PODCAST TRANSCRIPT

Talking Research
Future of payments: stablecoins to AI agents

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Katie Boyce: Imagine a world where your fridge restocks itself, your money crosses borders in seconds, and those Taylor Swift or Oasis concert tickets are booked while you sleep without you lifting a finger. At the recent Money 20/20 conference in Amsterdam, these weren't futuristic fantasies, they were live demos. From AI agents that anticipate your needs to the hot topic that is stablecoins, the event offered a glimpse into the financial future that is already well in sight.

Hello and welcome to Talking Research, a podcast from Walter Scott. I'm Katie Boyce, an investment writer at the firm, and in this episode, I'll be joined by investment manager Jamie Zegleman, who attended Money 20/20 and will share his thoughts on the rise of stablecoins, the promise of AI agents, and how even the industry giants like Mastercard and Visa are evolving to stay ahead.

Hi Jamie, thank you for being here.

Jamie Zegleman: Hi Katie.

KB: Now, before we get started, a reminder that the podcast is intended for investment professionals only and should not be construed as investment advice or a recommendation. Any stock examples discussed are given in the context of the theme being explored, and the views expressed are those of the presenters at the time of the recording.

So, Jamie, to start off with the event itself, tell me a bit about Money 20/20. What exactly is it?

JZ: Money 20/20 is one of the largest fintech conferences in the world. The Money 20/20 organisation runs about four of these a year. We attended the European version in Amsterdam, with about 6,000 attendees in total. I should say I attended with my colleague Alan Edington. This is one of the pre-eminent places to go to hear about what's going on in the fintech world – from the startup community, from the established players and many politicians, regulators, loads of other participants in between.

KB: That all makes it sound quite grey – financial services, financial payments – but it sounded like it was quite a lively event?

JZ: It was much more like a Silicon Valley tech conference than a banking conference. There was all sorts of razzmatazz, flamboyant over-the-top enthusiasm, there were multiple stages, there was even a beach bar for networking. The main stage was draped in foliage to make it resemble a rainforest. There were a lot of colourful neon lights. It was quite the show.

KB: And why were you there?

JZ: Basically, because I was trying to get to the bottom of what's going on in the fintech world. That whole space is so dynamic and so much of it evolves at a pace that is very difficult to keep on top of everything going on. Going to an industry conference like this, where the participants are the companies coming up with these ideas and trying to implement them in the real world, is a great way for us to get a picture of what's going on in a market that is moving so rapidly.

KB: The obvious topic to start with is stablecoins. Perhaps you could just start off with a brief description of what stablecoins are.

JZ: So stablecoin is a type of digital asset. It's a cryptocurrency. But the difference between a stablecoin and a traditional cryptocurrency like bitcoin is that a stablecoin is pegged to some sort of underlying asset.

KB: Such as?

JZ: The US dollar. In most cases today, there are really only two stablecoins of any scale. One is called Tether and one is called USD Coin, and that's issued by a company called Circle. And these assets are backed by physical US dollars. So if you, Katie, wanted to purchase a USDC stablecoin, you would buy one with your US dollars. That US dollar that would then be used by the company Circle who issued it. They would invest it in either short-dated treasuries or in a bank account, which back the stablecoin that you hold and therefore peg it to the US dollar.

KB: And what are they actually used for?

JZ: Well, the main use case today, it's been growing pretty rapidly, is for trading other cryptocurrencies, so on exchange purchases of bitcoin or Ethereum, for example. So if you are a cryptocurrency trader, you might hold a balance of effectively cash, but in a digital currency like a stablecoin, which you then can use to purchase bitcoin, and when you choose to sell some bitcoin rather than convert it into fiat currency off exchange, you can convert it into a stablecoin.

KB: And why would I do that?

JZ: Because it's easier, because it's faster and it's a cheaper way. Because every time you take your currency out of the exchange, you'll be charged a fee by some financial intermediary. So, if your aim is to do multiple transactions within an exchange, generally the participants these days are using stablecoins to do that.

KB: Where has this momentum come from? Why is everyone suddenly talking about stablecoins in a way they weren't several months ago?

JZ: There's a few reasons for that. The first is just that the market has been growing. So the market cap of stablecoins in issuance has been rapidly rising, and there's about US$250bn currently issued today. Now that's the value of stablecoins in circulation but the transaction volumes, ie the speed of spending of those, is much more significant. Somewhere in the multi trillions. I've seen everything up to something like US$20trn being spent on an annual basis. So it's growing very quickly. There's clearly support from the White House at the moment. You've seen what's called the Genius Act.

