The Case of SVB

The recent collapse of Silicon Valley Bank (SVB), the second biggest in the US market, is a good indicator of the importance of being able to meet short-term withdrawal demands. Although fueled by many prior mistakes, the demise of SVB was finally sealed by a run on deposit. This is how the story goes. In 2021, the Federal Reserve Board reported SVB having major risk-handling problems. A year later, the bank was subjected to a complete supervisory assessment and was declared inadequate for an administrative position. SVB was placed under restrictions that hindered it from expanding through acquisitions. The bank's officials anticipated that increasing interest revenue would help their financial predicament, but nothing could have been further from the truth.

By early 2023, SVB went through a "horizontal review," a risk management evaluation. Further flaws were discovered in the audit, but at that point, the bank's days were numbered. In early March, It suffered a run in and collapsed. Experts have been trying to explain what's behind the heavy run on deposits. While the verdict is still out, most says it boils down to basic human behaviour where people, at the slightest chance of them losing money, would act harshly.

The bank's collapse was ultimately due to three significant factors: over 97% of its deposits were uninsured by the federal government, making customers wary of potential problems. Secondly, many of the bank's depositors worked in the technology sector, which is living through a struggle of its own. But most importantly, SVB carried a large amount of long-term debt that had lost market value as the Fed tightened interest rates to combat inflation. As a result, when it had to liquidate those assets to raise cash to meet a flood of consumer withdrawals, it suffered massive losses