

Nonmaturity Deposit Stability: What Bank Executives Need to Know

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Key Takeaways

Following the 2023 banking turmoil, the Basel Committee on Banking Supervision reviewed more than 100 academic studies and regulatory reports to assess whether structural changes in the system have altered the stability of nonmaturity deposits. Earlier articles (found at www.intrafi.com/press-insights/research) summarized the review's findings on technology and changes to the industry and depositor base. This third and final review summary examines how regulatory or legal changes may have influenced depositor behavior.

The literature finds that legal and regulatory changes have had mixed effects on deposit stability.

- Deposit insurance generally improves stability, though inflation can impact the real value of coverage.
- Post-crisis capital and liquidity reforms appear to have strengthened banks and reduced the risk of solvency-driven runs.
- Reciprocal deposits helped reduce deposit outflows during the 2023 banking turmoil by expanding insured deposit capacity, especially among medium-sized U.S. banks.

- Money market fund reforms have made MMFs safer, increasing competition for deposits during periods of rising interest rates.
- Expanded use of held-to-maturity accounting may have masked risks ahead of the 2023 banking turmoil.

Questions for Management

For bank leaders, the key question is how quickly uninsured and rate-sensitive deposits could leave under stress.

Questions to consider:

- Are we maximizing insured deposit capacity?
- How vulnerable are we to money market funds and other cash alternatives?
- Would our balance sheet inspire confidence during periods of stress?

What Has Changed

Deposit Insurance Coverage

Deposit insurance generally improves deposit stability by reducing incentives to run, according to the literature. Because deposit insurance frameworks don't provide full coverage, the amount of coverage influences

depositor stability. Indexing deposit insurance coverage, particularly during times of high inflation, can help preserve its real value and maintain depositor confidence over time.

Capital and Liquidity Reforms

Post-GFC reforms introduced stricter capital and liquidity requirements. The literature suggests these changes strengthened bank resilience, improved depositor confidence by reducing solvency and liquidity concerns and may have increased demand for retail deposits. During the 2023 regional banking turmoil, deposits flowed to the largest banks, reflecting confidence in their stronger regulatory requirements or perceptions they were too systemically important to be allowed to fail.

Other Regulatory and Legal Changes

Money Market Fund Reform

Post-GFC reforms mitigated fears of MMF fragility by requiring some funds to invest only in government securities and others to use a floating net asset value. Strong asset growth since then, particularly during the pandemic, suggests these changes may have increased competition for bank deposits, particularly during periods of rising interest rates.

Reciprocal Deposits

A 2018 statutory change permitted a capped amount of reciprocal deposits to be treated as nonbrokered deposits, leading to significant

growth in their use. By distributing deposits across banks and to access additional insurance coverage, reciprocal deposits appear to have enhanced financial stability and helped reduce deposit outflows during the 2023 banking turmoil.

Accounting Rules

Rules requiring banks to reflect changes in the market value of available-for-sale securities in regulatory capital encouraged them to classify more securities as held-to-maturity. The literature suggests held-to-maturity (HTM) accounting may have masked unrealized losses and reduced market discipline, with Silicon Valley Bank cited as an example.

Bottom Line

The Basel Committee finds that legislative and regulatory changes have had mixed effects on deposit stability. Reciprocal deposits, deposit insurance, and capital and liquidity reform appear to have enhanced stability, while reforms related to MMFs and the accounting treatment for HTM securities may have increased deposit competition or obscured underlying risks.

Banks seeking to retain large relationships, reduce uninsured balances, and enhance funding stability should evaluate whether they are making full use of reciprocal deposits. The 21st Century ROAD to Housing Act, enacted on July 11, 2026, further expands this tool by allowing more reciprocal deposits to be considered nonbrokered deposits.