

Stablecoins and Tokenized Deposits:

What Bank Leaders Need to Know





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Executive Summary

The passage of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) represents a pivotal moment for the financial services industry in the US. Signed into law on July 18, 2025, this landmark legislation establishes the first comprehensive federal regulatory framework for stablecoins, fundamentally altering the competitive landscape for community banks across the United States.

Treasury Secretary Scott Bessent's projection that the U.S. stablecoin market could grow from \$250 billion to over \$2 trillion over the next 3 years demonstrates the scale of transformation ahead. Community banks that successfully balance innovation adoption with preservation of relationship banking advantages will strengthen their competitive positioning. Those that fail to appropriately adapt risk losing market relevance as customer expectations evolve and new competitors enter traditional banking markets.

The GENIUS Act authorizes three types of entities to issue payment stablecoins: subsidiaries of insured depository institutions, federally qualified nonbank issuers, and state-qualified issuers. Community banks can pursue direct stablecoin issuance through subsidiary structures, participate through partnership arrangements, or engage via state-level regulatory pathways. The legislation includes important protective measures for traditional banking, including prohibitions on interest-bearing stablecoins and exclusion of stablecoin holdings from FDIC insurance coverage. These protections give community banks strategic levers to pull to protect their deposit base if used accordingly.

Community banks should also consider tokenized deposits as an alternative digital asset and payments innovation approach that operates under existing banking regulations rather than the GENIUS Act framework. Tokenized deposits enable banks to offer blockchain-based payment capabilities while maintaining traditional deposit structures and FDIC insurance coverage, potentially providing lower regulatory complexity while delivering digital payment innovation benefits and protecting the deposit base.

Community banks face both unprecedented opportunities and risks under the GENIUS Act. While the legislation creates new revenue streams through stablecoin issuance and related services, it simultaneously introduces competitive pressures that could accelerate deposit disintermediation if not appropriately addressed.

The GENIUS Act enables fintech companies, payment processors, and other nonbank entities to offer stablecoin services, creating new competitive dynamics in payments markets. However, restrictions on large technology companies require unanimous approval from federal regulators, providing some protection against rapid market domination by major tech platforms.

Community banks retain inherent advantages including established customer relationships, local market expertise, and regulatory compliance experience, which they need to utilize and leverage along with the right strategic approach to address the new competitive forces. However, it is imperative to first understand the fundamentals of stablecoins, tokenized deposits, and their role in the broader digital asset ecosystem before creating a long-term business strategy.

Introduction to Stablecoins

Understanding Stablecoins: Definition and Core Characteristics

Stablecoins represent a unique category of cryptocurrency designed to maintain stable value relative to reference assets, typically fiat currencies like the U.S. dollar. Stablecoins are also considered bearer instruments, similar to fiat currency, which means that ownership is determined by possession.

Unlike volatile cryptocurrencies such as Bitcoin or Ethereum, stablecoins are designed to minimize price fluctuations, making them more suitable for everyday transactions, store of value functions for certain use cases, and unit of account applications.

The stability mechanism varies depending on the stablecoin type, but the most common approach involves backing each stablecoin token with reserves of the reference asset. For dollar-pegged stablecoins, issuers typically maintain reserves of U.S. dollars, Treasury securities, or other dollar-denominated assets equal to or greater than the value of outstanding stablecoins. This backing enables holders to redeem stablecoins for the underlying reference asset.

The appeal of stablecoins lies in combining the benefits of digital assets such as programmability, instant settlement, and reduced transaction costs with the stability characteristics of traditional fiat currencies.

This combination makes stablecoins particularly attractive for payment applications, cross-border transfers, and digital commerce where price volatility would be a problem.

The stablecoin market includes several different approaches to maintaining price stability, each with distinct risk characteristics and operational requirements that are relevant for understanding the GENIUS Act's regulatory framework.

