Deposit Insurance Explained – Part Two

BRIAN SULLIVAN: Hey, welcome back to the FDIC podcast, a place where we talk about banking with the people who know banking the best. I'm Brian Sullivan with the Federal Deposit Insurance Corporation. This is part two of a podcast series on one of FDIC's core missions—deposit insurance.

In Part One, we focused on what deposit insurance is and what it isn't. We talked about deposit insurance limits and the categories that qualify for deposit insurance coverage. And today we welcome Martin Becker back to the FDIC Podcast. Martin is the Chief of Deposit Insurance at the FDIC. Martin, welcome.

MARTIN BECKER: Thank you, Brian.

BRIAN SULLIVAN: Well, Martin, in our last conversation, we talked about individual depositors and how they are protected when they deposit their money into an FDIC insured deposit account. Today, I want to talk about two scenarios where consumers might not be doing business with a bank and whether in these two scenarios, the consumer's money is insured.

So, scenario number one…a party claims to be an FDIC insured bank when they're *not*. Kind of a misrepresentation of deposit insurance. Scenario number two…the consumer is doing business with a legitimate firm, not a bank, that acts on behalf of the consumer's interest to deposit their money into a bank through a process we call 'pass-through insurance.' Two very different situations, but both present risks that consumers need to bear in mind. So all this to say, Martin, these days consumers have a lot of choice about how they bank. It can be confusing. How can folks know whether their bank deposits are insured in these two scenarios I've described, or especially whether their bank is even a bank at all?

MARTIN BECKER: Well, Brian, those are great questions and a little bit of background…to be honest with you, I've been in this industry over 40 years and things have changed greatly in terms of how people access banking. It used to be you would simply walk into a branch and deposit or withdraw funds. It was easier to verify that you were doing business with a bank. But today we've got the Internet with apps that are accessible through your mobile phone. People can copy legitimate banks' websites or apps and make it look like you're doing business with a bank when maybe you aren't.

So depositors need to be much more careful today in determining whether or not they've actually contacted an FDIC-insured bank. And there are a number of ways that consumers can do that. One of the things of course is our website, BankFind, where if they're dealing with an ad on a website, they can determine whether or not the URL is actually in the FDIC's records. This is a great tool because many FDIC-insured banks have provided the URLs for their websites. If a website is listed in the FDIC's records, you can be more confident that it's run by a bank.

And the second thing is that, of course, you can call the FDIC at 1-877-ASK-FDIC. We have deposit insurance experts who are happy to confirm whether or not you are dealing with an FDIC-insured bank. If you have any concern about a party that claims to be FDIC insured or their claims seem to be a little bit too good to be true, I would encourage you to reach out to the FDIC. This is really important because if you send money to a scammer or a fraudster, it may be difficult or impossible to recover your funds.

Checking things out may only take a few minutes upfront, and you may prevent yourself from being taken in by a scam. My team takes particular pleasure in assisting people to determine whether these claims and offers are legitimate or fraudulent.

In addition to web addresses or URLs, there are some certain things that we repeatedly see with fraudulent sites…situations where the phone numbers may be foreign, the phone numbers may or may not work. We sometimes see addresses that are even foreign addresses or if you've got if you Google an address, it turns out to be something else. The Brian Sullivan Pizza Shop, for example, when it's purporting to be a bank branch.

BRIAN SULLIVAN: Right. Well, Martin, I know that last year alone, you and your staff worked to shut down about a hundred…can we call them fraudulent websites, is that fair?

MARTIN BECKER: I think that's fair. We've been very aggressive in our work to identify these sites and hopefully prevent consumers from having their funds stolen or from becoming a victim of identity fraud. We are increasingly being contacted by consumers, both concerning websites that are not legitimate. And if it's not legitimate, the FDIC works to see that the site is taken down.

BRIAN SULLIVAN: Okay. Well, now let's move beyond the illegitimate sites for a moment and talk about that second scenario I described earlier. There are thousands of banks out there, FDIC-insured financial institutions, roughly 5000 around this country. But there are great many NON-banks out there that are offering products and services that appear bank-like. Now let's say a consumer is doing business with a legitimate firm, not a bank, but *that* firm claims to place the consumer's money in an FDIC-insured bank. What are some of the risks that consumers need to consider in that scenario?

MARTIN BECKER: The most important risk to be mindful of may be the default or insolvency of the non-bank. If you've given a non-bank your money and that non-bank becomes insolvent. Your recourse is against that entity and you may not get all of your money back or there may be delays. Deposit insurance doesn't apply to the default or insolvency of a non-bank entity, even if the non-bank claims to deposit your money at an FDIC insured bank. As we mentioned in Part One of our conversation, deposit insurance protects consumers *only* against the failure of an FDIC-insured bank.

BRIAN SULLIVAN: Right and we can't stress that point enough. Now, this sort of seques into a conversation about this thing we call pass-through insurance. Now, sometimes non-banks claimed to provide pass-through insurance for their customers. But what is that?

