

# **Collapse of Silicon Valley Bank: Impacts on Startups & Global Financial Markets, Comparison Between Lehman Brother and Silicon Valley Bank Crises**

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## **Abstract:**

The sudden collapse of Silicon Valley Bank (SVB) sent shockwaves through the startup ecosystem and the global financial landscape. This research delves into the factors that led to SVB's downfall, exploring how its unique role in supporting tech startups became a double-edged sword. By examining the parallels between SVB's crisis and the infamous collapse of Lehman Brothers in 2008, we uncover important lessons about risk management and the fragility of financial institutions. The fallout from SVB's failure didn't just affect its immediate clients; it rippled through the entire venture capital community and beyond, prompting startups to rethink their banking relationships and funding strategies. We reflect on the broader implications for the financial industry and the lessons learned about the need for diversification and sustainable growth. Ultimately, this research is a reminder of the interconnectedness of our financial systems and the human stories behind the numbers. As we navigate an ever-changing economic landscape, the insights gained from SVB's collapse will shape the future of banking and entrepreneurship for years to come.

## **CHAPTER 1: INTRODUCTION:**

Silicon Valley Bank(SVB) was one of the largest banks which was founded in the year 1983, the headquarters of it being located in Santa Clara, California. This bank has always helped various technology-based companies grow and eventually go public, and a significant number of its clients have gone public. Some of the most notable clients are LinkedIn, Roblox, Roku, and Shopify. Although SVB was founded in the US, it had its presence in key markets including the UK, China, Israel, and Germany offering services to international startups and venture capital firms. In China, SVB entered into a joint venture with Shanghai Pudong Development Bank, which was the first of its kind, to provide services to China's growing tech scene.

As the technology and healthcare sectors experienced rapid growth, and the culture of funding reached its peak, Silicon Valley Bank emerged as the leading financial institution, helping these companies manage and deposit their funds. Silicon Valley Bank was the US's 16th Largest bank and had only 17 branches spread across the world. SVB provided financing options to more than half of the tech and healthcare-based startups in the USA, which meant that the bank was quite well trusted by its clients. Its client base included half of all U.S. start-ups and 44% of all U.S. venture-backed technology and healthcare companies going public in 2022. SVB's balance sheet saw a drastic change from \$4.5 Billion in 2003 to \$212 Billion by the end of 2022, whereas there were \$175 Billion in deposits. The growth that was seen was boosted by the COVID-19 crisis as the bank's deposit base grew from \$62bn in Q1 2020 to \$198bn

in Q1 2022, the peak of SVB's customer resources. Silicon Valley Bank crises reminded the world of the real risk and how the federal rates are a major factor to be considered when it comes to investments. This crisis shook the whole Tech and healthcare startup industry and also made a huge impact on the global financial markets and the banking industry as well. This crisis made U.S. regulators realize how a sudden, unanticipated hike in interest rates can trigger unforeseen financial disruptions. In this research, we will look closely at the actions taken by startups in the wake of this collapse and how it has affected global markets. We'll also consider whether the Dodd-Frank Act could have helped prevent or lessen the impact of this crisis. By exploring these aspects, we hope to gain valuable insights into how the landscape for startups is changing and how regulatory frameworks can adapt to better support innovation and stability in the future.

### 1.1 Recipe for Destruction

SVB's collapse was the second Largest Bank Failure after Washington Mutual. Between Q1 2020 and Q1 2022, SVB massively increased the size of its bond portfolio to "invest" the deposits collected from its clients. The bond portfolio grew from \$27bn to \$127bn during this period(Lazard,2023). The clients which were startups were able to deposit such huge sums because of the accelerated digital transformation, increased venture capital activity, remote work as the new norm, and the E-commerce and contactless solution boom. SVB invested these sums in Government Bonds or Mortgage-backed securities guaranteed by the US government, there was no question about the quality of the bonds. However, the major drawback was that the investment was made when the US Fed rates were very low. SVB's investments were driven by a large surplus of cash from deposits, with fewer loans to issue than the bank could lend. Unfortunately, SVB's poor risk management and strategy made it hard for them to anticipate the Fed rates. The rates which were less than 1% went to 4.75% in less than a year. This rise in the rates made the prices of the bonds collapse, this acted as a reminder that the US Fed rates are inversely proportional to the bonds. This rise in rate meant that SVB was sitting on a substantial mark-to-market loss. As the bond prices collapsed and rates increased there was an asset-liability mismatch in the balance sheet.\$91 billion worth of Treasuries (a usually safe investment) that the bank bought with customers' deposits, had lost some \$15 billion in value due to interest rate hikes.

The CEO of the bank Greg Becker also spoke about the liquidity problems that were stemming due to the asset-liability mismatch. The news spread among VCs and retail and tech depositors like wildfire making them withdraw their funds from the SVB accounts.

From March 6th to March 8th, approximately \$42 billion in withdrawals occurred. In response, SVB management opted to sell nearly all of its bonds classified as "Available for Sale," totaling \$21 billion. This transaction resulted in a capital loss of \$1.8 billion, aimed at addressing the liquidity challenges stemming from the bank run.

