

Section 3: History of Deposit Insurance in the U.S.

This section examines changes to deposit insurance coverage since the FDIC was established, including periodic changes to the standard maximum deposit insurance amount (SMDIA) and the periods when differential coverage was available for different account types. It includes a detailed discussion of the most recent differential deposit insurance coverage treatment by account type, the FDIC's 2008 TAG program, and a similar program put in place under Dodd-Frank in 2010. The section then discusses changes in the composition of deposits since 1984 and provides information on uninsured depositor losses over the past three decades. The section ends by looking briefly at technological and recent regulatory changes, and relevant upcoming changes to the financial system.

The SMDIA applies to each depositor by ownership right and capacity, or ownership category, for each bank and is based on federal statutes and FDIC regulations.²⁶ The FDIC's "General Principles of Insurance Coverage" note that "All deposits held by a depositor in a particular ownership category—whether in one account or multiple deposit accounts—are

aggregated and insured up to the SMDIA for that ownership category."²⁷ As of May 2023, there were 14 ownership categories.²⁸ In practice, the ability of depositors to open accounts under multiple ownership categories allows depositors to access deposit insurance coverage above \$250,000 at a single bank. This section refers to the SMDIA as \$250,000, rather than effective coverage, unless noted otherwise.

The History of FDIC Insurance Coverage Limits

Congress has increased the SMDIA for FDIC insurance seven times since it was originally set at \$2,500 in 1933²⁹ to keep pace with inflation, maintain depositor confidence, and help smaller institutions. Particularly during the mid-1960s to 1980, there was an added purpose of helping the thrift industry. The statutory changes to the SMDIA are presented in Table 3.1. Given the lengthy period with no increase to the SMDIA by the early 2000s, inflation-adjusted increases

TABLE 3.1

Congress Has Increased the Standard Maximum Deposit Insurance Amount Seven Times Since 1934

Year	Amount (\$)
1934*	2,500
1934	5,000
1950	10,000
1966	15,000
1969	20,000
1974	40,000
1980	100,000
2008†	250,000

Source: FDIC.

*The initial coverage limit was \$2,500 from January 1 to June 30, 1934.

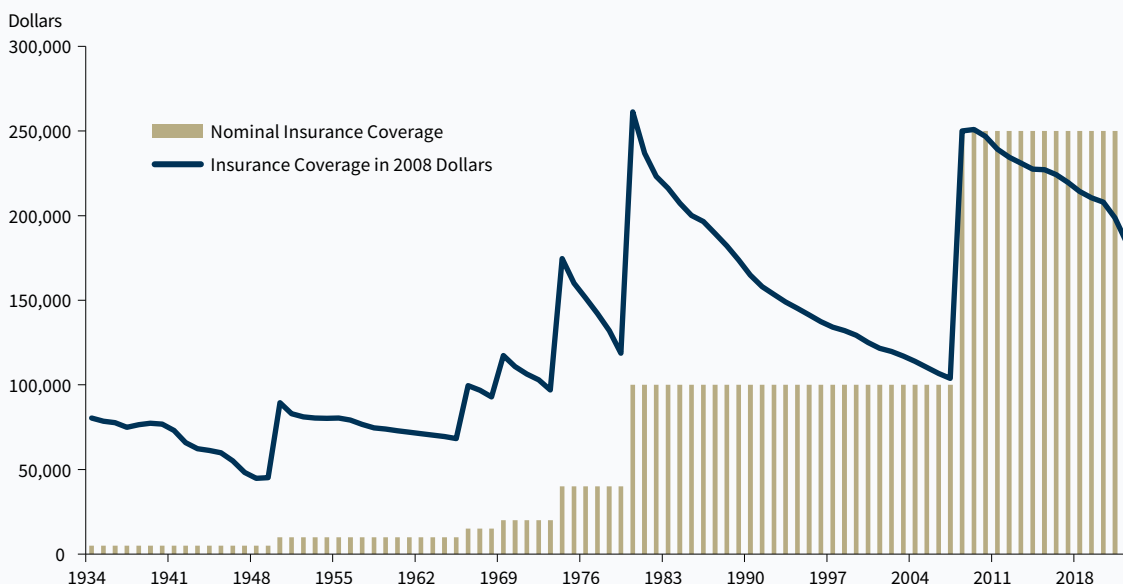
†Temporary increase; made permanent in 2010.

²⁶ The availability of deposit insurance is not limited to U.S. citizens and residents; any person or entity that maintains deposits in an insured bank receives deposit insurance coverage as provided under the Federal Deposit Insurance Act.

²⁷ FDIC, "General Principles of Insurance Coverage," <https://www.fdic.gov/resources/deposit-insurance/diguidebankers/documents/general-principles.pdf>.

²⁸ On January 21, 2022, the FDIC published a final rule to simplify the deposit insurance regulations for trust accounts. The changes, effective April 1, 2024, will reduce the number of ownership categories from 14 to 13.

²⁹ The level was set in 1933 and effective in 1934.

FIGURE 3.1**The Real Value of Deposit Insurance Has Fluctuated Over Time and Decreased in Recent Years**

Sources: FDIC and Bureau of Labor Statistics (Haver Analytics).