\$ Fiat-Backed Stablecoins represent the most common and straightforward approach, where issuers maintain reserves of fiat currency (typically U.S. dollars) or highly liquid, low-risk assets backing each stablecoin token. Examples include USD Coin (USDC) issued by Circle and USD Tether (USDT) issued by Tether. These stablecoins rely on trust in the issuer's reserve management and redemption capabilities, making regulatory oversight particularly important for consumer protection.

🔒 Crypto-Backed Stablecoins use other cryptocurrencies as collateral, typically over-collateralized to account for the volatility of the backing assets. Examples include DAI issued by MakerDAO, which uses a complex system of smart contracts and cryptocurrency collateral. These stablecoins face additional complexity in maintaining stability during crypto market volatility and may be less suitable for mainstream adoption due to their technical complexity.

Σ Algorithmic Stablecoins attempt to maintain price stability through algorithmic mechanisms that adjust supply based on demand, without traditional asset backing. However, several high-profile failures in this category, including the collapse of TerraUSD (UST) in 2022, have demonstrated the risks associated with purely algorithmic approaches and contributed to regulatory focus on asset-backed models and markets to move away from purely algorithmic stablecoins. Some of the original algorithmic coins such as Tron's USDD

have moved to a crypto-backed or hybrid model to stay relevant. There are still close to \$500M to \$600M of algorithmic stablecoins in circulation, which represents a less than .25% of the total stablecoin circulation.

The GENIUS Act specifically defines “payment stablecoins,” which are defined as fiat-backed stablecoins designed for payment and settlement applications rather than speculative investment. Payment stablecoins, being fiat-backed stablecoins, present more manageable risks and greater utility for legitimate payment applications.

Market Size and Growth Trajectory

The stablecoin market has experienced explosive growth, evolving from a niche cryptocurrency application to a significant component of global payment infrastructure with potentially substantial implications for traditional banking. The scale and growth trajectory of stablecoin transaction activity demonstrate the significant market dynamics that community banks must understand and address in their strategic planning.

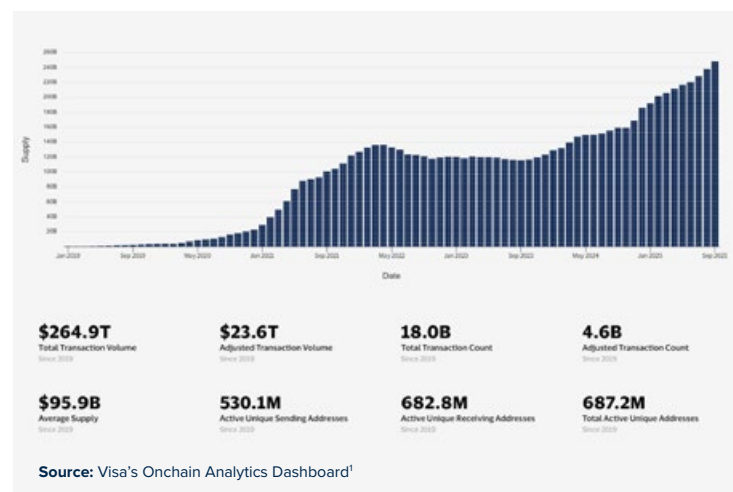
The total stablecoin market capitalization has grown from less than \$10 billion in early 2020 to close to \$260 billion in 2025, representing compound annual growth rates exceeding 120%. While this growth is mostly related to use cases centered on crypto trading and market making activities, it also reflects increasing adoption by individuals, businesses, and financial institutions seeking efficient payment and settlement solutions to a lesser extent.

