Reg News

FDIC Part 370 Deposits Reporting

Ongoing regional bank failures: How long does the market turmoil go on?

With the latest domino having fallen on May 1, 2023, many people are talking about what may be contributing to the turmoil. There is the obvious, the currently "under review" deposit-monitoring requirement by the U.S. Federal government. There is also the inadvertent; the worry among regular citizens about the safety of their hard-earned savings, even for those – the majority – with balances below the $250 thousand FDIC threshold, provoking "panic" withdrawals from their banks. This turbulence has thrown the managing, reporting, and analyzing of a bank's uninsured deposits under the regulatory and consumer spotlights.

The recent turmoil leaves market participants widely anticipating the FDIC zeroing in on Part 370 compliance, including several critical deposit reporting/monitoring elements for which all banks should prepare:

- **Expectations around quicker turnaround of Part 370 compliance gaps**
- **Tighter examination of reconciliations to other key reports such as Consolidated Reports of Condition and Income (Call Reports), FR 2052a, and FR 2900**
- **More frequent on-site exams and ad hoc regulatory requests**

Recent turmoil leaves market participants widely anticipating the FDIC zeroing in on Part 370 compliance.

What does this turmoil mean for in- and out-of-scope banks?

FDIC Part 370 is in scope for banks with two million or more deposit accounts. Out-of-scope banks, i.e., those complying with FDIC Part 360.9, might also receive inquiries about improving their deposit insurance-guarantee processes.

FDIC Part 370, and similar rules for banks with fewer than two million deposit accounts, also plays a critical role in a bank's resolution planning. A key takeaway from the Federal Reserve Board's (FRB) SVB review is that as a Category IV bank, it should have been subject to the stricter resolution-planning requirements. This omission now seems to be under heavy scrutiny in terms of resolution planning expectations for both Part 370 in-scope and out-of-scope banks.

Adenza

Why are FDIC Part 370 and similar rules important?

The recent turmoil is important for two critical reasons.

Deposits Monitoring And Reporting

First, it has put an intense focus on regulatory compliance both in terms of:

- **Accuracy:** For example, insurance coverage by customer account
- **Timeliness:** Ensuring that deposits are paid out as quickly as possible

Deposit Insurance

Second, it has moved deposit insurance to the forefront of consumer awareness and therefore confidence in their banks. Of course, customers want to be sure that if their bank should fail, they will be made whole quickly from the FDIC insurance. Now, even more importantly, customers are also looking for their banks to help them maximize their insurance coverage across their banking relationship. Having the proper tools in place can help banks quickly identify large areas of uninsured deposits and ensure they are helping their customers find ways to maximize their insurance coverage (i.e., by spreading the customer's total deposited amount over various account structures).

Banks are also seeking to maximize coverage by entering into reciprocal deposit agreements. The regulatory management and optimization of reciprocal deposits also plays a key role in maximizing insurance coverage.

What are five key drivers of FDIC Part 370 from a functional perspective?

1 Deposits Monitoring

The first key driver centers around the bank's requirement to quickly and easily analyze and report the deposit-insurance coverage by customer accounts. This enables them to expedite the deposit-release process for their customers. Functionally, banks need a system that also easily identifies any gaps in the deposit/customer data that prohibits the banks from accurately calculating and reporting the insurance coverage.

2 Insurance Coverage

Banks must be able to analyze the results that enable them to better optimize customers' insurance coverage. This can be done by diversifying the customer-deposit account types (e.g., single, joint, revocable trusts, etc.) and/or using additional mechanisms, such as reciprocal deposits, to expand the insurance coverage.

3 Deposits Reporting

Accurate regulatory reporting is key to effective compliance. For example, deposit-insurance reporting, in addition to FDIC Part 370, also plays a vital role in the Call Report. Banks need to submit reports of condition (RC) on a quarterly basis, report on their deposit base (Schedule RC-E), and report the account type breakdown and uninsurable balances (Schedule RC-O). It is important to have a system that can show where the two regulations (Part 370 and Call Report) converge or diverge at the granular account level.

4 Published And Expected Regulatory Changes

FDIC Part 370 has already scheduled regulatory changes around updates to Rule 330 and the insurance-calculation rules, effective April 1, 2024. There are also several regulatory announcements and FAQs around Part 370 changes, mostly focused on the reporting side. Adenza expects this trend to continue throughout the next few years.

5 FDIC Part 370 and FR 2052a, LCR and LST Tie Outs

Lastly, customer deposits play a major role in modeling a bank's outflows. Having a large number of uninsured deposits increases the risk of a potential quick withdrawal of funds. On the other hand, having clean and accurate deposits data (as a result of an effective Part 370 implementation) helps banks to properly manage their liquidity coverage ratio (LCR) and properly model the impact of deposit run offs under the liquidity street testing (LST Reg YY) requirements.

What are the technical challenges created by FDIC Part 370?

Technical challenges revolve around managing millions of records at the granular-record level: accounts, customers, alternative recordkeeping, credit balance, etc. A key Part 370 tenet is that covered institutions need to accurately and timely report insurance coverage.

To accomplish this requirement from a technical perspective, banks must:

- Be able to analyze each customer's account at the record and attribute level and quickly identify issues in the data or produce accurate insurance coverage.
- Implement an automated process, as the FDIC expects them to execute their Part 370 workflow on a daily basis, iteratively, until all insurance deposits have been released.

Along with this technical challenge, covered institutions need a mechanism to quickly report important deposit metrics to the FDIC to ensure ongoing compliance, both as a summary and at the account level.

What's next for banks looking to solve deposits monitoring and reporting challenges?

Even before the current market turmoil, banks had to comply with ever-changing regulatory expectations and the pressures of a very complex and critical regulatory requirement. Today, they must continue monitoring and reporting but with added scrutiny from regulators and customers. Therefore, they need a more solid solution to properly implement and comply with Part 370.

The right solution should incorporate/address the following aspects, especially considering the current market environment:

- **Maximized customer-insurance coverage:** The solution should include a process for managing insurance coverage at different levels and identifying where coverage might be short/lacking. It should enable banks to easily initiate ad hoc deposits reporting to answer any additional inquiries that internal teams or the FDIC might request around bank-/customer-level insurance coverage.

- **Deposits-reporting accuracy:** The solution should include critical additional reports i.e., those outside of the FDIC's requirements. Call Report reconciliation is a key example given the expected increase in regulatory scrutiny. Accuracy also plays a big role in calculating the bank's uninsured deposit amounts for point-in-time assessment and trend analysis over multiple time periods. This detailed analysis plays a bigger role than ever as it helps evaluate a bank's financial state.

- **Regulatory exams:** The solution should provide deposits reporting tools, transparency (e.g., data lineage), and controls that help banks to not only implement Part 370 but also remain in compliance with updates and changes in regulatory expectations around matters such as reporting accuracy (see above) and execution turnarounds.

Automated functionalities play a pivotal role as they enable banks to easily respond to regulatory inquiries and prove to the FDIC that they can pay out insurance amounts in a timely manner, increasing customer confidence.

Contact Adenza to start a conversation about how we can help you stay out of the regulatory spotlight.

For more information, contact
communications@adenza.com
www.adenza.com

Adenza