KB: Which is?

JZ: So this is a piece of regulation that's going through Congress right now that's seeking to establish really the regulations and the rules around stablecoin issuance in particular. So the US market is looking to develop what's known as a private stablecoin industry, a sort of decentralised stablecoin industry, where multiple different private organisations can issue stablecoins. You saw reports, in I think it was the Wall Street Journal, that even companies like Amazon and Walmart are looking into issuing their own Amazon coins or Walmart coins.

KB: And why would they do that, Amazon or Walmart?

JZ: Well, one of the potential advantages of cryptocurrencies and stablecoins is that they remove some of the existing intermediaries or could remove some of the existing intermediaries, in particular the banks that are involved in the existing payment landscape, so there's a cost opportunity for a company like Amazon who currently pay billions of interchange fees out to banks, for example. So if they could convince all of their customers to purchase products on the Amazon website using an Amazon stablecoin, then potentially they can reduce some of those costs, so that's the big incentive for these organisations to potentially issue stablecoins. And the other thing about this whole industry is that, when you issue a stablecoin, you receive the customer's US dollars. You then can invest that money and earn interest on it, so there is also a revenue generation element to issuing a stablecoin.

KB: And what does this mean for card providers, so a Mastercard or a Visa?

JZ: Well, the bears would tell you that there is a substantial threat to those types of company. The argument being that, if stablecoins are widely used fast for settlement and lower cost, then there's a potential benefit to particularly the merchants of using these. But I would argue quite strongly, actually, that we are a very long way from mass usage of stablecoins in personal consumption expenditure.

When you and I go down the road to buy a sandwich at lunchtime after this podcast, that kind of transaction is not likely to be using a stablecoin anytime soon. And there's a few reasons for that:

the existing payment network, the card payments, Visa, Mastercard, Amex are extremely widely accepted, you know, you can walk into almost any store here in Edinburgh and you'll be able to use your Visa or Mastercard, so there's a convenience element. There are a whole myriad of protections for you as the consumer, but also for the merchant as the retailer, that are built into the system, things like chargebacks, fraud protection, this sort of thing that makes the whole system very reliable and very resilient. None of that today is in existence in a stablecoin network. And whilst there are opportunities for stablecoin in other parts of the industry, I think that the personal consumption market is still going to be dominated by these.

KB: And what are the likes of Mastercard and Visa doing? I mean, they're presumably not just closing their ears and pretending it's not happening.

JZ: Yeah, definitely not. They had big presences at the conference at Money 20/20, with big stalls. They are integrating stablecoin into their existing networks.

KB: In what way?

JZ: Well, so Mastercard today issue co-branded debit cards with Crypto.com, the crypto exchange. So, if you happen to have a Crypto.com account with some cryptocurrency sitting in it, you can now use a card in anywhere that accepts Mastercard and use that cryptocurrency to purchase things. The merchant isn't accepting cryptocurrency, they're accepting normal currency, fiat currency, the transaction is being converted by Mastercard and others in between, but what it's allowing you to do is spend your balance of cryptocurrency in the real world. So that's a way that taps straight into the Mastercard network, so stablecoin or cryptocurrency suddenly get all the benefits that come with that. And therefore they can become ubiquitous in terms of their acceptance and so on. But it's because of Mastercard, rather than instead of Mastercard.

They're also building stablecoin into some of their other areas of cross-border transactions, remittances. These are just one of the ways that people are beginning to want to move money around the world, Mastercard are certainly happy to cross facilitate that.

KB: Cross-border payments are perennially difficult.

JZ: Difficult, costly, slow, yeah. The existing cross-border network is so complex. If you want to send money from the UK to the US, that's not that difficult. But if you are an immigrant worker in Saudi Arabia wanting to send money back to your family in the Philippines, that currency pair is a lot more complicated because your bank account that your salary is getting paid into in Saudi Arabia will be very unlikely to have a direct link to the bank account of your family in the Philippines.

