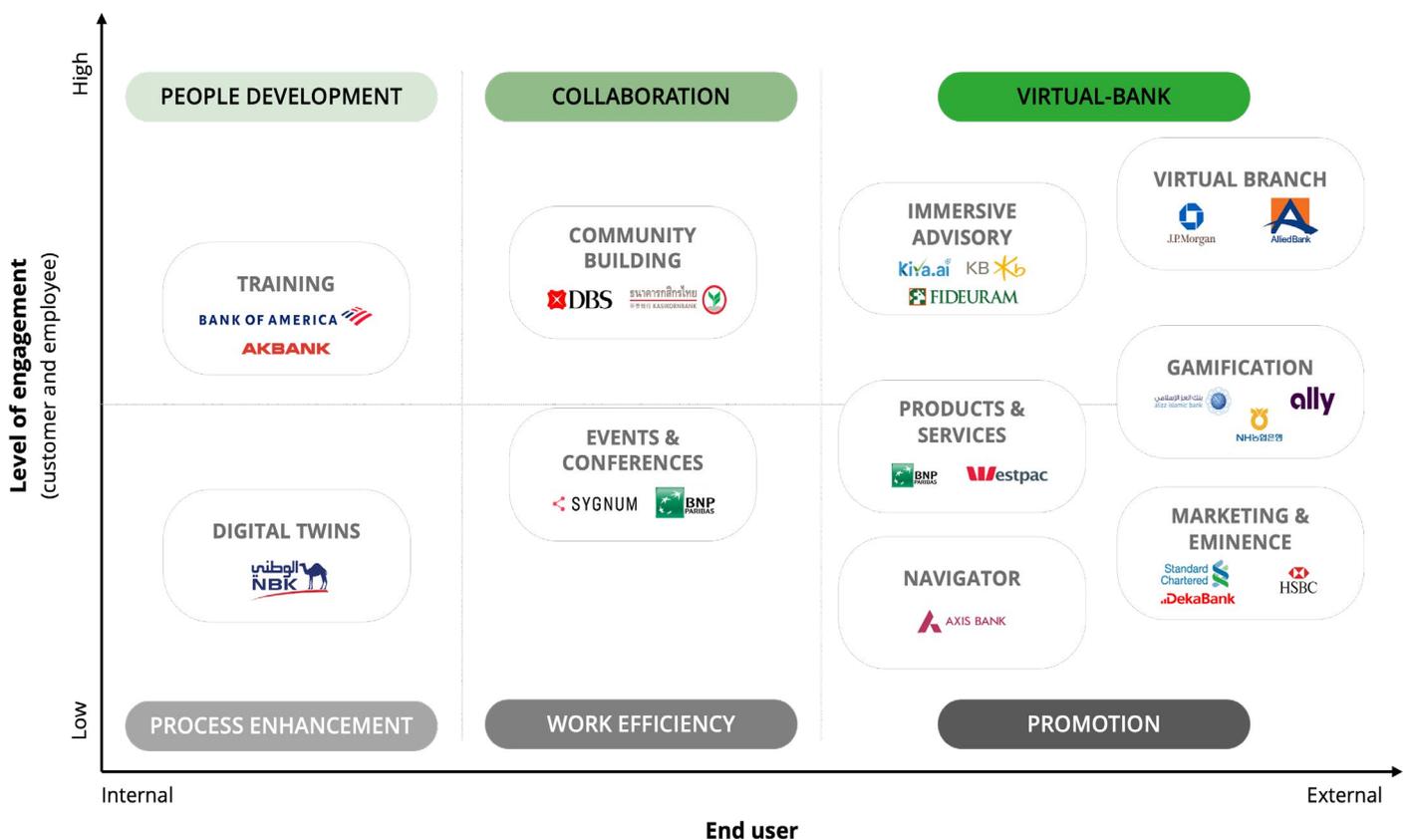
Focusing on Financial Services, there is a high probability that the sector and the role of banks will be impacted: transactions and other financial operations, as in all other ecosystems, will be a crucial element of Metaverse interactions (e.g., virtual purchases, P2P exchanges, digital asset ownership). While exploiting the new potential of Metaverse technologies and Web3<sup>9</sup>, traditional banks should start considering what their role will be in the digital world in order to avoid disintermediation by "Meta-FinTechs" (FinTechs competing in the Metaverse). They must be able to mix real and virtual together, offering products and services for the real world through virtual channels (e.g., traditional mortgage proposed in VR), but also providing solutions for the Metaverse itself (e.g., virtual mortgage for a virtual land).

Augmented and virtual applications for the real world are vast and such are the strategies that can be pursued, from the ones to improve operating processes, to those to enhance customer experience, going through the ones focused on brand awareness. In order to analyze the different types of strategies, **EXHIBIT 9** shows a matrix based on two variables ("level of engagement of customers and employees" on the vertical axis and "type of end user" on the horizontal axis), that has been used to map the different use cases observable in the market.