It had been reported that Fed supervisors initially sent warnings to SVB management as early as the fall of 2021 regarding inadequate management of interest rates and liquidity risks.SVB faced a significant bank run, triggering a critical liquidity crisis that ultimately led to its bankruptcy. On March 9th, the bank's stock prices plummeted, prompting the Federal Deposit Insurance Corporation to step in. The collapse of SVB sent ripples throughout the financial sector, causing investors and analysts to scrutinize other banks for similar vulnerabilities. During early trading, shares of regional lender First Republic Bank dropped by as much as 52%, with further declines following. Just two days after SVB's downfall, regulators also shut down New York-based Signature Bank, marking the third-largest bank failure in U.S. history, right behind

SVB.

### **1.2 SVB reason for Failure**

The collapse of Silicon Valley Bank (SVB) was the result of multiple factors, with the most significant being a bank run initiated by its depositors in an attempt to safeguard their funds. Nearly 97% of the deposits were uninsured, exceeding the FDIC's \$250,000 insurance limit, and were primarily from tech companies. This high concentration of large deposits in individual accounts created a very volatile situation. Further CEO Greg Becker's statement also made the situation worse. Once news of SVB's liquidity struggles spread it triggered a swift and severe bank run, ultimately leading to the bank's downfall.

Several key factors contributed to SVB's collapse, including a lack of diversification and inadequate portfolio management. Most of SVB's investments were concentrated in government bonds, and as interest rates rose, the value of those bonds declined, putting the bank in a precarious position. If SVB had held onto these securities until maturity, it might have weathered the storm. Traditionally, Silicon Valley Bank focused on short-term lending, but in 2021, it pivoted to long-term securities like treasuries to chase higher yields. Unfortunately, this shift left the bank exposed, as it didn't align its liabilities with short-term investments that could be quickly liquidated when needed.

The rapid growth of SVB is another critical factor to consider. While the bank expanded swiftly, it failed to implement proper risk management strategies, leaving its portfolio poorly hedged. Despite warnings and advice from experts, SVB often disregarded these cautions, focusing instead on maximising profits, which ultimately contributed to its downfall. Research showed that a higher saving glut was a reason for financial instability because of increased savings since 2000 and higher levels of deposit-to-GDP ratio (Vuillemeay, 2023).

Deposit concentration also proved to be a major vulnerability for SVB. Most of the deposits came from tech startups, a highly dynamic and volatile industry. These startups were already experiencing funding challenges from venture capital firms, prompting them to withdraw their funds. SVB faced an attempted withdrawal of approximately \$42 billion, a process that in today's digital age, is just a click away, further accelerating the bank's liquidity crisis.

SVB's bond portfolio was split into two parts: Held-to-Maturity (HTM) securities, where \$91 billion was invested, and Available-for-Sale (AFS) securities, with \$21 billion. The bank's challenge came from duration risk; the bulk of its investments were in HTM securities, which couldn't be sold easily without taking big losses, especially as interest rates rose.

The real problem came when SVB needed cash to pay off depositors, but the smaller AFS portfolio didn't have enough to cover those withdrawals. This forced the bank to sell some of its HTM securities at a significant loss, which caused even more panic. With too little liquidity and too many demands for withdrawals, SVB couldn't keep up, leading to its collapse.

The exemption of the 16th largest U.S. bank from the Basel Liquidity Coverage Ratio highlights a significant failure in regulation and supervision within the U.S. financial system. This oversight reflects gaps in regulatory frameworks that are meant to ensure the stability and resilience of banks, especially those of considerable size. Such exemptions weaken the broader financial system, leaving it vulnerable to shocks and crises, and emphasise the need for stronger, more comprehensive regulatory oversight to prevent future systemic risks

### 1.3 US FDIC takes charge

The sharp rise in interest rates caused the value of SVB's bond portfolio to plummet. As panic spread, customers began withdrawing their deposits en masse, triggering a bank run. With such a massive outflow of funds, the bank was unable to stay afloat and ultimately went bankrupt. The intervention by the Federal Deposit Insurance Corporation (FDIC) gave the public an official confirmation: SVB had collapsed. Yellen stated "Our intervention was necessary to protect the broader U.S. banking system. And similar actions could be warranted if smaller institutions suffer deposit runs that pose the risk of contagion." California banking regulators shut down Silicon Valley Bank and appointed the Federal Deposit Insurance Corporation (FDIC) as the receiver to manage and eventually sell off its assets. (Reuters, 2023)

Regulators rushed to find buyers for parts of the bank or even the whole thing. But there wasn't much interest at first, and major players like JPMorgan, Bank of America, and Chase decided to steer clear. Given the tough market conditions and the messy liquidity crisis SVB was caught up in, no one wanted to take on such a complicated and costly situation. After the first auction failed to attract buyers, the FDIC changed its approach. They split SVB into two entities: Silicon Valley Private Bank Subsidiary and Silicon Valley Bridge Bank, N.A., following the bank's entry into receivership. This strategy was designed to make the assets more manageable and appealing to potential buyers. By dividing the bank's operations, the FDIC was able to cast a wider net, generating more interest and ultimately drawing multiple offers during the next round of auctions. SVB crisis had cost FDIC \$ 16.1 billion of deposit insurance funds. We can also say that SVB was the costliest affair of the US FDIC.

