

Baring's Web 3 Trailblazers Podcast

Unpacking the metaverse for financial services

Anna Orriss-Baxter, Baringa: Welcome to our Web 3 Trailblazers podcast with me, Anna Orriss-Baxter. This is the forum for exploring the evolving technologies of Web 3 and the true nature that the Web 3 movement will have on financial services. Today's topic is how the metaverse will transform customer journeys, an exciting look into a brave new world of Web 3 services. I'm really pleased to be joined today by Nathalie Oestmann from Outlier Ventures and Sanjana Sankaran from Baringa. Thank you for coming together to discuss this topic. Let me first come to Nathalie to introduce yourself and tell me about your interest in Web 3.

Nathalie Oestmann, Outlier Ventures: Thank you very much for having me here. My name is Nathalie Oestmann and I am the Chief Operating Officer at Outlier Ventures. We are a Web 3 focussed accelerator. We have over 220 companies in our portfolio that are exclusively Web 3 companies. So that's really what our focus is. We focus on metaverse innovation and crypto innovation broadly.

Anna Orriss-Baxter, Baringa: Brilliant, thanks, Natalie. Great to have you with us. And now if I can come to you, Sanjana. Can you introduce yourself and your interest in Web 3, please?

Sanjana Sankaran, Baringa: Thanks. Great to be here. My name is Sanjana Sankaran and I am an expert in Baringa's banking practice with a specialisation in retail and commercial banking strategy. I've helped global banks and financial institutions in Asia and the UK shape, implement and iterate their strategies at the intersection of business and technology. So I have a personal interest in Web 3 applications and financial services with a focus on the customer experience and journey and how Web 3 can fundamentally transform the way we pay, interact, play and transact. So really excited to be here and to start the conversation with you both.

Anna Orriss-Baxter, Baringa: Thanks, Sanjana. Really excited today actually to be talking about the metaverse. It's not something that we've previously talked about and it is a really, really interesting phenomenon. It's something that isn't automatically associated with financial services. Nathalie, it was great to hear in your introduction about Outlier Ventures, this global venture accelerator, but really focusing on both Metaverse innovation and the emerging crypto services. So be great to start with for some of our listeners who might be less familiar with these topics, how would you actually summarise what Web 3 is and more specifically the role that the metaverse plays in that?

Nathalie Oestmann, Outlier Ventures: Look, Web 3 is being touted as the next version of the Internet. I was lucky enough to be around for the Web 1, which is what we're now calling it, which is basically we were putting magazines online. I was doing that in a digital agency for the likes of Tommy Hilfiger and other magazines. You were reading them like you were reading a magazine, that was Web 1. Web 2 started

coming around after that. That's where these social interactions were happening, where you could read, but you could also write. You could contribute to the Internet. So, this is where social media started to flourish a little bit. Also, e-commerce started to flourish more, but now it's really about can you own...do you own your data? Because I think a lot of us are frustrated that we are the content on the social media websites and there's starting to be a bit of a backlash to that for those of us that aren't influencers. And so this is really about ownership and transferring that on to something that is decentralised and not having these large central, you know, behemoths owning everything and all of our data. So, a lot of our projects are about moving that into a new digital environment, which I would then start calling the metaverse. It's just a new environment that makes the Internet more interactive. And I think we have a way to go there and we can discuss that. But that's kind of where we're going in Web 3.

Sanjana Sankaran, Baringa: Yeah, I agree with everything Nathalie has highlighted and actually with an FS lens, coming with the financial services background. In financial services, we're witnessing a wave of what I want to call creative destruction in the sense that institutions are evolving products and services to be hyper personalised and centered on the lifestyle of the customer. Within that we want customers to have ownership. We want decentralisation. We want the power of authority and control of digital assets all in the hands of customers. And so I think the exciting thing about this is that there's so much left to be defined in Web 3 and in the concept of metaverse.

