

June 2025

TSG eReport – Stablecoin

By merging the trust of fiat with the programmability of blockchain, stablecoins are redefining how digital payments work.

PREVIEW

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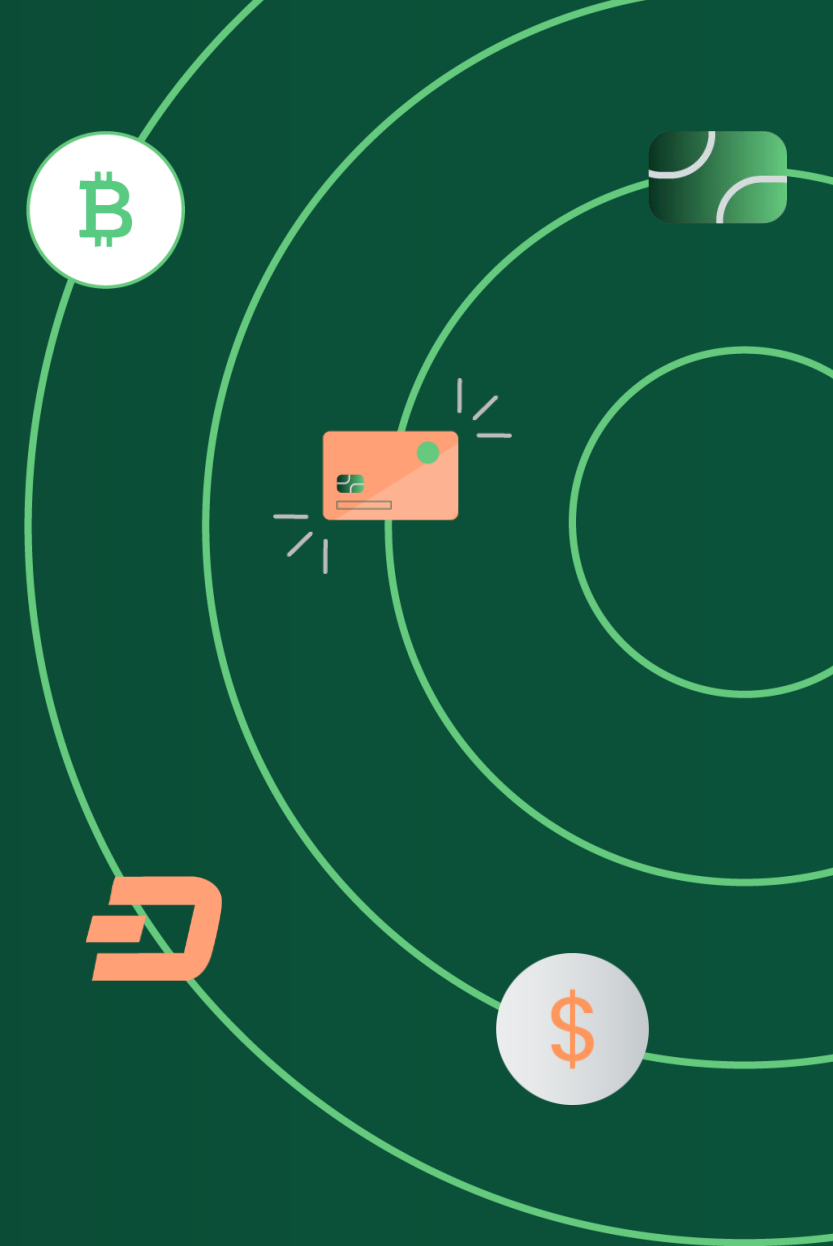


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The Role of Stablecoins in Global Payments

Stablecoins are emerging as a foundational layer in digital payments, offering the speed and programmability of crypto assets with the price stability of fiat currency. This report provides an educational overview of stablecoins—what they are, how they work, and why they matter.

It compares major stablecoin types (fiat-backed, crypto-backed, algorithmic, hybrid, synthetic), examines real-world use cases across remittances, commerce, and B2B settlements, and explores stablecoins use in payments.

