

ON UNSTABLE GROUND

How Stablecoins Can Disrupt the Financial Industry

July 2025

The title of this paper might sound vaguely familiar to Steven Seagal's 1994 classic *On Deadly Ground*. For those unfamiliar with the film, it was directed by and starred Seagal. The movie was snubbed by the Academy of Motion Picture Arts and Sciences for an Oscar, as voters instead awarded *Schindler's List* with "Best Picture" and Tom Hanks "Best Actor" for his role in *Philadelphia*. For those hoping that I would draw parallels with the plot of *On Deadly Ground* and stablecoins, unfortunately the similarities end here.

Stablecoins have emerged as one of the most discussed topics with potential to disrupt the financial world. The combination of price stability of traditional fiat currencies with the speed and efficiency of blockchain technology presents a potentially transformative force to the current banking and payments infrastructure. As legislation like the GENIUS Act approaches passage by Congress, the possibility that stablecoins will reshape core functions of the financial system (e.g. deposits, lending, cross-border payments) is becoming more of a reality. In this paper I will delve into how stablecoins can reshape the foundation for both banks and payment providers, and what that shift could mean for the future of both industries.

Why Now?

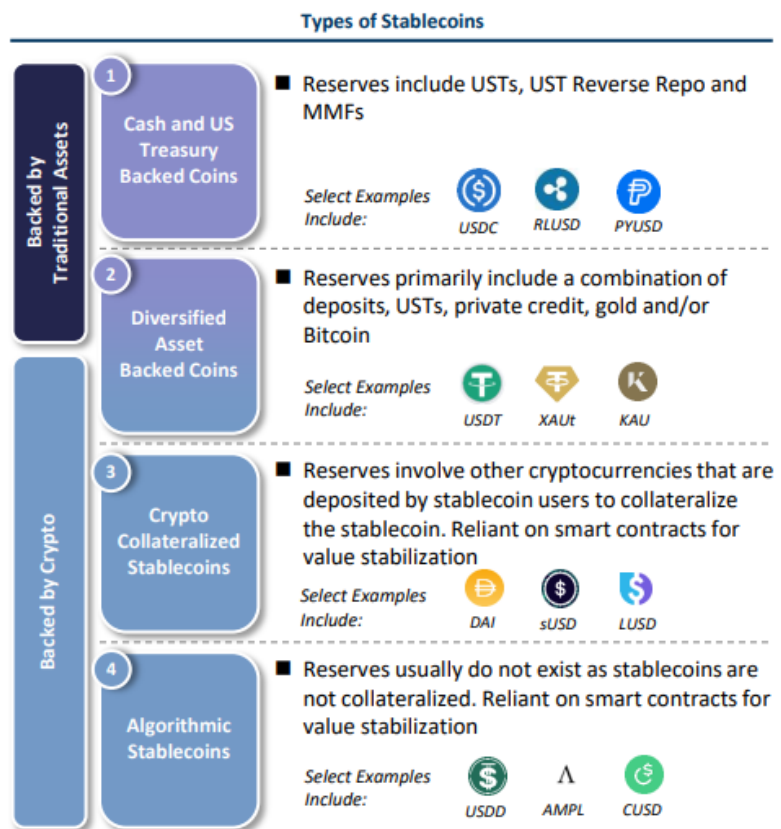
On June 17th, 2025, the GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025) passed the Senate, and will now move to a conference committee where both House and Senate address differences in hopes of creating a revised bill. This bill will then need to be voted on by both the House and Senate for a final vote. If the bill passes both chambers again, it will then be sent to the President for signature. President Trump has indicated he wanted this on his desk by the end of the summer, but that could be difficult.¹

What are Stablecoins?

The GENIUS Act would define a "digital asset" as a digital representation of value recorded on blockchain with price stability achieved by 1:1 backing with reserve assets.² Stablecoins (with a market cap of ~\$234bn) are universally utilized as "cash on-chain," with the USD-pegged stablecoins dominating the stablecoin market (>99% in market cap).³ The two most prominent stablecoins are USDT, which is issued by Tether, and USDC, issued by Circle, which recently went public (ticker: CRCL). As of the end of March, USDT had \$145bn market cap and USDC had a \$60.2bn market cap.⁴ A good comparison is to think of money market mutual funds, where the underlying assets ensure the net asset value is \$1.00, but the key difference is that stablecoins can trade 24/7 and real time between participants in the network.