The analysis identifies ten different clusters:

- **Virtual Branch (Virtual-Bank)** – develop branches in the Metaverse space that could have the same functionalities of a bank in the virtual world. JP Morgan announced to be the first bank to open a shop in the Decentraland platform, by leveraging their internal blockchain unit Onyx (Forbes, 2022). Similarly, Allied Bank opened a virtual branch, accessible with VR technology, where customers can perform common banking operations (Allied Bank, 2022)
- **Immersive Advisory (Virtual-Bank)** – provide advisory service in the Metaverse through XR technologies. Fideuram Intesa Sanpaolo private banking created, in collaboration with Armundia Group, the first Italian demo of banking Metaverse, with customizable avatars, 3D charts and other features (Armundia Group, 2022). South Korean Kookmin Bank partnered with Sharebox to launch a VR Branch Testbed, offering its customers the opportunity to meet their advisor avatar in a virtual branch (Yahoo Finance, 2021). Kiya.ai's "Kiyaverse" platform tries to merge real-world banking with Metaverse banking through an avatar, virtual humanoid, based interactions (Kiya.ai, 2022)

**EXHIBIT 9 – METAVERSE INITIATIVES BY LEVEL OF ENGAGEMENT AND TYPE OF USER**



<sup>9</sup> Web3 is the new, blockchain-based web that includes cryptocurrencies, NFTs, Decentralized Autonomous Organizations (DAOs) decentralized finance, and more, and in which users have a financial stake and more control over the web communities they belong to (Harvard Business Review, 2022)

- **Gamification (Virtual-Bank; Promotion)** – combine the power of VR with gamification to develop brands and products, increasing customer loyalty and engagement. Ally Bank launch "The Ally Big Save", an AR driven game that challenges consumers to think critically about their savings goals through the visualization of a virtual dollar drop (Qorus, 2018). In Italy, Intesa Sanpaolo launched in 2022 the "Metaverse Arena" on Roblox, a gamification experience dedicated to Gen Z to promote a conscious use of web during the Milan Games Week & Cartoomics (Corriere della Sera, 2022)
- **Products & Services (Virtual-Bank; Promotion)** – innovate and drive new/ enhanced market offerings, like including new AR/ VR functionalities in the account management operations to improve the CX. Westpac Bank in New Zealand has introduced an AR engagement feature for customers who wish to navigate their current balance, rewards and more through mobile phone cameras (Westpac Bank, 2019). Poste Italiane at Netcomm Forum announced its intention to begin its path towards the Meta Payment, a new invisible way of paying for purchases in virtual ecosystems (TGPoste, 2022)
- **Marketing & Eminence (Promotion)** – use the Metaverse space as a brand embassy to increase customer retention and acquisition. HSBC (Qorus, 2022) and Standard Chartered (Standard Chartered, 2022) have formed partnerships with The Sandbox to create innovative brand experiences for new and existing customers. DekaBank aims to reach the same goal by locating a building, the "Dekaverse", in Decentraland (Deka Investments)
- **Navigator (Promotion)** – improve CX with an easy-to-implement solution, supporting customers to find the nearest ATM/ Branch. Axis Bank of India enables clients to look for the closest ATM or bank branch, combining AR with its mobile banking application, useful for when in unfamiliar cities (Bloomberg, 2016)
- **Community Building (Collaboration)** – build community of customers and employees to interact and discuss social matters. DBS announced a partnership with The Sandbox to create "DBS BetterWorld" (DBS, 2022), an interactive Metaverse experience showcasing the importance of building a more sustainable world
- **Events & Conferences (Work Efficiency)** – organize virtual events and conferences across different locations without physical presence. BNP Paribas is launching the possibility to hold teleportation meetings in five locations: Hong Kong, Dubai, London, Frankfurt and Paris (BNP Paribas, 2019)
- **Training (People Development)** – provide immersive training through VR headsets to employees aimed at developing the skills needed to grow their careers and fulfill all customers' requests, realizing an effective and scalable technique to improve commercial performances (using VR, learning retention rates are close to 75%, compared to just 5% for lectures according to Meta). Bank of America announced in 2021 the launch of dedicated trainings to nearly 4k financial centers to strengthening, and deepening relationships with customers, learning how to navigate difficult conversations, listen and respond with empathy (Bank of America, 2021)
- **Digital Twins (Process Enhancement)** – support the design of new branches, leveraging on digital twin, through the simulation of environments. National Bank of Kuwait has recently started utilizing VR to improve the overall degree of alignment between new customers' needs and actual branch layout, generally improving the effectiveness of the design process (The Financial Brand, 2021)

These first applications are only the beginning of a greater journey towards more transformative changes enabled by the Metaverse where banks have to improve customer experience (in particular for specific segments) and understand the shift from the real economy to the virtual one in order to compete also with non-traditional players. Indeed, looking at Metaverse financial solutions for virtual worlds, the players that are shaping the competitive landscape right now are new entrants: Zelf<sup>10</sup> offers regulated services for transferring valuable in-game items between players, TerraZero<sup>11</sup> provides "Metaverse mortgage" to clients buying virtual real estate, Uno Re<sup>12</sup> aims to protect against any potential vulnerabilities that could affect assets in the Metaverse. In this context, a key success factor lies in the ability of players to evolve their offering from intermediary to advisor, generating a differentiating factor in a scenario increasingly characterized by decentralization and where a simple intermediate role is not enough anymore. Meta-Banks can expand their range by offering guidance to customers on where and how to invest but also helping them create and manage their Metaverse investment portfolio.