Nearly every account at SVB held deposits far beyond the FDIC's insured limit of \$250,000. This left many customers worried about losing their money. On March 12th, the FDIC stepped in and announced that all deposits would be fully insured to restore confidence. However, this decision didn't extend to shareholders or unsecured creditors, who were left to bear the losses. All deposits of SVB were transferred to the National Bank of Santa Clara, and insured depositors had access to their funds on March 13. The FDIC will pay uninsured depositors an advanced dividend. They will receive a certificate with the remaining amount of their uninsured funds to receive remaining funds when the FDIC sells SVB's assets. (Tech Target, 2024) The chaos in the banking sector didn't affect the big banks much, as they were better prepared with diversified portfolios and solid hedging strategies. However, it was a different story for regional banks. These smaller institutions took the hardest hit because many of their clients operate in industries that rely on having immediate access to cash. With liquidity drying up, these businesses faced serious challenges, putting further strain on the regional banks trying to support them.

U.S. regulators chose Tim Mayopoulos, a lawyer who steered several banking and fintech companies during their tough times, to keep the remains of SVB in good shape and make it appealing to potential buyers. He had a reputation for bringing the three worlds together – the political, financial, and venture capital ecosystems (The New York Times, 2023). "He is cool as a cucumber," said Brian Brooks, a lawyer who has worked with Mr. Mayopoulos throughout his career, including as Fannie's general counsel when Mr. Mayopoulos was its chief executive. "Going through the financial crisis at Bank of America during all the crazy stuff that happened, he was the guy whose demeanour never changed," Mr. Brooks said.

Even in the wake of the recent banking crisis, the FDIC continues to express confidence in the resilience of the banking industry. They believe that the sector has the strength and stability to recover from these challenges and continue serving customers effectively (Stephen, 2023). This optimism reflects the FDIC's commitment to maintaining a safe and sound banking environment for everyone.

#### 1.4 Bailout

With the bank in such a desperate state, the FDIC had to step in quickly to prevent a ripple effect across the banking and startup ecosystem. The volatility in the market, combined with growing uncertainty, left SVB's clients feeling anxious and unsure about what the future held. The biggest concern on everyone's mind was whether there would be a bailout. Many startups and businesses relied on SVB to access their funds for payroll, rent, and other daily operations. With their money suddenly out of reach, fear and panic spread, making the FDIC's intervention all the more urgent.

U.S. Treasury Secretary Janet Yellen announced that regulators are actively working to address the collapse of Silicon Valley Bank (SVB), with a primary focus on protecting depositors. She clarified that the effort will not extend to bailing out investors or unsecured creditors.

At first, there was confusion when the FDIC indicated it wouldn't protect depositors beyond the insured limit. However, on March 11th and 12th, 2023, regulators reversed course, announcing that even uninsured deposits would be fully guaranteed. This decision reflects a familiar pattern in financial systems: during prosperous times, profits are enjoyed privately by investors and shareholders, but when crises hit, the burden of losses shifts to the public. In this case, regulators had to step in, using public mechanisms to ensure depositors were protected, underscoring how risks are often passed on to society when things go wrong. Taxpayers should absolutely not bail out SVB. Private investors can purchase the bank and its assets. It is not the responsibility of the American taxpayer to step in. The era of corporate bailouts must end." - Nikki Haley, Republican Presidential Candidate.

#### 1.5 First Citizens Bank acquires SVB

After the bailout issue prevailed, First Citizens BancShares, Inc.(FC) a Raleigh-based financial institution founded in 1898, known for its stability, personalised service, and community focus. Operating under the First Citizens Bank brand, it serves individuals, businesses, and institutions with offerings like commercial lending, wealth management, and mortgages, its decision to buy SVB on 26th March 2023 instilled a sense of confidence among the depositors of SVB and its clients. Since 1971, First Citizens Bank has acquired 35 banks, growing into one of the largest family-owned banks in the U.S. This journey of expansion wasn't just about numbers, it's been driven by a thoughtful strategy to bring together like-minded institutions, helping communities thrive. With each acquisition, First Citizens has strengthened its roots in the banking sector, blending new ideas with time-tested values. First Citizens is taking over \$72 billion in SVB assets at a \$16.5 billion discount, making the deal an incredible opportunity for growth. Such favourable terms made the acquisition hard to resist.

After the unexpected collapse of SVB, First Citizens Bank stepped up to make a significant move by acquiring \$110 billion in assets, \$56 billion in deposits, and \$72 billion in loans from the failed institution. This deal also included taking over SVB's 17 branches, which are now part of the First Citizens family. However, about \$90 billion in securities and other assets were left under the FDIC's receivership, where they will be managed or sold over time to help minimise losses. Along with the asset transfer, the FDIC secured equity appreciation rights in First Citizens, potentially valued at up to \$500 million. This arrangement gives the agency a stake in the bank's future success. The estimated cost of SVB's failure to the Deposit Insurance Fund is around \$20 billion. To ensure a smooth transition, the deal came with several supportive terms for First Citizens, including a \$70 billion credit line, a commitment to cover commercial loan losses exceeding \$5 billion over the next five years, and \$35 billion in borrowings extended to the

bank. These favourable conditions made the acquisition not only appealing but also feasible, giving First Citizens the backing it needed to absorb the substantial assets and liabilities left behind by SVB.

