Kaiko Research

Can Banks' Initiatives Compete With USDT and USDC?

August 19, 2026

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Stablecoins are increasingly used as infrastructure for payments, settlement and treasury management rather than as trading collateral alone, and that shift has brought banks directly into the market. J.P. Morgan, Bank of America, Citigroup and Wells Fargo are building a shared tokenized deposit network through The Clearing House, targeted for the first half of 2027, while more than 150 institutions have joined the Open USD consortium announced in June 2026. These two initiatives are entering a market strongly dominated by USDT and USDC.

- Concentration keeps rising despite the proliferation of new projects, with USDT and USDC now holding 94% of the leading stablecoins in circulation.
- Liquidity is the real barrier to entry, with average 1% market depth doubling for USDT and rising sevenfold for USDC between 2024 and 2026.
- That dominance is not immunity, with market caps down 4% for USDT and 14% for USDC since May 2026 and daily volumes falling throughout the year.

The Banking Response to Stablecoins

Stablecoins are no longer instruments reserved for crypto market participants. They are becoming an infrastructure layer for international payments, settlement, and treasury management. As long as demand remained concentrated on exchanges, the issue was peripheral for banks. Once digital dollars began circulating continuously, with a high degree of programmability and direct integration into corporate systems, the matter started to affect deposits and payment flows, two central components of the banking model. The scale of the market makes this reaction unsurprising. Total stablecoin market capitalization exceeded $300 billion at the end of 2025, having doubled between 2024 and 2025. As of August 2026, approximately $182 billion was accounted for by USDT and $67 billion by USDC.

J.P. Morgan, Bank of America, Citigroup, and Wells Fargo are developing, through The Clearing House, a shared infrastructure for clearing and settling tokenized bank deposits, with a launch targeted for mid-2027. The shared nature of the project is its defining feature. An isolated bank token remains an instrument of its issuer and is not sufficient to create an interbank currency. Large-scale operation requires common rules governing exchanges between institutions.

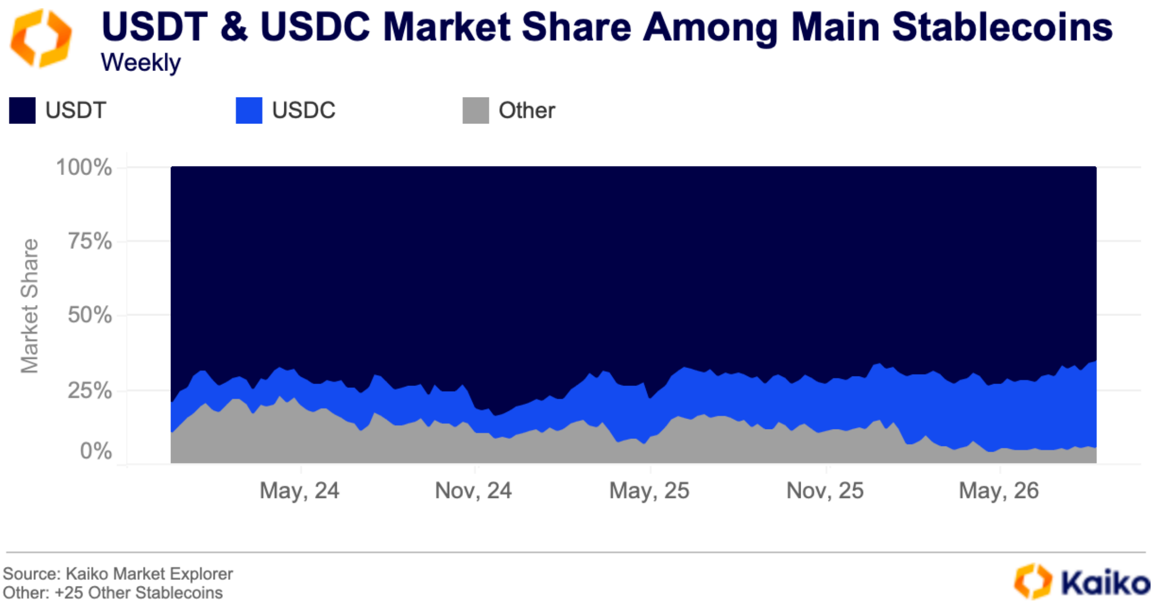
The distinction from a stablecoin is legal. A tokenized deposit remains a claim on the issuing bank, recorded on its balance sheet and tied to the banking relationship, while a stablecoin is a claim on its issuer, whose stability depends on reserve quality, redemption capacity, and secondary market liquidity. That makes tokenized deposits a credible competitor in corporate treasury and cross-border payments, since a corporate client can move funds between entities, settle a transaction, or automate treasury operations without leaving an established compliance and reporting perimeter, and banks can do so through a distribution network they already own.

