

How do payments work in the metaverse?

In the not too distant future, virtual reality will be a commonplace way to spend time. It'll be as much a part of our lives then as surfing the web and posting on social media is today.

We're on the eve of the advent of the new revolution in communications technology: web 3.0, a.k.a. the metaverse. As this technology continues to evolve and its popularity grows, so will the number of businesses operating in the virtual space.

One of the most important considerations for these businesses is how payments will work. Just as web 2.0 required faster and better ways to make and receive *payments online*, which spawned solutions like PayPal and Stripe, web 3.0 will need its own set of payment solutions to cater to the unique needs of the metaverse. What does the future hold for the payments sector? How is this sector likely to evolve as more and more people spend more time, shop for products and services, and seek new experiences in the metaverse? What challenges do fintech companies face if they want to be a part of this new virtual space? In this post, I'll explore key payments-related issues in the metaverse to help answer these questions.

A blockchain-based virtual economy

Metaverse is a term used to describe what many envision as the next evolution of the internet. An online virtual reality world where we can interact, play, work, and shop from wherever we are. The metaverse isn't quite here yet, but there are already a collection of small (and not so small) proto-metaverse platforms that are likely to be the seed that will grow into what the real metaverse is envisioned to be.

Many of these current metaverse platforms are closed systems with their own virtual economy. In most cases, this economy is powered by blockchain, smart contracts, and cryptocurrencies, with each platform wielding its native currency. This is similar to how each country has its rules and regulations, particular economy, and local fiat currency.

For example, Decentraland, a popular metaverse platform, uses MANA as its currency, while HyperVerse uses HVT. You can use these currencies to buy and sell goods and services within these platforms, but what happens if you want to visit another virtual space that uses a different native currency? You could take your money with you by *trading one crypto* for another in most major *crypto exchanges*, precisely like you would buy pounds if you were traveling to the U.K. or yen if you were headed to Japan.

Enter NFTs

Cryptocurrencies aren't the only way *blockchain technology* powers the metaverse. One key component of the virtual economy is the idea of ownership of digital goods. Non-fungible tokens, or NFTs, are a special type of crypto asset based on smart contracts that are completely unique, indestructible, and can only have a single owner. These tokens can be used to represent anything from in-game (or in-metaverse) items to ownership of real, *physical assets*.

Whatever the use businesses or consumers decide to give NFTs, buying and selling them in the metaverse require an adequate payment system that works quite differently from your day-to-day fiat payments.

How do payments work in the metaverse?

The metaverse is still in its early stages, so there isn't a single payment system that's been widely adopted. However, most payment systems work either with cryptocurrencies or with normal fiat currencies.

Fiat-based payment systems for the metaverse

In-game microtransactions in online gaming platforms are a big business, with games like Fortnite making billions of dollars each year from selling digital goods to their players. These transactions are usually made with fiat currency.

There are two main types of fiat-based virtual economies. The first are those that use a central payment processor, such as PayPal, and major credit card networks like VISA, Mastercard, and American Express. On the other hand, some use a virtual currency that you can buy with fiat currency (using the same payment methods just mentioned) and used in the game, such as FIFA coins in EA Sports Soccer.

The first type is straightforward and works just like any online payment system. The second type involves one extra step, as it involves buying the game's virtual currency with your fiat currency first. This has the benefit of allowing the game developers or publishers to keep their prices in the game's virtual currency stable, as they're not directly affected by the volatility of fiat currencies.

Cryptocurrency-based payment systems in the metaverse

The other side of the payments coin in the metaverse is cryptocurrency. This is the method that's most commonly associated with blockchain technology and has a lot of advantages when it comes to buying and selling digital assets, including near-instantaneous cross-border transactions at a fraction of the cost of fiat-based payment systems, and the fact that crypto transactions are much more secure than fiat-based payment methods both in terms of how hard the network is to hack and in terms of personal data privacy.

BNPL in the metaverse

One of the most recent and exciting applications of cryptocurrency payments in the metaverse is BNPL. BNPL, or "*buy now, pay later*" services, have become very popular in recent years and are one of the most *significant trends in the payments sector* in 2022. They are popular because they allow users to buy items now and spread the cost over a period of time, usually interest-free.

While BNPL services have been around for a while, they've primarily been used

for physical goods. Cryptocurrency payments, however, could allow for the extension of BNPL to digital goods in the metaverse. This would be a game-changer for the metaverse economy as it would allow users to finance their purchases of virtual assets over time.

One of the companies leading the way in this area is Decentraland, which recently teamed up with Binance. Under this partnership, users can buy virtual land and other assets in Decentraland using Binance's BNPL Pay service. This will make it much easier for users to make large purchases that can be as high as \$15 K for a single plot of virtual land, revitalising the metaverse economy.

Another example is XRPayNet, a cryptocurrency built on the XRP Ledger, which offers an app that brings BNPL to the crypto industry, planning to become the crypto world's Afterpay.

It's still early days for BNPL in the metaverse. Still, if partnerships like the one between Decentraland and Binance are successful, it could be a significant step forward for the adoption of cryptocurrency payments in this virtual world.

The bottom line

Cryptocurrency payments are a natural fit for the metaverse because they offer many advantages over traditional payment methods. Even though they do have some downsides related to *rising energy costs*, the benefits and seamless integration with the metaverse are likely to outweigh the cons. They are secure, fast, and anonymous and can be used to finance purchases of virtual assets over time. They're also a virtual-native form of online payments based on the same technology that is likely to power the metaverse as it comes of age (i.e., *metaverse-native*). Despite this, crypto still hasn't seen mass adoption, and traditional fiat currency payment systems like PayPal and Stripe, as well as credit and debit cards, will likely continue to be present in the metaverse for the foreseeable future.