

Wholesale stablecoins: fad or future?

di Philip Middleton

A solution looking for a problem

Judging from the current flood of seminars, conferences, papers, articles and social media hype, one would be forgiven for concluding that the future of electronic payments was going to be centred around stablecoins, the now commercially respectable face of crypto.

There is no longer any need to choose between clunky, expensive and restrictive traditional finance on the one hand and multiple varieties of potential fairy dust – or cryptocurrency – on the other. [Stablecoins](#) – privately issued digital tokens with value tied to fiat assets carried on distributed ledger technology infrastructure – will henceforward offer the speed, low-cost and indifference to national frontiers offered by the digital realm, with the safe store of value and fidelity validated by traditional fiat payment instruments.

Against this background, US Treasury Secretary Scott Bessent has suggested that the value of payments accounted for by stablecoins could reach \$3tn by 2030. Yet, according to the Bank for International Settlements, the value of stablecoins currently in issue approaches just \$315bn compared with, for example, around \$8tn held in US bank deposits alone. Research by McKinsey & Co and Artemis Analytics has found that the actual volume of real stablecoin payments (as opposed to internal blockchain book-balancing exercises and the like) amounts to a mere \$390bn or around 0.02% of global payments volumes.

So, for the moment, there is lots of sizzling but few sausages. [Numerous central banks](#) have been conducting studies on various aspects of stablecoins and expressing willingness to consider their issue with bespoke and appropriate regulatory supervision. But the queues of eager and mainstream issuers have yet to form.

Lack of enthusiasm

It is not hard to understand the reticence among potential large-scale private sector users. For one, the exact legal status of a stablecoin has yet to be internationally codified, still less validated by case law. Is it a digital asset, bearer bond, IOU or casino chip? Interoperability, be that between various stablecoins, the platforms on which they are carried or the regulatory jurisdictions in which they are based, is very low and unstandardised and likely to remain so.

For another, many of the business use cases advanced for stablecoins are hardly unique and most are achievable using existing rails and procedures, with similar or less risk. The complicating factor here is that there is no singleness of money. Despite their pretensions to the contrary, stablecoins are not perfectly fungible instruments backed by unequivocal fiat money with settlement instantly and at par absolutely guaranteed by a central bank and the nation that stands behind it.

It is therefore not surprising that – with one or two notable exceptions – OMFIF has heard a distinct lack of enthusiasm from [major central banks](#) and financial supervisors on wholesale stablecoins. Recent gatherings have shown that these institutions still have severe reservations about stablecoins and how they might operate within the financial system.

Three major challenges

Three major concerns repeatedly surface. The first, most salient and arguably the most philosophical is the threat stablecoins are perceived to present to the singleness of money, or indeed to the whole universe and ethos of fiat currency itself. The concept that only the state can issue, circulate and guarantee means of exchange (ultimately backed by force of arms) is ancient, sanctified, pervasive and successful. Stablecoins threaten to upset this equilibrium.

Second is the perceived threat to the stability of the commercial regulated banking system, in particular in the potential for [remunerated non-bank stablecoins](#) to draw significant deposits away from commercial banks, and thereby raise the costs of lending to the real economy.

Third are concerns about the lack of customer transparency in unhosted blockchain crypto wallets and the risks thereby of the deployment of stablecoins in money laundering, terrorist financing or other criminal enterprises.

As far as mass, universal deployment is concerned, this combination of private sector indifference coupled with [public sector caution](#) is likely to head off the wholesale stablecoin stampede at the pass. There will probably be some successful niche applications, but they will be relatively small and operating in clearly defined and tightly regulated applications with low possibility for systemic contagion.

In the wider sphere, wholesale stablecoins will be a solution looking for a problem. In many of the fields in which stablecoins claim to be the answer, the future probably belongs to tokenised deposits used for trading to be settled by wholesale digital central bank money. But that is another story.

Philip Middleton is Deputy Chairman of OMFIF