

Podcast: *The Crypto Exchange*

Episode: Banking in a Multirail Era: Strategies for Preserving the Customer Relationship

Host: Genna Garver

Guests: John D'Agostino and Chris Kennedy

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Genna Garver (00:03):

Welcome back to [The Crypto Exchange](#), a Troutman Pepper Locke podcast focusing on the world of digital assets. I'm Genna Garver, one of the hosts of *The Crypto Exchange* and a partner in Troutman Pepper Locke's Investment Funds and Investment Management practice and co-leader of our firm's Digital Assets and Blockchain team. Before we jump into today's episode, let me remind you to visit and subscribe to our blog, troutmanfinancialservices.com, and don't forget to check out our other podcasts on troutman.com/podcasts. Today, I'm thrilled to have back on the show someone many of you will remember from last summer's episode, "[Unlocking Crypto's Future](#)," John D'Agostino, head of strategy for Coinbase International and, amongst other titles, an advisor to a multinational trust bank at the intersection of institutional finance and digital asset market structure. John, welcome back.

John D'Agostino (01:01):

Thanks for having me.

Genna Garver (01:02):

And I'm excited to have joining us for the first time, Chris Kennedy, managing director of AI and strategic technology at Regions Bank, one of the nation's largest full-service regional banks. Chris, welcome to *The Crypto Exchange*.

Chris Kennedy (01:17):

Thank you for having me. Happy to join.

Genna Garver (01:19):

John, last time we talked, you and I were mapping out where crypto infrastructure was headed broadly. Today, we're going to go narrower and, I'd argue, sharper. John and Chris recently published a working paper called 'Banks May Preserve the Deposit – but Lose the Depositor'. It's a strategy paper for community and regional bank boards, and the core argument is provocative, that banks can win the fight to keep deposits inside the regulated banking system and still lose the client relationship entirely. And we often hear about the megabanks actively integrating blockchain infrastructure, building shared tokenized deposit networks, and offering private asset tokenization. But what about the thousands of community and regional banks that make up the majority of US banking institutions? With finite resources, these banks need to figure out what to do and when

to adapt to a multi-rail marketplace that is still forming. Luckily, John and Chris are here with all the answers. So let's get into it. The title itself is really the hook. So walk us through it. What's the difference between preserving the deposit and losing the depositor, and why does that distinction matter so much now?

John D'Agostino (02:46):

I got to give Chris credit for coming up with that title. I was thinking of something a little more meme-worthy, but Chris got serious and came up with a great title. So look, I think it all goes back to how Chris and I met and the conversations we've been having that caused us to write the article. There's been this narrative set up between folks who didn't want Clarity Act and folks who wanted Clarity Act that crypto companies are going to steal away deposits, particularly from community banks, which have been losing deposits over the years and closing. And that just intuitively didn't make sense to me. And I had a very small sample set. It was my mom. She left her community bank after 40 years, and the idea that she was going to a crypto company always made me chuckle. So I started looking into it, and I could find just zero evidence to support the notion that crypto exchanges, crypto firms, crypto in general was causing that giant sucking sound coming out of community banks, and a lot of intuitive evidence that it was probably G-SIBs and fintechs. And it was reinforced when the banking lobby themselves put forth a study that they said, "Oh, hey, this proves crypto's taking assets." And if you actually look at the study, it showed that less than \$700,000 on average from affected banks was coming into crypto, a rounding error in terms of the total amount that had been left. So I knew that intuitively. Chris agrees with me, has a much, much deeper knowledge of regional community bank infrastructure and strategy and what they've been facing over the last 10 years.

And we decided to write that together. So to summarize, and I'll turn it over to Chris to summarize, the idea is, look, you can fight, you can lobby, you can put up barriers to new technologies and whatnot, and you can kind of trap money in that if it wants to leave, it can leave anyway. But maybe you succeed in making it less desirable for those deposits to leave. But if you don't give that technology, infrastructure, and service offering, that next generation of client, that young fintech starting off in a garage right now, is going to choose to go with either a crypto-enabled solution or one of the, at any given time, 60 to 70 OCC trust charters and bank charters that are being applied to by the next generation of fintech. Chris, correct me at your leisure.

Chris Kennedy (04:52):

No, you got it spot on, John. I couldn't have said it better myself. I think from the banking lens, what caught me was exactly what you said, is that there was this constant conversation of, "What do we do? We need tokenized deposit networks. We got to defend against stablecoin. We got to protect our deposits and yield." And really, from my focus in the banking space was exactly kind of to your point, John. Let's focus on the client. The clients aren't asking for a particular technology. They're trying to move money, or they're trying to have access, they're trying to do different kinds of services.

