

# understanding the convergence of traditional and decentralized finance

## How Banks and Credit Unions Can Lead

Banks and credit unions are no longer competing solely with one another – they're competing with platforms built for an entirely different era of money movement.

Today's competitive set includes payment apps, fintechs, and non-bank crypto firms – some of which have secured expedited charter approvals from the OCC. These firms could gain direct access to the Federal Reserve, posing a greater threat to traditional financial institutions.

As the rules are being written, the opportunity to embrace new operating models – ones that preserve trust, accountability, and resilience while meeting accountholders where money now moves – is within reach. You can win by connecting traditional finance (TradFi) and decentralized finance (DeFi) deliberately and responsibly, extending your strengths into new rails.



# how deregulation and dysregulation impact financial institutions

Rate cuts and smart deregulation modernize outdated rules – streamlining exams, right-sizing capital requirements, and reducing unnecessary compliance friction. But dysregulation introduces risk – weakening oversight of non-banks, creating uneven supervision, and pushing risk downstream to regulated financial institutions.

## Today, uncertainty is growing:

- The CFPB announced it will no longer supervise or closely scrutinize non-bank fintechs.<sup>1</sup>
- Fintechs and non-banks are accelerating efforts to siphon deposits from financial institutions.<sup>2</sup>
- Several crypto firms, non-bank fintechs, and payments companies have received conditional approval for national trust bank charters.<sup>3</sup>
- Payments companies are pursuing direct access to the Federal Reserve’s real-time rails.<sup>4</sup>

Regulation isn’t your disadvantage – it’s your differentiator.

The opportunity lies in pairing compliance maturity and institutional trust with modern, scalable infrastructure.

# how stablecoins are changing deposits and payments

At the center of this shift are stablecoins – digital currencies pegged to reserve assets such as fiat dollars.

The U.S. Treasury estimates stablecoin adoption could drive up to \$1.7 trillion in deposit impact over the next several years.<sup>5</sup> Furthermore, Circle, issuer of USDC, recently received conditional charter approval, while major retailers and e-commerce



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companies explore their own stablecoin models. In these scenarios, deposits move away from traditional financial institutions into reserve backing structures that generally cannot be redeployed into lending.

As a result, trusted financial intermediation is colliding with trustless, irreversible, blockchain-based transfers executed through smart contracts.

DeFi offers 24/7 programmable money – but those innovations are better anchored by the safety, soundness, and trust of traditional financial institutions. Accountholders want decentralized finance like speed and simplicity with traditional finance level protections.

You can be the connector that bridges them.

**2026 Strategy Benchmark Results: Plans to Support Stablecoin, Tokenized Deposits, and/or Cryptocurrency**

Eighteen percent of CEOs plan to support stablecoins, tokenized deposits, and/or cryptocurrency (crypto wallet) in 2026 – 2027. The chart below reflects responses to the question: *Which of the following do you plan to enable or support over the next two years? (Select all that apply).*

**Of the CEOs planning to support on-chain money movement, the following services and capabilities are expected to be supported or enabled:**

Plans to enable/support	Banks	Credit Unions
Tokenized deposits and/or deposit tokens	60%	41%
Orchestration, exchange, and settlement of dollars to stablecoins/ crypto and vice versa	40%	47%
Support on-chain wallets for accountholders	40%	47%
Retail and merchant payments with stablecoins	30%	47%



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Plans to enable/support	Banks	Credit Unions
Treasury and liquidity with stablecoins	50%	29%
Custody of digital assets (stablecoins and/or cryptocurrency)	40%	29%
Cross border payments with stablecoins	20%	29%

*\*Results shown reflect the percentage of the 18% of CEOs planning to support stablecoins, tokenized deposits, and/or cryptocurrency; only the top findings are shown.*

## how your financial institution can strategize and participate

While regulatory clarity is still forming, the value of blockchain technology is no longer debated. Financial institutions are exploring and integrating on-chain infrastructure, and the growing use of stablecoins and tokenized money is beginning to introduce funding challenges.

### To offset this:

- The largest financial institutions are looking at creating their own stablecoins or deposit tokens.
- Progressive financial institutions are prioritizing tokenized deposits and money-market instruments.

For smaller banks and credit unions focused on growth, consider supporting tokenized money primarily through tokenized deposits, seamless orchestration and settlement between dollars and stablecoins or crypto, and on-chain wallets for accountholders. By becoming the on- and off-ramp for regulated tokenized money you can preserve demand deposits while maintaining KYC and AML standards.

This hybrid model gives your accountholders access to digital money while preserving control, compliance, and balance-sheet integrity.



For smaller banks and credit unions focused on growth, the **winning strategy is becoming the on- and off-ramp** for regulated tokenized money.

# hybrid ledgers connect foundational systems to on-chain finance

A strategy to operate across both traditional and on-chain environments will enable you to compete.

Hybrid ledgers provide the bridge, acting as a translation layer between foundational cores and decentralized networks without replacing existing infrastructure. They bring together fragmented data across rails to improve auditability and consistency, embed compliance and governance rules into smart-contract logic, and enable programmable, automated transactions across hybrid environments.

The result is faster execution, lower friction, and new product possibilities, all while retaining governance and oversight.

You can react to fintech orchestration – or own the orchestration layer yourself.

## a hybrid infrastructure drives innovation and reduces risk without replacing your core

Additional intermediary ledgering layers introduce significant settlement and reconciliation risk, where weak accounting and internal controls can allow errors and discrepancies to compound into broader instability.

You can drastically reduce those risks by implementing architectural integrity through a unified hybrid ledger that bridges centralized and decentralized environments while maintaining a single source of truth. This approach centralizes your oversight and control of fiat-crypto liquidity management, settlement, and orchestration.



Hybrid ledgers act as a **translation layer between foundational cores and decentralized networks** without replacing existing infrastructure.

As tokenized money flows scale in the years ahead, fragmenting your primary ledger across multiple systems creates a lack of visibility and settlement rigor that can jeopardize institutional safety and soundness.

In contrast, a unified hybrid ledger helps you minimize and mitigate errors while maintaining accounting integrity.

## the benefits of a hybrid ecosystem for financial institutions

Competition is no longer about product disruption, it's about ecosystem disruption.

Success requires carrying trust, relationships, and scale from fiat-based systems into on-chain finance. A hybrid approach allows financial institutions to extend those strengths into on-chain finance – capturing new payment flows, deposit models, and wallet-based activity without replacing existing infrastructure. By bridging traditional and decentralized rails, you can compete where money is moving while maintaining governance and control.

### **The future of financial services isn't TradFi or DeFi – it's both.**

Financial institutions that use hybrid architecture will unlock speed, data, and optionality on their terms.

#### **Next steps to consider:**

- Assess your architecture through a hybrid lens.
- Prioritize flexibility, governance, and interoperability.
- Treat technology as a strategic enabler, not just infrastructure.



Success requires carrying **trust, relationships, and scale** from fiat-based systems into on-chain finance.

# ready to win the future?

Uncover more strategic insights by downloading our complete [2026 Strategy Benchmark](#).

For more information about Jack Henry, visit [jackhenry.com](https://jackhenry.com).

## **sources**

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