Note: The deposit insurance limit was increased temporarily to \$250,000 in 2008; the increase was made permanent in 2010.

to the SMDIA were anticipated under a provision of the Federal Deposit Insurance Reform Act of 2005 (FDIRA).³⁰ These increases were to begin in 2010, but the increase to \$250,000 in 2008, first temporary and then permanent, effectively superseded any such cost-of-living adjustment; it likely will continue to do so for a considerable period absent new legislation, since by statute the adjustment is based upon the prevailing \$100,000 level in 2005.³¹ Figure 3.1 compares the nominal SMDIA to the coverage level in 2008 dollars (the last time the SMDIA was raised) to illustrate how inflation has affected the SMDIA over time. In addition to changes to the standard coverage amount, Congress has made three changes to the coverage levels of particular types of accounts that increased their coverage above the then-standard coverage level (see below for more details).

1930s³²

Before the FDIC was made permanent in 1935, Congress originally set the coverage limit for deposit insurance at \$2,500 effective January 1, 1934, in the Banking Act of 1933.³³ The limited guarantee was important to ensure passage of the deposit insurance provisions of the law. The temporary plan was to last six months, but Congress extended it for an additional year and in June 1934 raised the coverage level to \$5,000.³⁴ The FDIC supported the increase, and when the Banking Act of 1935³⁵ made the FDIC permanent,

³⁰ See 12 U.S. Code Sec. 1821(a)(1)(F). For a description of this change, see Van Roosebeke and Defina (2022), p. 9.

³¹ FDIRA provided that the SMDIA be adjusted every five years and rounded down to the nearest \$10,000. Under that provision, in 2010 the inflation-adjusted coverage level would have been \$109,716, and it would have rounded down to \$100,000; in 2015, the inflation-adjusted coverage level would have been \$119,259, and it would have rounded down to \$110,000; in 2020, the inflation-adjusted coverage level would have been \$130,548, and it would have rounded down to \$130,000; as of February 2023, the inflation-adjusted coverage level was \$152,271, but under the statute the coverage level would not have been due to reset until 2025.

³² Information on events from the 1930s through 1980 is largely based on Bradley (2000).

³³ Pub. L. 73-66.

³⁴ Pub. L. 73-362.

³⁵ Pub. L. 74-305.

the FDIC recommended retaining the \$5,000 limit, which fully insured 98 percent of depositors.³⁶

1950–1969

The insurance coverage limit was raised from \$5,000 to \$10,000 in 1950 in the Federal Deposit Insurance Act (the FDI Act).³⁷ This increase was viewed as keeping up with inflation and restoring coverage to the same percentage of depositors as had been the case in 1935. The increase was expected to benefit smaller banks and increase public confidence in the banking system. There was consideration of raising the coverage limit to \$25,000 in 1963, an increase that the FDIC favored, but Congress did not act. The coverage level was increased to \$15,000 in 1966; at the time, the thrift industry was having difficulty attracting depositors and maintaining mortgage financing.³⁸ An increase in market interest rates had led to reductions in household savings in depository institutions, which was particularly problematic for thrifts. The increase in the limit also accounted for inflation and promoted confidence in the banking system. Just three years later, in 1969, Congress increased the coverage limit to \$20,000. Again, the increase helped the thrift industry as it made savings accounts more attractive and so provided liquidity for housing.³⁹

1974

The insurance coverage level was raised from \$20,000 to \$40,000 in 1974.⁴⁰ Against the backdrop of significant inflation and tight Federal Reserve policy, rates on open-market instruments increased well above rates paid by insured depository institutions. Both the FDIC and Federal Home Loan Bank (FHLB) Board supported an increase in the coverage level. The FDIC considered the increase a way to help insured banks compete in an increasingly competitive market for savings, with businesses seeking higher returns outside insured banks. The House bill favored an increase to \$50,000, while the Senate bill set the

level at \$25,000, so the amount in the law was a compromise. The increase accounted for inflation and a concern that there might have been some decline in confidence in the U.S. banking system with the notable failure of Franklin National Bank in 1974.⁴¹

1980

The insurance coverage level was raised from \$40,000 to \$100,000 by the Depository Institutions Deregulation and Monetary Control Act of 1980.⁴² In a period of very high inflation and record high interest rates, the increase in the deposit insurance coverage level was both a response to inflation and an attempt to help depository institutions, particularly the increasingly troubled thrifts, in fighting deposit outflows. The Federal Reserve Board in testimony before Congress supported the increase. However, unlike the other changes to the SMDIA, the FDIC was concerned about the size of the increase and suggested that \$60,000 would better serve as an adjustment for inflation, or that if the \$100,000 level were chosen it should come with a change in the assessment rate to maintain the adequacy of the DIF.⁴³

2008–2010

The SMDIA was increased temporarily from \$100,000 to \$250,000 in October 2008 by the Emergency Economic Stabilization Act of 2008.⁴⁴ The increase was to be in effect until December 31, 2009. In May 2009, the temporary increase was extended from December 31, 2009, to December 31, 2013.⁴⁵ But before that extension was passed, Congress had heard from interested parties about making the increase permanent. In both House and Senate hearings in February and March 2009, the industry (both the American Bankers Association and the Independent Community Bankers Association) advocated making the increase to \$250,000 permanent, stating that the higher limit increased public confidence and helped community banks garner deposits. Both trade groups

³⁶ The original permanent deposit insurance plan in the Banking Act of 1933, which was never implemented, created a co-insurance system, with full coverage to \$10,000, 75 percent coverage on deposits from \$10,000 to \$50,000, and 50 percent coverage on deposits over \$50,000. The FDIC believed that this plan would have increased the FDIC's liability for a very small increase in the proportion of depositors covered.

