

## INNOVATION

# Financial services in a virtual economy



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Peut-être qu'un jour passer 24h dans un monde virtuel nous paraîtra normal ? En attendant, le monde de Second Life est en train de s'organiser. Un système économique commence à voir le jour avec ses produits et services, sa monnaie et, bien sûr, ses banques.

Virtual worlds are more than just games. Though small, some virtual worlds can be considered as emerging markets with more financial transactions every day. Financial institutes have several ways to respond on these developing worlds. Yet most banks hesitate: it is just another hype, it's a child's play, it is all completely virtual, even false. And how about regulation, false identities and pyramid-games? This article offers an overview and some considerations.

### Virtual worlds: just a game?

Broadband internet connections give people all over the world the opportunity to interact in virtual, three-dimensional worlds. So far this is mostly used in massive multiplayer games in which it's all about reaching a next level by killing the bad guys



La construction d'un immeuble ING.

or conquering more land. Some virtual worlds are different. There is no next level to be reached, no enemies to be destroyed. It's more about 'being there'. People present themselves to fellow-participants by means of cartoonish creatures called avatars. Communication is a combination of e-mail, chatting and basic video-conferencing.

Second Life (SL) is one of the most popular virtual worlds. 'Residents' of SL buy or rent land from the makers of the world - Linden Labs - or from other residents. Other people just come and visit the virtual world for a tour or a chat. Residents can use some simple tools to make clothing for themselves and can build structures to be used as furniture or housing.

### A virtual economy

So far this does not sound very interesting. But what do people tend to

do when they are settled? They start looking around, become active and some of them might go shopping. And that's where the virtual economics come in.

When coming into SL you can change some of your real-world currency into Linden dollars (L\$). With these you can buy virtual goods: new clothes, a tattoo, a car, a private concert, a tour guide for an hour. You name it, it's for sale.

Anyone in SL can create new things and start selling them to others and earn some L\$. And earn some more L\$ by selling it again: because it's virtual - it is only a bunch of bits - you can resell it as often as you like, without any further production costs.

This creates a vivid economy with a lot of people selling and buying virtual goods and small services. In SL it is very easy to start your own busi-

ness: it takes a couple of hours and hardly any investments. And though it is an economy in a virtual world, there is hardly anything virtual about it:

- Whatever you produce, it is your property.

- It is easy to handle transactions: handing over the products you made, as well as receiving the money involved are simple tasks.

- There are businesses all over the place. There are shops, employers and employees, service providers, builders, architects, jewelry-makers, party- and wedding-planners, pet-manufacturers, game-developers, newspapers and of course brothels.

- The local currency has an exchange rate with other currencies like the US\$. So it is even an open economy: you can take your earnings to another 'place', even real life.

## A growing economy

The economy of SL is growing rapidly, though not evenly. The rate of new people entering SL is correlated to the hype in the media. Since the first hype in the US is over, a steady, not spectacular growth is seen. In The Netherlands the media-hype is over since May 2007, and the growth is now slowing down. In other European countries SL is still talk-of-the-town.



Sydney, avatar de Wichert van Engelen, devant un moulin néerlandais.

## ING

# In a virtual world

- About half a year ago ING entered the virtual world as initiators of a multi-partner-project. Our Virtual Holland consists of 13 islands in Second Life. Together they form a recognizable, friendly environment with the look-and-feel of The Netherlands.

OVH - as it is called inside the SL-community - is not touristic, but geared at entrepreneurship. Any individual who wants to start a business in SL and is willing to be an active member of the OVH-community is invited to try it out. The OVH-partners will

supply the land and the infrastructure.

Now trade, architecture, education (universities), media and art are to be found in OVH, cooperating to attract as much visitors (traffic) as possible.

OVH is ranking 8th (worldwide) for its total stream of visitors at an SL-place by a real-world company. This result is reached by a very active community, a direct link from the 'classical' internet, and strong partners willing to invest in learning.

OVH is an experiment: what financial services are

needed in virtual worlds?

What interfaces will work in virtual worlds? How do we cooperate with mixed communities (customers and employees are working together to develop OVH)?

OVH is monitored daily and will develop continuously:

Try-outs of financial services. Cross-border events combining real-world, internet and virtual world activities. Marketing-campaigns combining classic media with community-communication.

More information? See:

[www.ourvirtualholland.com](http://www.ourvirtualholland.com)

300.000 people are spending money in SL. About 42.000 people are earning more money than they spend. About half of them just a very small amount: less than 10 US\$. On the other hand: over 5000 people earned over 100 US\$ in one month. Each day an equivalent of US\$ 200.000 is exchanged in L\$ or the other way round.