And so really, I wanted to pivot the conversation away from which one, because the largest banks are doing all of the above, and instead focus on what do we need to do to best serve our clients? And I think that's the pivot away from this "what do we do depositor yield" situation and reframing it into, "Well, what do we need to do to maintain and grow our client base?" especially as a regional or community bank when we're competing against these techs and these G-SIBs. So I agree with everything you said, John. I couldn't have said it better myself.

Genna Garver (05:51):

So Chris, if the focus shouldn't be so much on the deposits, what's the leading indicator that boards should be watching instead of deposit flows?

Chris Kennedy (06:01):

That's a great question. Really where we came at this is that these competitors and the fintechs are not just bringing clients onto Coinbase networks. Banks can pursue partnerships with firms such as Coinbase. That's not really the concern. The concern becomes broader when we think about digital-native Gen Z startups and small businesses. Some of these fintechs, as John said, are getting charters at record pace, and they are making services not only for money movement, not only for merchant services, not only for startups, but they're going into the small and even the corporate treasury management service space. They're moving away from this partnership model to this competition model. So the real big risk and the question really back to the board is, what is our client base going to look like two to five years from now, and will that client base be at risk if these other competitors are basically gobbling them up, attacking our top of funnel? And then how does that change our strategy? Do we know where those future companies are going to come from? What portion of our portfolio is coming from fintech or early-stage tech, digital-native? We want to understand that because that's going to be the biggest risk.

Genna Garver (07:15):

In the paper, I think you describe this risk as "the depositor who never arrives." So if there is this pipeline issue rather than a retention problem, would that change the urgency? Are you hearing boards say, "Well, the data just isn't there yet," and conclude that they may have more runway to work through their plan?

John D'Agostino (07:43):

I think that's, and I want to hear Chris's view on this, but I think that's fair. And I want to stress, and this is for the crypto people listening, that's not an unreasonable position. I know we think we're right. I think I'm right. We can point to things like Erebor Bank raising seven to \$10 billion in the first six months of its existence and say, "Wow, look at what you're missing by not offering these pipes and capabilities." But I do think it's very important that we remember that if you're, and we'll get into that in a second with tokenized deposits and how massive they are, if you're a bank board and your job is to be a fiduciary to your shareholders or your partners, right now, the stablecoin and

tokenized rails are de minimis compared to the legacy rails. And so I think Chris and I both agree, we both have a vision that we think is right. But I think interestingly enough, we both agree that it's understandable that they're pausing and being cautious. I think this argument reached a peak with the Clarity Act negotiations because by killing the Clarity Act, I think you cut off a lot of potential growth in the future. But I think it's important to say we have, us in crypto, we have to prove our case here, and we're still relatively small.

Genna Garver (08:49):

Let's talk numbers because you have some striking ones in the paper. Stablecoins outstanding are around 300 billion, dominated by USDT and USDC. But you argue tokenized deposits are actually winning the more important fight. Can you explain that?

Chris Kennedy (09:11):

If you compare it to classical B2B payment, cross-border FX, correspondent banking, you're looking at trillion per day. You have 100x order of magnitude difference. So yes, stablecoins have achieved reach and speed despite being a smaller volume. It's still huge volume, right, but compared to kind of legacy or classical money movement rails internationally or through FX correspondent banking B2B, they're still small. And so the lion's share of the institutions that control those rails, they really have the volume. They have the volume and the liquidity to move things around. And where they are playing is they're kind of doing both, right? They're connecting to the coin networks. You have JPMC with Kinexys as well. And then you also see them partnering with like TCH and SWIFT from an international network and tokenized deposit standpoint as well. So the incumbents have the volume advantage and they have a lot of the trust advantage. But those systems are not as fast as the current modern stablecoin rails. And I think that's where it gets interesting and kind of where it becomes a challenge for, say, leadership or a board is when do you take action? Because you're not necessarily seeing a risk right in front of you today. But if you wait two years and then you're two years behind on technology, by that time you're too late to the game. So there's really a big tension here of moving now proactively versus moving a little too early. And I probably kind of think about just get connected to the network so that you focus on your client strategy and then you'll be caught up. It's a smaller investment, it's a smaller lift, and it plays into existing bank strategy.