How can Stablecoins Disrupt both the Banking and Payment Industries?

The U.S. Treasury cited the potential for \$6.6 trillion in non-interest-bearing deposits as leaving the banking system to stablecoin issuers.⁶ This notion is based



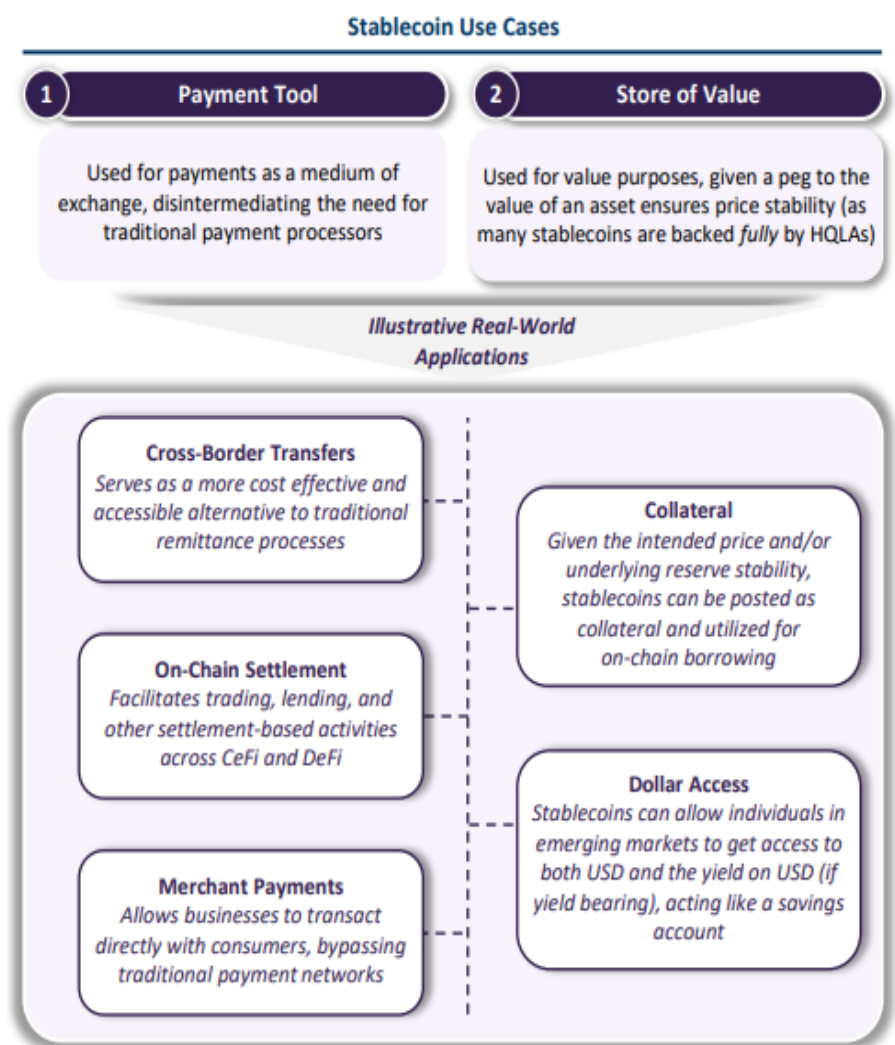
Source: U.S. Department of the Treasury⁵

on if stablecoins are allowed to be yield-bearing, but as the GENIUS Act stands today, stablecoin issuers cannot pay interest on stablecoin deposits under the current proposal. However, there is potential for workarounds in tokenized bank deposits and tokenized money market funds. Banks have lobbied against stablecoin issuers, although, some of the larger banks have spoken optimistically about what stablecoins can bring to their franchises. JP Morgan (ticker: JPM) recently filed a trademark application for “JPMD”, which is a stablecoin-like USD deposit token that will be built by listed exchange Coinbase.⁷ Blackrock’s USD Institutional Digital Liquidity Fund (BUIDL), can now be used as collateral on two of the most active crypto trading platforms, Crypto.com and Deribit. The listings allow institutional traders to post BUIDL tokens as margin for leveraged trades on those two exchanges, while also earning yield on the underlying token.⁸ Both of these announcements come on the heels of the passage of the GENIUS Act in the Senate.