³⁷ Pub. L. 81-797.

³⁸ Pub. L. 89-695.

³⁹ Bradley (2000).

⁴⁰ Pub. L. 93-495.

⁴¹ Bradley (2000).

⁴² Pub. L. 96-221.

⁴³ Bradley (2000).

⁴⁴ Pub. L. 110-343.

⁴⁵ Pub. L. 111-22.

argued that adjusting for inflation, the \$250,000 limit approximately restored the coverage that the \$100,000 limit provided in 1980. The National Credit Union Administration was also in favor of the permanent increase and said a reversion to the old limit would destabilize the industry and affect public confidence.⁴⁶ The FDIC stated that any permanent increase in the coverage limit was a decision by Congress but that the FDIC should be allowed to account for any increase in setting insurance premiums.⁴⁷ The Dodd-Frank Act made the increase to \$250,000 permanent. That increase did not generate significant comment in testimony before Congress, and the provision was not included in the legislation until it reached the House-Senate conference.

Differential Treatment of Accounts

Congress has several times set the deposit insurance coverage limit for certain types of accounts above the SMDIA. The first time was in 1974 when the statute set the SMDIA at \$40,000 and increased coverage for public unit time and savings deposits held by state and political subdivisions to \$100,000. This increase benefited banks by allowing them to better compete for public deposits and by freeing pledged assets associated with public deposit accounts. Through the enactment of the Financial Institutions Regulatory and Interest Rate Control Act of 1978,⁴⁸ Congress authorized another differential treatment of deposits, increasing to \$100,000 the coverage limit for time and savings deposits of individual retirement accounts (IRAs) and KEOGH funds (funds in retirement plans for self-employed individuals, small businesses, and partnerships). Differential coverage for retirement accounts was extended further under the Federal Deposit Insurance Reform Act of 2005, when coverage for those accounts was increased to \$250,000, leaving the SMDIA at \$100,000 though providing for future periodic inflation adjustments to the SMDIA. The FDIC

supported the increase to retirement account coverage and suggested that it be similar to the 2.5 times multiple adopted in 1978.⁴⁹

The Transaction Account Guarantee Program⁵⁰

The most recent instance of differential coverage occurred in response to the financial crisis that began in 2008 and the recession that followed. The FDIC created the TAG program under a systemic risk exception. The program was in effect from October 2008 to year-end 2010. This program provided unlimited deposit insurance coverage to certain transaction accounts for institutions that chose to participate. Congress enacted a similar program, but for all institutions, under the Dodd-Frank Act in 2010. That program ended at year-end 2012.

Background

As the financial crisis deepened in October 2008, the then-administration and bank regulators, as part of efforts to stabilize the financial system, used the systemic risk exception to put in place the Temporary Liquidity Guarantee Program (TLGP).⁵¹ The TLGP included both a debt guarantee program and the TAG program. The TAG program provided unlimited deposit insurance on certain types of transaction accounts; this was the first time the FDIC insured deposits above the statutory coverage limit.

Although at the time no signs existed of large-scale runs on insured depository institutions, anecdotal evidence suggested that deposits were leaving banks viewed as troubled, and that even healthy banks were having deposit outflows. The TAG program was meant to alleviate potential runs and liquidity pressures that might particularly affect smaller banks if concerned business and municipal depositors withdrew funds and transferred them to larger banks.

⁴⁶Typically, the changes in the SMDIA for FDIC-insured accounts are also adopted for credit unions.

⁴⁷See U.S. House, Committee on Financial Services, Promoting Bank Liquidity and Lending Through Deposit Insurance, Hope for Homeowners, and Other Enhancements, 111th Cong. 1st sess. (Feb. 3, 2009), and U.S. Senate, Committee on Banking, Housing and Urban Affairs, Current Issues in Deposit Insurance, 111th Cong., 1st sess. (Mar. 19, 2009).

⁴⁸Pub. L. 95-630.

⁴⁹See U.S. House, Subcommittee on Financial Institutions and Consumer Credit, Viewpoints of the FDIC and Select Industry Experts on Deposit Insurance Reform, 107th Cong., 1st sess. (Oct. 17, 2001), 7.

⁵⁰This section is largely based on the discussion of the TAG program in FDIC (2017), chapter 2.

⁵¹FDIC, "FDIC Announces Plan to Free Up Bank Liquidity," press release, October 14, 2008, <https://archive.fdic.gov/view/fdic/3381>.