John D'Agostino (10:47):

Everything Chris is saying is right. And it really reminds me of, I was a young guy and it was my first real big boy job. And I happened to be there at the beginning of the transition from open outcry to electronic trading. And I remember the board of the NYMEX having exactly the same discussion. It was this upstart exchange called ICE which was trying to do electronic trading for natural gas. And I was sitting there going, "Wow, these guys are growing really fast." And I was told again, very reasonably, "That's great, John, that's adorable. When they hit 3% of our liquidity, give us a call." And just like Chris was saying, every day I'm like, "Guys, 20% more, 20% more, 20%

more." And again, it's easy to sit back and go, "Oh, those guys were stupid." They weren't stupid. They were playing the hand they were dealt. They were playing the statistics, and most of these new attempts failed. And so you're sitting there and you're asking yourself, what's the tipping point in which we have to take this technology super seriously? We all know it's better to have instantaneous settlement versus having to wait seven days. We all know it's better to be able to do this nights and weekends where the banks aren't open. Clearly, we know this is a better way to do it. It's just going to come down to proving the use case, getting more and more people on board. And then for me, it was always about selling, it's going to be hard to sell this to JPMorgan, but selling to the community banks who are struggling because they're losing depositors to the G-SIBs, not to us, to the G-SIBs. "Hey, this is a way for you to compete and grab a next generation of consumer." So you need to be ahead of the curve, whereas the G-SIBs are probably going to wait until the last possible moment.

Chris Kennedy (12:17):

One more thing I'll add here to this is that I think about it from the client-focused standpoint, right? If you're really looking at it from a really high level, my client doesn't care whether I use a legacy rail or a stablecoin rail. They just want to be able to send money anytime, any day and move it quickly at low cost and reliably and with trust. So whether the large banks or community banks adopt a Coinbase system or a tokenized deposit system, for me it's like if we can really just focus on the art of the possible by focusing on bringing down cost, bringing speed as fast as possible, those are the ideal outcomes regardless of the rail. Again, that's where I'm thinking about focusing on the client versus focusing on the deposit or the rail conversation. Strategically, you get to the right answer if you focus on that client need.

Genna Garver (13:04):

In your paper, you mention a JPMorgan deposit token still can't reach a USDC wallet. So with the Clearing House network from JPMorgan, Bank of America, and Citi targeting 2027, Project Agorá already settling live transactions, and community banks piloting their own consortium, are we heading towards five or six parallel systems that never talk to each other?

Chris Kennedy (13:36):

I think that is a risk. But I think if you use the modern connector platforms, like if you're a community bank or regional bank and you get the right technology, you can connect to all of those networks. You're not limited by the number of networks. That's no longer a strategic issue, so you're basically buying that optionality. I think it becomes less about which one will win. And I actually think the competition is good. You saw when Open Standard was announced, I mean, I can't prove causality, but I see this massive surge in announcements around TCH and SWIFT and Project Agorá and the largest banks. I think there's a lot of energy from this really healthy competition. These rails are doing different things and they will be different, but I don't think that's a problem. I think it's actually a good thing. And really the important thing for banks to understand, or for

anyone really to understand, is, "Hey, your clients are going to start using these capabilities more and more. They're going to expect certain service levels, and you want to be ready versus being late." And you want to focus on your incremental value add, which is not necessarily that tech connector. It's going to be, what are you differentiating for your client? Is it the relationship? Is it the experience? Is it the intelligence, the optionality? You want to make sure you focus on that client.

John D'Agostino (14:41):

I think Chris is absolutely right. Look, a lot of people in crypto, especially, we have the layer-one wars. Everybody has their layer-one that they believe in. They think that should be the universal, consistent truth. And I understand that premise. It's a beautiful architecture, a beautiful concept, an open-source, global, permissionless system that everybody uses. That is a lovely thought. But to Chris's point, Chris is a banking expert, my background's in exchanges, in theory, there should be one global exchange because liquidity begets liquidity, and theoretically, you have minimized friction, maximum liquidity, and everything should flow, all liquidity should flow to one centralized place. Well, of course, that's not how practically things work. Now, there's obviously geographic dispersions, regulatory dispersions, but also people just don't like having all of their information in one place. So they tend to not be monopolies, they tend to be oligopolies. And I think payment systems and payment networks will be similar. Will we have 500? Probably not. But will we have conglomerates like an Amazon or a JPMorgan that are large enough to support their own ecosystem? Yes. Will we have some that maybe are used more in the East, like a Tether? Yes. Will we have some like USDC move more in the West? Yes. So I can't tell you how many, maybe a dozen globally, maybe two, but I think Chris is right, they'll do, and some will be more privacy-oriented. So there's room for oligopoly, not monopoly. But to Chris's point, I don't think we'll have hundreds and hundreds of them because that's too inefficient.