On the other hand, community banks have strongly opposed interest-bearing stablecoins. The Independent Community Bankers of America, which is an advocate for community banks, argues that interest-bearing stablecoins would lead to deposit disintermediation, as non-interest-bearing deposits from community banks migrate to interest-bearing stablecoins which will shrink a funding source for local lending.⁹

Within the payment industry, cross-border payments could be a potential use case for stablecoins. Take Chevron (ticker: CVX) as an example. It operates in more than 180 countries through an extensive network of suppliers, logistics partners across exploration sites, refineries, retail stations, and chemical plants.¹⁰ By utilizing stablecoins, Chevron could reduce the complexities within its treasury function that manages cash, liquidity, and foreign exchange in each country. Circle (ticker: CRCL), has targeted the cross-border payments market. Citigroup (ticker: C), which derives a significant portion of its revenues from international business, generates roughly 23% of its revenues from its Services segment, that includes its cross-border payments business.¹¹ One can see the savings when comparing Citibank’s ~5% transaction fee and five-day settlement window with Circle’s USDC, which can settle transactions for <1% in under 24 hours.¹²

Another use case is with retailers adopting stablecoins. Recently, the Wall Street Journal reported that Amazon and Walmart each have explored whether to issue their own stablecoins. This caused payment and bank stocks to trade lower.¹³ Nonbank stablecoin issuers can construct a closed looped network for customers to use for goods and services, or to pay suppliers.¹⁴ The GENIUS Act does prohibit non-financial public companies from issuing stablecoins without regulatory permission. To combat this, merchants may partner with stablecoin issuers (e.g. Circle) to workaround this roadblock.



Source: U.S. Department of the Treasury¹⁷

The credit card framework uses the 5-party model which consists of cardholder, merchant, acquirer (bank or financial institution that processes card payments on behalf of the merchant), card networks (the infrastructure that routes the

payment information and settles transactions between banks, e.g. V/M/A), and issuer (the bank that issued the card to the consumer that pays the merchant on behalf of the cardholder). Most debit transactions are capped at a \$0.24 fee, so stablecoins don't carry a significant cost save for retailers.¹⁵ However, a typical credit transaction carries a 150 to 350 basis points cost which is far more than a stablecoin transaction.¹⁶ The problem is consumers enjoy the rewards and use of the 30-day interest free loan in some instances with credit cards. Where the industry is today, stablecoins offer no credit mechanism and would need to entice consumers with better incentives to use stablecoins.

Lastly, there is also the possibility of decentralized finance, aka "DeFi", that seeks to shift lending away from the traditional banking model to blockchain-focused lending. As bank's liabilities (deposits) leave the system and go into stablecoins, decentralized finance's resources would allow non-banks to offer access to credit if assets held in collateral are "asset perfected", meaning a lender has taken the legal steps to protect their right to take the asset if the borrower does not pay. The consensus among experts is this is many years away.

How do Stablecoin Issuers Make Money?

With stablecoin issuers holding reserves in short-term Treasuries, the issuers would be earning a float income from the yield on T-bills that collateralizes the stablecoins. Transaction and platform fees would be another area where issuers would charge wallets, business-to-business payments, exchanges, etc. fees for using their stablecoin infrastructure. Cross-border payment systems using stablecoins could generate spread based income from FX conversions or payment rails, particularly in emerging markets. There are several areas to gain exposure to this nascent area. Circle Internet Group (ticker: CRCL), a stablecoin issuer, recently IPO'd and is one way to consider investing in this theme. On the network side, Ethereum and Solana are used as network rails to settle stablecoin transactions. Lastly, the largest exchange on which stablecoins trade is Coinbase, which was recently added to the S&P 500.

Risks and Challenges with Stablecoins

Despite their appeal, stablecoins are not without their flaws. The obvious rebuttal is the grey area where stablecoins operate in many jurisdictions, which can lead to using the money for nefarious activities. Others include cybersecurity and centralization concerns. A prospective buyer of stablecoins, may just elect to purchase stablecoins from a large bank/bank consortium offering that complies with the Know Your Customer (KYC) and Anti-Money Laundering (AML) laws, potentially relegating independent providers. Stablecoin issuers, whether domestic or foreign, must be equipped to respond to law enforcement in cases where the tokens or their backing reserves are at risk.