Banks are also moving into the stablecoin market. Open USD, announced on June 30, 2026, brings together more than 150 institutions, including Visa, Mastercard, BlackRock, BBVA, Huntington Bank, Citizens Bank, and U.S. Bank. The project is positioned as a neutral, consortium-governed payment rail, with reserve income redistributed to participating partners net of a management fee.

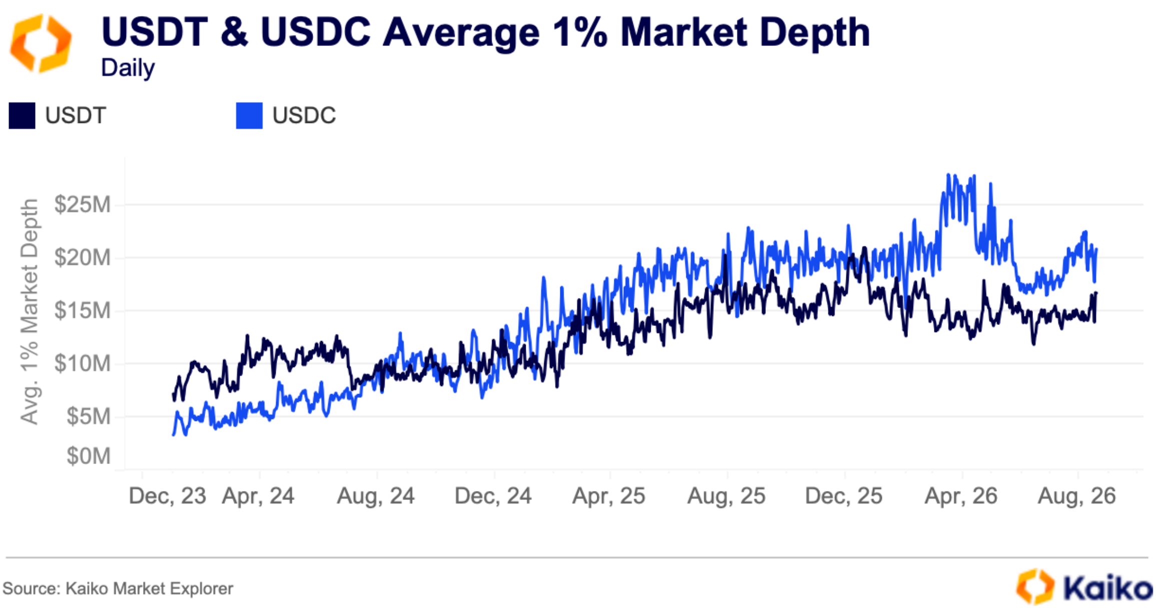
The two moves are not contradictory. On the one hand, banks are protecting their deposits. On the other, they are seeking to avoid relinquishing control over payment rails. In both cases, competition is shifting toward distribution and infrastructure.

Network Effects Against Newcomers

The proliferation of projects has not diluted market concentration. The combined market share of USDT and USDC among the leading stablecoins continues to rise and now stands at 94% of the major stablecoins in circulation. This trend provides insight into the nature of the barrier to entry. While creating a new stablecoin or equivalent instrument is relatively easy from a technical standpoint, the real challenge for a new entrant is to assemble sufficient liquidity, distribution, trust, and integrations to become a currency that is actually used.



The dominance of USDT and USDC is also evident in execution quality. Between 2024 and 2026, average 1% market depth approximately doubled for USDT and increased sevenfold for USDC. USDC overtook USDT on this metric during 2025 and has maintained greater depth ever since. This liquidity is the duopoly's main line of defense. An instrument used for payments has to be convertible at any time without significant execution costs.

