

Stablecoins and Banking: Operational Improvements, Deposit Dynamics, and Financial Stability

Across recent work, the Coinbase Institute has advanced a consistent evidence-based view of stablecoins as a complementary innovation that can enhance bank operations, particularly when subject to prudent safeguards such as full-reserve backing, par redemption, and transparent disclosures. The Institute's analysis underscores three central points: that stablecoins can expand opportunities for banks to offer faster, more efficient payment services; that well-structured stablecoins pose limited risk to traditional bank deposits; and that, when governed by frameworks like the GENIUS Act, they are compatible with—and can even support—broader financial stability.

A recent paper by Professor Lin William Cong provides further support for these positions. In his paper *Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design*, Cong evaluates deposit dynamics, banking competition, and systemic risk channels under realistic yield environments and prudential design constraints, concluding that well-designed, fully reserved stablecoins can coexist with—and in many cases strengthen—bank intermediation and financial stability.¹

I. Stablecoins and banking innovation

A growing body of analysis, including a recent paper by the Coinbase Institute, highlights multiple ways in which stablecoins can be integrated into bank business models—both on- and off-balance sheet—to improve payments, liquidity, and customer experience.²

- Custody and reserve services for compliant issuers build on banks' strengths in safekeeping, HQLA management, and operational controls, supporting fee income and balance-sheet activity within familiar risk frameworks.
- Tokenized settlement rails can shorten cross-border settlement times and reduce reconciliation and counterparty risk through programmable, atomic transfers, delivering efficiency gains in treasury, B2B payments, and intraday liquidity.
- Interoperability with bank channels, including deposit-token pilots and network integrations, shows how banks can embed programmable payments while retaining customer relationships and compliance boundaries.

¹ Lin William Cong, "Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design" (Cornell University, Dec. 7, 2025), <https://cornell.app.box.com/s/njs6ovw8mvtvj06slrlzlcwjj7a0y1>; Prof. Cong's paper was prepared with financial support from Coinbase, Paradigm, PayPal, and Stripe; however, the research design, analyses, and conclusions expressed in the paper are solely those of the author.

² Coinbase Institute, "Stablecoins and Bank Deposits: Overstating Risk," accessed Dec. 15, 2025, https://ctf-images-01.coinbasecdn.net/o10es7wu5gm1/7INuNf3O72a5snetQvi5jl/bf1858dd1660f989b34899eb3e4a088b/Stablecoins_and_Bank_Deposits_Overstating_Risk_2.pdf.

These conclusions align with Cong's analysis of how incumbent institutions adapt strategically. In environments with constrained yields and under full-reserve requirements, stablecoins tend to intensify price competition in deposit markets while accelerating digital modernization—particularly in settlement infrastructure. Rather than eroding the role of banks, this dynamic expands opportunities to monetize core advantages in custody, liquidity provision, and compliance at scale, reinforcing banks' position in the financial system.

II. Stablecoins and bank deposits

The Coinbase Institute has argued in several recent pieces that stablecoin growth is not, on net, a threat to deposit funding for banks, a view supported by usage patterns and by the economics of bank competition under realistic conditions.³ The Institute's analysis emphasizes that current stablecoin adoption is concentrated in non-retail and cross-border use cases and recirculates into the regulated system via reserves and short-term Treasuries, implying limited substitution from domestic retail deposits.

Cong's research corroborates and extends this analysis. First, he documents that stablecoins remain a small fraction of U.S. deposits, with significant shares used as transactional media (including cross-border and onchain uses) rather than as long-term saving vehicles—evidence inconsistent with large deposit displacement. Second, calibrating standard bank-competition frameworks to current macro conditions, he shows that if future stablecoin yields remain below approximately 6 percent—a level substantially higher than the current average yield of 4.03 percent for USDC on Aave—they likely would have neutral-to-positive effects on deposits and lending. Only if stablecoin yields were to rise well above prevailing market levels would substitution effects meaningfully compress bank intermediation. Therefore, under the GENIUS Act's reserve and redemption constraints, "deposit erosion" fears are overstated.

Taken together, these results suggest that stablecoins are not best understood as one-for-one substitutes for insured deposits. Instead, they act as programmable, high-velocity settlement assets whose reserves largely sit within the regulated perimeter, while competitive effects operate primarily through deposit-price discipline and bank-type reallocation rather than systemwide credit contraction.

III. Stablecoins and financial stability

A recent paper by CBI discusses the core safeguards built into GENIUS Act—fully backed stablecoins with high-quality liquid assets, guaranteed redemption at face value, and clear,

³ Bauguess, Scott, Chad Harper, and JW Verret, "Beyond the Deposit Debate" (Sept. 2025); accessed December 15, 2025, https://assets.ctfassets.net/o10es7wu5gm1/6lmVsg8Tswx65NHCcsJr1R/5ccb67c46e5c97a25ebfcf3cbb801f6f/Coinbase_StablecoinPaper_091525_VersionB.pdf; Coinbase Institute, "Stablecoins and Bank Deposits: Overstating Risk," accessed December 15, 2025, https://ctf-images-01.coinbasecdn.net/o10es7wu5gm1/7INuNf3O72a5snetQvi5jl/bf1858dd1660f989b34899eb3e4a088b/Stablecoins_and_Bank_Deposits_Overstating_Risk_2.pdf.

consistent disclosure requirements.⁴ These features directly address well-known risks like runs and liquidity stress, and bring payment stablecoins in line with long-standing financial safety principles. In practice, the framework makes clear that stablecoins should always be redeemable at par with the issuer, while concentrating risk management in the reserve assets and custody arrangements, where familiar oversight tools already exist. This structure helps keep the peg stable, even during periods of market stress.

Cong's paper reinforces these points. He argues that with fully reserved, liquid portfolios and credible, enforceable redemption rights, the principal risk channels resemble familiar liquidity-management challenges within traditional finance, and can be mitigated through reserve composition, transparency, and robust custody arrangements. He further notes that as market participation deepens and disclosures standardize, arbitrage and reputation effects enhance micro-level peg stability, while macroprudential oversight remains essential for shared market-infrastructure frictions (e.g., Treasury-market absorption capacity)—again, a familiar policy domain rather than a novel systemic fragility.

The combined takeaway is that, under GENIUS-style safeguards, regulated stablecoins can complement stability by routing demand toward safe assets, providing onchain transparency into outstanding liabilities and reserve quality, and reducing settlement and counterparty risks via tokenized rails, all while keeping the core liquidity within supervised institutions.

Conclusion

The research is clear: fully reserved, dollar-denominated stablecoins function as programmable, high-liquidity payment instruments that banks can integrate to modernize settlement and treasury operations; they are unlikely to erode deposit funding under realistic yield constraints; and they are compatible with, and can even support, financial stability by channeling demand to safe assets, improving settlement certainty, and enhancing transparency.

The policy implication is also clear: faithful implementation of GENIUS-style safeguards—reserve quality, par redemption, disclosures, and robust custody—along with continued supervisory focus on shared market-infrastructure frictions, can lock in the efficiency and inclusion benefits of tokenized money while preserving stability. In this environment, banks are not just resilient to stablecoin growth—they are central to scaling it safely and productively.

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⁴ Coinbase Institute, "The GENIUS Act and Financial Stability," accessed Dec. 15, 2025, https://ctf-images-01.coinbasecdn.net/o10es7wu5gm1/5GBP1ecMnZHq2Q52vEqjuR/11d819ce925e570baaf70d1a4dc55bc6/The_GENIUS_Act_and_Financial_Stability.pdf.