Frank Holding Jr., the CEO of First Citizens, described the acquisition as a remarkable opportunity to restore trust and stability in the banking system during a period of economic uncertainty. He emphasised that the deal was not only a chance to strengthen the bank's position but also an important step toward rebuilding confidence in the broader financial sector. Reports indicate that First Citizens moved swiftly, submitting a bid for SVB almost immediately after its collapse. The bank's rapid response reflected both its strategic ambition and readiness to take on new challenges. However, the bold move raised some concerns among industry analysts, with many questioning whether First Citizens had the financial capacity and operational strength to absorb such a large and complex institution. Despite the scepticism, the acquisition underscored First Citizens' commitment to growth and resilience, reinforcing its ability to turn difficult circumstances into valuable opportunities.

This acquisition follows another significant milestone for First Citizens: the purchase of CIT Group in 2022. This strategic merger added around \$50 billion in assets to First Citizens' portfolio and enhanced its capabilities in commercial banking, equipment financing, and small business lending. By integrating CIT's strengths, First Citizens expanded its reach and diversified its offerings, solidifying its foothold in the financial sector.

Founded in 1898, First Citizens has built a strong reputation for successfully acquiring distressed banks, shaping its growth strategy along the way. While it started as a smaller institution, the bank has increasingly pursued aggressive expansion in the 21st century. Since 2009, First Citizens has acquired 20 FDIC-assisted banks, showcasing its resilience and skill in navigating challenges in the industry. Each acquisition has demonstrated the bank's ability to efficiently integrate new operations while keeping its commitment to customer service front and centre. The recent acquisition of SVB, along with the earlier purchase of CIT Group, reflects First Citizens' strategic goals for growth and stability. These moves not only strengthen the bank's position in the U.S. financial sector but also highlight its capacity to turn challenges into opportunities, showcasing its commitment to becoming a major player in the banking industry.

In an interview on April 23, 2023, First Citizens addressed concerns about former SVB customers continuing to withdraw their deposits. The bank acknowledged the situation and emphasised the importance of managing these concerns proactively. It urged customers to stay patient during the transition, assuring them that every effort was being made to deliver a smooth and seamless experience. First Citizens also sought to reassure clients that the core operations and services they were familiar with would remain intact, promising to uphold the same trusted business model they had relied on at SVB. This message aimed to rebuild confidence among customers, emphasising continuity despite the change in ownership.

However, First Citizens also mentioned that it would need to reevaluate its lending practices, particularly regarding venture capitalists. This caution is due to the potential for deposit fluctuations that can arise from lending to this sector, which often experiences volatility (Low, 2023).

In a positive turn of events following the merger, First Citizens experienced a remarkable increase in its market capitalization, soaring from \$7 billion to \$19 billion. This substantial jump not only reflects the growing confidence in the bank's future prospects but also signifies a broader trust in its ability to navigate the complexities of the banking landscape during this transitional phase.

### 1.6 Whether Dodd Frank Legislation would have prevented SVB Collapse?

The Dodd-Frank Act was introduced in 2010 to restore stability to the financial system following the 2008 financial crisis. This legislation aimed to prevent future bank failures by increasing oversight and ensuring that financial institutions operated more responsibly. One of its primary goals was to make banks more resilient in times of crisis. To achieve this, it required them to hold more cash reserves and high-quality assets, essentially a financial safety net so they could withstand unexpected shocks. It also introduced stress tests, simulating economic downturns, to make sure banks were prepared to weather difficult conditions. A notable provision within the law, known as the Volcker Rule, restricted banks from making risky investments solely for their own profit, aiming to curb the speculative behaviour that had contributed to the financial meltdown.

In 2018, financial regulations were relaxed through a law aimed at easing the regulatory burden on smaller banks. One of the most significant changes involved raising the threshold for what is considered a "systemically important financial institution" (SIFI), a label for banks whose collapse could trigger widespread economic fallout. Prior to the change, banks with \$50 billion or more in assets were subject to stricter rules, including stress tests and higher capital requirements. However, the new legislation increased the threshold to \$250 billion, giving mid-sized banks more operational freedom by reducing regulatory oversight. At the time, Silicon Valley Bank (SVB) had assets totaling around \$200 billion, which placed it just below the new cutoff. This meant SVB wasn't required to comply with the same level of scrutiny as larger institutions like JPMorgan or Bank of America. While the loosened rules were intended to encourage economic growth by lifting burdens off smaller banks, they may have also left SVB more vulnerable by delaying early warnings of potential risks.

While several regulatory easing measures were introduced in recent years, one notable example is the Liquidity Coverage Ratio (LCR). LCR is a critical regulatory framework designed to bolster the stability of banks during periods of financial turmoil. It mandates that banks maintain a sufficient amount of high-quality liquid assets (HQLA) such as cash or government bonds capable of covering their expected expenses for a 30-day period in the event of a financial crisis. This measure is intended to ensure that institutions can meet short-term obligations without resorting to emergency funding sources, thus promoting overall financial stability.

The LCR operates on a tiered system based on the size and complexity of the bank. Large, systemically important banks are required to achieve a 100% LCR, meaning they must have liquid assets equivalent to their projected cash outflows over the specified timeframe. In contrast, smaller banks, like Silicon Valley Bank (SVB), are subject to a reduced requirement of 70%. This lower threshold is designed to provide smaller institutions with greater operational flexibility, allowing them to allocate resources more freely. Being classified under the lower LCR requirement also means that SVB faced significantly less regulatory oversight compared to larger banks. This reduced scrutiny may have allowed vulnerabilities in its liquidity management practices to go unnoticed. For instance, as a bank focused on serving the tech sector, SVB had a unique deposit profile that could lead to rapid outflows during market downturns. When liquidity challenges arose, SVB's ability to withstand the pressure was compromised, partly due to the lighter regulatory framework under which it operated.