Genna Garver (16:01):

So should community and regional banks be focusing on plug-and-play vendor solutions like Fiserv's FIUSD? Is that where their efforts should be?

John D'Agostino (16:14):

Chris, what's your recommendation? Because I got yelled at on the internet because I don't have a banking background, so I'm going to shut up on this one.

Chris Kennedy (16:20):

People get really sensitive about which technology solution you pick, right? And I'm not going to claim to pick a winner. There's a number of strong players here. I think if you're a community bank or regional bank, why would you want to custom build a very complex emerging technology? There's a number of very sophisticated technology vendors available to choose from that can get you on the network. And then what that means is that the bank can focus on its incremental value add, right? If you're a community bank, you want to really focus on your differentiator, right? Is it your

relationship? Is it your intelligence for payments? You really want to lean into your strategic advantage. There's a number of software vendors that can get you on the network, and they're going to be able to support level-one rails, they're going to support access to those different network standards. They can get you on the tokenized networks like TCH. That's not a problem. I would encourage anyone to take a quick look out there. There's a number of great vendors, and I'd be happy to take someone's questions offline to help point them out. But yeah, there's a lot of choices. Not going to claim to pick a winner here.

Genna Garver (17:21):

So my favorite line in the paper I keep coming back to is "buy the rails, build the intelligence, own the relationship." Break that down for a community bank board listening right now, John.

John D'Agostino (17:35):

I'll start with the latter because that's the easiest. Crypto's been an enormous success story since the Satoshi white paper was launched, but there's a generational gap and a trust gap to some degree vis-à-vis getting people to onboard into crypto. So I think rather than see it as a competitor, I think community banks who are really, really... I mean, as I got deeper into this world and I began engaging with some community bank leaders on Twitter, I've always kind of sensed it because I grew up in Staten Island and we banked at a local community bank in Staten Island. They have this wonderful connective tissue to the community and their customers. I mean, these are family-oriented neighborhoods that really trust and believe and value that relationship. So I think it's a wonderful opportunity to use next-generation technology and capitalize on that deep, deep trust. And so that's what we meant by that, is that they own... We may have better technology, they have decades and decades and maybe even centuries in some cases of better experience, and it's theirs to lose.

Chris Kennedy (18:33):

I think that's exactly right. And I think just continuing to work it backwards, banks have this huge trust advantage, and community banks typically have a large trust advantage in their local market. So when we say "own the relationship," that really leans into their strength, right? Is a community bank going to be a leading tech solution for a point-access network? Probably not. But they really are going to win on that relationship, that local community knowledge. When it comes to "build the intelligence," banks are based on relationship services, advisory, money movement. And so it's not just about one rail, right? You have the whole client relationship. So when you think about "build the intelligence," new digital assets become one more factor to give you a view into the client. That's where you really need to lean in, is less on how do I connect the technology and more on what insight can I give my clients to help them be more successful? Because if my clients are more successful, we're going to be more successful.

Genna Garver (19:25):

I want to move now to focus on custody specifically. You're fairly emphatic that banks should favor connectivity over holding digital assets directly. Why? And what does that look like operationally?

John D'Agostino (19:41):

Well, let Chris talk about what that connection looks like. I think for me, it's fairly straightforward. Custodying digital assets is an entirely different thing from custodying traditional assets. So there's technologies involved, there's policies and procedures, and there are now custody solutions that have been active for over a decade and have a proven resiliency. So I think the cost of replicating that relative to the cost of renting it or partnering, it makes no sense, I think, even for larger banks to try to build out that technology from scratch. So I'm kind of talking my own book here because obviously Coinbase is a supplier of these custody solutions, but it's not just Coinbase. There's three or four other global solutions that have a decade or more experience, never having been hacked, et cetera, et cetera. So I think the rails, the rails can be built or rent or bought, but the custody portion would be very difficult to build out.

Chris Kennedy (20:31):

I would agree. I mean, you got the whole Basel risk-weighted asset, right? It's a pretty significant percentage risk-weight charge for that. So unless that's going to be your strategic play as a bank, which is, I think, usually not a community or regional bank, there's a lot of cost and compliance specialization that goes into being able to manage that. Whereas if you think about it from a rail connectivity standpoint, you're taking care of your client's needs without making that strategic decision about I want to be a bank to handle custody. That's a very different strategic decision.