As adoption grows, so does regulatory scrutiny, with stablecoins positioned at the intersection of private innovation and public oversight.

Whether operating alongside or in competition with Central Bank Digital Currencies (CBDCs), stablecoins are reshaping how value moves across global financial systems.

This primer introduces the core concepts that will help readers understand stablecoins and their growing role in digital payments.

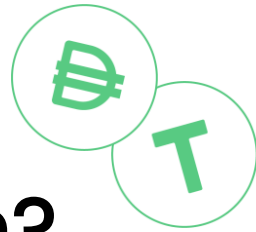


For deeper insights, stay tuned for TSG's upcoming report on stablecoin in payments.

Basics of Stablecoin

Digital dollars with stability

What is a Stablecoin?



A stablecoin is a cryptocurrency pegged to the value of a stable asset (like a national currency or commodity) to minimize price volatility.

For example, a USD-pegged stablecoin aims to trade 1 unit consistently at \$1.00 by backing each token with real USD reserves or equivalent assets.

TYPES OF COIN	COLLATERAL & MECHANISM	EXAMPLES
Fiat-Collateralized	Pegged 1:1 to fiat currency (e.g., USD) and backed by equivalent fiat reserves, such as cash or short-term Treasury bills, held by the issuer	USD Coin (USDC), Tether (USDT), Paypal USD (PYUSD)
Crypto-Collateralized	Backed by other cryptocurrencies deposited as collateral in smart contracts. Often over-collateralized to absorb volatility.	DAI – collateralized by ETH, USDC and others
Algorithmic	No traditional reserves; stability maintained by software algorithms that expand or contract supply.	TerraUST (UST)
Synthetic	Not backed by fiat or crypto reserves. Peg is maintained through delta-neutral hedging, using offsetting spot and derivative (e.g., perpetual futures) positions to simulate price stability.	Ethena (USDe)
Hybrid	Partially collateralized and partially algorithmic. Fractional reserves are held, dynamically adjusted based on market conditions.	Frax (FRAX), Decentralized USD (USDD)

Basics of Stablecoin

Weighing the value and risks of stablecoins

What are the Pros & Cons of Stablecoin?

While stablecoins offer compelling advantages for digital payments, they also introduce important trade-offs. Their ability to provide fast, low-cost, and borderless transactions has made them a valuable tool in both crypto markets and real-world finance.

However, questions around stability, issuer trust, and regulatory oversight remain. The table below outlines key benefits and challenges associated with stablecoin adoption.

Source: Chainalysis, Blockapps, CoinDesk, TSG Analysis

TYPE OF COIN	PROS	CONS
Fiat-Collateralized	<ul style="list-style-type: none"> Highly stable if fully reserved Simple model understood by regulators Widely used in trading and payments 	<ul style="list-style-type: none"> Requires trust in issuers and auditors Centralized control (issuer can freeze funds, e.g., SVB failure) Regulatory risk
Crypto-Collateralized	<ul style="list-style-type: none"> Decentralized issuance (no central issuer) Transparent on-chain reserves Users govern system 	<ul style="list-style-type: none"> Collateral is volatile, needing over-collateralization Capital inefficient Complex mechanisms
Algorithmic	<ul style="list-style-type: none"> Very capital efficient (little to no collateral required) Decentralized (no reliance on custodians or centralized issuers) 	<ul style="list-style-type: none"> High failure risk (peg fragility, death spiral risk) Relies on market confidence & game theory
Synthetic	<ul style="list-style-type: none"> Capital efficient Market-neutral design reduces crypto volatility Earns yield; potentially self-sustaining Infrastructure light (no custodians, no vault) 	<ul style="list-style-type: none"> Peg depends on complex trading strategies Breaks down if funding rates turn negative or dry up No on chain reserves to fall back on New and experimental, no regulatory classification
Hybrid	<ul style="list-style-type: none"> Capital efficient Partially decentralized Resilient to volatility (dynamically adjusting collateral ratios) 	<ul style="list-style-type: none"> Relies on market confidence for peg stability Collateral risk from depegging and frozen assets Complex

