

Issue Update

The failures of Silicon Valley Bank and Signature Bank are the most recent events to prompt bankers, policymakers, and other stakeholders to evaluate whether FDIC insurance coverage has kept pace with changes to the banking marketplace and if it promotes financial stability and allows banks to compete for customers on an equitable footing.

In May 2023, the FDIC issued a report, *Options for Deposit Insurance Reform*, which outlines three options for reform to the deposit insurance system status quo, limited coverage and targeted coverage. Because deposit insurance doesn't happen in a vacuum, each option comes with trade-offs, including additional regulations and costs.

Ultimately any major changes to the deposit insurance system will require Congressional approval. ABA will continue to urge lawmakers and all stakeholders to carefully consider the broad implications for the banking industry, bank customers, and the economy at large.

Why It Matters

The questions surrounding deposit insurance are complex, and the appropriate level of deposit insurance, relative to the costs and regulation and supervisory tradeoffs, are different for each bank and the set of circumstances that surround a liquidity stress or failure. It is important that policymakers understand the complexities and costs of deposits insurance.

The possibilities are infinite and complex and accordingly, there are no "right" or easy answers. For example, opinions differ on:

- the appropriate amount of deposit insurance;
- the types of depositors that should be covered;
- If any additional coverage is needed and if it should be opt-in, opt-out or compulsory; and
- how to minimize moral hazard, while supporting economic growth.

What is clear is that the conversation around deposit insurance is- and will be - a complex one, and there are no fast or easy answers. What is also clear is that deposit insurance doesn't exist in a vacuum and any changes will have policy implications for the entire financial system.

ABA believes that at a minimum the deposit insurance system must continue to allow banks of all sizes to compete and succeed, and any expansion of the system must take into account how additional costs will be allocated across banks and the timeframe over which the costs will be phased in.

Recommended Action Item

Tell the federal banking regulators your bank's story, and experiences during including how you know and understand your local environment and adapt to changing customer needs and preferences.