The TAG Program's Coverage and Participation

The TAG program was voluntary but was first extended to all insured institutions for 30 days without cost, after which they could opt out.⁵² After the initial period, more than 7,200 banks and thrifts, or 87 percent of FDIC-insured institutions, remained in the program. The TAG program was initially supposed to guarantee accounts until December 31, 2009, but given the financial crisis and recession, the FDIC was concerned that removing the guarantee too quickly might disrupt deposit funding and cause needless failures from sudden deposit withdrawals. Therefore, the FDIC extended the program twice, first through June 30, 2010, and then through December 31, 2010, when the program ended. Institutions could opt out each time the program was extended.⁵³ The percentage of insured institutions participating in the program declined with each extension and was down to 74 percent during the final program period. Over time, the average size of institutions remaining in the TAG program declined, with the greatest shift in size occurring at the first extension of the program (Table 3.2).

Figure 3.2 shows the amount of deposits covered by the TAG program. TAG coverage peaked at more than \$800 billion at year-end 2009. A different transaction account guarantee program was enacted under the Dodd-Frank Act and ran for an additional two years, through December 31, 2012 (see below).

The initial rulemaking for the TAG program defined an eligible account as “a transaction account with respect to which interest is neither accrued nor paid and on which the insured depository institution does not reserve the right to require advanced notice of an intended withdrawal.”⁵⁴ After receiving public comments, the FDIC extended the TAG to other accounts deemed important to cover: Interest of Lawyers Trust Accounts (IOLTAs) and negotiable order of withdrawal (NOW) accounts, which paid a rate no higher than 0.5 percent.⁵⁵ When the TAG program was extended for the second time, the FDIC lowered the allowable interest rate to 0.25 percent.⁵⁶

TABLE 3.2

Over Time, an Increasing Proportion of Participating Banks Opted Out of the FDIC's TAG Program, and the Average Size of Those Banks Increased

	Initial Opt-Out	Second Opt-Out	Third Opt-Out
Total Number of Institutions	8,305	8,012	7,830
Number of Institutions Remaining in TAG	7,200	6,406	5,801
Number of Institutions Not in TAG	1,105	1,606	2,029
Number of Institutions Newly Opting Out	1,105	514	441
Percentage of Institutions Not in TAG	13.3%	20.0%	25.9%
Average Size of Institutions in TAG	\$1.9B	\$796.4M	\$535.0M
Average Size of Institutions Not in TAG	\$292.5M	\$5.0B	\$5.0B

Source: FDIC.

Note: The TAG program is the Transaction Account Guarantee Program. Data are for insured institutions; data for first opt-out as of 12/31/08, for second opt-out as of 12/31/09, and for third opt-out as of 6/30/2010.

⁵² 73 Fed. Reg. 64179 (Oct. 29, 2008).

⁵³ 74 Fed. Reg. 45093 (Sept. 1, 2009); 75 Fed. Reg. 36506 (June 28, 2010).

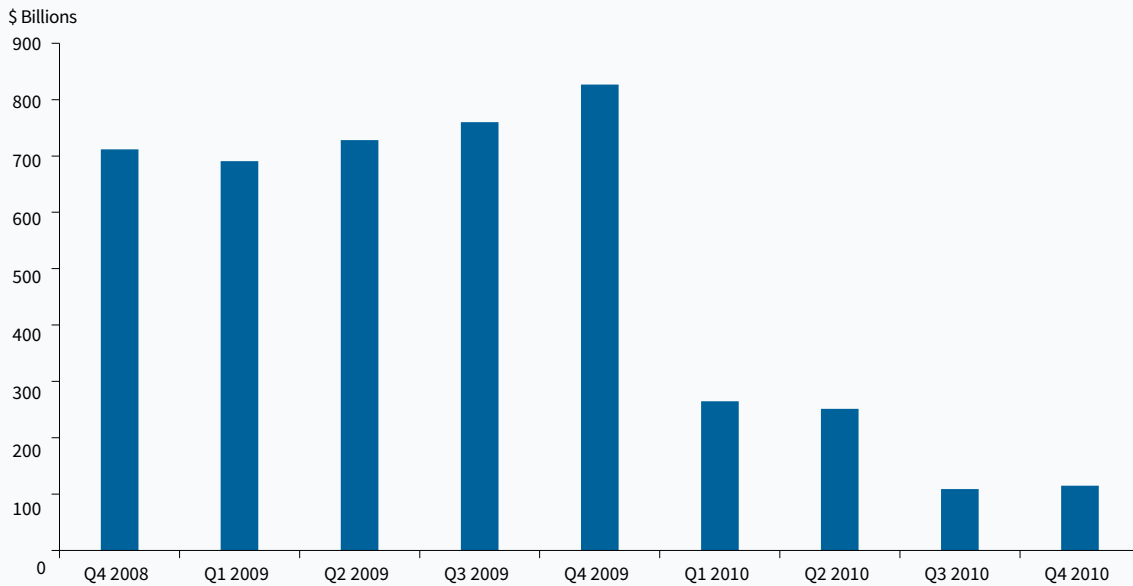
⁵⁴ 73 Fed. Reg. 64179, 64182 (Oct. 29, 2008).

⁵⁵ 73 Fed. Reg. 72244 (Nov. 26, 2008).

⁵⁶ 75 Fed. Reg. 36506 (June 28, 2010).