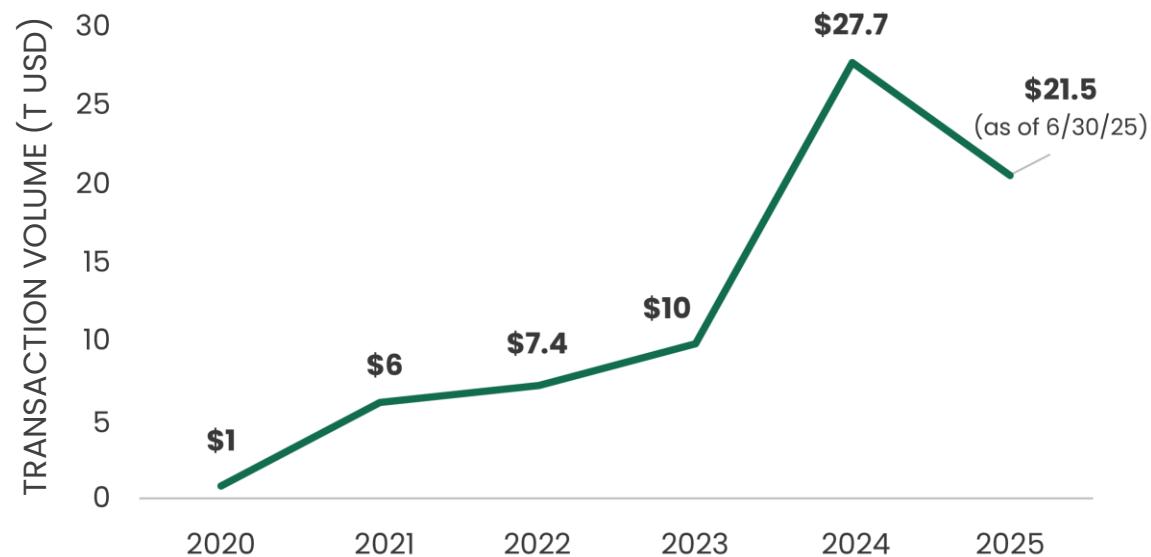
Use Cases & Applications of Stablecoin

Stablecoins have evolved from a niche digital currency used mainly in crypto markets into a mainstream financial instrument. Once used primarily for trading within digital asset markets, they are now being adopted across a wide range of financial activities.

PayPal's launch of PYUSD in 2023 marked a turning point, signaling that major payment providers now see stablecoins as integral to the future of money movement.

Today, stablecoins power a growing share of global crypto trading, enable low-cost remittances, streamline merchant payouts, support underbanked countries, and offer a way for people in regions with volatile currencies to preserve value in dollars. Adoption is accelerating in both developed and emerging markets, reflecting stablecoins' unique ability to bridge blockchain technology with real-world payment needs.