Nathalie Oestmann, Outlier Ventures: Focusing on the payments part. And I guess I should have put into my introduction, I am a payments person by background. You know, it's really about this decentralisation. How can you move money around in a different way. Again in financial services, large centralised behemoths are there and if you want to move currency from country to country, you have very few options. You have the SWIFT network that connects banks around the world. Again, that's about interoperability around the world. You also have some money transfer type options, or some very expensive money movement options. These aren't great options to move money. And so the Web 3 environment, building off of the blockchain, this DeFi environment provides a global alternative to money movement, which I think is super exciting and interesting, not something that all financial services institutions are going to be jumping up and down and saying, I want a piece of that because they can't have a piece of that. But it is something that financial service institutions can carve a place for themselves, for sure.

Anna Orriss-Baxter, Baringa: Yeah, I completely agree. And you're speaking the right language on this podcast because we're very interested in payments and some of the key opportunities that Web3 can bring. Certainly moving away from some of the legacy rails and architecture that that actually is not necessarily that efficient with Web 3 technology can truly change that that whole customer experience. Bringing it back a little bit to the metaverse and how the customer interacts with the technology and the services and products that they're trying to use, would be good to just probe a little bit more on how you think this phenomenon came about. I know we've talked

about ownership of data and talked about decentralised aspects. What's the real kind of value opportunity you see in investing in this market?

Nathalie Oestmann, Outlier Ventures: I think what's really important to understand is that there is a lot of investment coming into the metaverse or into Web 3. A lot of it is around this aspect of this phygital world. Phygital is a new term, right? It's a physical asset that could be turned into a digital aspect. It's also building off of the blockchain. It's why I'm here. It's about the technology and all of the new things that we can build. But what we're seeing is investors are expecting that this is going to be the new growth area. There is a general consensus among investors that there is value now that will be created in this phygital world in the metaverse.

Anna Orriss-Baxter, Baringa: Yeah, it'd be great to move on to that because actually I think a lot of perception of the metaverse is kind of, meta headset. It's the gaming world and some of the media use cases like concerts and sporting events. But as you've touched on with things like payments and broader financial services, there's ways here that it'd be interesting to explore how the metaverse can really transform how do customers bank transact, pay, how they can interact with today's products and services within the financial services world.

Nathalie Oestmann, Outlier Ventures: Yes, I mean, one of the points that I should also make reference to is the fact that there's an estimate out there that there's about 15 billion in capital available for Web 3 right now. That's a lot of money to invest in this new technology. So, I think we're seeing signs of a fund being launched every other week despite the economic conditions that we're in right now. So, I do think that there's a lot that's happening right now, and we're seeing more and more interest and studies being done across the gamut. But in terms of the paying and transacting and all of that, I mean, let's take a step back. I made reference in a LinkedIn post to McKinsey Study, CEO Guide to the Metaverse, a couple of weeks ago. And there they did a great analysis about what the market impact would be. Right. And they came up with a number about 2 trillion to 2.6 trillion of e-commerce by 2030. That's huge. You know that could be spent in the metaverse or Web 3. And they broke it down into different categories, you know, academic virtual learning, advertisement, gaming, e-commerce. So, there's a lot of things that are happening there. For me, a couple of the areas that I think are interesting from a financial services perspective today is when you're doing all these things and you're seeing this kind of value being exchanged. Well, it's happening on the blockchain, right? It's all going to be in cryptocurrencies. You need to be in it in order to participate in it, in a way. I mean, we might have some two crypto exchanges, but actually having some of this global or these crypto assets available for you to purchase things is something that I would think all financial institutions should consider. We all know that in in in the UK and many other jurisdictions they're looking at a central bank digital currency. The UK has just started to talk about that a couple of weeks ago. They plan to launch one by 2030, maybe it'll be by 2040, I don't know. But that's still not that far away, right? That's 10-15 years from now. And I do think that that will be a reality and that will be something that is government backed, well-regulated, safe. And we don't always think about that in this volatile asset class right now. And it will be on the blockchain

and it will be available in order to do these things that will be all on the blockchain with tokens and tokenomics and weigh a different economy that's being built out of this. So, I do think it's very important for banks to consider this because if the UK central bank is thinking about a central bank digital currency, then wouldn't the banks want to participate in that with their currencies as well with their customers' accounts and facilitating that.