Genna Garver (21:02):

There's one question you say doesn't have a clear answer yet, and that's whether a closed bank-native tokenized deposit network eventually captures enough of the market that banks don't need a stablecoin path at all, or whether supporting both is unavoidable. Where do you lean personally?

Chris Kennedy (21:29):

I think we kind of talked a little bit earlier in the call, right, that there's room for both because everyone's doing a little bit different thing. If you're on a public network, you now lose privacy, and certain large transactions or investors, they may not want it to ride on a public network where it's visible, so they might opt for something like Canton or like JPM's they're pushing it through TCH. But the public-privacy conversation, that's never going to go away. And so I think there's really room even in that dimension to have a public and private rail. And then even when you think about it from a payment perspective, there's still many payment rails. They really haven't reduced, they've only been added. I don't think there's a clear answer here. I think there is definitely the possibility that tokenized could get the lion's share, but stablecoins have achieved a lot

in a little amount of time competing against these big players. So I don't really think there's a clear answer yet.

John D'Agostino (22:22):

Yeah, I agree with Chris. I mean, look, again, I live in a world where people really think about and value things like privacy, immutability, lack of government censorship. So if those are things that you value, then permissionless rails are clearly superior. And people can say in a vacuum kind of what they value, but then when it goes back to their everyday life, they may value convenience and incentives or rewards of some type or just, "Hey, this is how I've always done it. I've always worked with this bank and now they're offering this solution," and fine, it doesn't check all my boxes, but I'm going to do it anyway. So I think we just have to be realistic about what people place priorities on and then also understand that these banks, these current payment networks, legacy payment networks, they're not going to give up the fight easily. They're going to offer lots of incentives to keep people on their rails, their private, non-permissioned rails, and we'll kind of see what wins over time. But to Chris's point, it's pretty clear from stablecoin adoption and other metrics that there is a meaningful part of society willing to put dollars behind the attributes of permissionless chains. Whether that becomes dominant and the majority 5, 10, 15, 20 years from now, I'm not sure. But there's enough demand to justify offering that option.

Genna Garver (23:36):

What's the one question a community bank board should put on their agenda for the next meeting?

Chris Kennedy (23:43):

I really think this comes down to, I'll call it franchise durability. Are you at risk from your next generation of clients if you aren't thinking about their needs from a connectivity, from a fintech, from a digital native, from a small-medium business? I think that's the real big risk. So I'd say, do we know where the next generation of our clients are going to come from? Not today, not next month, not next quarter, but maybe two to three years down the road. Is it these fast-growing young companies in our market? Are they digital native, Gen Z startups? Their expectations may be different. And if we understand where our future clients come from, then we can back into thinking about how digital assets and competing with fintechs plays into our long-term organizational strategy.

John D'Agostino (24:29):

Chris is far more eloquent about that than I am. I would ask the same question a slightly different way. I think I would just say, okay, fine, we've won, Clarity got killed. And then I would ask, what does that mean for us now? Does this board really believe that cryptographic transmission of value is going to be irrelevant in the future? And if the answer to that question is yes, we believe it's irrelevant, then what else are we going to do to stop this bleeding of depositors? If the answer is no, we don't think it's going to be

irrelevant, then it's just simply, when do we lean in? Is it now? Is it five years from now? 10 years from now? That would be my simple question. If we don't think that this is the future, then what is the future and what are we going to actually do? Because if we stay the course, we've seen over the last 10 to 15 years, regional banks and G-SIBs have grown, community banks have shrunk. What's going to reverse that trend if not this?

Genna Garver (25:22):

And let's hope they get your message. Fire the rails, build the intelligence, own the relationship. This has been a fantastic conversation. Where can listeners find your paper and follow both of you?

John D'Agostino (25:34):

John J. D'Agostino on X and easy to find on LinkedIn, John D'Agostino at Coinbase. Chris Kennedy, Regions Bank, he's easy to find too. We both posted it to our socials. It was also published in *Fortune*. It should still be up there on their website.

Genna Garver (25:48):

John, Chris, thank you both for joining us today. Thanks for listening to *The Crypto Exchange*. For the latest updates, don't forget to visit our blog and subscribe to this podcast on whatever platform you use. Until next time.

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