# Banks set to drive stablecoins’ leap from crypto niche to mainstream finance



The ongoing evolution of stablecoins is likely to reshape the landscape of digital finance, with banks poised to play an integral role in this transition. At a recent summit in Toronto, industry leaders such as José Fernandez da Ponte from PayPal outlined the vision for stablecoins to exit their niche crypto realms and enter mainstream finance with the assistance of traditional banking infrastructure. This transformation would hinge on banks providing essential services like custody solutions and facilitating the integration of fiat currencies, thus establishing a robust ecosystem for stablecoins to thrive.

Significant regulatory changes underway in the United States could accelerate this process. As lawmakers strive to clarify regulations surrounding digital assets, there are indications that banks, once cautious, are ready to embrace the stablecoin potential. According to Anthony Soohoo, CEO of MoneyGram, this regulatory evolution might act as a catalyst for greater trust in the marketplace, allowing stablecoins to address rising concerns about monetary stability apt to arise amidst burgeoning legislative initiatives.

Currently, Tether's USDT and Circle's USDC dominate the stablecoin market, accounting for approximately 90% of the estimated $230 billion asset class. Yet emerging contenders like PayPal’s PYUSD are beginning to capture attention, shifting the focus away from sheer market capitalisation towards metrics such as transaction velocity and user engagement. This could lead to a transformation in how stablecoins operate within both transactional and investment spaces, particularly in inflation-prone emerging markets, where their dollar-backed nature provides a much-needed secure financial alternative.

While adoption in developed economies may lag behind, the potential efficiencies stablecoins offer—in particular their ability to streamline cross-border transactions and enhance corporate financial operations—remains significant. Implementing stablecoins could enable businesses to manage liquidity more effectively and process payments more swiftly, bypassing the convoluted delays of traditional banking systems.

Understanding the landscape for consumers is equally crucial. With stablecoins solving tangible financial challenges, they provide a stable virtual currency amid economic uncertainty, convenience for global transactions, and security through blockchain technology. As the industry reflects on the potential inherent in stablecoins, it becomes clear that their evolution is not merely a product of technological affection, but rather a necessity rooted in practical utility and real-world application.

Research also suggests a promising future for stablecoin growth. A recent Citigroup report predicts the market could expand fivefold over the next five years, potentially reaching nearly $4 trillion. This nascent enthusiasm is driven by shifts in how individuals and businesses view stablecoins—not just as hedging instruments against inflation but as viable options for payments and cash management.

Traditional financial institutions are expected to retain relevance in this landscape through offerings such as custodial services and partnerships with stablecoin issuers. Analysts highlight that while the saturation of the market may pose challenges, the urgency for innovation and adaptability will be paramount in allowing banks and fintech to engage effectively with this new financial frontier.

The regulatory framework emerging from discussions in Congress, including bills like the STABLE Act and the GENIUS Act, highlights both opportunities and concerns. While the legislation could cement stablecoins’ prominence in the financial ecosystem, it raises issues about systemic risks and the implications of allowing tech firms to issue these currencies. Leaders in the sector advocate for a balanced approach to regulation that fosters innovation while safeguarding consumer rights and financial stability.

As the backdrop of digital finance continues to evolve, the path for stablecoins appears solid. The convergence of regulatory clarity, technological advancement, and evolving consumer needs will inevitably transform this dynamic sector. The focus now turns toward ensuring that the promising potential of stablecoins translates into real-world utility, enabling a seamless integration into the global financial system.

### Reference Map

1. Paragraphs 1, 2, 3, 4, 5, 6, 7 (1)
2. Paragraphs 2, 4 (2)
3. Paragraphs 3, 4, 5 (3)
4. Paragraph 3 (4)
5. Paragraphs 3, 4 (5)
6. Paragraph 2, 4, 6 (6)
7. Paragraph 4, 6 (7)