STABLECOIN TRANSACTION VOLUME



Stablecoin Regulation

Regulation signals mainstream acceptance and adoption

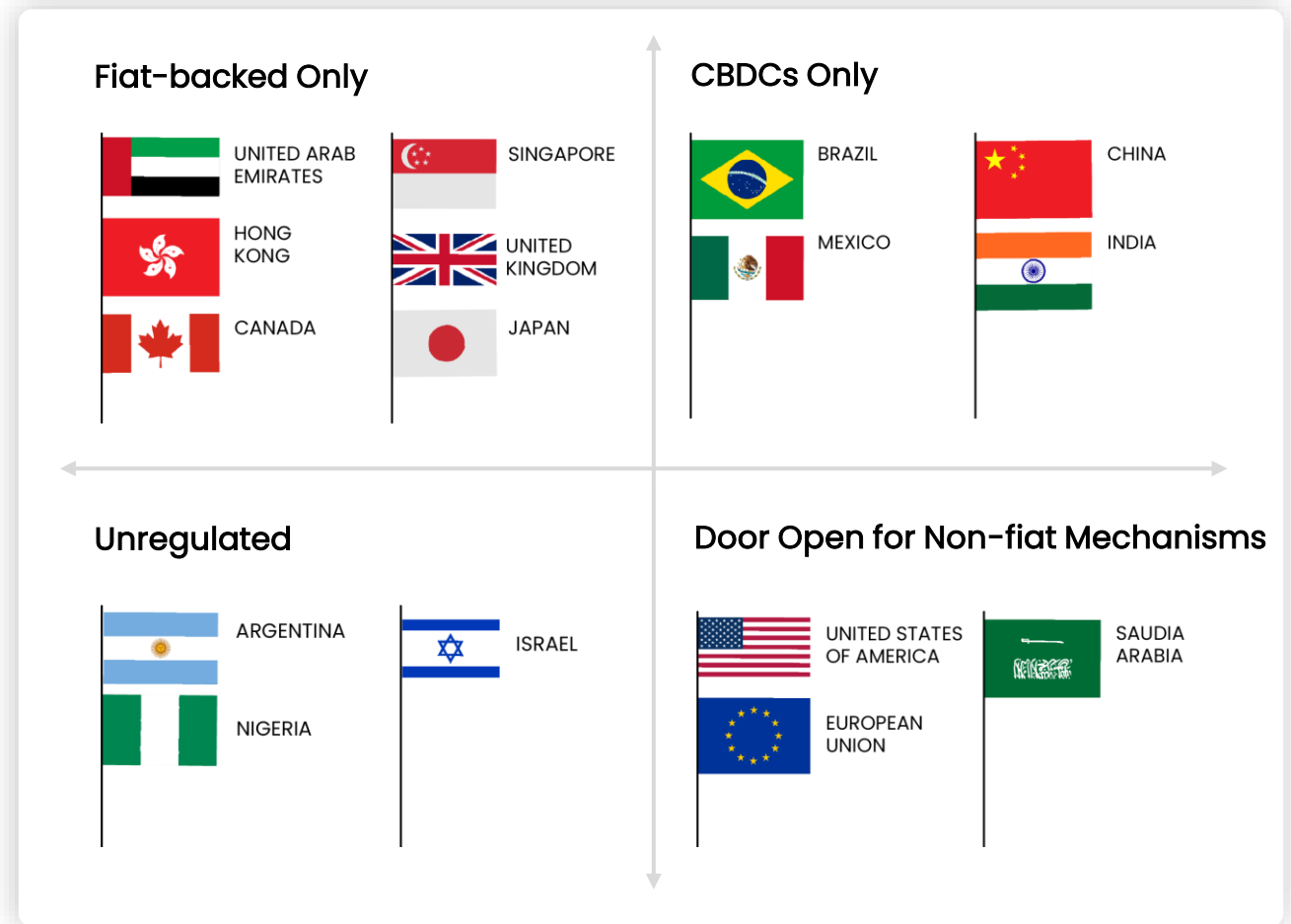
PREVIEW

Global Governance

Stablecoins are no longer operating in a legal gray zone. Around the world, regulators are building clear frameworks – a sign that stablecoins are being treated as legitimate financial instruments.

WHY IT MATTERS

- Regulation = trust, safety, and institutional adoption
- Legal clarity encourages banks, fintechs, and payment providers to integrate stablecoins
- Global convergence on standards is emerging
- Consumer trust grows when stablecoins are transparent, redeemable, and clearly regulated, driving adoption



This graph includes only countries mentioned within this report.