So how it works today is that your money will transfer through multiple other banks en route to the Philippines. So maybe your bank in Saudi Arabia has to speak to what's known as a correspondent bank in India. That correspondent bank in India needs to speak to another correspondent bank, perhaps this time in Singapore. The Singaporean bank then will speak to its relationship bank in the Philippines, who will finally have a direct link into your parents' local bank in in the Philippines, northern Philippines or wherever you live.
So it's that complexity that just adds cost and it adds time. And what it means is you don't know when your money is going to arrive, it can take multiple days, and you also don't know how much of your money is going to arrive because you don't know how much it costs. So stablecoins potentially can solve some of these challenges.

KB: And how far away is it from being able to solve a challenge like that?

JZ: Well, I think it is being used. So what you would need in that situation is the sender in Saudi Arabia and the recipient in the Philippines to have the same stablecoin wallet, and then it becomes a bit more simple.

KB: But we're not there yet.

JZ: Not widely, not mass. And you know, if you look at something like large currency flow pairs. So US dollar to euro, US dollar to UK, UK to euro, that same issue used to exist but has been largely dealt with by companies like Wise. So Wise is a cross-border payment infrastructure provider based in London, and they, through their own technology and system and network, are being able to effectively offer instant transactions at very low cost already. So this is more, I think, a solution for those cross-currency pairs that are just much less common.

KB: Changing tack slightly, I mentioned AI agents in my intro, and stablecoins obviously weren't the only big topic in Amsterdam. The idea of AI agents making purchases on our behalf, it sounds hugely futuristic and exciting, but how does it actually work? Give me an example of how that would happen.

JZ: Okay. Let's take an example of you wanting to buy a new pair of trainers. You've got a marathon coming up and your old pair have been worn through the soles, and you want to go and identify the right pair for you. You know your shoe size, you know your budget, you know what your end game is, your aim is to run the marathon in four hours or whatever.

You can type all of that today into an LLM [large language model], ChatGPT being the most obvious or Perplexity or so on, and it will go out and scroll the internet, look at all the different options, the price points, the deals that are available and give you the best options back. So that's today.

It's only a small leap then to say, well, now that you have told me what I should be looking to buy, and I've decided I want to buy it, giving permission to that LLM to just go out and do it, because the alternative is you have to go to the website, click through the link, put in your card details and so on. Companies like Perplexity in their Pro version, in the US, they now offer what's called click to pay. So, as soon as they show you that shoe, you can then press a button and it will purchase it on your behalf. That's a really simple example, but where this technology probably offers more value is in much more complex situations.

KB: Such as?

JZ: Holiday planning. So imagine you're trying to plan a two-week trip to south-east Asia. You want to go to multiple countries, Singapore, Malaysia, Thailand. You want to stay in multiple places in those countries so you're going to need hotels, sometimes you want to stay in an Airbnb. You're going to need travel between those countries, flights, trains. What are all those options?

In the old world, you'd go out and you would spend hours on the internet scrolling through reviews, travel planners, blogs, finding the potential options, finally making your decision. In today's world, with things like ChatGPT, you can put all of your requests in, it will come up with a solution, but you would still then have to go out, go to all the websites, even once you decided what you wanted to do and book all of those different places. So the next stage, of course, is to just allow the LLM to do all the booking for you, and that just takes a huge amount of time saving away from you, not only in planning but also in transacting.

And then when you sort of start to think a bit more about the options that this opens up, well, the LLM will be able to see what offers are on at any particular time. So maybe Amex has got a deal and it would be cheaper to buy a hotel room in Bangkok with Hilton rather than Marriott. Unless you are very detailed, you're not going to spot that yourself, but an LLM could see that very quickly and therefore book that part of your holiday using your Amex, another part using your Mastercard, and so on and so forth. And that, I think, is where the sort of additional value potentially comes from these technologies.

KB: I mean, that sounds wonderful. I can see many, many evenings being given back, but surely there are challenges? Surely there's the potential for fraud? I don't know. It all just sounds too good to be true.

JZ: Yeah, and you're right. That's exactly the main risk with all of this, is that you're introducing another participant into the system, and this participant isn't a human. And so the whole network is going to have to adjust to make sure that we can identify legitimate transactions from deep fakes or bots or unwanted bad actors getting involved. And that's a lot of what we heard from Mastercard and Visa at Money 20/20, about how they are going to try and address these challenges.

So Mastercard, for example, has a solution called Mastercard Agent Pay. And what they're doing is, they're going out and registering and certifying agents. So these AI agents that are now being developed to purchase on your behalf are getting signed up to the Mastercard network, Mastercard is certifying that they are legitimate, that they are trustworthy, that they are following the Mastercard network rules, that they are providing all the required information back to the consumer.