Anna Orriss-Baxter, Baringa: Absolutely. And that comes back to one of your earlier points around interoperability. And I think I've been really excited following some of the pilots that Swift have been doing and their experiments working with different banks and central banks, looking at actually how could these CBDCs work in that global environment that Web 3 really does help to facilitate.

Sanjana Sankaran, Baringa: I think I'd build off of what both of you have highlighted and say that the uptake of things like NFTs, crypto, CBDCs, have all accelerated the potential and interest in what can be done in the metaverse in the financial services space. And you're already seeing in the space firms like Fidelity, JP Morgan, American Express, experimenting with use cases in the metaverse. So, one example that I came across, which is really interesting, is JP Morgan has actually built a digital lounge on a virtual platform similar to the metaverse, they've called it Decentraland, funnily enough. And it's actually a pilot to understand the metaverse functioning and how they can provide financial advice to their clients in this kind of brave new world of the metaverse in the future. So, we're already seeing that uptake and interest from players in the financial services space. I imagine there's only more to come in the coming years with investment trends.

Nathalie Oestmann, Outlier Ventures: Absolutely. I mean, we're seeing Visa, MasterCard are also coming out with things. You know, MasterCard has just announced that they're doing artist NFTs for the music. They're doing that with Polygon, which is a very well-known player in the space. And so, you know, there's just a lot of movement. I think a lot of people are experimenting on a smaller scale so that they start to get used to this in preparation for what we expect will be much larger scale adoption.

Anna Orriss-Baxter, Baringa: And it's interesting that you've both brought up NFTs, or Non-fungible tokens, for any of our listeners who are less familiar. These are one of the key aspects of Web 3 that gets a lot of airtime, I would say, in the media. They're also a big factor in Metaverse transformation. Would you be able to just describe for our listeners what NFTs are and how this technology will enable the metaverse to transform how customers interact with goods and services? I know you said a couple of examples, but it'd be great to hear a little bit more about these.

Nathalie Oestmann, Outlier Ventures: I mean, the official kind of nerdy definition is a nonfungible token. It's a cryptographic asset which sits on the blockchain, and the blockchain is a distributed public ledger that records the transaction. So, the way I would translate that for my dinner party conversation to my friends that aren't in this techie world like me, I would basically say, it's anything that's digital and you're giving

it a unique identifier and you're putting it on a distributed place like nodes on the Internet and you own it and it can't be copied or subdivided and you can sell it. And it's a really neat way of keeping that ownership in a very safe place for you.

Anna Orriss-Baxter, Baringa: I might steal that definition, to be honest. I was at an NFT exhibition at the weekend with my husband and was trying to explain and it's not the easiest to define in layman's terms. It's that kind of certificate of ownership, that unique immutable characteristic is really key here. But it is so broad what can actually be included as an NFT.

Sanjana Sankaran, Baringa: I'll add to that and say that the reason why NFT might be an incomprehensible term to many is because several of the use cases that we've seen today are primarily in the digital asset space with use cases in digital art and real estate widely recognized. Having said that, Nathalie referred to the concept of ownership and you refer to the concept of immutability. This is going to be essential in defining use cases for NFT in the financial services space and in the context of the metaverse. So, all really important principles that will be the linchpin in kind of the metaverse economy.