The failure of Silicon Valley Bank (SVB) has sparked intense debate about regulatory oversight and the bank's operational decisions leading up to its collapse. Critics argue that, despite SVB not being classified as a "systemically important" institution, its actions such as heavily relying on uninsured deposits and making risky investments warranted a higher level of regulatory scrutiny. Had SVB been subject to the

full Liquidity Coverage Ratio (LCR) rule, which mandates that banks maintain sufficient high-quality liquid assets to cover cash outflows during times of stress, regulators might have identified warning signs earlier.

The banking sector is continuously evolving, and smaller institutions like SVB can present significant risks, especially when they have unique client bases and investment strategies. In SVB's case, the heavy reliance on uninsured deposits and aggressive investment practices created vulnerabilities that went largely unchecked due to the lighter regulatory requirements it faced. As the financial markets change, it's crucial to reassess these regulatory measures to ensure they are appropriately designed to address the complexities of today's banking environment. Maintaining a robust regulatory framework not only protects individual banks but also safeguards the broader financial system, helping to prevent similar crises in the future.

This discussion highlights the need for a balanced approach to regulation one that considers the size and behaviour of financial institutions, ensuring that all banks, regardless of their classification, are held to standards that reflect their potential impact on the economy

## **CHAPTER 2: Comparison between Lehman Brothers(2008) & SVB(16)(19), a case study**

On September 15, 2008, Lehman Brothers, a 158-year-old investment bank, collapsed, sending shockwaves through the global economy. The bank's fall was fueled by risky bets on mortgage-backed securities and excessive borrowing. When the housing market crumbled, Lehman found itself with mounting losses and no one willing to lend it money. Unlike other struggling banks, Lehman didn't receive a bailout, leaving it to declare the largest bankruptcy in history.

The SVB and Lehman Brothers crises stand as two of the most significant banking failures in U.S. history. Comparing these events provides valuable insights into the patterns that unfolded, revealing how key decisions and missteps triggered financial chaos. Both cases illustrate the fragility of banking systems when exposed to poor risk management, liquidity shortages, and eroding market confidence. By examining these crises side-by-side, we can better understand how one decision cascaded into another, amplifying the havoc and ultimately shaping how financial institutions and regulators respond to crises today.

The collapse of Lehman Brothers still casts a long shadow over financial markets, but in many ways, SVB's story is a different one. SVB was a regional commercial bank, serving the tech and venture capital communities, while Lehman operated as a global investment powerhouse with intricate financial dealings. Even their headquarters tell the story: SVB ran its operations from a simple two-story concrete building in Santa Clara, reflecting its local focus. Meanwhile, Lehman's home was a towering 38-story skyscraper in Manhattan, a fitting symbol of its global ambitions and deep ties to international finance. Both Lehman Brothers and SVB faced serious challenges with risk management, but in different contexts. Lehman aggressively dove into subprime mortgages and high-risk assets, turning a blind eye to the growing dangers. In contrast, SVB struggled to manage its interest rate risk, which left it exposed to sudden market changes particularly with unhedged positions in treasury bonds. In the end, risky decisions went unchecked for both banks, leading to disastrous consequences when the situation became critical.

The way management was compensated at both Lehman Brothers and SVB had a big impact on their downfalls. At Lehman, the emphasis on short-term profits pushed management to take reckless risks, often ignoring the potential consequences. Likewise, SVB's pay structure focused more on immediate earnings



than on long-term risk management, fostering a culture that valued quick wins over sustainable practices. In both situations, this short-sighted approach ultimately played a role in their dramatic collapses.

Now when we talk about regulatory compliance both Lehman Brothers and SVB faced serious regulatory lapses that contributed to their downfalls. Lehman operated in an environment where regulations were too lax, enabling them to engage in risky practices without sufficient oversight. This lack of scrutiny allowed their reckless behavior to go unchecked for too long. Similarly, when deregulation occurred in 2018, SVB found itself exempt from crucial stress tests and capital requirements that could have helped identify weaknesses in its risk management. This reduced oversight left the bank vulnerable and blind to the very risks it was facing. In both cases, the absence of effective regulation played a significant role in their ultimate failures.

The market reactions during the crises of Lehman Brothers and SVB were dramatically different. Lehman endured a nine-day bank run, where about 9% of deposits were pulled out before it ultimately collapsed. In stark contrast, SVB faced an extraordinary crisis that unfolded at lightning speed: depositors withdrew around \$42 billion 25% of total deposits within a single day. The very next day, as fear gripped the bank, attempts to withdraw nearly \$100 billion (81% of its deposits) forced SVB into FDIC receivership almost overnight. This rapid loss of confidence highlighted just how fragile the situation had become.

Having a relevant background at the top levels of authority is crucial for navigating the complexities of the financial world. This is especially true when we look at the governance issues that contributed to the downfalls of both Lehman Brothers and SVB. At Lehman, a staggering 90% of board members had no experience in banking, which really hampered their ability to provide effective oversight during critical moments. SVB faced a similar struggle, with only 3 out of 12 board members possessing any banking experience, and most of their knowledge was outdated or rooted in investment banking rather than the commercial banking sector. This lack of expertise led to poor decision-making and oversight, ultimately amplifying the vulnerabilities that both institutions faced. It highlights that beyond sound investment strategies and solid regulations, having knowledgeable leaders who understand the industry is vital for a bank's success.

