**Discussion**
Bailing out (Firms') Uninsured Deposits: A Quantitative Analysis

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Yale and NBER

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        - Small effects of not bailing out (or fully bailing out) uninsured depositors
- Both parts are interesting and valuable
- Valuable contribution to an important topic

# Outline of Discussion

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3. Broader Comments

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▶ My views on deposit insurance are shaped by Davila/Goldstein 2023
▶ Many **open questions** on "optimal deposit insurance"
  ▶ Both theoretically/quantitatively and empirically

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- ▶ e.g. If a bank fails due to coordination reasons, bids that guarantee uninsured depositors are reasonable
  - ▶ Should we call this a bailout?

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- **Questions:**
  1. What determines a particular resolution method?
     - Liquidation vs. Assuming only insured vs. Assuming all deposits
  2. What is the value of uninsured depositors when bidding?

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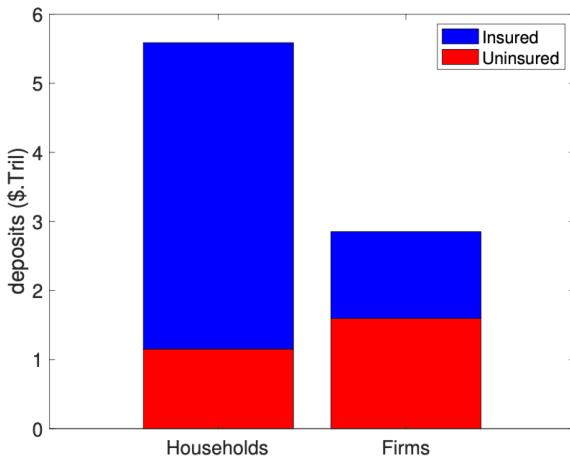
# Fact #2

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- **Questions:** how are uninsured deposits distributed?
  1. Who holds uninsured deposits? (assets)
  2. Which banks have uninsured deposits? (liabilities)
  3. What is the distribution of uninsured deposits *within* a bank
     - # of uninsured accounts vs. share of uninsured deposits matters (DG2023)
- More disaggregated data is badly needed!

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**NBA**

# Bucks star Giannis Antetokounmpo has money in 50 different bank accounts

By Ariel Zilber

Published April 8, 2022, 2:39 p.m. ET

Giannis Antetokounmpo, the two-time MVP who last year led the Milwaukee Bucks to their first NBA title since 1971, opened bank accounts with 50 different banks — each one of them holding $250,000, his boss, team owner Marc Lasry, told Bloomberg News.

▶ **Fact #3**: *"Households increase effective DI coverage by holding accounts at multiple banks"*

# How Does IntraFi Work?

IntraFi Network Deposits (previously known as CDARS or ICS) is a network that links many of the largest banks and financial institutions in a shared network. If you have more than $250,000 in savings accounts or certificates of deposit in an investment plan, you might want to consider using the IntraFi network. It can help you bank your money while maintaining FDIC insurance.

You create an account with one custodial bank in the network. Think of that bank as managing your relationship with others, because they spread your total deposit amount out over multiple different financial institutions.

Your funds are split up into multiple accounts of $250,000 or less, each fully FDIC-insured, at various institutions, with IntraFi Network acting as your hub. This can be a valuable solution for high net-worth individuals as well as businesses.

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▶ **Questions:** why aren't deposits spread out <u>even more</u>?
  ▶ Product differentiation (relationship banking) + switching + search
  ▶ Virtually no work on this (SSY 2017)

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$$R_{t-1}^d \left( \underbrace{1 - p_t}_{\text{non-failure}} + \underbrace{p_t}_{\text{failure}} \left[ \underbrace{\phi}_{\text{insured}} + \underbrace{(1-\phi)}_{\text{uninsured}} \left( \underbrace{f}_{\substack{\text{fully} \\ \text{repaid}}} + \underbrace{(1-f)}_{\substack{\text{non fully} \\ \text{repaid}}} \underbrace{(1-\nu_t)}_{\text{recovery}} \right) \right] \right)$$

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- Calibration
  - $f = 94\%$ (likelihood of full repayment)
  - $\phi^h = 79\%$ and $\phi^f = 43\%$ (shares of insured deposits)
  - $p_t = 0.64\%$ (endogenous)

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- **Remark:** DI cap vs. DI share have very different strategic implications (e.g. Northern Rock)

*"Imposing a dollar limit on deposit insurance would imply that firm's and households' wealth distributions become endogenous states, leading to significant modeling complications (Krusell and Smith, 1998). We are working to address these complications in a subsequent draft."*

# Key Counterfactual Exercise

- ▶ Shocks
    1. Failure $p_t$: $0.64\% \implies 3.65\%$ (expected transitory)
        - ▶ High realization of idiosyncratic risk
    2. "Bailout" $f$: $94\% \implies 35\%$ (unexpected permanent)
        - ▶ Parameter change

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   ▶ Small consumption drop, employment increase (RBC logic)

   ▶ Investment response more important (firms shift from deposits to capital)

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- ▶ Full deposit experiment $f$: 94% $\implies$ 100%
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- Full deposit experiment $f$: $94\% \implies 100\%$
    - No impact
- **Remark:** results would change significantly in a strategic environment (especially if $f = 100\%$!)

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   1.3 **Is repayment on uninsured deposits $f$ a policy instrument?**
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   1.4 **What is the (jointly) optimal ex-ante regulation?**
      - ▶ Critical if fully insuring deposits

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3. **Commitment vs. discretion**
   - ▶ The main counterfactual has a mix of both
     - ▶ Permanent change in $f$ (after a shock)
   - ▶ Jointly consider optimal DI and LLR policies
   - ▶ What is the cost of lack of commitment?

# Conclusion

- ▶ Very valuable first step towards richer quantitative modeling
  - ▶ If welfare is the ultimate goal (which should be!) there is still work to do
- ▶ Many open optimal policy questions in this area