Beside the all-L\$-trade a lot of products are sold via PayPal-payments in US\$. This makes the scale of trading larger, but it doesn't help to strengthen the L\$.

## Ways to enter the virtual worlds

Why should any well known company enter SL? What is there to gain, while the figures are growing but so far relatively small. And is SL going to last?

- First of all, virtual worlds can be

used as internal collaborative working tools. The best way to interact with your co-workers is face-to-face, but when distances are too big this isn't very practical. By meeting each other in a virtual world you'll get something in between a video-call and a phone-call. It is a lot cheaper than video-conferencing and certainly a lot more fun! Several advertising agencies use SL to talk about their international campaigns while the co-workers are situated everywhere in the world.

- While the media-hype is on, your entrance into SL can be used to boost your brandawareness or your innovative image. But be aware: nowadays it won't do just to enter SL and make a press announcement about it. You have to think about what you are going to offer the residents of SL and / or what the company is going to do in SL.



A vélo près des canaux à Amsterdam.

■ You can use SL as a marketing tool to generate leads for your real-life services and products, or just for advertisements. A lot of companies try out community-based marketing in SL. The real services or sales are handled in the classic internet-environment.

■ You can start offering some real virtual in-world financial services: payment-systems, current-accounts, saving-accounts, stock-exchange and even virtual mortgages.

This last step certainly is the most difficult one. The numbers (and thus possible profits) are still very small, the risks are relatively high.

ING set up a land in SL to experiment with the last two steps: community-based marketing and the introduction of virtual financial services: Our Virtual Holland (see cadre).

### A long way to go?

Though a new economy is developing, there are still some points to take into consideration before building a nice island in SL.

#### ● A lack of regulation

The downside of the unlimited possibilities is the lack of regulation. The makers of SL offer a software-platform, they offer some tools, but they don't consider themselves as a kind of virtual-world-government. They do not guarantee the money involved: "Linden Dollars are not money; they are neither funds nor credit for funds. Linden Lab does not offer... any guarantee of monetary value, for Linden Dollars." (disclaimer by Linden Labs).

Neither does Linden Lab execute your copyrights. A resident retains the copyrights on anything he creates, but he himself has the sole responsibility to enforce those rights.

Because it is still a new world, neither tax- nor any financial regulator did step into SL yet.

On the other hand: community based environments like SL have other regulators: the participants themselves.

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By means of ratings, an 'I-don't-like-this'-button, or by socially isolating anyone who is misbehaving.

#### ● (Inter) national?

The largest financial institutions in this world are international conglomerates. But to the consumer, they are locally organized. Your current-account is at a local bank, or at least a national bank. The one question about any virtual world: what is its nationality? Is SL American virtual soil, because its makers are based in the US? Or is my account at (for instance) ING object of Dutch law and regulations, because I am Dutch, or because the Dutch ING bank stepped into SL?

#### ● Identity

Trust is the foundation of a community, of an economy. You trust one another because you know each other, because you can see each other or because you know that you can track down the other one when something is wrong. None of these are to be found in SL. Anybody can make an avatar and name it anyway he wants. You have to fill in your name and address when applying for an avatar, but there is no check on whatever you fill in.

Linden Labs have recently announced an Identification Verification system coming with virtual ID-cards. But the verification is based upon US-services and so far will not work in any other country. ID's based on credit cards are not very secure neither: it is too simple to buy a credit card-identity on the internet. So while these first steps for solid ID-control may be good enough to stop petty theft, it won't stop real crime and misbehavior.

#### ● A real pyramid?

For a long time the discussion is running now: is SL a real economy or just a pyramid-game in which the newcomers pay for a few oldies? Unfortunately SL has elements of both: the creation and trade of goods and services, the trust between the residents, the more-or-less open exchange of L\$ makes it a real economy. On the other hand: what will happen if there is no more growth in new participants? Will SL survive a real drop in land buyers?

#### Do or don't?

Does this all have to stop you from taking part in such a new world?

I don't think so. One day spending part of your day in a virtual world will become normal. Maybe hard to imagine, but then again: who - ten years ago - did predict that large parts of anybody's working day would consist of answering e-mails?

Virtual worlds will become the new internet. Probably it won't be Second Life, but the new virtual worlds will house thousands of innovations. They will change the way people communicate. They will form an international economy without borders. It may take some years, but I think it is wise to start experimenting now. If the old-world firms don't start experimenting now, they will be completely surpassed by newcomers, bright young companies with nothing to lose but their time.

As a financial institution do what your core-business is: facilitating an economy. Even when it is a virtual economy. ■