Future of Payments

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Dear reader,

Welcome to this, the inaugural edition of the Projective Group Institute's new Journal of Financial Services!

We're very excited to be launching our Journal at a time of immense challenge and change for the financial services industry, and we've drawn upon the deep subject matter expertise of the many renowned contributors to this edition of the Journal to bring you what we hope you'll find to be a highly stimulating series of articles.

We'll be publishing editions of the Journal on a regular basis, and each time we will be focusing on those topics our Advisory Board members, who are leading academics and executives, are telling us are of key strategic importance to them. And it's for that reason that we've chosen to focus this edition on the world of Payments.

Payments has gone from being an often-overlooked, quite slow-changing, typically back-office, function to becoming one of the most transformed - and transformative – functions in the financial services industry. And all of that has happened within the space of only a few years. Digitization, cloud native technology, financial crime and fraud, artificial intelligence, and many other recent developments, combined with ever-greater regulatory scrutiny and ever-increasing client expectations, have created the perfect storm for legacy Payments providers and have opened this area up to newer and more agile competitors.

We focus on the drivers of that transformation, the implications of those drivers for the various players in the Payments value-chain, and the key decision points firms will therefore soon face if they intend to remain leaders in this field.

I'm conscious that in creating the articles in this Journal, many individuals have spent many hours researching and writing, and I'm very grateful for their time and expertise!

I look forward to getting your feedback on our new Journal of Financial Services, and to speaking with you again soon.

Stefan Dierckx, Founder & CEO, Projective Group

Future of Payments

Stablecoins: a new technology, or older than the Knights of Templar?

Paul H. Kupiec, Senior Fellow and Arthur F. Burns Chair in Financial Policy, American Enterprise Institute[1]

ABSTRACT

Stablecoins are the traveler's check of the internet era. Once tendered and confirmed genuine by some public cryptologic process, a stablecoin's monetary value is trustworthy and readily convertible into legal currency. Stablecoins have seen only limited use in commercial transactions, but this seems certain to change. Compared to stablecoins, traditional bank deposits offer more favorable capital/reserve requirements, federal deposit insurance, and the ability to pay interest. New legislation poised to pass the U.S. Congress will enable banks to offer stablecoin financial services. This legislation will likely catalyze the development of hybrid deposit accounts, where bank depositors earn interest on balances that can seamlessly be transformed into bank-issued stablecoins, which can then be traded and subsequently transformed back into traditional deposits.

1. The author was formerly the Chairman of the Research Task Force at the Basel Committee on Bank Supervision, and Director of the Center for Financial Research at the Federal Deposit Insurance Corporation (FDIC).

1. Introduction

Private stablecoins are a form of digital money that can be purchased and traded over the internet. A significant share of private stablecoin transactions can be attributed to their use in facilitating the purchase and sale of other digital assets. Thus far, private stablecoins have achieved only a limited degree of public acceptance as a means of payment in commercial transactions, but with new legislation on the horizon, this may soon change.

Private stablecoins serve a function similar to travelers' checks, which have been in use since at least the Crusades, perhaps longer. The only difference being that private stablecoins can be spent over the internet. Stablecoins' use of cryptology to prevent fraud and double spending may be just the newest incarnation of an ancient practice.

1.1 A new solution to an ancient problem

After Jerusalem fell to Christian Crusaders in June 1099, Christian pilgrims from across Western Europe visited the Holy Land. Many were robbed and killed as they travelled through Muslim-controlled territories. Around 1120, a French knight, named Hugues de Payens, founded a military order called the Poor Knights of the Temple of King Solomon (later known as the Knights Templar).[2] The Knights of Templar were warrior monks, bankers, pirates, and part of a religious order that reported directly to the pope. They had headquarters on Jerusalem's sacred Temple Mount and pledged to protect Christian visitors to the city.

To facilitate pilgrimages to the Holy Land, the Knights of Templars accepted specie and coins and in return issued paper bills that could be exchanged for money at Knights of Templar outposts called preceptories in England, throughout Christian Europe, and in the Holy Land. To prevent fraud, the Knights reportedly developed a system of codes for the secure passing of information, and pilgrims' deposits and withdrawals from preceptories were recorded on paper bills using coded ciphers. In essence, the Knights invented the travelers' check.

