Reform of federal deposit insurance - disciplining the government and protecting taxpayers

HarperBusiness - FDIC Reform: Don't Put Taxpayers Back at Risk

Description: -

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Deposit insurance -- Law and legislation -- United States
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The Changing World of Banking: Setting the Regulatory Agenda

Such an approach is both competitively inequitable and contributes to moral hazard.

FDIC Reform: Don't Put Taxpayers Back at Risk

There has been no break in that trend that seems related to past increases in insurance ceilings. With no clear public benefit to increasing deposit insurance, the Board sees no reason to increase the scope of the safety net. Bartholomew, editors, Stamford, CT, JAI Press, 1992.

FDIC Reform: Don't Put Taxpayers Back at Risk

Should either of those events occur, the Board would call our concerns to the attention of the Congress and support adjustments to the ceiling by indexing or other methods. But today, in our judgment, neither financial stability, nor depositors, nor depositories are being disadvantaged by the current ceiling. The very same process that has ended deposit runs has made insured depositors--as in the 1980s with insolvent, risky thrifts--largely indifferent to the risks taken by their depository institutions because their funds are not at risk if their institution is unable to meet its obligations.

The Changing World of Banking: Setting the Regulatory Agenda

At the end of last year, 92 percent of banks and thrifts were paying no premium. As a result, the market discipline to control risks that insured depositors would otherwise have imposed on banks and thrifts has been weakened. Deposit insurance has played a key--at times even critical--role in achieving the stability in banking and financial markets that has characterized the past almost seventy years.

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Adjusted for the effects of mergers, the smaller banks, those below the largest 1,000, have actually grown at a more rapid average annual rate of 13 percent.

The Changing World of Banking: Setting the Regulatory Agenda

This incentive to take excessive risks is the so-called moral hazard problem of deposit insurance, the inducement to take risk at the expense of the insurer. Merging the funds would also diversify their risks and reduce administrative expenses.

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Consistent with this view, the market clearly believes that large institutions are not too big for uninsured creditors to take at least some loss, with spreads on their subordinated debt larger than those on similar debt of large and highly rated nonbank financial institutions. The reform of federal deposit insurance disciplining the government and protecting taxpayers dec 04 2020 posted by irving wallace media text id a92a6f05 online pdf ebook epub library and 2009 to examine whether increasing deposit insurance coverage supported financial stability during the global financial crisis it finds that the increase in deposit. Nolle, Reforms and Innovations in Bank Management, Duk-Hoon Lee and Gill-Chin Lim, editors, Seoul, Korea: Nanam Publishing House, 2004.

FRB: Testimony, Greenspan

The devil, of course, is in the details. Quite the opposite: Asset holders now seek out deposits--both insured and uninsured--as safe havens when they have strong doubts about other financial assets. Swamy and Peter Tinsley, Journal of Economic Dynamics and Control, May 1982.

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