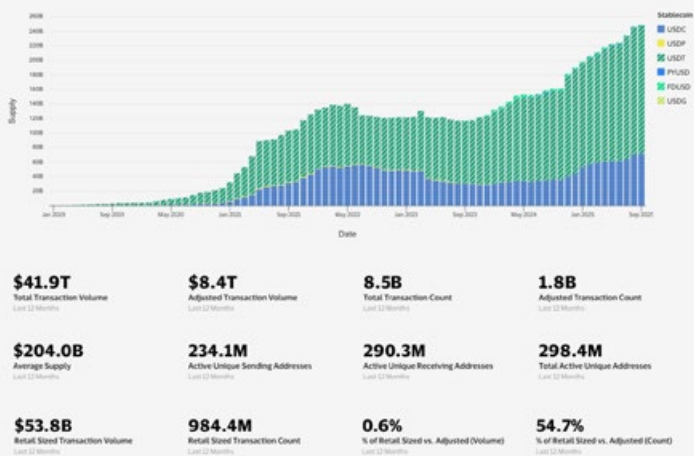
Transaction volumes provide an even more dramatic picture of stablecoin adoption, with daily transaction volumes frequently exceeding those of traditional payment networks. Daily stablecoin transaction volumes frequently exceed \$50 billion, with peak days reaching over \$100 billion during periods of high market activity.

In 2024, stablecoin transaction volumes surpassed the combined volumes of Visa and Mastercard, demonstrating their growing importance in global payment infrastructure. It is also important to note that the majority of stablecoin transaction volume today is still related to the trading and speculation markets (Crypto exchanges and DeFi platforms) and not traditional payments for commerce and remittances.

While this is the current state, adoption of stablecoins for use in everyday life is growing. Most of the use cases that support this growth have been outside of the United States, somewhat because of the uncertainty surrounding a regulatory framework and somewhat because of the limitations in the infrastructure to support them. With the passage of the GENIUS Act, which could change quickly with the acceleration of infrastructure build to support rapid adoption. Some examples of use cases driving this adoption may include cross-border B2B payments and remittances and inflation hedges, to name a few.

The geographic distribution of stablecoin usage reveals greater usage in emerging markets where traditional banking infrastructure may be less developed or where local currency instability drives demand for dollar-denominated digital assets as a safe store of value. However, usage in developed markets including the United States continues





Source: Visa's Onchain Analytics Dashboard¹

to grow as businesses and individuals discover efficiency advantages over traditional payment methods for certain use cases.

Current Stablecoin Ecosystem

Understanding the existing stablecoin ecosystem provides important context for evaluating the GENIUS Act's impact and the competitive dynamics that community banks will face in regulated stablecoin markets.

The stablecoin market is dominated by a few large issuers, each with different business models, regulatory approaches, and market positioning strategies that will influence competitive dynamics under the GENIUS Act regulatory framework.

Tether (USDT) maintains the largest market capitalization among stablecoins, with over \$100 billion in outstanding tokens. Tether's approach emphasizes broad distribution across cryptocurrency exchanges and minimal regulatory engagement, though this strategy may face challenges under enhanced regulatory oversight. Their market leadership provides significant network effects and liquidity advantages. Tether has recently announced a new stablecoin (USAT) to target the US market specifically designed to comply with the GENIUS Act.

USD Coin (USDC) issued by Circle represents the most regulated major stablecoin, with Circle maintaining full reserves in cash and short-term U.S. Treasury securities and providing monthly attestations of reserve adequacy. Circle completed a successful initial public offering in 2025 and actively engages with regulators, positioning itself as a compliant leader in regulated stablecoin markets. Circle is also very active in partnering with Fintech and Financial Institutions, claiming over 100 partnerships to date. While nearly all of the financial institution they work with are outside of the US, they have established partnerships with large fintechs that service many US banks, large and small.

Paxos is a regulated fintech company that issues fully backed stablecoins under New York State banking regulations, operating both its own stablecoins like USDP and USDG and providing white label stablecoin services to other companies. The company's key differentiator is its "stablecoin-as-a-service" model, where it handles regulatory compliance, 1:1 USD backing through segregated bank accounts, and technical infrastructure, allowing clients to launch compliant stablecoins without navigating complex regulations themselves. All Paxos stablecoins are backed by cash and cash equivalents with monthly third-party attestations, positioning the company as a trusted infrastructure provider for both traditional financial institutions and crypto companies seeking regulatory-compliant digital dollar solutions. Paxos has stated that their own stablecoins will be GENIUS Act compliant. Major stablecoins issued by Paxos include (PayPal USD/PYUSD) and (Binance BUSD, though no longer minting new tokens).