The crises of Lehman Brothers and SVB highlight the fragile nature of the banking industry and the importance of learning from past mistakes. Although they emerged from different environments—Lehman's global ambitions contrasted with SVB's focus on the local tech scene—they both fell victim to similar issues: poor risk management, lax regulatory oversight, and governance shortcomings. Each institution prioritized short-term profits over long-term stability, which ultimately led to their dramatic downfalls. These events remind us that effective risk management, strong regulatory frameworks, and experienced leadership are vital for creating resilient financial institutions. By understanding the lessons from these failures, we can strive for a banking environment that is better equipped to handle the challenges of our ever-changing financial landscape.

## **CHAPTER 3: POST COLLAPSE CHALLENGES AND LIMITATION**

### **3.1 Who is affected by this collapse ?**

The collapse had far reaching consequences, significantly impacting the financial landscape. It stands as the second-largest banking crisis in history, following the 2008 Lehman Brothers collapse, which had triggered a global financial meltdown.

In the wake of the SVB episode, banks and firms with similar profiles those closely tied to startups, tech businesses, and niche industries are now grappling with difficult decisions. To secure their future, some

considered selling to larger institutions, joining forces with well-funded partners, or, in the hardest cases, shutting down operations. The ripple effects of this crisis have unsettled confidence across the sector, pushing many leadership teams to reevaluate their paths forward in an unpredictable financial environment.

On the other hand under mounting pressure, First Republic Bank found itself in urgent need of support to navigate the unfolding crisis. The Federal Reserve and JPMorgan Chase extended a crucial safety net, offering access to \$70 billion in unused liquidity, along with additional borrowing capacity through the Bank Term Funding Program. Recognizing the gravity of the situation, 11 of the country's largest banks came together in a coordinated effort to inject \$30 billion into First Republic. This collective rescue plan was not only aimed at stabilising the bank but also at restoring confidence in the broader financial system, which had been shaken by recent event

Banking stocks experienced a significant drop, causing major indices like the Dow and S&P to fall by several hundred points. Simultaneously, yields on U.S. Treasuries and German Bunds plummeted, indicating that investors were flocking to these safer assets. This increased demand drove prices up, which in turn led to lower yields. Unfortunately, liquidity for these bonds and their derivatives financial instruments used by investors to lock in prices and mitigate risks also started to tighten. Moreover, the spreads on these assets widened, revealing the rising stress and uncertainty permeating the financial markets.

While banks, firms, and financial markets faced a dire situation, the impact extended to the crypto markets as well, which experienced similar turmoil and challenges. The stability of the stablecoin market encountered significant challenges, particularly after several major players disclosed that their assets were linked to U.S. currency and Treasury holdings at SVB. This alarming revelation sparked serious concerns regarding the risk of potential losses, even in cases where verifiable deposits were present. It underscored the glaring absence of safety nets for stablecoins, revealing their vulnerabilities and leaving investors increasingly anxious about the potential risks looming on the horizon. The situation prompted many to reconsider their positions in the market, as the uncertainty continued to grow.

The recent banking crisis has significantly shaken both traditional financial institutions and the crypto market. As the dust settles, it's clear that stronger safety nets and effective risk management are essential to build resilience and restore confidence in our financial systems.

### **3.2 Consequences of the collapse on Global Markets**

The SVB collapse had a ripple effect that spread throughout the entire financial ecosystem, impacting not just banks and firms but also global markets.

The collapse of SVB had an immediate and dramatic impact on sovereign rates, reflecting the market's heightened anxiety. In just two trading days, the yield on the U.S. 10-year Treasury dropped from 4.00% to nearly 3.50%, as investors rushed to reallocate capital into safer assets amid fears of broader financial instability. This sharp decline highlighted how quickly the market adjusted to the risk that the crisis could escalate beyond SVB, threatening the stability of other financial institutions and markets. The flight to safety underscored the fragility of investor sentiment, with many seeking shelter in government bonds to hedge against further fallout.

In Europe, the strong financial ties between banks and U.S. institutions sparked significant concern about potential contagion, leading to investor anxiety and heightened market volatility. With stringent regulations in place, many investors approached the situation cautiously, which prolonged the time

required for the market to recover. Furthermore, numerous European firms particularly in the technology and venture capital sectors had considerable exposure to SVB, meaning the bank's failure adversely impacted their valuations and investment strategies for an extended period. In contrast, the Chinese market experienced the repercussions of SVB's collapse differently. With minimal direct connections to the bank, the fallout was not as pronounced. The Chinese government acted swiftly to stabilise the situation and reassure investors, mitigating the impact. Additionally, many investors in China were preoccupied with domestic economic challenges, such as issues in the real estate sector and ongoing regulatory reforms, which diverted their focus from external disturbances.

Ultimately, while Europe faced deeper and more enduring consequences from SVB's collapse, China's market remained relatively stable and resilient, largely due to its limited exposure and proactive government interventions.