FIGURE 3.2

Amounts Guaranteed by the FDIC's TAG Program Peaked at Over \$800 Billion at Year-End 2009

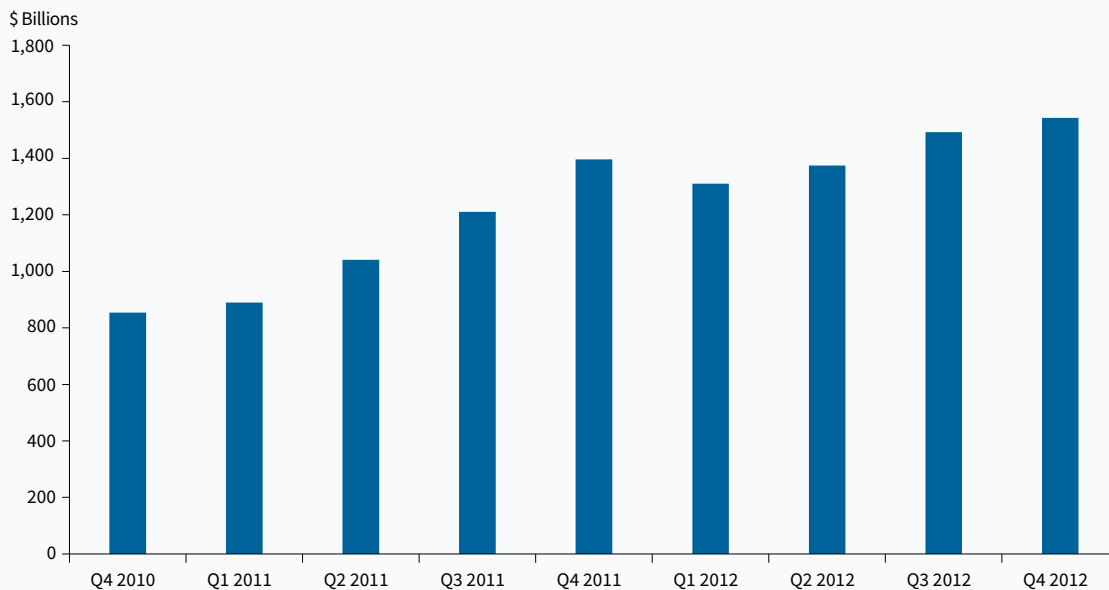


Source: FDIC.

Note: The TAG program is the FDIC's Transaction Account Guarantee Program.

FIGURE 3.3

Amounts Covered by the Dodd-Frank Act TAG Peaked at Over \$1.5 Trillion at Year-End 2012



Source: FDIC.

Note: TAG is the Transaction Account Guarantee Program under Dodd-Frank.

Fees and Costs

The TAG program imposed fees for opting in; it initially applied a 10 basis point annual surcharge on qualifying accounts over \$250,000. When the FDIC first extended the program for an additional six months, the surcharge was changed to a risk-based rate. Depending on an institution's deposit assessment category, it was charged 15, 20, or 25 basis points. At this extension, participating institutions could opt out, effective January 1, 2010. More than 6,400, or 93 percent of participating institutions at year-end 2009, continued in the TAG through June 30, 2010. The program collected approximately \$1.2 billion in fees, and as of year-end 2022 TAG losses were estimated to be approximately \$1.46 billion.

The Dodd-Frank Transaction Account Guarantee Program

The Dodd-Frank Act (Section 343) created a statutory version of TAG, which was in effect from December 31, 2010, when the FDIC's TAG program expired, to December 31, 2012. Unlike the FDIC's program, institutions had no ability to opt out, and initially only noninterest-bearing transaction accounts were provided with unlimited deposit insurance coverage. IOLTAs (but not NOW accounts) were added by using a provision in a law enacted on December 29, 2010. Also, unlike the FDIC's TAG program, there was no separate fee, but the FDIC stated it would consider the cost for the additional insurance coverage in determining deposit insurance assessments under its risk-based assessment system.⁵⁷ Banking industry groups advocated for the TAG program to be extended yet again, seeking to prevent accounts from moving to large banks or money market mutual funds. But an extension did not have sufficient support in Congress, and the program expired at year-end 2012. The amount insured peaked at the program's end in 2012 at more than \$1.5 trillion (Figure 3.3).

The Dodd-Frank Act provided that going forward, a debt guarantee program like the one created by the TLGP in 2008 should be permitted only following the determination of a "liquidity event" under the act and with congressional approval. But Section 1105 of

the statute specifically stated that a debt guarantee program could not extend to a guarantee of deposits. However, in 2020, as part of the pandemic-related provisions related to economic stabilization, Section 4008 of the CARES Act⁵⁸ gave the FDIC authority to back up deposits to any limit and preemptively granted congressional approval for such a program so long as the FDIC guarantee terminated by December 31, 2020.⁵⁹ The FDIC did not put such a guarantee in place. However, the statute changed the Dodd-Frank Act provision stating that a debt guarantee program could not extend to a guarantee of deposits, and the law now allows such a program to include a guarantee of deposits.

