1. This wouldn't be reasonably possible with current technology as we would need to perform bodily functions in addition to having reasonable immersion. However many attempts exist such as facebook's metaverse and many video chat softwares such as gatherly.io. The general theme is adding another dimension on top of video chat such as a map or an interactive 3d environment. Ultimately there will remain a need for offline interaction as the interface between humans and the computer will not be particularly ergonomic.
2. In order to maximize human safety (this includes privacy as sharing too much about the environment they're in could be dangerous), the interface would be limited to a keyboard and mouse as well as a headset. Although the system would have an optional xbox kinect and wii numchuck for motion control, The user would also have the option to perform normal movement actions with a set of keyboard controls similar to in a video game. The headset would have kill-switches for various sensors. Including voice.
3. There's no real innovation here. In a perfect world I'd patent it and put an extremely high royalte fee in order to make it so that no one creates such an awful device.