Summary of the Federal Deposit Insurance Corporation on Deposit Insurance Reform

Background:
- Following the Silicon Valley Bank and Signature Bank failures, press and commentators raised questions regarding the current structure of the Federal Deposit Insurance Corporation’s (FDIC) deposit insurance structure. In response, the FDIC issued a report with policy options and recommendations for restructuring the insurance structure.

Summary:
- Key figures regarding the current status of deposit insurance includes:
  - As of December 2022, more than 99% of deposit accounts were under the $250,000 deposit insurance limit.
  - Uninsured deposits have been growing in their share of all domestic deposits largely since 1990, and currently account for just under half of all deposits.
    - Since the FDIC’s inception, uninsured deposits represented greater than half of all deposits and fell steadily until 1990.
- The FDIC acknowledges that any changes to the deposit insurance structure would have to be made by Congress. The FDIC lays out three options:
  - Limited coverage – maintaining the current system of deposit insurance, potentially increasing the deposit insurance limit.
  - Unlimited coverage – fully insuring all deposits.
  - Targeted coverage - substantially increasing coverage to business payment accounts, without significantly changing the limit for other deposits.
- Targeted coverage is seen as the most viable and useful option by the report authors and is additionally highlighted by Chairman Gruenberg in his cover letter. The report acknowledges the challenges associated with targeted coverage, including the difficulty in identifying qualifying accounts and unforeseen technological advances that could allow for arbitrage.
- The report further identifies supplementary tools to support deposit insurance, largely supervision and regulation, including:
  - Increased capital requirements, the accounting treatment of securities and accumulated other comprehensive income (AOCI).
  - Enhanced liquidity provisions for non-GSIBs, including the LCR and NSFR.
  - More supervisory attention to interest rate risk and enhanced risk management standards.
- Long-term unsecured debt requirements, including total loss-absorbing capacity (TLAC).
- Strengthened supervision surrounding rapid bank growth.