Think about the T's and C's when you buy an airline ticket or your insurance contracts or whatever, they're putting in place the mechanisms by which that will happen. And then, ultimately, they're also

building in Mastercard's tokenisation and fraud protection solutions, chargeback solutions, that just make the whole system much more robust. So that's the route that Mastercard are taking, and I think actually they're going to play a really important role in bringing this sort of technology to the fore going forward.

KB: And those are obviously the two big themes that were covered at the conference. What were any of the other takeaways for you?

JZ: Agents and stablecoin were front and centre, but what I thought was really interesting, particularly as a European, is just how much innovation is coming out of Europe in the fintech landscape. If you think about digital-first banking, Monzo, Revolut, two of the most successful neobanks in the world. You've got companies like Wise that I mentioned earlier solving the cross-border challenges. Adyen is a Dutch-based, digital-focused merchant acquirer and processor that has done a lot to allow us all to buy things on the internet, behind the scenes. You wouldn't have heard of them, probably, but that's the sort of company that has really innovated to solve challenges.

KB: And why is this? Why is Europe at the forefront of this technology?

JZ: I think simply because Europe is a complicated market and, as a result of that, there's a lot of friction in the system and a lot of opportunity for companies to come up with novel solutions to fix that. Think about multiple currencies, multiple countries, regulations that are different in lots of different places, people moving money around the whole European continent on a regular basis, that just creates a lot of friction that maybe doesn't exist to quite the same extent in, particularly in the US, for example.

KB: So it sounds like it was a busy few days covering huge, exciting topics. And it's obviously a landscape that's really shifting very, very quickly, Now, Jamie, before you go, you've been at Walter Scott for 17 years. You've been around all the regional teams and you're currently in the European team. We talk about trips a lot, and presumably you've traveled far and wide. What has been your most insightful trip over the years?

JZ: I think it's hard to pinpoint one, but what I would say is the trips that jump to mind when I'm asked that kind of question, it's this particular site visit or a particular meeting that really helps to drive home the investment case for the company.

KB: So which ones would be your top three?

JZ: Examples would be going to the Netherlands and being given the opportunity to go into a clean room at ASML's manufacturing facility, where they are making extreme ultraviolet light lithography instruments. They are in all the leading edge fabs for semiconductor manufacturers, TSMC, for example, and without which we wouldn't have many or any of the high-end devices that we all use all the time. Going there, seeing the scale of these things, speaking to the people who actually build them, you realise just how complicated they are and how right at the leading edge of human ingenuity these products are, so that really drives that home.

A number of years ago I was out in the Midland Basin, which is an oil basin in the desert in Texas with EOG, where I got to visit and see a drill rig. That was amazing because on the drill rig, you see the sort of physical labour involved, the employees attaching the drill pipe, putting it into the hole, you know, the physical labor involved in that. But at the same time, it really drove home just how they're using technology to be one of, if not the most efficient oil driller in North America. So again, it's very different to see that in person. It drives it home in a way that, you know, you can hear it from a management meeting or read it in an annual report, but when you actually see it, it helps to bring it to life.

And then the other one I would always point to is when I was in California and visiting Intuitive Surgical and got the opportunity to play around with their da Vinci robotic surgery.

KB: Not on a real patient, I hope?

JZ: Not on a real patient. You'll be glad to hear.

KB: And we always talk about our trips, but why do they form such an important part of the investment process?

JZ: I think it goes back to that point I made earlier about getting to know a company better than you can from reading an annual report. Yes, we do a lot of desk-based research, but things like culture, for example, those really jump out when you see a company with a unique culture, it's more obvious

when you're there in person. Companies like Fastenal, Amphenol, O'Riley (the auto parts retailer), these companies have a down-to-earth, hard-working culture. They tend to not be too frivolous with their spending. They're just there for their customers and they work hard to deliver on that, and that really jumps out when you see a company like that. And that's where I get the most value out of these trips.

KB: Thank you Jamie, that's been brilliant. And if you'd like to read a recent article that Jamie wrote on the topic of stablecoins, particularly related to Mastercard and Visa, please check it out on the Insights page of our website or in the podcast show notes.

With trips planned to Denmark, China, south-east Asia, Brazil and Argentina. I'll look forward to chatting to some of those travellers over the next few months. But in the meantime, thank you, Jamie, for being here today. And to our audience, thank you for tuning in. Goodbye.

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