## Investment Account Protections from Institutional Insolvency

The current uncertainty in the banking industry has famously caused some depositors to pull their money from their lending institutions, even though their money is insured up to $250,000 per account. Beyond banks, many custodians and brokerage firms also have lending arms. If they run into trouble, it's fair to ask whether brokerage accounts are safe and protected.

The short answer is yes—up to a point. Banking assets are protected by the Federal Deposit Insurance Corporation (FDIC), while brokerage assets are comparably protected by the Securities Investor Protection Corporation (SIPC). SIPC's coverage limits are twice as high as the FDIC's—up to $500,000 per securities account. So if a person has a traditional IRA, a Roth IRA and a taxable account at a custodian like Schwab, Fidelity, TD Ameritrade or Pershing, each would be protected up to $500,000. Similarly, if a married couple each has an individual account, plus a joint account, all three accounts would be insured for up to $500,000 through SIPC.

When does the protection kick in? If a custodian becomes insolvent, then SIPC will ask the court system to appoint a trustee to liquidate the firm. In most cases, however, investors will recoup their investments because the government will broker the sale of the custodian or broker-dealer to another party, which will take over custody of the accounts and render them safe again. In addition, brokerage firms are required to keep customer funds in accounts separate from their own, which serves as a backup check and balance against insolvency losses.

As a result, if someone has more than $500,000 in one brokerage account, chances are high that they won't lose any money even if the custodian or brokerage firm is forced into liquidation. However, if the firm is unable to self-liquidate or there are no buyers on the horizon, then SIPC will be the guarantor of last resort.

Note that SIPC insurance doesn't provide protection against investment losses, or losses due to account hacking. Further, it is irrelevant to claims against bad or inappropriate investment advice, which are typically handled through arbitration proceedings.  The FINRA arbitration system, which handles such claims against brokers, generally hears more than 3,500 complaints against brokerage representatives every year, including 4,998 in 2021.  The message there is that investors should fear bad or predatory advice from brokers far more than custodial insolvency.

Sources:

https://www.bankrate.com/investing/sipc-insurance/

https://www.nerdwallet.com/article/investing/sipc-insurance-what-it-does-and-does-not-protect

https://www.finra.org/arbitration-mediation/dispute-resolution-statistics

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