PayPal USD (PYUSD), issued on the Paxos platform, represents big tech entry into stablecoin markets, though subject to the GENIUS Act's restrictions on non-

financial public companies. PayPal's approach focuses on integration with their existing payment platform rather than broad market distribution at this point.

Major Use Cases and Applications

Stablecoins provide various functions in digital asset markets and traditional commerce, with different use cases presenting varying implications for community bank competitive positioning and strategic opportunities.

Digital Asset Trading and DeFi represents a major use case, nearly 70% of all stablecoin usage today, where stablecoins serve as stable value stores and trading pairs in cryptocurrency markets and decentralized finance protocols. While community banks may have limited direct involvement in these applications, they create demand for stablecoin liquidity and reserve custody services that may be an opportunity for banks.

Cross-Border Payments and Remittances estimated to be close to 15% of all stable coin usage today, represent perhaps the most significant threat to traditional banking services, as stablecoins can facilitate international transfers in minutes rather than days while reducing costs by 50-90% compared to traditional correspondent banking. This application presents both competitive threats and partnership opportunities for community banks.

E-Commerce and Digital Payments applications, estimated to be less than 10% of stablecoin usage today, include online merchant payments, subscription services, and digital marketplace transactions where stablecoins offer advantages over traditional payment methods including reduced transaction costs, faster settlement, and programmable payment functionality including embedded payments and AI Agent managed payments.

Treasury Management and Corporate

Payments represent growing business applications where companies use stablecoins for supply chain payments, vendor transactions, and cash management activities. This segment presents significant opportunities for community banks to provide related services while maintaining business customer relationships.

Retail Payments is a developing application area where consumer adoption depends on user experience improvements, merchant acceptance, and regulatory clarity. Community banks may find opportunities to facilitate retail stablecoin adoption while maintaining customer relationships and providing related services. It is important to note that there are many hurdles to clear before these type of use cases may be viable in the US, but with the current focus on these type of use cases by industry leaders, it is inevitably an area that should be considered.



Tokenized Deposits: An Alternative Digital Asset/Payments Approach

While the GENIUS Act focuses specifically on payment stablecoins, community banks should also consider tokenized deposits as an alternative or complementary approach to digital asset/payments innovation. This approach seems to be the chosen path for large institutions like JP Morgan Chase, Citigroup and HSBC, albeit mostly focused on institutional client use cases. Mastercard is also building a platform that will provide infrastructure for banks to use. Understanding the distinctions between stablecoins and tokenized deposits is crucial for developing comprehensive digital asset strategies and formulating a strategic response to the GENIUS Act.

Definition and Characteristics of Tokenized Deposits

Tokenized deposits represent traditional bank deposits that have been converted into digital tokens on blockchain networks while maintaining their status as bank deposits subject to existing banking regulations, FDIC insurance, and traditional banking oversight.

Unlike stablecoins, which represent separate digital assets backed by reserves, tokenized deposits are direct digital representations of actual bank deposit liabilities. This fundamental difference means that tokenized deposits retain all the characteristics of traditional bank deposits, including FDIC insurance coverage, regulatory oversight under existing banking laws, and integration with traditional banking products and services. This also means that tokenized deposits mitigate deposit disintermediation risk.

The tokenization process involves creating digital tokens that represent specific deposit amounts while maintaining the underlying

legal and regulatory structure of traditional banking relationships. Customers holding tokenized deposits maintain standard deposit account relationships with their banks while gaining access to blockchain-based transaction capabilities and programmable money features.

This approach enables banks to offer blockchain-based payment and settlement capabilities without creating new regulatory classifications or compliance requirements beyond those already applicable to traditional banking operations. Tokenized deposits can leverage existing banking infrastructure while adding digital asset functionality through technology integration rather than regulatory changes.