Contagion fears spread like wildfire in the global stock markets as sell-off sentiments were witnessed in Japan, Australia, India, and Europe. Sentiment analysis on Twitter messages showed that associating the word "collapse" possibly led to more profound and factual comments from investors about SVB's bankruptcy (Khan & Anupam, 2023). First, the strong interdependence of financial markets means that shocks in one region can quickly affect investor sentiment elsewhere. As news of SVB's bankruptcy emerged, it raised alarms about the stability of other banks and financial institutions, prompting investors to adopt a defensive stance. Additionally, the use of emotionally charged language, such as "collapse," in social media and news reports can heighten fear and uncertainty among investors. Research indicates that negative sentiment often leads to more cautious behaviour, with individuals prioritising risk aversion over potential profits. The association of "collapse" with SVB likely sparked more intense discussions about potential consequences, driving more significant market reactions as investors grappled with the implications. These factors combined led to a wave of selling across global markets, as investors sought to safeguard their portfolios against perceived risks stemming from SVB's failure. Indian Banking Mutual Funds reportedly lost 6% in the week of the collapse of the two U.S. banks though the direct impact on the Indian banking sector was negligible to low (PTI, 2023).

### **3.3 Impact on the startups & Venture capital firms**

Silicon Valley Bank (SVB) played a vital role in the startup ecosystem, offering specialised banking services and customised financial products that addressed the distinct needs of startups and venture capital firms. Its offerings included venture debt, enabling startups to secure funding without sacrificing equity, as well as flexible lines of credit to help manage often fluctuating cash flow. SVB's strong connections within the venture capital community facilitated crucial relationships between startups and potential investors, providing not just financial assistance but also valuable insights and resources. However, the bank's sudden collapse left many startups in dire straits, with frozen accounts preventing them from meeting payroll and other operational expenses. This led to a significant loss of confidence in specialised banking institutions, triggering a more cautious stance among venture capitalists and resulting in a decrease in funding and lower valuations for subsequent investment rounds. Moving forward, startups will likely face a tighter capital environment, while the market may see new players attempting to fill the void left by SVB. Overall, this collapse has created a substantial gap in the startup funding landscape, with repercussions that are expected to last for years.

The collapse of Silicon Valley Bank sent significant shockwaves through the banking sector, particularly impacting the tech community. In response, many startups are reevaluating their banking options and

increasingly turning to more traditional institutions like JPMorgan Chase, Bank of America, and Wells Fargo. These banks typically offer greater liquidity and more robust structures, providing a reassuring sense of stability during uncertain economic times. Startups are now prioritising security for their finances, and traditional banks meet that need with their diverse range of services and strong regulatory oversight. For entrepreneurs and co-founders, a delay in accessing funds for payroll can quickly escalate into a serious issue. When employees don't receive their pay on time, their motivation tends to decline, resulting in decreased engagement in their work. This challenge is especially difficult for those employees who aren't as invested in the company's success as the founders, as they may feel less connected to its goals. With all deposits guaranteed by the government, it's essential for entrepreneurs to evaluate their liquidity options and identify ways to secure immediate funds when necessary.

Amid this uncertainty, people are becoming more hesitant to trust smaller institutions. As one observer noted, "People will be much more cautious, and that's a bad thing. It may be that more money gets aggregated into the hands of the biggest players." This shift in mindset could further complicate the landscape for startups, making it even more important for entrepreneurs to establish reliable banking relationships that can support their needs in challenging times. By managing this uncertainty effectively, they can help keep their teams motivated and focused, which is crucial for the long-term success of their businesses.

#### CHAPTER 4: RESULT

**Bifurcation Of Funds :** For startups, relying on a single financial institution can be risky; spreading funds across multiple banks or platforms can help protect against sudden access issues during tough times. Ultimately, embracing diversification isn't just a smart strategy, it's a vital way for both banks and startups to build resilience and secure their financial futures in an unpredictable world.

**Diversified Investment Portfolio :** SVB should have maintained a diversified investment portfolio that includes a mix of asset classes and durations. This approach not only helps manage interest rate risk but also cushions against market fluctuations. By spreading investments across different types of assets such as stocks, bonds, and alternative investments SVB could have absorbed shocks from economic changes in a better way. Ultimately, this strategy enhances stability and fosters long-term growth, ensuring that no single investment significantly impacts the bank's overall financial health.

**Diversification in Business Model & Revenue streams:** The bank's heavy reliance on a concentrated client base mainly startups and tech companies created vulnerabilities when the tech sector faced downturns. As these companies struggled, SVB experienced significant deposit withdrawals and revenue losses, which ultimately contributed to its collapse. By diversifying its business model and revenue streams, SVB could have mitigated some of these risks. For instance, expanding its services to include a broader range of industries or offering financial products to more established companies could have provided a more stable revenue base during turbulent times. Additionally, incorporating alternative revenue streams, such as wealth management or asset management services, would have allowed the bank to generate income even when traditional lending was down.