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## Bibliography

1. <https://macholevante.com/news-en/168374/unveiling-the-path-to-stablecoin-domination-the-role-banks-must-play/> - Please view link - unable to able to access data
2. <https://www.axios.com/newsletters/axios-crypto-21195fc0-2057-11f0-85c0-9d0fdebb2b48> - Citigroup's recent report forecasts rapid growth in the stablecoin market, predicting a potential fivefold increase over the next five years and possibly reaching nearly $4 trillion. The report highlights key drivers for this growth, including a shift from holding traditional currencies to stablecoins for hedging and the use of stablecoins for payments and cash management due to blockchain efficiency. It also notes that the majority of stablecoins will likely remain US dollar-denominated (approximately 90%). Citi suggests that while stablecoins may reduce bank deposits, banks can still remain relevant by offering custodial services, brokering reserve asset purchases, issuing stablecoins, and developing new financial products. Regulatory developments are seen as crucial for widespread adoption.
3. <https://www.ft.com/content/d033e015-f726-4d5f-ab38-2949171f2cdc> - Several major banks and fintech companies are entering the stablecoin market, aiming to reshape cross-border payments using cryptocurrency. Notably, Bank of America, along with firms like Standard Chartered, PayPal, Revolut, and Stripe, are targeting opportunities traditionally dominated by Tether and Circle. The increasing regulatory acceptance of stablecoins bolsters their confidence. These companies aim to capitalize on stablecoin transactions, which provide a cost-effective and immediate alternative to conventional banking systems, especially in emerging markets. Legislative progress in the US and Europe on stablecoin regulations is expected to provide more certainty and facilitate broader adoption. Despite the excitement, analysts voice caution regarding the potential market saturation and the inherent risks associated with issuing and managing stablecoins.
4. <https://www.reuters.com/technology/stablecoin-tether-gets-boost-dollar-alternative-emerging-markets-ceo-says-2024-04-19/> - Tether's stablecoin, known as USDT, is gaining traction as an alternative to the U.S. dollar in emerging markets, according to CEO Paolo Ardoino. This shift has been a primary driver of Tether's growth, rather than its use for cryptocurrency trading. The stablecoin, which aims to maintain a value of $1, had over $100 billion in circulation as of March and around 300 million global users. Emerging markets, including Turkey, Vietnam, Brazil, Argentina, and various African countries, are increasingly using USDT due to the scarcity of dollars in these areas. Argentina, in particular, has seen significant growth in USDT use over the past year. Despite regulatory concerns about the risks of crypto assets, Tether aims to support the unbanked by serving as a digital dollar alternative. The company plans to expand its workforce as it explores new ventures, including AI.
5. <https://www.axios.com/newsletters/axios-crypto-995b47b0-2128-11f0-9fff-ab168044284b> - Stablecoins are rapidly emerging as a transformative force in the global payments ecosystem, with major players like Circle, Tether, and PayPal making significant advancements. Circle recently launched the Circle Payments Network, targeting interoperability and efficiency in cross-border transactions, while Tether eyes U.S. market expansion with compliance-focused solutions. Traditional financial institutions, including ING and Bank of America, are preparing for stablecoin integration, spurred by evolving regulatory clarity in the U.S. and Europe. Stablecoin-related mergers and acquisitions are accelerating, with Stripe, Tether, and Paxos acquiring key assets to strengthen their infrastructure. Venture capital investment is heating up, injecting millions into startups developing stablecoin platforms and services. Meanwhile, custody of digital assets remains a regulatory concern, with industry representatives urging the SEC to allow flexible, technology-neutral solutions. The debate around asset segregation and self-custody continues as foundational issues for trust and security in the crypto economy. In essence, stablecoins are poised to revolutionize the finance landscape, but questions remain about whether they will replace existing systems like SWIFT and Visa or become part of the infrastructure. Either way, their influence is set to grow substantially.
6. <https://time.com/7274507/stablecoin-legislation-genius-act-musk/> - A stablecoin bill, known as the STABLE Act, has advanced through the House Financial Services Committee, increasing the chance that Congress will pass legislation cementing stablecoins' role in global finance. While praised for supporting the U.S. dollar’s international dominance and enabling lower-cost transactions worldwide, the legislation has triggered concerns of systemic risk, particularly due to its potential to empower Big Tech companies. The bill, along with the Senate’s GENIUS Act, permits non-financial firms to issue stablecoins via subsidiaries, which critics argue could allow dominant tech firms like Meta, X (formerly Twitter), and Amazon to consolidate financial power. Experts, including law professors Hilary Allen and Arthur Wilmarth, warn that this could erode traditional banking, compromise consumer data privacy, and entrench corporate dominance in financial systems. Lawmakers such as Rep. Maxine Waters proposed amendments to block commercial entities from entering banking, citing dangers to fair lending and economic stability. However, the amendment was rejected amid arguments about hindering innovation. With bipartisan support and input from major banks, the legislation is expected to proceed, raising critical debates about the future intersection of technology and finance.
7. <https://www.ft.com/content/b9860423-f7d7-477a-86f0-865f6992945c> - Avec Donald Trump de retour à la Maison Blanche, l'adoption des cryptomonnaies et la législation favorisant les 'stablecoins' avancent rapidement. Ces pièces numériques, conçues pour maintenir une valeur constante, risquent de concurrencer les dépôts bancaires bien que plus risquées et sans assurance-dépôts. Les grandes plateformes de la Silicon Valley pourraient bénéficier largement de cette législation, leur permettant potentiellement de fonctionner comme des banques en acceptant des dépôts en stablecoins. Cela pose un risque de systèmes financiers plus vulnérables et d'exposition accrue aux cyber-risques sans régulation stricte. Wall Street devrait se préparer à cette disruption potentielle massive par les géants technologiques.