Smart contract functionality enables tokenized deposits to support programmable payment features including conditional payments, automated settlement procedures, and integration with decentralized finance protocols while maintaining traditional banking oversight and consumer protection standards.

Interoperability considerations become crucial as banks must ensure that tokenized deposits can interact effectively with various blockchain networks, payment protocols, and external systems while maintaining compatibility with traditional banking infrastructure and regulatory reporting requirements.



Regulatory Advantages and Framework Alignment

Tokenized deposits operate within existing banking regulatory frameworks, providing several advantages over stablecoin approaches that require navigation of new regulatory requirements under the GENIUS Act.

FDIC insurance coverage continues to apply to tokenized deposits because they remain traditional bank deposit liabilities despite their digital token representation. This insurance coverage provides significant competitive advantages over stablecoins while maintaining customer confidence and regulatory familiarity.

Existing banking regulations including BSA/AML requirements, consumer protection standards, and prudential oversight continue to apply without modification, eliminating the need for banks to develop enhanced compliance programs specifically for digital asset operations.

Capital requirements remain unchanged because tokenized deposits represent traditional deposit liabilities rather than new asset categories requiring separate capital treatment. This regulatory treatment provides operational simplicity while avoiding potential capital complications associated with stablecoin operations.

Examination procedures follow traditional banking examination standards rather than requiring development of new examination capabilities and regulatory relationships, providing familiarity and predictability for both banks and regulatory supervisors.

Aspect	Stablecoins	Tokenized Deposits
FDIC Insurance	No coverage	Full coverage maintained
Regulatory Framework	GENIUS Act compliance	Existing banking regulations
Reserve Requirements	100% reserve backing	Traditional fractional reserve
Revenue Generation	Fees only, no interest	Traditional banking & digital fees
Implementation complexity	High—new infrastructure	Moderate—builds on existing
Risk Profile	Higher regulatory/operational	Lower, familiar network

Stablecoins vs. Tokenized Deposits

Understanding the fundamental differences between stablecoins and tokenized deposits is essential for community banks to evaluate their strategic options in digital asset markets and payments innovation. The choice between stablecoins, tokenized deposits, or hybrid approaches presents significant strategic implications that community banks should evaluate carefully based on their institutional objectives, capabilities, and market positioning.

Legal and Regulatory Structure

Stablecoins create new digital assets subject to the GENIUS Act's regulatory framework, requiring enhanced compliance programs, new regulatory relationships, and adherence to specific stablecoin operational requirements. Tokenized deposits maintain existing deposit structures while adding blockchain functionality, avoiding new regulatory complexity and maintaining familiar oversight relationships.



Consumer Protection

Stablecoins lack FDIC insurance coverage and require specific consumer disclosures about risks and redemption procedures under the GENIUS Act framework. Tokenized deposits maintain full FDIC insurance coverage and existing consumer protection standards while adding digital functionality, providing superior customer protection and confidence.

Fraud Management and Cybersecurity

Tokenized deposits operate within established banking fraud prevention frameworks, providing real-time transaction monitoring, comprehensive KYC/AML controls, and the ability to freeze or reverse suspicious transactions. Their cybersecurity architecture leverages mature banking-grade security protocols, regulated custody standards, and institutional incident response procedures, while maintaining FDIC insurance protection and professional liability coverage. Operating on private, permissioned networks with regulatory oversight ensures robust fraud detection capabilities and coordinated response mechanisms across traditional banking channels.

Stablecoins accounted for over 60% of illicit crypto transactions in 2024 according to the International Compliance Association, presenting significant fraud management challenges due to their immediate, irrevocable nature with limited ability to screen or reverse fraudulent payments. Cybersecurity risks include smart contract vulnerabilities, oracle manipulation, and cross-chain bridge exploits according to Chainalysis. Pseudo-anonymous transactions on public blockchains enable identity obfuscation and complicate fraud investigations. Emerging blockchain analytics tools and new regulatory frameworks like the GENIUS Act need to address the current lack of comprehensive fraud liability protections and the significant challenges in fund recovery. Sophisticated monitoring systems and enhanced due diligence procedures to mitigate elevated fraud and security risks are needed.