Composition of Deposits

Deposits serve two primary functions. First, deposits serve a critical role in the payment system. Households and businesses use deposits to transfer monetary value to settle financial transactions. Second, deposits are a store of value used by households and businesses for saving and investment. Although deposit accounts are not distinguished directly along these dimensions, transaction accounts are generally associated with the payment system function, and savings and time deposits are generally associated with the saving and investment functions.

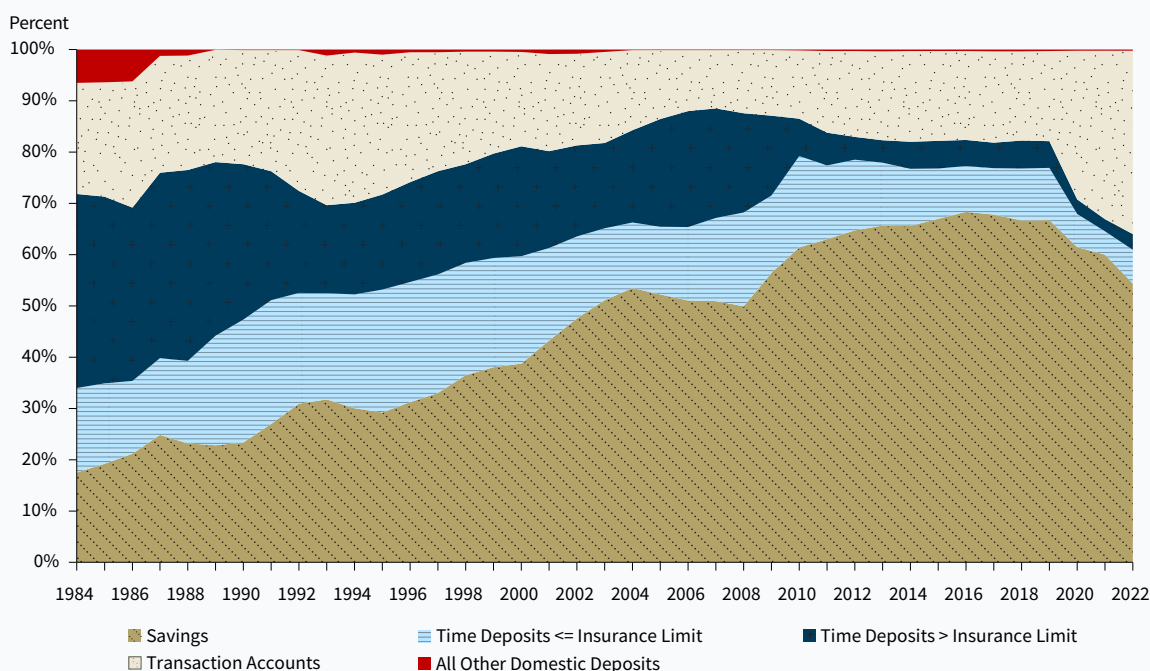
Figure 3.4 plots the proportion of deposits by account type from 1984 to 2022. In 1984, deposits primarily served an investment function for depositors, as about 72 percent of domestic deposits were held as time deposits (54 percent) or as savings accounts (18 percent). Meanwhile, transaction accounts comprised about 22 percent of deposits.⁶⁰ By 2000 and into the financial crisis in 2008, savings accounts more than doubled their share of domestic deposits, largely at the expense of time deposits and, to a lesser degree, transaction accounts. Following the financial crisis, time deposits constituted a diminishing share of domestic deposits in the system, comprising just 15 percent in 2019, while transaction accounts continued to account for less than 18 percent until the COVID-19

⁵⁷ 75 Fed. Reg. 69577 (Nov. 15, 2010).

⁵⁸ Pub. L. 116-136.

⁵⁹ Congressional Research Service (2020).

⁶⁰ Insured depository institutions report transaction accounts on the Call Report; transaction accounts are generally defined as a deposit or account from which the depositor is permitted to make transfers or withdrawals, either immediately on demand or with at least seven days' notice. Savings accounts are a subset of nontransaction accounts, which also include money market deposit accounts and time deposits (certificates of deposit).

FIGURE 3.4**The Share of Domestic Deposits Held in Savings Accounts Increased Prior to 2020**

Source: FDIC.

pandemic. Savings accounts have accounted for most of all domestic deposits every year since 2003, except 2008 when they accounted for 49 percent of domestic deposits.

Despite their distinctions on regulatory filings, regulatory changes and the economic environment have blurred the distinctions between deposit accounts over time. Historically, regulatory restrictions—such as interest rate caps and withdrawal limits—delineated between the payment and investment functions of deposits. However, amendments to Regulation D and the repeal of Regulation Q have removed some of the historical differences.⁶¹ The repeal of Regulation Q, which limited the rates that banks could pay on demand deposits, evolved over decades. From 1978 to 1986, laws and regulation phased out many of the rate restrictions on deposits that had been in place since the Banking Acts of 1933 and 1935.⁶² The remaining limits on rates paid on demand deposits were subsequently repealed

in 2011.⁶³ As a result, some banks today offer interest-bearing checking accounts, with interest rates that rival the industry's average savings account rates.

