Deposit Insurance Expansion: A Solution in Search of a Problem

FINANCIAL SERVICES FORUM

Congress should avoid a costly expansion of FDIC deposit insurance coverage.

We urge Congress to reject proposals for a massive expansion of deposit insurance and instead support data-driven, targeted reforms that protect Main Street and maintain financial stability.

A Solution in Search of a Problem

As with all financial safeguards, GSIBs support a periodic, data-based review of deposit insurance limits to ensure they keep pace with inflation and economic growth.

Coverage is already near-universal.

According to the FDIC, over 99% of deposit accounts are fully insured under the current $250,000 limit.

An unjustified expansion.

The last two insurance increases were 250%. Jumping to $10 million represents a 3,900% increase, far beyond inflation or historical precedent.

SVB was a supervision failure, not a coverage failure.

As multiple studies confirm, the collapse of SVB and other regionals resulted from poor risk management and regulatory lapses—not insufficient deposit insurance.

The Cost to Consumers and Businesses

Higher insurance limits mean higher costs for everyone.

Higher coverage means higher costs.
Deposit insurance operates like any other insurance. When coverage increases, costs rise.

→

Those costs are passed on.
Banks pay these costs which are passed on to consumers and businesses.

→

Higher costs for consumers and businesses.
More expensive deposit insurance means higher fees for consumers and small businesses, restrictive terms, and reduced access to affordable credit for Main Street.

Increased Risk to Financial Stability

Reduced market discipline.

Large depositors are less likely to monitor bank risk if their funds are fully insured.

Riskier bank behavior.

Banks may take on riskier investments, knowing deposits are guaranteed.

History offers a warning.

In the 1980s, a massive expansion of deposit insurance contributed to the Savings and Loan Crisis, leading to the closure of over 700 banks and a cost to the economy of $300 billion (in 2025 dollars).

GSIBs Are Stronger and More Resilient Than Ever

Regulatory Success: Post-crisis reforms have reduced the risk of bank failures.

Post-crisis regulations worked.

Reforms following 2008 have made the banking system strong and resilient and the system was tested and worked well to stem the contagion post-SVB.

Safer, more resilient institutions.

GSIBs now maintain higher capital and liquidity buffers. Default likelihood has decreased, as reflected in improved financial resilience metrics.

Deposit Insurance Expansion Is a Financial Risk

Massive expansion = massive risk.
Raising FDIC coverage from $250,000 to $10 million would undermine market discipline, increase moral hazard, and repeat the policy mistakes that fueled past crises.

Targeted coverage works.
The system was designed to protect small depositors and prevent panic-driven runs, not to shield large or sophisticated depositors. Over 99% of accounts are covered, meeting that goal.

The solution to bank fragility is rigorous standards, not expanded insurance. Policymakers should focus on:

- **The best approach is to improve supervision, governance, and liquidity management rather than dramatically increase deposit insurance.**
- **Improve supervisory oversight and enforce existing risk-management rules.**

Broad Opposition to Deposit Insurance Expansion

Todd Johnson
North Carolina State Senator and small business owner

"This unprecedented increase is not only a step in the wrong direction … but also a threat to the stability of the banking sector and an ill-advised attempt by the government to create a system of winners and losers. Unfortunately for North Carolinians, the winners aren't Main Street depositors. It's large business depositors."

(Main Street Depositor Protection Act a poor plan to protect Main Street, NC Political News, November 7, 2025)

Dan Savickas
Vice President of Policy and Government Affairs, Taxpayers Protection Alliance

"S. 2999 will do what deposit insurance increases always do. It will disproportionately benefit the riskiest and weakest banks which will use the higher coverage to gamble on the taxpayer's dime. It will worsen systemic risk, raise consumer costs, and threaten the President's economic agenda."

(New Proposal Raises Price Tag for Deposit Insurance Reform Rises to $42B, November 5, 2025)