Reserve Requirements

Stablecoins require 100% reserve backing with approved assets and monthly public reporting of reserve compositions, creating substantial operational complexity and transparency obligations.² Tokenized deposits operate

under traditional fractional reserve banking, enabling banks to maintain existing asset-liability management practices while supporting lending and community development activities.

Revenue Generation

Stablecoins generate revenue primarily through issuance fees, redemption charges, and ancillary services while prohibiting interest payments to holders. Tokenized deposits can generate revenue through traditional deposit-based banking including net interest margin while adding fee opportunities from enhanced digital services and programmable payment functionality.

Market Access

Stablecoins can potentially attract customers beyond existing bank relationships while requiring substantial customer acquisition investment and marketing efforts. Tokenized deposits leverage existing customer relationships while providing enhanced services to current customers, supporting customer retention and relationship deepening strategies.

Operational Complexity

Stablecoin operations require comprehensive new operational capabilities including reserve management, issuing infrastructure, enhanced compliance programs, and specialized customer service systems. Tokenized deposits build upon existing operational infrastructure while adding blockchain integration capabilities, reducing implementation complexity and operational risk.

Competitive Positioning

Tokenized deposits would enable community banks to offer innovative digital payment capabilities while maintaining their traditional banking advantages including FDIC insurance, relationship banking, and community focus. This approach could provide differentiation against fintech competitors while preserving existing customer value propositions.

Stablecoin approaches could enable banks to participate in broader digital asset markets and potentially attract new customer segments while requiring substantial investment in new capabilities and regulatory compliance. This approach may provide greater revenue opportunities but at higher implementation costs and operational complexity.

Risk Management

Tokenized deposits present lower regulatory and operational risks because they operate within existing banking frameworks while





providing digital innovation capabilities. However, they may offer limited competitive differentiation compared to stablecoin approaches that provide more comprehensive digital asset market participation.

Stablecoin operations present higher regulatory complexity and operational risks while potentially providing greater revenue opportunities and competitive positioning advantages in evolving digital payment markets.

Implementation Considerations

Tokenized deposits may be more suitable for community banks seeking to enhance existing customer relationships and services without substantial operational transformation. The approach leverages existing banking strengths while providing measured innovation adoption.

Stablecoin strategies may be more appropriate for banks seeking comprehensive digital asset market participation and willing to invest substantially in new capabilities and operational transformation. This approach could provide greater long-term competitive positioning but requires more extensive implementation efforts.

Hybrid Strategic Approaches

Community banks may consider hybrid strategies that incorporate both tokenized deposits and selective stablecoin market participation, enabling them to serve existing customers through tokenized deposits while exploring broader digital asset opportunities through partnership or subsidiary stablecoin operations.

Conclusion

The GENIUS Act represents more than incremental regulatory change—it may mark a fundamental transformation in financial services markets that will reshape competitive dynamics, customer expectations, and operational requirements across the banking industry. For a more comprehensive view of the Act, as well as its implications and opportunities, refer to the next part of this series.

Evolution of the Stablecoin Market Post-GENIUS Act

The GENIUS Act's implementation will fundamentally transform stablecoin markets while creating new growth trajectories and

competitive dynamics that community banks should understand and anticipate in their strategic planning.

Market Growth Projections and Drivers

Regulatory clarity provided by the GENIUS Act eliminates one of the primary barrier to institutional adoption while creating confidence among corporate treasurers, payment processors, and financial institutions previously hesitant to engage with unregulated stablecoin markets. This institutional adoption could drive substantial growth as large corporations integrate stablecoins into their treasury management and payment processing operations.

Cross-border payment efficiency represents a major growth driver as businesses and individuals discover stablecoins' advantages over traditional correspondent banking for international transfers. The ability to settle international payments in minutes rather than days while reducing costs by 50-90% compared to traditional wire transfers creates compelling value propositions for users.