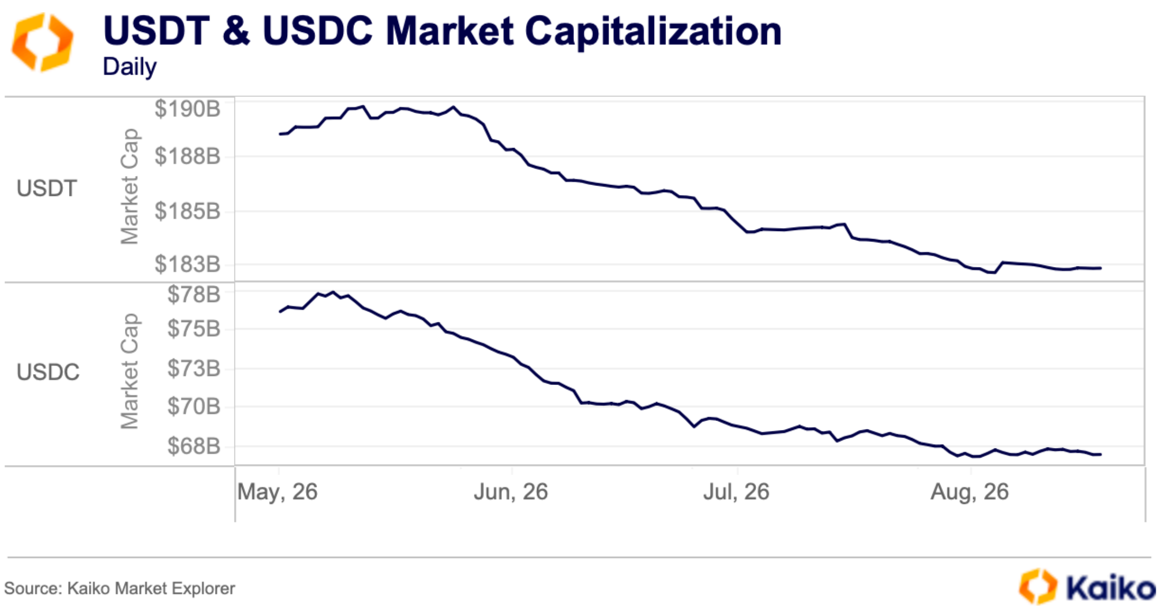


Their integration into the digital asset ecosystem, combined with their market depth, makes them difficult to challenge in practice. New entrants must compete against an already well-established network built around these stablecoins. Open USD, which will likely compete most directly with USDC, will have to contend with Circle's positioning across multiple currencies and jurisdictions, making Circle an infrastructure provider rather than merely an issuer. For example, EURC has just surpassed [€400 million in circulation].

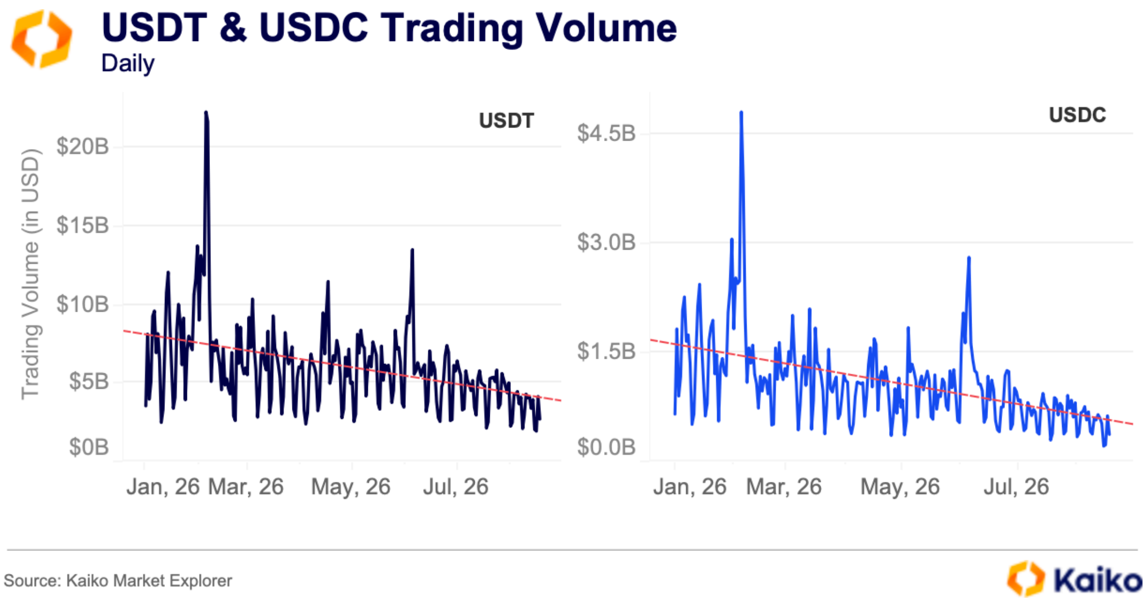
Returning to The Clearing House initiative, it should be viewed as an announced strategic intention rather than an adopted infrastructure. The banks have not yet demonstrated their ability to operate a shared network among competitors. The main obstacle is interoperability. A tokenized deposit issued by one bank does not automatically become a deposit at another bank. Common standards, clear settlement rules, and an answer to the question of credit risk exposure among members will all be required. The risk is fragmentation. If each bank or banking group issues its own token without effective interoperability, liquidity will become dispersed and users will have to verify which bank issued the token they receive.

