

Discussion

The Economics of Network-Based Deposit Insurance

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Yale and NBER

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This Paper

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- ▶ Capped coverage: since 2010, \$250,000 per “depositor-bank-category”
 - ▶ Depositors → incentives to spread deposits across banks
 - ▶ Since 2003: *IntraFi Network* → reciprocal deposits
 - ▶ Since 2018: preferential regulatory treatment

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 - ▶ Since 2018: preferential regulatory treatment
- ▶ **This paper:**

What is the impact of the rise of reciprocal deposits?

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► Descriptive results

1. Significant growth, mostly after 2018 (regulation) and 2023 (crisis)
2. Network banks: growth from small/midsize banks
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- ▶ Impact on behavior
 1. Network banks attract insured (and overall) deposits in 2023 crisis
 2. Network banks manage to offer lower CD rates
 3. Refined estimates using switcher banks
- ▶ **Valuable contribution**
- ▶ In 2023, I discussed [Pancost and Robatto \(2024\) \(link\)](#) and wrote

“Virtually no work on deposit spreading”













Outline

1. FDIC Limits
2. Brokered vs. Reciprocal Deposits
3. Revisit Results
4. Questions and Broader Implications
 - ▶ Reciprocal Deposits
 - ▶ Deposit Insurance Design

How Do FDIC Limits Work?

- ▶ Coverage limit per i) depositor, ii) bank, and iii) category
 - ▶ Not per account!
 - ▶ e.g. 2 individual accounts at same bank \Rightarrow coverage still \$250,000
 - ▶ e.g. 1 individual and 1 joint account \Rightarrow coverage \$500,000

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- ▶ There are 12 ownership categories
 - Single accounts — [12 C.F.R. § 330.6](#) 
 - Certain retirement accounts — [12 C.F.R. § 330.14\(b\)\(2\)](#) 
 - Joint accounts — [12 C.F.R. § 330.9](#) 
 - Trust accounts — [12 C.F.R. § 330.10](#) 
 - Employee benefit plan accounts — [12 C.F.R. § 330.14](#) 
 - Business/Organization accounts — [12 C.F.R. § 330.11](#) 
 - Government accounts (public unit accounts) — [12 C.F.R. § 330.15](#) 
 - Mortgage servicing accounts for principal and interest payments — [12 C.F.R. § 330.7\(d\)](#) 
 - Accounts held by a depository institution as the trustee of an irrevocable trust — [12 C.F.R. § 330.12](#) 
 - Annuity contract accounts — [12 C.F.R. § 330.8](#) 
 - Public bond accounts — [12 C.F.R. § 330.15\(c\)](#) 
 - Custodian accounts for Native Americans — [12 C.F.R. § 330.7\(e\)](#) 

Deposit Spreading

- ▶ Incentive for depositors to spread deposits



9 Comments

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](#).

Brokered vs. Reciprocal Deposits

1. *Brokered Deposits*: funds placed in a bank by/through “deposit broker” brokerage firm, advisor, fintech app, etc.
 - ▶ Volatile funding source → since 1980's, regulated 1991
 - ▶ Regulatory restrictions: only well-capitalized banks

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2. *Reciprocal Deposits*: customer places funds at home bank, which uses deposit network (IntraFi) to spread funds among other banks while receiving an equal amount back
 - ▶ More stable funding source → since 2003
 - ▶ 2018 → regulatory change (EGRRCPA)
 - ▶ before → classified as brokered
 - ▶ after → not brokered (some restrictions, e.g. < 20% of total deposits)

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.