Stablecoin in Payments

Stablecoins are reshaping how money moves

PREVIEW

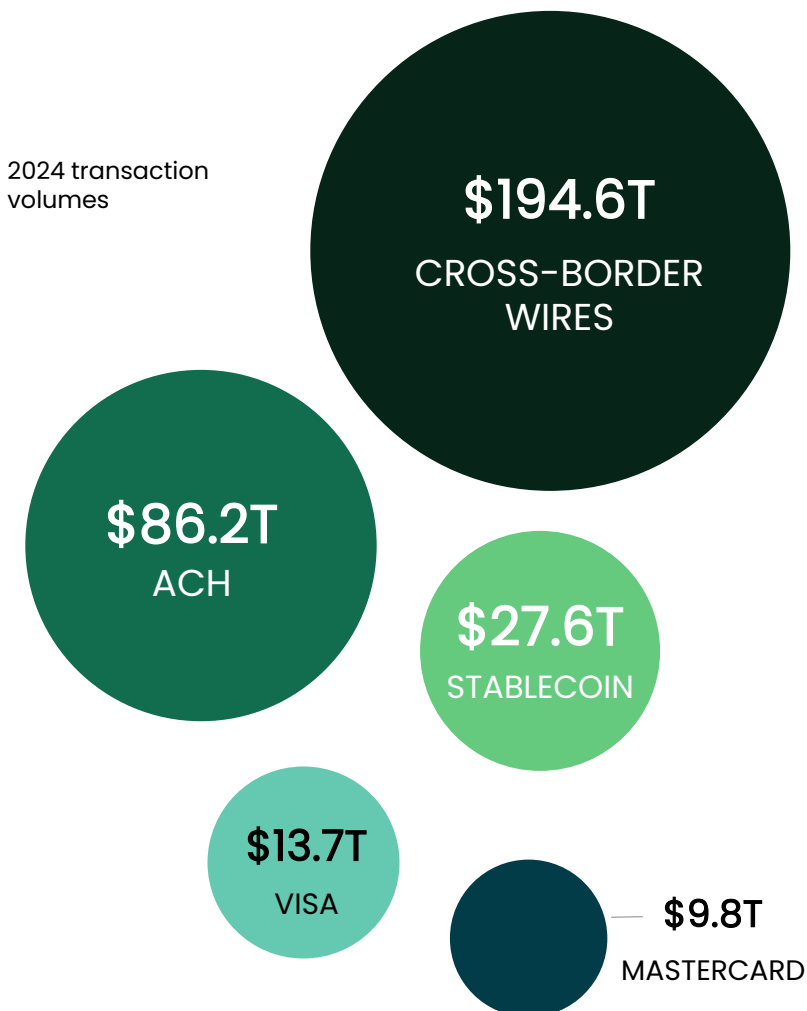
Why does Stablecoin matter in payments?

Stablecoins were originally developed to solve volatility in crypto markets, but today their utility extends far beyond trading. As blockchain infrastructure matures and compliance rails expand, stablecoins are becoming viable for real-world payments. They offer speed, cost-efficiency, and programmable functionality unmatched by traditional rails. While stablecoin transfer volume has surpassed the combined annual volume of Visa and Mastercard, current usage remains largely crypto-native. There is little evidence that stablecoins have meaningfully taken share from traditional payment systems, but as regulation and adoption evolve, that shift may begin.

KEY AREAS OF IMPACT

- **Consumer Payments (B2C):**
 - Wallet-to-merchant payments with lower fees
 - Enables instant settlement
- **Business Payments (B2B):**
 - Faster, cheaper invoice settlement
 - Reduces Reliance on SWIFT, ACH, and wire infrastructure
 - Smart contracts can automate recurring disbursements
- **Remittances:**
 - 24/7 transfers with low, transparent fees
 - Popular in high-volume corridors like U.S. → Mexico, Europe
- **Fintech & Embedded Finance:**
 - Enables non-banks to offer USD-denominated balance features
 - APIs, on/off-ramps, and custodial wallets are driving innovation