Nathalie Oestmann, Outlier Ventures: So, should we use some examples just to explain how it could be used in a financial context? Because a lot of people just think of these board apes and, you know, questionable art sometimes and beautiful art at other times. But then, I've bought some NFT art and then my daughter copied the picture and she said, I stole your NFT art and you know, she wasn't quite wrong. Anybody can copy a digital asset. It's not about that. So, I can understand why NFT sometimes have some negative hype because the understanding is not there. On the art side, just like a painting, you want the original or you could have a copy, you know, that's the same concept. But let's move away from that art discussion and move into a discussion like gaming, or I can use a discussion about influencers who make money when they're putting things on social media. But I think the gaming one is a really interesting one. We all know that there are billions of users, really billions of games, online games. It is a huge industry and there are few games that really start to come and have prominence and they are usually multi-user player games. But one of the concepts is play to earn. You know, how is it that you can use your character in order to earn money for doing this? Now it's through tokens. And so you're sitting there playing the game and you could be attaining tokens as you reach certain levels that could have a value to them. Your avatar is a digital persona of yourself, and so people are now starting to want that online persona of themselves to dress in a certain way. And you combine the NFT of a Gucci outfit, let's say, if you wanted to dress your avatar in a certain way. You can then sell that, let's say you've used it enough and now you want a new outfit. You can sell that NFT to somebody else and they can put it on their avatar. These are ways that there's a second economy that's happening. What we're seeing is high fashion designers are starting to turn on to this. They can they sell these digital goods online, they're not that expensive. And they can start to see trends that are happening. You know, who wants to buy the half baseball hat or whatever it is that they might be selling? That might be a new trend and then they might create that physical good for that as well.

But you can actually see where if you're advanced enough, you can start thinking about your market research in a different way. You can start seeing trends a lot earlier. You can understand what's being picked up. You can have your physical good matching your digital avatar. So, it brings some new and exciting ways of innovating and discovering into the force. So, I find that's really interesting for NFT.

Sanjana Sankaran, Baringa: I think that was extremely insightful, Nathalie. And a question that comes to mind is how do we bridge the current phygital world that we live in, or the Web 2 world as we've been referring to it, with the metaverse. I'd be curious to know your perspective. How do we bridge both worlds together in the interim?

Nathalie Oestmann, Outlier Ventures: So, the first thing I would say is those things I just talked about are actually happening today. What we're seeing in our portfolio of companies, we do support a lot of companies that are bridging this gap. Well, the first step is how do you turn your Web 2 marketplace into a metaverse marketplace? I think we still have a way to go before we enter these metaverse malls or metaverse commerce places. But I do think we will end up there as a community base or something. You know, there will be lots of different reasons why we might be in a metaverse. But what we're seeing is a lot of companies that are making it easy for Web 2 companies to enter Web 3. So, they take away all the difficulties of what's underlying and all of this blockchain stuff that could be quite complicated. And who am I supposed to use and what technology, what language, you know. So, they're trying to do that. They're also trying to turn 2D photos into 3D concepts. So, there's just a lot about the technology and a lot about the backend, even about the data capture. How do you capture the data because it's in a different way, it's not centralised anymore. So that's what we're seeing a lot of. So, it's definitely in the transformation stage and that's definitely happening.

Anna Orriss-Baxter, Baringa: Yeah. And I did want to also get your take on the concept of open Metaverse operating system. I know that this is something that the Outlier has alluded to and sits between hardware, software, and the consumers. Would you be able to elaborate on what an open metaverse OS is and what it offers to consumers?