Under the Federal Reserve's Regulation D, depositors with savings accounts were limited in the ways they could access savings account deposits. Under Regulation D, there was a limit of six transactions per month on certain types of withdrawals from savings accounts, such as automatic transfers including overdraft payments. One important distinction between account types is that depository institutions must hold reserves against certain accounts (a transaction account) but not against others (for example, a money market savings accounts). However, beginning in 1994, banks began implementing retail sweep programs in which customer reservable transaction accounts were swept into accounts that did not require reserves. By reducing the bank's reserve requirement, the bank was able to invest those funds into interest-earning

⁶¹ Cook (1978).⁶² Gilbert (1986).⁶³ See 76 Fed. Reg. 42015 (July 18, 2011).

assets.⁶⁴ Although sweeps restructure transaction accounts into two legally separate accounts (a demand deposit account and a savings account), account holder liquidity is unaffected. Debits and credits are posted directly to the depositor's account. If the depositor requires more than five withdrawals to meet liquidity needs, the entire balance of the savings account is swept back into checking to comply with Regulation D.⁶⁵ Thus, many savings account deposits operate with the liquidity of a transaction account.

Further, as a result of the COVID-19 pandemic, the six-transaction rule in Regulation D was temporarily suspended (and it is still suspended as of April 2023),⁶⁶ allowing banks to raise that limit on their savings accounts (if the banks so choose). Consequently, some banks lifted the limit entirely, allowing some savings accounts to serve in practice as checking accounts. In some cases, for example, customers can open both checking and savings accounts at the same bank and set the checking account's overdraft transactions to withdraw money from the savings account. This allows customers to have a checking account through which they can obtain payment services but keep all their funds in the savings account earning the savings account rate.

In addition to changes in regulation, low interest rates following the 2008 financial crisis may have contributed to changes in the compositional function of deposits. Absent the ability to earn yield on deposit investments, the deposit base may have shifted to meet primarily payment services needs. More recently, increased interest rates may influence depositors to seek higher yield on transaction or savings accounts in response to competition, as is now permitted.

Though they may have led to benefits like increased modernization and innovation, regulatory changes like those mentioned above can complicate deposit insurance reform. For example, they make it more difficult to tailor the deposit insurance limit based on depositor needs by targeting specific account types (e.g., as in the original TAG program, which generally covered noninterest-bearing transaction accounts). If more distinctions between accounts are needed,

deposit insurance reform may require additional restrictions for different deposit account types.

The distinctions between savings accounts and transaction accounts, combined with the comparative amount of time deposits, suggest that deposits primarily functioned as investments into the 1990s. As of 2023, the ability to pay interest on transaction accounts and the ability to withdraw on savings accounts obscure the extent to which depositors use deposits for payments, investment, or both.

Finally, although time deposits are more commonly viewed as investment vehicles, withdrawal penalties are often inconsequential, especially to the extent that depositors have solvency concerns about their bank. If time deposits can be withdrawn with little or no penalty, they may also serve multiple functions. If deposit insurance reform evaluates the protection of payment accounts differently from that of investment accounts, clear delineation between account types is warranted (see Targeted Coverage in Section 6).

History of Uninsured Depositor Losses

As of December 31, 2022, estimated uninsured deposits held by insured depository institutions totaled about \$7.7 trillion, which is 43 percent of domestic deposits. Historically, losses to uninsured depositors have been small. In many bank failures, uninsured depositors do not incur a loss, and for the failures in which uninsured depositors incur a loss, the dollar amount of the loss was small in aggregate. The FDIC has many options to resolve failed institutions. Most commonly, the FDIC identifies an acquiring institution to assume some of the failed institution's assets and liabilities. Often, to maintain franchise value, the acquiring institution assumes all of the failed bank's deposits regardless of insurance status and uninsured depositors incur no loss. When the acquiring institution does not assume the uninsured deposits, uninsured depositors receive a claim on the receivership and are paid dividends on that claim from the proceeds of selling any assets that the acquiring institution does not assume.

⁶⁴ Edwards (1997).

⁶⁵ Gonzalez (2008).

⁶⁶ See 85 Fed. Reg. 23445 (Apr. 24, 2020).

Table 3.3 highlights historical losses to uninsured depositors over the past three decades divided into two periods. The first period, 1992–2007, covers the post-FDICIA period until just before the 2008 global financial crisis. The second period, 2008–2022, covers the period starting with the 2008 global financial crisis.⁶⁷ From 1992 to 2007, when banks failed, uninsured depositors often took losses (43 percent of the time).⁶⁸ When uninsured depositors took a loss, the losses were 24 percent from 1992 to 2007. In contrast, from 2008 to 2022, uninsured depositors took a loss in only 6 percent of failures and, when they took a loss, uninsured depositor losses were 43 percent. The differences across periods may reflect differences in deposit insurance coverage: with higher insurance coverage, paying out insured depositors became a more costly resolution option, and failures with uninsured losses were more likely to represent extreme cases such as fraud. Taking into consideration the failures in which uninsured depositors incurred no loss (the unconditional loss rate), uninsured depositors lost 10 percent in the first period and 3 percent in the second period, or about 6 percent overall.⁶⁹

It is important to note that uninsured depositors at Indymac, with \$28 billion in assets at failure, incurred losses on their uninsured deposits.

What's Different Today?

