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CFPB's Chopra lists potential solutions for mitigating banks' risky behavior

Article

The news: In a webcast with the Washington Post, Consumer Financial Protection Bureau (CFPB) head Rohit Chopra discussed potential solutions to growing bank risks, including automatic alerts when banks get out of line, per American Banker.

Monitoring and mitigating: Taking a break from the blame game for a moment, Chopra offered some suggestions that regulators can implement to keep an eye on bank risks before they get out of control.

- He proposed setting up guardrails or caps on uninsured deposits, and sounding an automatic alert when a bank crosses a certain threshold.
- He also explained that executive compensation should be more closely monitored. Though many lawmakers believe the failed banks' executives should be subject to clawback provisions, Chopra said policies should already be in place under legislation that has already been passed, but currently lies dormant.
- The CFPB director suggested increasing FDIC insurance coverage for accounts that are used to manage payroll, but said additional coverage isn't needed for all accounts. He also supports a policy that would encourage companies to keep their payroll accounts at smaller, non-systemically risky banks.
- Chopra concluded with a plug for the CFPB's forthcoming Open Banking Rule, which he believes will address risks that arise from the increasing speed and accessibility of the US banking sector. The rule will give consumers on-demand access to their financial information, making it easier for them to switch banking providers. When funds begin moving freely between banks, Chopra hopes banks will ultimately opt to hold more liquidity.

Speaking of the risks of fast-moving communication, which became evident in the 48 hours it took for **Silicon Valley Bank** to collapse, Chopra said, "It's a reality we must accept and incorporate accordingly."

Back to the blame game: Chopra's ideas seem like a breath of fresh air after hearing financial regulators and lawmakers assign blame for the bank failures to each other over the past month. But just because the CFPB head has proposed risk mitigation tactics, doesn't mean all will be on board.

- Democratic lawmakers will likely welcome the suggestions, as they blamed the 2018 Dodd-Frank rollback as the main driver of the banking crisis.
- But Republican lawmakers point to rapidly increasing interest rates as the catalyst behind the liquidity crunches that perpetuated the bank runs at regional banks.

- Additionally, some lawmakers are digging into SVB's relationships with some of its biggest corporate clients to determine if certain perks or other benefactory offers increased the risk of contagion when the bank began to struggle.

Our take: Though Chopra listed specific changes, his comments and proposals are more likely to encourage financial regulators to take action using powers available to them under current legislation. But they'd better act fast if they want the advantage—some banks are already exploring other solutions that work for them.

- Regional banks' calls for increased deposit insurance have continued, but some are creating networks of partner banks to which they can allocate their deposits to offer customers insurance above the $250,000 limit.

We expect to see some financial regulators—like the highly active CFPB—to tap into some of their unused authority to move reforms along. But others trying to appease all players in the banking sector will continue to hit hurdles.

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