**Improved communication from central banks:** The central bank should give advance warnings about significant changes in monetary policy, as demonstrated by the collapse of SVB. Rapid interest rate hikes by the Federal Reserve adversely affected SVB's investments in long-term bonds, leading to substantial losses. Clear communication from the central bank could have allowed SVB to adjust its investment strategy, diversify its portfolio, and better manage liquidity. By providing timely alerts, the central bank

can help banks navigate economic shifts, enhancing overall stability in the financial system and preventing crises like SVB's

**Prepared for Liquidity Crunch:** When faced with a sudden surge in withdrawals, SVB was unprepared and lacked sufficient cash reserves or credit lines to meet demand, which exacerbated its financial instability. A robust backup plan, including diversifying funding sources, maintaining emergency funds, and establishing lines of credit with other institutions, could have helped the bank navigate this crisis more effectively. SVB's experience underscores the importance of proactive liquidity management and contingency strategies to ensure stability during challenging financial situations, protecting both the bank and its clients.

In the wake of the SVB collapse, many startups are rethinking their approach and placing a greater emphasis on profitability and sustainable growth. The sudden instability in the banking sector has served as a wake-up call, highlighting the risks of relying too heavily on funding and pushing for rapid expansion without a solid financial foundation. With access to capital becoming more challenging, startups are now shifting their focus from aggressive growth to building resilient business models that prioritise steady cash flow and profitability. This change means that founders are paying closer attention to their spending, finding ways to streamline operations and cut unnecessary costs. They're also focusing on strategies that drive revenue, such as enhancing customer acquisition and retention efforts that deliver real results. Additionally, diversifying revenue streams is becoming a priority to reduce risks and improve financial stability.

Investors, too, are adjusting their expectations. They're increasingly favouring startups that demonstrate clear paths to profitability rather than those chasing rapid growth at any cost. This shift is encouraging startups to adopt a more thoughtful approach to financial management, ensuring they can navigate economic ups and downs while maintaining their operations. Ultimately, the lessons learned from the SVB crisis are prompting many startups to embrace a more cautious and strategic focus on profitability and sustainable growth, helping them thrive in an uncertain environment.

Venture capital (VC) firms have also traditionally relied on banks SVB for crucial financial services, particularly debt funding. The sudden collapse of SVB has introduced significant uncertainty into the venture capital ecosystem, tightening liquidity and making it harder for firms to secure the capital needed to invest in new startups or support existing portfolio companies. This liquidity crunch may force VC firms to reduce their investment activities, leading to fewer opportunities for innovation and growth in the startup landscape.

Additionally, SVB's collapse could undermine trust in the entire VC industry, causing investors to become more cautious and hesitant to commit their funds. Entrepreneurs might also hesitate to seek funding from VC firms that seem unable to support them effectively. In response, many VC firms may reassess their banking relationships, diversify their partners, and explore alternative financing options like private equity or crowdfunding. They may also place greater emphasis on nurturing their current portfolio companies, providing additional support to help them navigate these challenging times. Overall, the fallout from SVB's collapse presents significant challenges that will require VCs to adapt to a more cautious investment environment while continuing to foster innovation.

Cash management for companies is also likely to get more complicated. Many businesses will start distributing their capital across multiple banks to reduce risk and ensure liquidity. This means they'll prioritise keeping cash accessible rather than investing heavily in hold-to-maturity securities, which can be affected by rising interest rates. While spreading funds across various banks can enhance safety, it will

also create challenges. Companies will have to manage multiple accounts, each with different terms and conditions, making cash flow management more difficult. This could increase the administrative workload and make it harder to maximise returns on their cash reserves. Ultimately, while this approach will help safeguard their funds, it will also require companies to navigate new complexities in managing their finances in the post-SVB landscape.

In response to the collapse of SVB, the Federal Reserve introduced the Bank Term Funding Program (BTFP) to assist banks dealing with liquidity issues. This one-year loan facility allows banks to borrow against various securities, including US Treasuries and Agency mortgage-backed securities, using their face value rather than current market value. The BTFP aims to strengthen confidence in the banking system by ensuring that banks have access to necessary liquidity, which is vital for maintaining operations and supporting depositors. With enough capacity to cover all uninsured deposits, it serves as a safety net, reassuring customers and helping to avert a broader banking crisis in the wake of SVB's failure.

## CHAPTER 5: CONCLUSION AND DISCUSSION

The collapse of Silicon Valley Bank (SVB) in March 2023 serves as a significant event in recent financial history, highlighting the fragility within the banking system and the far-reaching consequences of institutional failure. This research has explored the multifaceted impacts of SVB's downfall on startups, global financial markets, and the broader economic landscape, emphasising the critical importance of risk management and diversification in banking operations. In the wake of the crisis, startups have been prompted to reevaluate their financial strategies, shifting focus from rapid growth to prioritising profitability and diversifying banking relationships. Venture capital firms are also reassessing their investment approaches, increasingly exploring alternative financing options. The banking sector is facing heightened scrutiny, with a renewed emphasis on robust risk management and liquidity planning. The Federal Reserve's introduction of the Bank Term Funding Program (BTFP) underscores the government's commitment to maintaining stability in the financial system. However, this intervention raises questions about moral hazard, encapsulated in the adage that "profits are always privatised, but losses are always publicised." This sentiment reflects a growing concern about the disproportionate burden placed on the public during banking failures, while private institutions often retain their gains.

As the lessons learned from the SVB collapse continue to shape future banking regulations and investment strategies, it serves as a powerful reminder of the need for vigilance, diversification, and robust risk management in an increasingly complex and interconnected global financial system. Ultimately, while the immediate crisis has been contained, the ripple effects of SVB's collapse will influence the financial landscape for years to come, necessitating ongoing research into resilient banking models and sustainable growth strategies for startups.

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