

FDIC Issues Overview of Deposit Insurance System

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In response to the recent bank failures, on May 1, 2023, the Federal Deposit Insurance Corporation (FDIC) released a report titled “Options for Deposit Insurance Reform” ([Report](#)). The Report provides a comprehensive overview and discusses options to reform the financial stability concerns with the deposit insurance system. As stated in the Report, the leading public policy objectives of deposit insurance are to promote financial stability and protect depositors from loss. In a [statement](#) issued along with the Report, FDIC Chairman Martin J. Gruenberg stated that the Report “is an effort to place these recent developments in the context of the history, evolution, and purpose of deposit insurance since the FDIC was created in 1933.” Chairman Gruenberg also expressed his view that the Report serves as a starting point for consideration of the issues surrounding deposit insurance.

The Report provides context surrounding the history of deposit insurance, comparing the differences between today’s landscape and the landscape at the FDIC’s creation in 1933. The Report discusses the objectives of deposit insurance and ways in which the objectives can be supported, and it addresses possible consequences, such as bank regulation and supervision, deposit insurance pricing, and fund adequacy. Finally, the Report details three options for reform of the United States’ national deposit insurance system: Limited (which is the status quo), Unlimited, and Targeted Coverage. The Report identifies Targeted Coverage as having the greatest potential for meeting the fundamental objectives of deposit insurance relative to its costs.

The Report also points out that several developments suggest that the banking system has evolved in ways that could increase its exposure to deposit runs, including technological changes that increase the speed with which information, or misinformation, is disseminated and the speed with which depositors can withdraw funds. The Report also acknowledges the potential “moral hazard” associated with deposit insurance. In this regard, Chairman Gruenberg stated: “While acknowledging that deposit insurance can create moral hazard by providing an incentive for banks to take on greater risk, the report underscores that regulation, supervision, and deposit insurance pricing are essential for helping the deposit insurance system meet its financial stability and depositor protection objectives while constraining moral hazard.”

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