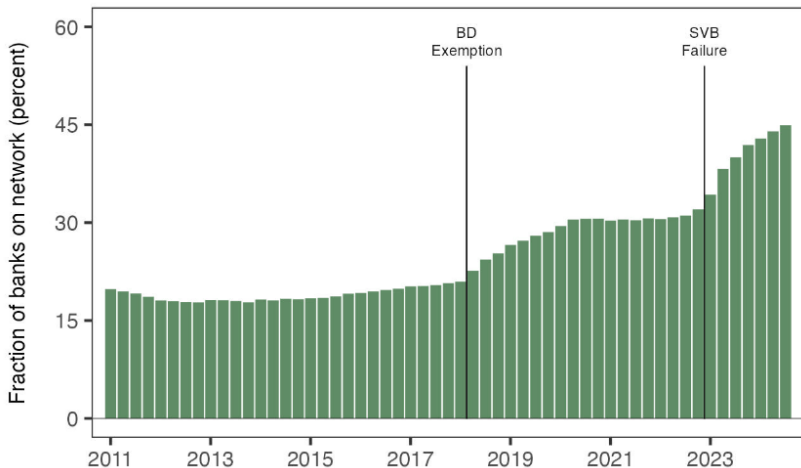
Your funds are split up into multiple accounts of \$250,000 or less, each fully FDIC-insured, at various institutions, with IntraFi Network acting as your hub. This can be a valuable solution for [high net-worth individuals](#) as well as businesses.

- ▶ **Virtually all reciprocal deposits are from IntraFi**
owned by Blackstone and Warburg Pincus
 - ▶ “The Economics of IntraFi”
 - ▶ Strong network effects → natural to have a single system

Data

- ▶ Call Reports: 2011Q1 to 2024Q3, quarterly data
- ▶ RateWatch 12-month CD rates

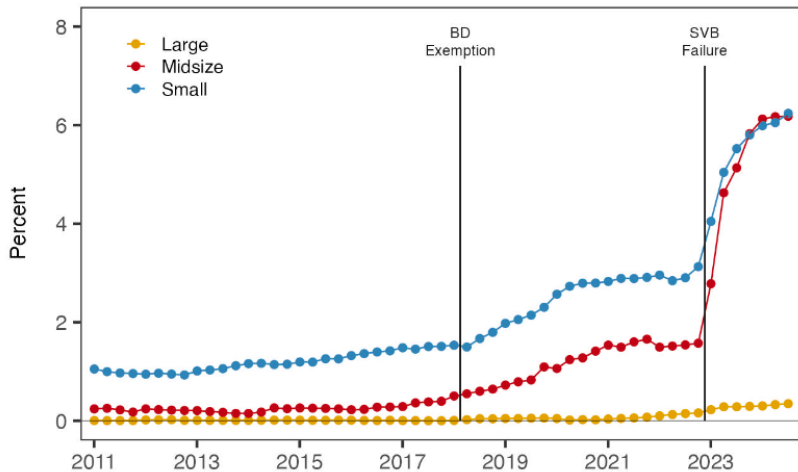
Participating Banks



- ▶ 2018: regulatory change
- ▶ 2023: SVB crisis

Share of Reciprocal Deposits

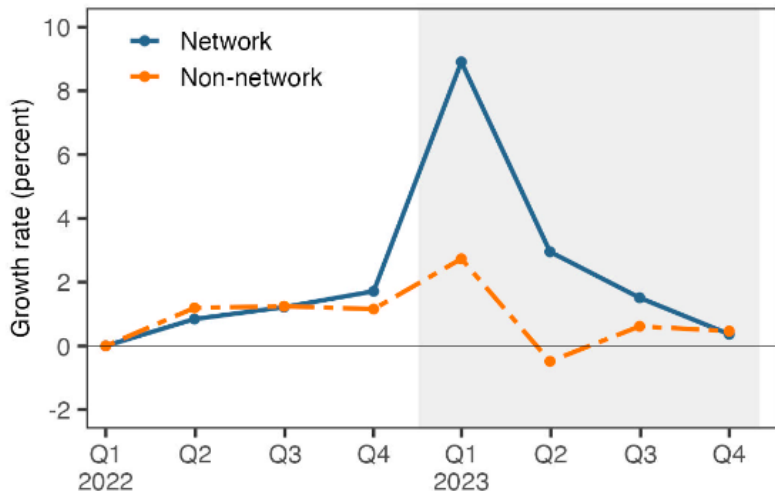
(b) Reciprocal Deposits to Total Deposits



