



Department SEMINARS

"Credible Deposit Insurance
with Caps: Does it Prevent
Runs?"

RUSSELL COOPER

European University Institute

TUESDAY, 17 OCTOBER 2023
12:15 PM

Room Dono Giannesi, DEM



A B S T R A C T

This paper studies the impact of a deposit insurance cap on bank fragility. This is a prominent policy issue given the experiences associated with the SVB run. There are two key dimensions of deposit insurance. First, it is capped, providing a maximal amount of coverage, as seen in deposit insurance schemes worldwide. Second, it must be credible: governments must have an ex post incentive to fulfill its promises. These two features interact: the cap limits the redistribution from poor to rich inherent in deposit insurance and thus makes it more credible. But the cap that makes DI credible, might be insufficient to prevent runs. The paper provides conditions for the provision of credible deposit insurance with caps such that runs are avoided.

For information: pietro.battiston@unipi.it