Another risk for stablecoins is reserve risk. Current framework of the GENIUS Act outlined in the proposed stablecoin legislation will require stablecoin issuers to hold T-bills of 93 days or less.¹⁸ This will increase demand for short-dated treasuries, with the U.S. Treasury most likely having to issue T-bills at greater levels driving the yield curve steeper and a shortened weighted average maturity. These shifts in market dynamics could be potentially exacerbated in moments where there is a loss in confidence in stablecoins or if a stablecoin de-pegs. Moody's defines a de-peg as a stablecoin fluctuating by more than 3% in a day against their fiat currency peg. De-pegs can be driven by macro, coin-specific, or economic factors. In 2022, there were 2,347 de-pegs and 1,914 de-pegs in 2023.¹⁹ A major de-pegging event has the potential to create a loss of confidence and trigger withdrawals. In late 2022, the collapse of FTX caused a major selloff in Bitcoin and Ethereum, as retail and institutional investors lost billions. This shook the confidence of traditional finance investors and led many to become even more wary of the nascent asset class. A regulatory framework that has the potential to mitigate de-pegs will help to assuage investors' image of stablecoin's being the "wild west." Conversely, The GENIUS Act has a core focus on full backing in high-quality, liquid assets (e.g. cash, T-bills) which should help to reduce the problem of de-pegging.

Lastly, many countries (e.g. China, India, Brazil) have already outright banned or leaning toward restricting the use of private stablecoins in cross-border or foreign exchange use due to the risk of dollarization. This is when a country relies on the U.S. dollar instead of its own money due to economic instability or lack of trust in the local currency. Dollarization can lead to reduced control over monetary policy, encourage capital flight, reduced demand for local currency, and exposes the local economy to U.S. policy shifts (e.g. interest rate hikes/cuts).

Lastly, credit card holders may not want to part with their credit card points or miles if stablecoin offerings do not offer such benefits. The credit card holder also receives an interest free 30-day loan on purchases if balances are paid on time. Lastly, card payment companies also offer chargeback protection, fraud mitigation, and other value-added-services. It will be interesting to see how independent payment providers and/or big retailers who offer stablecoins combat the points, interest free lending, and other value-added-services of legacy payment players. One could also argue that countries with volatile currencies and high inflation are prime candidates for stablecoins. However, this is an area where Visa (ticker: V) and Mastercard (ticker: MA) are already partnering with stablecoin infrastructure companies to offer stablecoin linked cards. Ultimately, stablecoins are tokenized currencies, and Visa and Mastercard have already allowed 180 plus currencies and billions of tokens on their respective platforms.²⁰

What is the Path Forward?

I believe it is a matter of “when” and not “if” stablecoins become a part of day-to-day life. With the recent passage of The GENIUS Act, we are in the beginning stages of a technological transformation. Both bank and payment industries face an innovator’s dilemma, which is a concept introduced by Clayton Christensen’s book *The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail*. It explores the phenomenon of established companies failing to adapt to disruptive technologies, even when they are well-managed and attentive to their customers.²¹ Prime examples of this occurrence are Kodak, Blockbuster Video, and Nokia.

Banks and payment companies are seeking to move beyond the status quo. The Wall Street Journal recently reported that some of the largest banks were exploring a joint stablecoin to fend off increasing competition from the likes of Tether and Circle.²² The discussions between the large money center banks, which would form a consortium, are still in the early stages. Both JP Morgan and Citi have already gone live with their own tokenized deposits, JPM Coin and Citicoin respectively. In the payments industry, we have seen both Visa and Mastercard partner with crypto companies. Coinbase and Visa are partnering on a card that can be used by consumers to spend down their stored crypto balances anywhere Visa is accepted.²³ Mastercard has a similar partnership with MoonPay.²⁴

The two areas that are prime for disruption could lie with regional and community banks, as well as payment companies that derive a large portion of revenues from cross-border payments. First, if stablecoins are granted yield bearing status, stablecoin issuers effectively become “narrow banks”. This allows stablecoin issuers to take in customer funds and invest primarily in government securities. The money that once sat in banks earning a lower interest rate, would now be invested in Treasuries via stablecoin issuers. This causes a significant shift in the structure of the traditional banking system that leads to liquidity pressure on banks and reduces their ability to lend.

Many large banks and payment companies have already taken steps to modernize, recognizing the urgency with the recent passage of The GENIUS Act. This situation mirrors TD Ameritrade’s delayed shift to zero-fee trading—a hesitation that cost it market share and led to its acquisition by Charles Schwab in 2020. Hopefully, financial institutions both large and small, are willing to accept short-term pain and invest in more efficient and customer-centric solutions to compete and coexist with crypto-focused companies.

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