Regulatory Alert

Regulatory Insights for Financial Services

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FDIC Deposit Insurance Reform Options

The Federal Deposit Insurance Corporation (FDIC) has issued a report outlining the history of the deposit insurance system in the U.S., as well as the stated objectives of the system, which include financial stability, depositor protection, consistency and transparency, and minimizing disruptions from bank resolutions. The report also outlines policy tools that may be used to mitigate possible unintended consequences created by deposit insurance; these policy tools include bank supervision and regulation (directed toward capital, liquidity, long-term debt, interest rate risk, and growth supervision), deposit insurance pricing, and the adequacy of the deposit insurance fund (DIF).

Changes in the financial services industry, including an increase in uninsured deposits and technological advances, have prompted the FDIC to explore several options and considerations for potential reforms to the deposit insurance system. FDIC Chairman Gruenberg described the report as “a useful starting point for consideration of the issues surrounding deposit insurance.”

Options for Increased Deposit Insurance Coverage

The report focuses on three potential options as an alternative to the current deposit insurance system, including:

— **Limited Coverage.** This option would maintain the existing deposit insurance framework that insures all depositors by ownership rights and capacities up to a specific limit, which could be the set at the current limit or a potentially higher amount. The FDIC states that “even with a ten-fold increase in deposit insurance, there are likely to remain large uninsured deposits that can pose financial stability concerns” and suggests that additional policy tools should be considered to promote the financial stability objective.

— **Unlimited Coverage.** This option would provide unlimited deposit insurance for all deposits. The FDIC suggests this option would likely provide the greatest advantages with regard to financial stability and the resolution process, although it could also have the most dramatic impacts on depositor discipline, bank risk-taking, market disruption, and the adequacy of the DIF.

— **Targeted Coverage.** This option would consider different coverages across account types, such as extending unlimited coverage to some account types and limited coverage to others or providing limited coverage across all account types but with different limits. The FDIC highlights, in particular, an option to focus on providing higher or unlimited coverage to “business payment accounts”, which the FDIC suggests could increase financial stability without expanding the “safety net” more broadly, maintaining depositor discipline and mitigating disruptions across markets. The report states further analysis is warranted on Targeted Coverage, but that it could provide greater financial stability benefits than Limited Coverage, while answering “drawbacks” associated with Unlimited Coverage.

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Additional Options. The report also examines additional options that could be considered alongside the Limited Coverage or Targeted Coverage options, such as:

— Excess deposit insurance coverage, or voluntary coverage for deposits above the insurance limit, provided at the bank or depositor level by the private sector, FDIC, or a combination.

— Requiring secured deposits or collateralization for large, uninsured deposits.

— Limiting convertibility (or full liquidity) of deposits above the deposit insurance limit.

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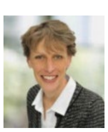

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