

Insiderview

Usefulness of Second Life for a Financial Service Provider

Interview with Prof. Dr. Walter Brenner, Univ. of St. Gallen, and Thomas Schröder, Commerzbank AG, Frankfurt a. M.

Together with Commerzbank you have published a study with potential scenarios for the use of virtual worlds like Second Life in a commercial setting. Can you describe the initial situation that lead to this joint project.

Prof. Walter Brenner: In the first months of last year we could observe a major hype regarding virtual worlds and especially Second Life which bore significant similarities to the internet hype in the late nineties and we all remember how this one came to an end. Nevertheless many managers felt alarmed and invested significant amounts of money to create virtual branch offices in Second Life. This created a momentum which leads to an ever increasing number of organizations with virtual outlets without valid use scenarios and sustainable business models. Nobody wanted to be one that missed this trend.

And Commerzbank wanted to take part in this "next generation internet"?

Thomas Schröder: In order to realize our vision of "ideas ahead" it is our goal, to evaluate the usability of new technologies not just from an organizational perspective but

especially from a customer's perspective. Nevertheless it is not economically reasonable to evaluate every new technology with a "working prototype" therefore we were challenged to find new approaches to identify the usability of virtual worlds for our business. One method to do this is to evaluate the degree with which a new technology helps us to deliver increased service usability to our customers. If a technology doesn't promise to deliver a real benefit for our customers we usually don't pursue additional activities. Nonetheless the media attention companies received after they opened virtual subsidiaries as well as the rise of virtual economies were additional reasons to pursue the evaluation. Following the headline "Virtual Money – Real Profits" in the German Magazine Spiegel we strived to identify new opportunities for doing business in a virtual world. Since other major banks such as ING Diba, Wells Fargo and Deutsche Bank – Q110 are represented in Second Life we tried to identify scenarios in which Second Life allows us to provide new services to our customers and therefore create value for them.



Prof. Dr. Walter Brenner,
Director, Institute of Information Management,
University of St. Gallen

What are the results of the evaluation?

Walter Brenner: We can clearly see a trend towards increased use of digital identities either with a profile in social networks like Xing or with avatars in virtual worlds like Second Life. Therefore a simple rule can be applied in order to realize success for business: "people are the killer application". Nevertheless there are certain facts that are not completely discussed in the media but relevant for companies if they plan to do business in Second Life:

- The number of actual users (approx. 900,000 in the last 30 days) are in relation to the total number of registered users (approx. 11,5 million) relatively small. Yet the latter number is often incorrectly reported as the actual number of users of Second Life.
- No sustainable business models have been observed so far and the company that is the main profiteer of the virtual currency "Linden Dollar" is the creator and owner of

Second Life, Linden Lab which determines the exchange rate of the virtual currency into a real currency.

- The infrastructure which Second Life is based on is from a technical perspective not ready for prime time yet. The biggest obstacles companies will be facing are a lack of scalability if more than a handful users are visiting a virtual world as well as concerns over security.

Even after a company tour with Linden Lab when we had a chance to exchange ideas with representatives from Linden Lab it was not possible to understand the strategic positioning of the company itself. It is of major importance for potential entrants to understand whether Linden Lab decides to focus on becoming solely a technology provider, on extending its position of being market maker for virtual currencies and virtual goods or to pursue a mix of these positions.

When will Commerzbank open a virtual branch office?

Thomas Schröder: We have identified several scenarios that might provide the basis for business activities in virtual worlds. In order to ensure that we don't miss the right moment to become active in virtual worlds we defined a technology radar which defines environmental and technological requirements for successfully launching a branch office in a virtual world. Whether this will be Second Life or another virtual world is open – the objective is to provide value to our customers.

Thank you for this interesting conversation.