Dominance Is Not Immunity

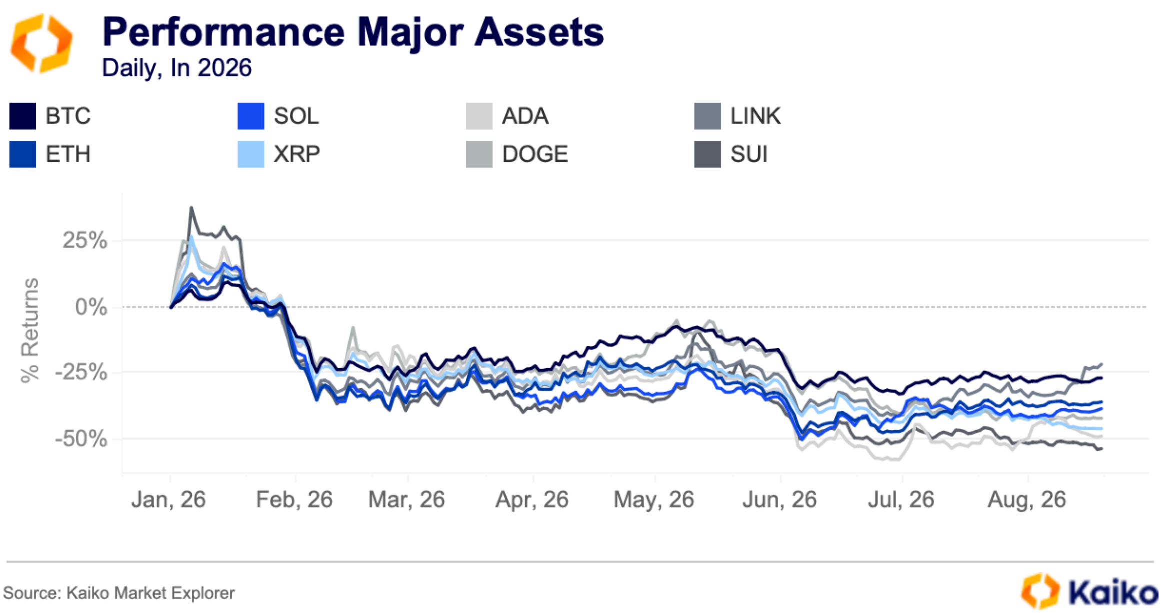
The data from recent months puts the assumption of unshakable dominance into perspective. The market caps of both instruments have declined. USDT fell from a peak of nearly $190 billion in May 2026 to approximately $182 billion, while USDC declined from around $78 billion to approximately $67 billion over the same period. The decrease therefore amounts to roughly 4% for the former and 14% for the latter, with a steady downward trajectory.



The trend in trading volumes is even more pronounced. USDT's daily trading volumes have been declining since January 2026, falling from a range of $7 billion to $8 billion to between $2 billion and $3 billion in August. USDC has followed the same path, declining from approximately $1.3 billion to $2 billion at the beginning of the year to around $400 million today.

