Comment on "Is This Risk Insurable?"

The paper offers a useful overview of issues raised by deposit insurance. The topic is relevant given the current dramatic expansion of deposit insurance. Below, I make comments according to page number, not order of importance.

p. 1, para. 2 – insert "with" between "visible" and "depositors.'"

p. 2 - The discussion of deposit insurance, given that deposits are just one form of debt issued by banks, needs to include mention of the Treasury's program to guarantee debt of financial institutions and money market funds.

p. 4 – What is the reference to "Most bank holding company insolvencies a result quite nicely… in US Federal bankruptcy courts." ? A specific illustration would help.

p. 5 – The author believes that the idea has merit "to charge deposit insurance fees to holders of banks' paper in categories that might be subject to bailout on the same level as depositors." Taxing debt holders would imply making them part of the financial safety net and thus precluding any possibility of ending too big to fail—an objective of the author.

p. 5 – The author cites an estimate of the median size of deposit account. It would be nice to have a citation to the source.

p. 5 – There is a reference to the demand for deposit insurance by Southern and Western bankers. A citation would be helpful.

p. 5 – The author says that the intellectual case for deposit insurance for small depositors is limited given the existence of postal savings banks. The point seems irrelevant since the United States does not helpful to savings banks. Japan had such a system till recently, but it was a source of corruption.

p. 6 – Some of the language in paragraph 2 detracts from the scholarly tone of the article, especially, "bankers and their kept politicians" and "the House Financial Services Committee, a notorious bailiwick."

pp. 6 and 7 – On page 6 the author argues that the "principal function of deposit insurance… is to subsidize the… banking system." On page 7, he talks about "the few admissible rationales for deposit insurance." It seems contradictory to make both statements. How can he say that there are admissible rationales for deposit insurance among which he includes "stopping a banking panic, once such a panic erupts" and also say that the only rationale for deposit insurance is to subsidize banks? Admitting the panic argument made by regulators undercuts everything the author says.

If the author is going to challenge too big to fail, he also has to challenge the rationale for it used by regulators. That means arguing the counterfactual that in a world without too big to fail the financial system is not inherently fragile. That means examining historical experience prior to 1933. I suggest he cited the work of George Kaufman:

Kaufman, George G. "Banking Risk in Historical Perspective." in George G. Kaufman, ed., *Research in Financial Services*, vol. 1, Greenwich, CT: JAI Press, 1989, 151-64.

_____. "Bank Contagion: A Review of the Theory and Evidence." *Journal of Financial Services Research* 8 (April 1994), 123-50.