► Small: $< \$10b$; Midsize $> \$10b$ but $< \$100b$

Behavior of Insured Deposits

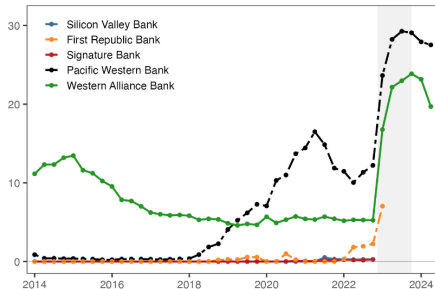
(a) Insured Deposits



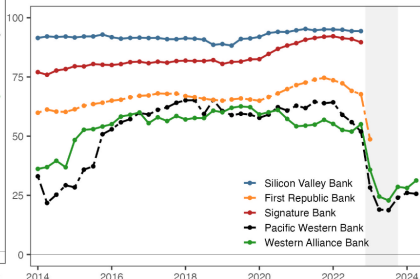
- Differential insured deposit growth of network banks in 2023

Failure Prevention in 2023 Crisis

(a) Reciprocal Deposits



(b) Uninsured Deposits



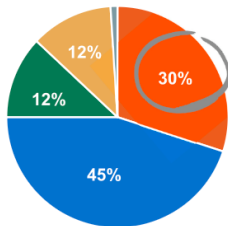
- ▶ Case study → Reciprocal deposits help to prevent failures
 1. Pacific Western and Western Alliance: use reciprocal deposits
 2. Silicon Valley, First Republic, Signature: didn't

Other Results

1. Estimate of supply elasticity to interest rates
 - ▶ Increase in deposit quantity and reduction in interest rates
 - ▶ Driven by demand shift
 2. Identification via switchers: “these banks joined primarily due to reduced regulatory costs and not other factors such as hidden risk characteristics or depositor base”
 - ▶ Identification is hard
- ▶ More granular data would be ideal
 - ▶ e.g. compare rates for reciprocal deposits vs. not
 - ▶ Depositors can exclude banks → monitoring

Who Uses Reciprocal Deposits?

ICS Reciprocal Balances



Public Entities Businesses Nonprofits
Individuals Banks

Businesses

- Large corporations
- Mid-size companies
- Small businesses
- Franchises

Public Entities

- Government agencies
- Municipalities
- Police departments
- Fire districts
- Public colleges and universities
- Public hospitals
- School districts
- State funds
- Utility districts

Nonprofits

- Charities
- Religious institutions
- Private colleges and universities
- Foundations
- Endowments
- Foundations
- Homeowners/Condo associations
- Hospitals

Others

- Banks and credit unions
- Escrow/Title companies
- Estate planners
- Private investors
- Trusts/Trustees
- 1031 exchange participants

► > 85% businesses + public entities + non-profits

Questions About Reciprocal Deposits

1. What limits deposit spreading?
2. What is the cost of IntraFi?
3. Why don't large banks participate (more)?
4. Why are reciprocal deposits regulated differently?

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1. **What limits deposit spreading?**
 - ▶ Administration costs + Relationship banking
 - ▶ Reciprocal deposits → Lower costs and preserve relation
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- ▶ From Docherty and Saretto (2025):
"The cost of accessing these services varies across networks, averaging roughly 12 to 15 basis points. The \$422 billion in reciprocal deposits imply an annual cost of \$500 to \$600 million."
- ▶ Is this efficient? *see next slide*

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- ▶ What if every bank joins?
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4. Why are reciprocal deposits regulated differently?

- ▶ Somewhat arbitrary
- ▶ Are brokered deposits really more flighty?

Designing Deposit Insurance Optimally

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 - ▶ Clear demand
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3. Level of coverage vs. form of coverage?

- ▶ How much to cover? → Dávila and Goldstein (2023)
- ▶ Best way to do that? → ?

Conclusion

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- ▶ Useful analysis given available data
- ▶ More refined data could help
 - ▶ Interest rates
 - ▶ Depositor behavior
 - ▶ Market structure
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Thank you for your attention!

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