2024 transaction
volumes



Stablecoin in Payments

Stablecoins could become the connective tissue of global finance

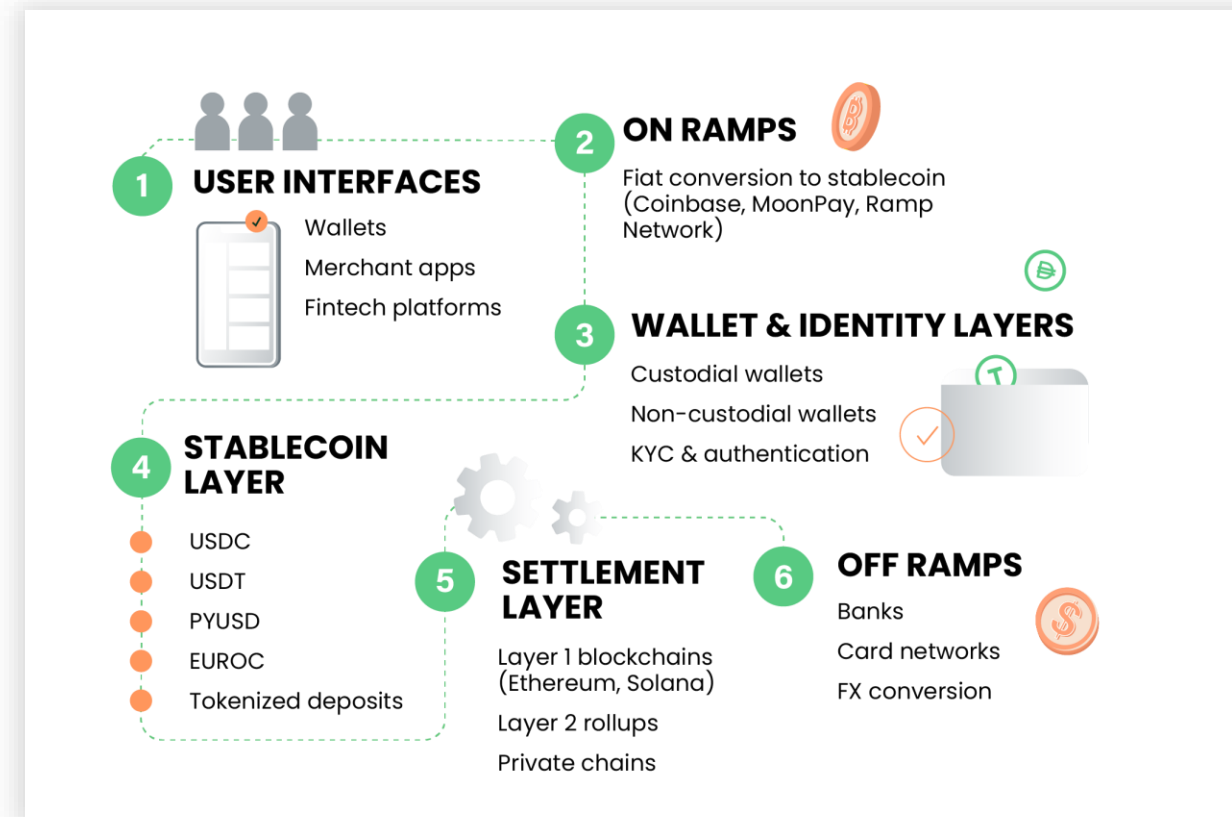
What Comes Next: The Future of Stablecoins in Payments

As payment networks, banks, and fintechs explore stablecoin infrastructure, we're starting to see early signs of what a next-generation payment system could look like. While many of these changes are still in pilot stages, the path forward is coming into focus.

Based on Today's Trends, TSG envisions:

- **Stablecoins integrated directly into POS terminals** and payment gateways → accepted natively and auto-converted to fiat behind the scenes
- **"Wallet-native" banking** → Users hold and spend stablecoins directly from digital wallets, bypassing traditional bank accounts
- **Programmable payment flows for B2B** → Invoices auto-paid on delivery, conditional disbursements, dynamic treasury routing
- **Unified digital rails** → Stablecoins move easily across blockchain environments – Ethereum, faster Layer 2, or private networks used by banks

Source: TSG analysis





TSG is a fast-growing analytics and consulting firm. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.



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EXPERIENCE IN THE PAYMENTS
INDUSTRY



1000+

CLIENTS ADVISED,
INCLUDING MANY IN
THE FORTUNE 500

~4M

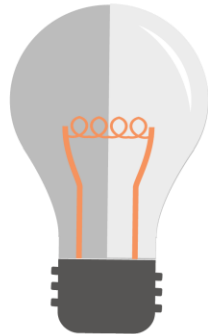
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