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<sup>10</sup> Web3 bank with the mission of "turning digital loot into digital money and vice versa"

<sup>11</sup> Start-up with the goal of expanding the reach and accessibility of the Metaverse

<sup>12</sup> Decentralized insurance and reinsurance platform on the blockchain

# The banks' path towards Meta-Banking in Metaverse economy

With context and economy undergoing a serious evolution towards digital, Web3 and Metaverse, financial service players need to find their way to navigate through the digital paradigm shift and find their role in tomorrow's market. Banks need to face the competition of digital-native new entrants that are reshaping the market with innovative offerings and business models. To result relevant in the Metaverse economy, banks must meet the evolving customers' needs of buy, own and consume, that are moving from the real to the virtual economy. To do this, they should undertake a path (**EXHIBIT 10**) that can be summarized in three main steps:

**1. Intermediate the shift from real to virtual economy:** understand the technologies and the potentialities underling the Metaverse, adopting new channels to connect with clients (advice and build relationships virtually) and testing the virtual world by serving "ordinary" banking needs in the virtual economy in order to avoid new players disintermediation and enhance what banks do today

**2. Enable the Meta-Bank in the Metaverse:** develop new business models and design products/ services that directly target the Metaverse in order to create opportunities to reach new digital-first customers (e.g., younger NFT-savvy generations) and win a piece of the new virtual economy potential (e.g., exchange of fiat currency into crypto-currency and vice versa, mortgage for virtual land, insurance against cyber-attacks)

**3. Imagine and shape the future of Meta-Banking:** contribute to define and manage a world that does not exist yet, finding new ways to build trust, construct communities and create products/ services still unthinkable today that will define the role of the Meta-Bank in the virtual economy ecosystem

## EXHIBIT 10 – BANKS' PATH TOWARDS META-BANKING



### INTERMEDIATE THE SHIFT FROM REAL TO VIRTUAL ECONOMY

**Enhance** customer and employee **experiences** through **new** AR/ VR **channels** and adopt **new ways** to **engage** clients



### ENABLE THE META-BANK IN THE METAVERSE

Create **opportunities** to reach new digital-first customers, developing **new business model/ services** targeting the **Metaverse**



### IMAGINE AND SHAPE THE FUTURE OF META-BANKING

Find new ways to build **trust**, construct **communities** and define the role of **Meta-Banks** in the new ecosystem

# 04 Taking action

**Nowadays, it is generally accepted that the physical proximity concept of banking is long gone and has been replaced by a more progressive "digital-first" way of banking.**

As next-gen technologies develop and mature, they enable new experiences that can optimize workflows, improve safety, and increase revenue. Financial players' long-term sustainability relies on their propensity to embrace the upcoming change, their strategic choice definition and roll-out process. Failing to address the new challenges and being passive towards digital transformation could translate into a significant loss of market share towards FinTechs, Digital Champions and Metaverse players.

What banks have to ask themselves now is: how can I address the Meta-Bank paradigm arrival? To face the challenge, banks should take actions working on:

- **Active learning:** the Metaverse is essentially a new technology-driven revolution in society with deep influence; to embrace this change, banks should understand its full scope before seeking opportunities in the Metaverse
- **Challenge the status quo:** question the current strategy and business model, understanding the potential opportunities that the Metaverse can generate
- **Treat the Metaverse as an advanced digital transformation:** businesses that want to empower themselves with Metaverse technologies and models can consider this part of their overall digital transformation an intelligent upgrading
- **Focus on business model innovation based on core competitiveness:** companies that want to enter the Metaverse market to develop innovative businesses should explore the Metaverse value chain to find a link in that chain that fits their existing capabilities
- **Build an ecosystem:** Metaverse technology is becoming increasingly precise, and demand for application scenarios is expanding; banks must build ecosystems around their core competitive advantages to provide customers with integrated application scenarios and solutions
- **Avoid risk:** act according to national policies, protect data and secure networks to prevent threats in the new economy

05

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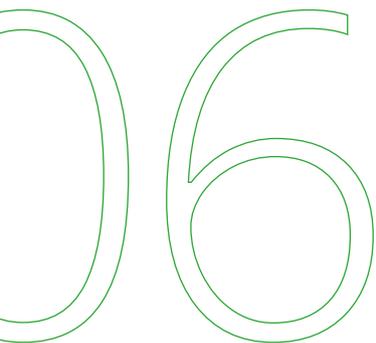
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