Others historical accounts argue that these pious monks actually stole the idea from their Muslims adversaries. Proponents of this theory claim that a similar system existed in the 5th Abbadis Caliphs, which would imply traveler's checks were in use from about the year 790 AD. My guess is that the Muslims could have learned the practice from the Greeks or Romans who traveled extensively in earlier times, but I have not seen any documentation that confirms this conjecture.

2. Stablecoins: the traveler's check of the internet era

Traveler's checks and money orders are of course still in use today. They are not issued by monks or even banks necessarily. Many are issued by state-licensed money transfer agents and even the post office. Some banks do issue traveler's checks (or have done so in the past), but all banks issue similar instruments in the form of letters of credit, bank cashier's checks, prepaid or stored-value cards, and even revolving credit cards - all of which are a means to solve the underlying problem of paying someone, perhaps some distance away, who has no reason to know or trust you. Unlike private stablecoins, all of these products settle using private access payments systems controlled and operated by banks. In contrast, stablecoin transactions are processed using a public distributed ledger system where agents called "miners" compete to earn rewards for processing stablecoin transactions. Different stablecoins transact using different public ledgers that are not interoperable.

Modern stablecoins are digital assets designed to maintain a stable values relative to a reference currency like the U.S. dollar. Many U.S. dollar denominated stablecoins attempt to maintain their value by investing the dollar proceeds from a newly-issued stablecoins in high-quality, short-term, liquid, dollar-denominated assets of equivalent value held by the stablecoin sponsor as a reserve that can be used to stabilize the coin's market value. There are other versions that are an entirely separate breed of stablecoin. These coins hold crypto assets as reserves or use algorithmic arbitrage trading to maintain parity with the dollar. It is unclear to me why these types of stablecoins should be recognized as a legitimate means of payment rather than as a risky security.

2. https://tinyurl.com/5ankvdt5

3. Stablecoins and commercial transactions

Thus far, private stablecoins are not commonly used in the U.S. retail banking environment. JPMorgan-Chase issued its own private stablecoin, JPM Coin, that was designed to facilitate transactions internally between its institutional clients. The coin has not been made available to the retail public and the blockchain it trades on is private.

More recently, two niche banks, Custodia Bank and Vantage Bank, reportedly designed a system wherein Custodia Bank's public stablecoin, Avit, is used to process commercial transactions.[3] The system transfers bank deposit balances between two banks without using the Federal Reserve or Automated Clearinghouse payments systems. Instead, the banks transform deposits into the stablecoin Avit, transact over the Ethereum blockchain, and redeem the stablecoin for a deposit at a participating counterparty bank. The end result is that insured bank deposits are digitized into a stablecoin, traded and settled over a public blockchain, and transformed back into a bank deposit.

In the near future, as banks develop ways to use stablecoin technology to safely and efficiently digitize bank deposits, it is likely that private stablecoins will become better integrated into the U.S. retail banking system. Bank deposits are already a form of digital currency, and in many ways dominate private stablecoins: they can pay interest, are federally insured up to U.S.$250K, and they clear and settle over highly secure systems. The downside for many is that the settlement systems are centrally controlled by banks and the Federal Reserve and, as it currently stands, these systems will not support the use of the smart contracts being developed in the private stablecoin space.

4. Modernizing stablecoin regulation

New stablecoin legislation has not been finalized, but two largely compatible bills enjoy wide support within the U.S. Congress. Should one of these bills pass, it will likely accelerate the integration of private stablecoins into the retail banking environment.[4]

New stablecoin legislation would define and regulate private stablecoins as a digital asset that:

- Has a reasonable expectation of maintaining a stable monetary value.
- Is redeemable for currency.
- Is designed to be used as a means of payment.
- Is not a national currency.
- Is not a security.
- Is not a deposit as defined in the Federal Deposit Insurance Act or the Federal Credit Union Act.