Nathalie Oestmann, Outlier Ventures: Yeah. So, we really are very passionate that the metaverse isn't a walled garden. It's not Meta, Facebook Meta. It's not centralised. We believe it's a series of ecosystems. We have ecosystem partners, a broad range of ecosystem partners. We believe it's open, transparent, transportable and we do believe it's the next version of the Internet. So that's why we have so many ecosystem partners that we work with, and that's why we started this accelerator concept, actually. We were working with a lot of these partners who wanted to build their ecosystems and we realised that we had a lot of expertise that we could pass on to companies that wanted to build on these different ecosystems. There are quite a lot of principles that are systematic. It's specialised for each company, of course, but let's say you're building up your token economy for your company. The rules have been evolving, but they are somewhat the same about

where are you going to get the best results and we're seeing that very often. So, we can advise on that because very often if you are building in Web3, you are building a token, you're building your tokens in a token economy for your company and for your community for them to be more involved. So, we do that kind of advice we advise on if you want to have a DAO, a decentralised autonomous organisation to support you or you want to build in that area because that's something that's pretty important in Web 3, where people in the community can make the decisions for that company. So, it's not shareholders, it's people who are involved. You know, it's completely different from the world that we're living in today, much more democratic, I would say, in a way.

Anna Orriss-Baxter, Baringa: Yeah. And it's really exciting to hear that stat for me is and I know that we could sit here all day and argue over exactly how we define Web 3 or don't. But to me, this is absolutely fundamental. It's that move away from the middleman, the kind of centralised organisations really taking control of data and ownership and what you're calling out with this kind of open ecosystem, the ability to collaborate, to really kind of contribute. And work together is to me one of the most exciting things about Web 3 and then specifically about the metaverse within that. Unfortunately, we are starting to run out of time, so I will move us on to just one final question to wrap up with. What I'd love to focus on for the last few minutes is for financial institutions that are just starting their journey into the Web 3 metaverse space. What would you encourage them to focus on in the short term that would set themselves up for long term success with their customers?

Nathalie Oestmann, Outlier Ventures: I think a lot of financial institutions are already doing this, so my advice is probably already being taken, which is experiment. That is my advice to individuals and that's my advice to companies. We call it going down the rabbit hole in Web 3. You know, the people who are in my company, who are deep experts, they just started with a little bit of interest, a little bit of trial and error. And then they realised there was this whole new world and they say, I've gone down the rabbit hole. So, it really is like that. But for individuals, I would say put a little bit of money into cryptocurrency, you know, so that you can try things out so you can understand how this works and maybe you might think some things are silly and you don't buy into it. That's okay. And maybe you think some things are interesting and you might learn a thing or two and the same for financial institutions, which they are doing. Try things on a small scale to begin with, obviously, start to understand how it works, which technology you want to use, what layer one layer two, you want to be using. There's a lot of options out there. Not all of them are the same. There are different languages being used. What's right for you? It's a very big decision. I wouldn't make a bet on anyone just now, I think, and anyways, we're going to head towards an interoperable world anyhow. But, you know, I very much encourage people to try things, partner with smaller companies.

Anna Orriss-Baxter, Baringa: Thank you. And to you. Now, Sanjana, what would your advice be?

Sanjana Sankaran, Baringa: I'd agree with everything Nathalie said. I think I'll highlight that the uptake in interest in the metaverse in the last couple of years has varied and investment behaviour continues to be positive and indicative of the potential of the metaverse and the industry and players are constantly learning of one another as the concept evolves. So, to Nathalie's point: experiment. Whether it's with tangible use cases or investing in Web 3 and crypto there are endless opportunities. One of the most obvious use cases I'll highlight for financial services as far as retail banks is concerned, is the concept of virtual branches or virtual lobbies. I alluded to the example that JP Morgan has gone with where firms can sell banking products to a new breed of digitally native customers or provide customer service to existing customers. I think that's just one example of a space where there are endless opportunities.

Anna Orriss-Baxter, Baringa: This has been a really insightful discussion. I've certainly learned a lot about the metaverse and about the different use cases. So, thank you so much to both Nathalie and Sanjana for participating in today's podcast. It's been fantastic to have you with us and explore the real benefits for the consumer from some of these changes. Unfortunately, that is all we have time for today. So, I will end by thanking our listeners. Please do continue to subscribe to the podcast series and reach out if there is anything you'd like to discuss.