Changes since the 2008 financial crisis have meant that banks, bank customers, and banking regulators face a different financial environment than in the past. Some differences are relevant for understanding the full implications of deposit insurance design or reform.

Social Media and Financial Technology

Information sharing today is much easier, faster, and scalable than in the past. At the click of a button, information can be shared with thousands or millions of people. Information that garners attention spreads exponentially, as interested individuals share it further and automated algorithms promote it to viewers.

In parallel, technological advances in the financial sector allow for large financial transactions to occur with unprecedented ease. Depositors can easily set in motion the transfer of millions of dollars, open and close accounts, link bank accounts with other financial accounts, and move funds across asset classes. (In addition, see the discussion below on the upcoming FedNow real-time payment system.)

These changes allow depositors to monitor their banks more easily, potentially increasing the effectiveness of depositor discipline. However, they also exacerbate the potential for panic-driven runs.

TABLE 3.3

Uninsured Depositor Losses and Loss Rates in Failed Banks Have Historically Been Low

	Total Failures	Number of Failures With Losses to Uninsured	Percent of Failures With Losses to Uninsured	Uninsured Losses (\$ Millions)	Conditional Uninsured Loss Rate	Unconditional Uninsured Loss Rate
1992–2007	302	131	43%	148	24%	10%
2008–2022	536	34	6%	137	43%	3%
All	838	165	20%	285	28%	6%

Source: FDIC.

Note: Failed banks exclude failures resolved through assistance transactions in which institutions remain open. Information about failed banks and failed bank losses are from the FDIC Bank Failures and Assistance Data at <https://banks.data.fdic.gov/bankfind-suite/failures> and from FDIC information on payments made to claimants in bank failures. Information about the dividends paid to claimants, including uninsured depositors, can be found in the Dividend Information section of the descriptions on the FDIC's Failed Bank List at <https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/>.

⁶⁷ As discussed earlier in this section, in October 2008, the deposit insurance limit increased to \$250,000. Thirteen banks failed in 2008 before the deposit insurance limit increased but were retroactively covered up to the \$250,000 limit when the limit was raised. The remainder of the 536 banks that failed from 2008 to 2022 did so when the \$250,000 deposit insurance limit was in effect.

⁶⁸ Failed banks exclude failures resolved through assistance transactions in which institutions remain open.

⁶⁹ Loss rates are averages across failed institutions and are unweighted by bank size or deposit exposure.

Institutional Changes

In response to the 2008 financial crisis, the COVID-19 pandemic, and recent bank failures, the Federal Reserve introduced several lending facilities to provide liquidity to financial institutions and improve financial stability. The availability of loans to meet short-term liquidity needs increases confidence broadly, allowing banks to continue offering credit and alleviating depositors' concern for the safety of their deposits.⁷⁰

As part of its response to the 2008 financial crisis, the Federal Reserve also offered interest on reserves that it holds for banks.⁷¹ The interest provides some level of support for financial institutions and allows the Federal Reserve to better control short-term interest rates. Offering interest on reserves increases bank demand (and competition) for deposits and may result in banks offering higher deposit rates to customers.

Relevant Upcoming Changes to the Financial System

Upcoming enhancements to the U.S. payment system (FedNow, launching in July 2023) will modernize transactions by offering instant payments.⁷² Customers will be able to send and receive money in seconds, 24 hours a day, 7 days a week, 365 days a year, and funds will settle between financial institutions in near real-time.

On some dimensions, the upcoming enhancements to payment systems are likely to have a positive effect

on financial stability. Banks that can receive instant payments may be better able to meet short-term liquidity needs. But processing transactions outside of normal business hours challenges the ability of supervisors to intervene promptly at the start of a run, possibly diminishing financial stability. Instant payments increase the speed at which changes to bank conditions and bank runs can occur, and the full implications of instant payments are yet to be seen.

Movements toward open banking may also facilitate the likelihood that depositors withdraw funds in response to concerns about bank solvency. For example, as the Consumer Financial Protection Bureau seeks to implement Section 1033 of the Dodd-Frank Act, consumers will have greater access to, and control over, their financial data.⁷³ Rules that increase customer control of their data are expected to increase competition by enabling customers to switch providers and transfer their account histories without the costs of having to start over. Open banking may improve customer welfare by reducing the monopoly power of providers who have access to consumer data. However, by reducing the barriers to switching providers, depositors may also be more inclined to withdraw funds in response to concerns about bank solvency. Thus, open banking also has the potential to increase the likelihood of bank runs.

⁷⁰ Federal Reserve Board, "Federal Reserve Board Announces It will Make Available Additional Funding to Eligible Depositor Institutions to Help Assure Banks Have the Ability to Meet the Needs of All of Their Depositors," press release, March 12, 2023, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312a.htm>.

⁷¹ Originally authorized to begin in 2011 under a 2006 statute, the Emergency Economic Stabilization Act of 2008 authorized the Federal Reserve to pay interest on required and excess reserves held by depository institutions.

⁷² For more information on FedNow, see <https://www.frb-services.org/financial-services/fednow>.

⁷³ CFPB, "CFPB Kicks Off Personal Financial Data Rights Rulemaking," press release, October 27, 2022, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-kicks-off-personal-financial-data-rights-rulemaking/>.