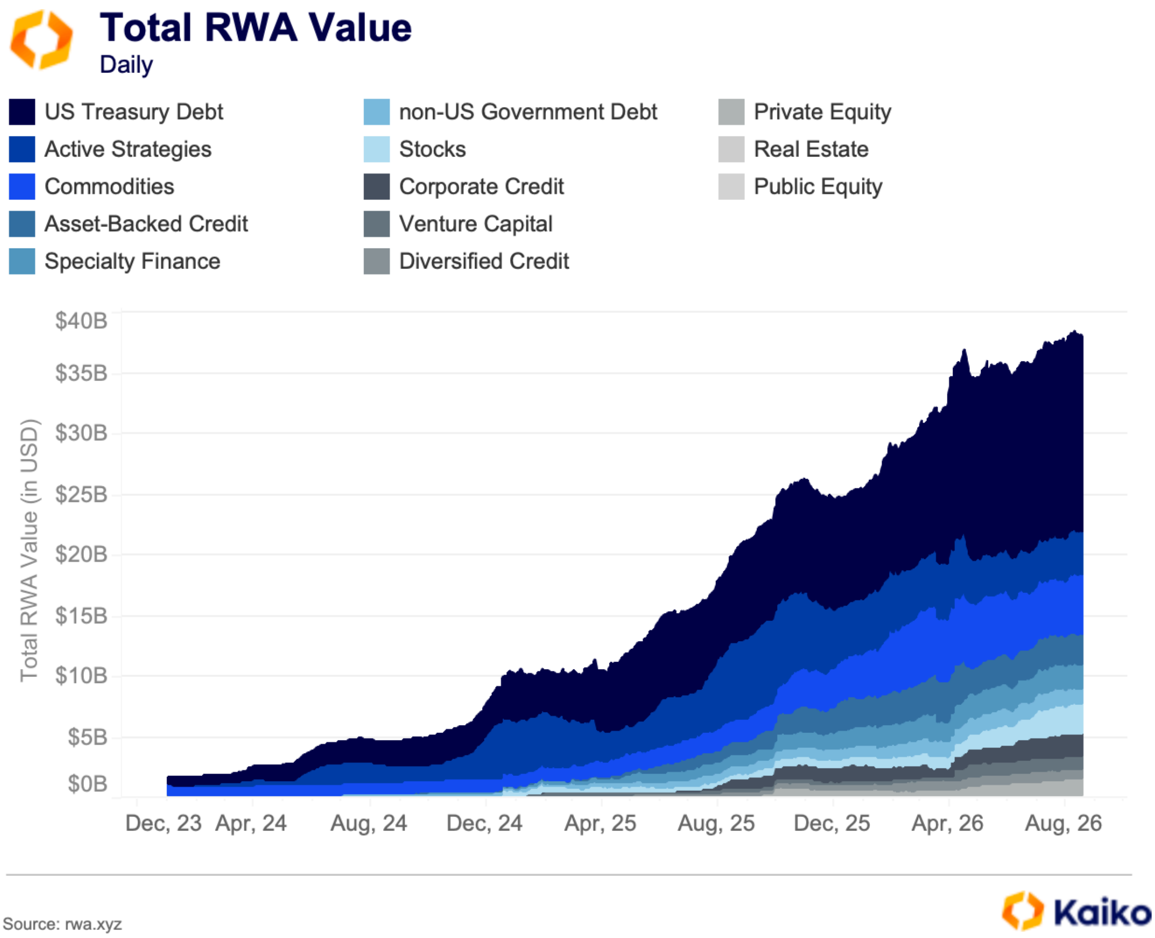


This contraction must be viewed in the broader context of market conditions. Digital assets are going through a pronounced downturn. Across 2026 as a whole, all major assets have remained in negative territory, with Bitcoin down approximately 27% and altcoins more severely affected, declining by between 35% and 55%, depending on the asset. At this stage, the decline in USDT and USDC is therefore not the result of banks capturing market share. Despite their stated focus on payments and settlement, demand for stablecoins remains relatively correlated with the digital asset cycle.



For an institutional financial firm, the most relevant entry point into digital assets does not lie in crypto assets, whose volatility remains vastly greater than that of traditional investment solutions. It lies instead in tools capable of transforming existing processes and products offered to clients. Banks are not primarily seeking new investment products. They are looking to strengthen their existing offering and improve its execution.

The development of tokenized real-world assets (RWAs) provides the clearest illustration of this trend. The total value of RWAs rose from between $1 billion and $2 billion at the beginning of 2024 to nearly $40 billion in August 2026, with growth accelerating further since the start of the year. This expansion continued throughout the 2026 downturn, even as stablecoin market capitalizations and crypto asset prices declined.



Source: rwa.xyz

Conclusion

In the near term, the position of USDT and USDC is not in question. Their liquidity, integrations and network density constitute a barrier that a bank consortium still in development will not clear quickly. The contraction in stablecoin market cap and trading volumes through 2026 shows that demand remains tied to the digital asset cycle rather than to the payment and settlement use cases issuers now emphasize, while tokenized real-world assets kept growing throughout the same downturn. Competition is therefore shifting away from trading venues and toward payment rails and the settlement of tokenized assets, a segment where banks arrive with an existing distribution network.