MARTIN BECKER: So pass-through deposit insurance is really not something new. Pass-through deposit insurance actually goes back to the FDIC's inception in the 1930s. And conceptually, it's pretty simple. It's the idea and the practice that either a person or an entity is acting on your behalf in placing funds in an FDIC-insured bank. You provide the funds to a third party and then the third party will deposit your funds in an FDIC-insured bank. The idea is then that deposit insurance will pass-through from the bank, through the third party to you, the ultimate depositor.

BRIAN SULLIVAN: Okay, so in that scenario, the consumer works with the third party. Their money is deposited at an FDIC-insured bank. Their deposits are just as insured as if they walked into the bank themselves directly and deposited that money there.

MARTIN BECKER: Yes. But keep in mind that a couple of things have to happen. Most important, the third party must actually deposit the funds at an FDIC-insured bank. You're counting on the third party to deposit the funds as promised. If the third party fails to do that, perhaps because of an error, or incompetence, or something along those lines, then there is no deposit at an FDIC-insured bank and FDIC deposit insurance doesn't apply.

But let's say the third party deposits the funds at an FDIC-insured bank, as promised. Well, the FDIC also has requirements that need to be satisfied for pass-through deposit insurance to apply. The account at the bank must be titled properly to indicate, for example, that it is an agency or custodial account and the funds are being held on behalf of others. In addition, records must be regularly kept to identify who the owners of the funds are and the specific amount that each person owns. Ownership of the funds is also important and is typically determined by relevant agreements and state law.

BRIAN SULLIVAN: Okay, so let's say the funds have been indeed deposited at an FDIC-insured bank and all the pass-through requirements you just described, the recordkeeping, are all satisfied. What's the benefit of pass-through insurance in that case?

MARTIN BECKER: Well, in the unlikely event the bank were to fail, the FDIC would insure all of the owners of the funds separately up to the $250,000 limit. That's important because collectively the funds of all those owners together might exceed the $250,000 limit. But rather than saying the funds insured to the third party, only up to the $250,000 limit, the FDIC would insure *each* owner separately up to $250,000 if pass-through insurance applies.

BRIAN SULLIVAN: Well, are there any particular situations consumers should be aware of when it comes to pass-through insurance?

MARTIN BECKER: Well if the owner has a separate deposit in the same bank, these funds will be added together in calculating the $250,000 limit. Also, this is a huge industry with respect to prepaid cards and stored value cards and a lot of other similar products. These products may be offered by entities that are *not* FDIC-insured banks and therefore not FDIC insured. But they sometimes represent to consumers that their funds will be insured on a pass-through basis. If a consumer is looking to use a prepaid card or a similar product, they should check the disclosure information to see if FDIC deposit insurance is even an option. If FDIC deposit insurance is an option, then the cardholder may need to register the card and provide the requested information to identify them so.

BRIAN SULLIVAN: That that that's on the consumer to do in that situation

MARTIN BECKER: Yes. That registration information is then provided to the FDIC by the card issuer in the event the bank fails, the FDIC would use this information to help make a deposit insurance determination. Because if consumers haven't registered their cards, well, we may not be able to identify them.

BRIAN SULLIVAN: Well, great advice, Martin. So to summarize our two-part series on deposit insurance, let's run down a few of the most important things to remember. First, the FDIC's deposit insurance only applies to deposit products at FDIC insured banks.

MARTIN BECKER: Right. Deposit products like checking or savings accounts and certificates of deposit. It doesn't apply to investment products like stocks, bonds or crypto assets.

BRIAN SULLIVAN: Okay. Second, the deposit insurance limit today is $250,000 per depositor.

MARTIN BECKER: $250,000 per depositor for each FDIC-insured bank where deposits are held and for each insurance category recognized by the FDIC. All this to say a deposit insurance claim payment could be more than $250,000 per depositor.

BRIAN SULLIVAN: Third, just because you see an ad indicating that you may be doing business with an FDIC-member bank doesn't necessarily mean that's so, right?

MARTIN BECKER: Exactly. It could be an example of a scam, a false advertising, a misrepresentation about insurance status, or the misuse of FDIC's name or logo. Just remember if something seems too good to be true, you can use tools such as BankFind to verify that a particular bank is FDIC insured or call us at 1-877-ASK-FDIC for assistance.

BRIAN SULLIVAN: Number four, FDIC deposit insurance only applies to funds deposited into an FDIC-member bank, and only if that bank were to fail.

MARTIN BECKER: ...and to be clear, deposit insurance does *not* apply to other types of losses, such as theft or the failure of some third party a consumer may have used to deposit funds into an FDIC-insured bank. The most important things we want to make clear today is that FDIC is here to help consumers determine whether or not they are, in fact, dealing with an FDIC-insured institution and also to assist them in determining what their actual FDIC insurance coverage is. And it is as simple as calling us at 1-877-ASK-FDIC or sending us an email through the FDIC'S website.

BRIAN SULLIVAN: Well, Martin Becker, Chief of Deposit Insurance at the FDIC, thank you so much for sitting down and talking about what is really an essential function of this agency, the Federal Deposit Insurance Corporation. And as we're so often bragging about ourselves, no one has lost a cent of their insured deposits since the FDIC was created back in 1933

MARTIN BECKER: Absolutely.

BRIAN SULLIVAN: Okay. Thank you, Martin.

MARTIN BECKER: Thank you, Brian.