Private stablecoins will not be permitted to pay interest, and, unlike bank deposits, will not benefit from federal deposit insurance. However, they will be required to maintain dollar-for-dollar reserves in short-term high-quality liquid assets, including Treasury Bills, bank deposits, reserve deposits at a Federal Reserve district bank, Treasury securities with remaining maturities of 3 months or less, and money market fund shares backed by Treasury securities. Stablecoin reserves held by bank subsidiary stablecoin issuers would not be subject to bank capital requirements and would not be included as liabilities at the consolidated bank holding company level.

Stablecoin issuers will be required to file reports on a monthly basis that provide the public with information that certifies that the stablecoin issuer is complying with legal reserve requirements. Public reports must be periodically certified, perhaps as frequently as bi-monthly, by an accredited public accounting firm. In the case of a stablecoin issuer bankruptcy, stablecoin owners would have priority after administrative expenses in a bankruptcy proceeding.

3. https://tinyurl.com/mdfe9u83

4. In July 2025, the U.S. Congress passed the GENIUS Act, which provides a new legal and regulatory framework for licensing payment stablecoins. The final legislation (available at: https://tinyurl.com/mrya7t6y) closely mirrors the provisions of earlier versions of proposed bills that are described below.

Proposed legislation would allow private stablecoins to be issued by a subsidiary of an insured depository institution using federal or state approved regulatory frameworks. Nonbank entities could also issue stablecoins under a federal national license if approved by the Office of the Comptroller of the Currency (OCC) or under a state license if approved by a state regulatory agency. Bank issued stable coins would be subject to regulations promulgated by their parent bank's primary federal regulator while stablecoins issued by a subsidiary of a credit union would be regulated by the National Credit Union Administration.

Most private stablecoins issuers to date are entities licensed as state-regulated money transfer agents, or licensed as limited-purpose trust companies. Should the legislation pass, the law will likely specify that state regulatory authorities would have to certify annually that their state stablecoin regulatory regimes impose standards that meet or exceed the standards required under federal stablecoin regulations. It is possible that the legislation may require stablecoins larger than a specified market cap to be licensed by a federal stablecoin regulator. Should conflicts arise, federal stablecoin regulations will likely preempt those issued by states. Stablecoin issuers will be required to comply with anti-money laundering laws, but the exact rules and oversight arrangements that will apply have yet to be determined.

5. Stablecoins and traditional retail banking

It seems likely that new stablecoin legislation will foster the creation of hybrid bank accounts that will allow customers to transact using traditional banking clearing and settlement systems, as well as transact using private stablecoins and a permissioned, if perhaps not fully public, blockchain. Banks' subsidiaries and nonbank firms licensed to issue private stablecoins will likely form a consortium - a jointly owned payments system processor - that develops and runs a ledger-based payments platform that can be used by private stablecoin issuers and banks alike. Such an arrangement would mirror the way credit, debit, ATM, and ACH processing systems were developed in the past. Under such a scenario, the common stablecoin blockchain would likely be permissioned with only limited retail public access through a stablecoin issuer portal. Indeed, recent press reports suggest that the largest U.S. banks are considering developing a joint stablecoin to compete in the retail crypto transactions space.[5]

It remains to be determined whether the Federal Reserve would have oversight powers over private stablecoin blockchains. If the Fed were given regulatory authority, it could require that proof-of-stake processors satisfy certain minimum regulatory requirements, including gaining "fit and proper" approval similar to ownership suitability requirements in banking, as well as compliance with anti-money laundering laws.

6. Conclusion

In order to safeguard their deposit bases against competition from private stablecoin issuers, it seems likely that banks will develop and offer deposit accounts that include transactions services that either use, or approximate the use of, private stablecoins as a transacting option. These hybrid bank deposits will be a new type of checking account. Bank capital, liquidity, and other regulations are already in place to manage the associated bank safety and soundness risks and new stablecoin legislation will provide for a unified federal regulatory framework that allows bank subsidiaries to issue and transact in private stablecoins. These new hybridized deposit accounts would modernize retail banking and could potentially accelerate clearing times and reduce transactions processing costs, especially in cross border transactions. Regardless, retail consumers seem destined to benefit from healthy competition between legacy transaction clearing and settlement systems and systems based on the internet and blockchain technology.

5. https://tinyurl.com/5ankvdt5

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