Decentralized finance integration could drive additional growth as GENIUS Act compliance enables traditional financial institutions to engage with DeFi protocols while maintaining regulatory compliance.

This integration could create new financial products and services while expanding stablecoin usage beyond traditional payment applications.

E-commerce and digital marketplace integration represents another significant growth area as online merchants may discover stablecoins' advantages for payment processing, including reduced transaction costs, faster settlement, programmability, and international payment capabilities without traditional currency conversion complexity.



Integration with Traditional Payment Rails

The evolution toward hybrid payment systems combining traditional banking infrastructure with stablecoin capabilities will create new opportunities which would require strategic adaptation by community banks.

Federal Reserve payment system integration including FedNow and RTP network interoperability with stablecoins could create seamless payment experiences combining instant settlement with traditional banking security and regulatory oversight. Community banks should monitor these developments while positioning themselves to benefit from enhanced payment capabilities.

Credit card and debit card integration with stablecoin funding sources could enable customers to use stablecoins for everyday purchases while maintaining familiar payment experiences. Banks should evaluate partnership opportunities with payment networks while considering competitive implications for traditional card products.



Automated clearing house (ACH) system integration could enable stablecoins to serve as underlying settlement mechanisms while maintaining familiar user experiences and operational procedures. This integration could improve settlement speed and reduce costs while preserving existing business relationships and operational frameworks.

International payment network integration, including SWIFT system interoperability could enhance cross-border payment efficiency while maintaining existing correspondent banking relationships and operational procedures. Community banks should monitor these developments while evaluating participation opportunities and competitive implications.

Technology and Innovation Trajectory

Technological advancement in blockchain infrastructure and digital asset capabilities will continue creating new opportunities while potentially disrupting existing competitive dynamics and operational approaches.

Blockchain Infrastructure Scalability

Ongoing improvements in blockchain network capacity, speed, and cost-effectiveness will enhance stablecoin utility while potentially enabling new applications and market segments.

Layer 2 scaling solutions including Lightning Network, Polygon, and other second-layer protocols could dramatically reduce transaction costs while increasing processing speed, making stablecoins more attractive for small-value payments and retail applications that currently favor traditional payment methods.

Interoperability protocols enabling seamless transfers between different blockchain networks could reduce operational complexity while providing customers with enhanced flexibility and choice in stablecoin applications. Banks should monitor interoperability development while evaluating impacts on their technology infrastructure requirements.

Cross-chain functionality enabling stablecoins to operate across multiple blockchain networks could reduce customer complexity while providing enhanced functionality and competitive positioning opportunities for banks offering comprehensive stablecoin services.

Programmable Money and Smart Contract Integration

Advanced smart contract capabilities will enable sophisticated financial applications while creating new revenue opportunities and competitive dynamics for community banks.

Automated payment processing through smart contracts could enable banks to offer enhanced business services including supply chain finance, escrow services, and conditional payment applications that provide competitive advantages while generating fee income.

Treasury management automation through programmable stablecoins or tokenized deposits could enable business customers to implement sophisticated cash management strategies while maintaining banking relationships and generating service fees for participating banks.

Integration with Internet of Things (IoT) devices and other emerging technologies could create new payment applications while expanding stablecoin usage beyond traditional financial services into areas including automotive payments, utility billing, and retail automation.

Dive Deeper into the GENIUS Act and Implications for Your Institution

Stablecoins and tokenized deposits are reshaping the financial landscape, creating both innovation opportunities and competitive pressures. Understanding these technologies is only the first step. The critical question is how community financial institutions should respond. Part two of this paper explores the regulatory framework, market considerations, and risks that will impact the future of community banking. Read on to take a deep dive into the legislation, as well as strategic guidance for preparing to act.



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Resources

¹ [Visa: Onchain Analytics Dashboard](#)

² [Stablecoins Dominate Crypto Market with 60% Transaction Share](#)

