



Suade

Analysing Modern Bank Failures: Insights, Implications, and Innovations from the SVB Case Study

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01 Introduction

In the classic film 'It's a Wonderful Life,' viewers are introduced to the 'Jimmy Stewart situation' where George Bailey's bank teeters on the edge of disaster, highlighting the fragile nature of trust in financial institutions. This scenario is not simply a Hollywood construct but resonates with real-world banking challenges. Today, even industry stalwarts like Silicon Valley Bank (SVB), known for its robust support to tech startups and high-growth companies, are not immune to the broader questions of the industry's resilience and trustworthiness. As we assess the modern banking landscape, it becomes crucial to understand what can derail such institutions and how we can fortify them for the future.

"The collapse of America's Silicon Valley Bank was 'the fastest passage from health to death' since the fall of Barings 28 years ago", the governor of the Bank of England said in March. Established in 1983, it had become more and more successful, funding numerous IPOs and benefiting from the exponential growth of the startup scene during the COVID-19 pandemic. Despite having fewer than two dozen branches, SVB had billions of dollars in deposits and positioned itself as the preferred bank for many tech startups and venture-backed businesses, capturing over 50% of the American startup market. However, SVB encountered a sequence of critical issues that steered it towards closure and the ensuing repercussions in March 2023.

Fed vice chair for supervision Michael Barr said SVB failed "because the bank's management did not effectively manage its interest rate and liquidity risk," calling the collapse a "textbook case of mismanagement." An internal report spearheaded by Michael Barr, the Fed's vice-chair for supervision, pinned the lender's failure on management failures, missteps by internal supervisors as well as sweeping regulatory changes made during the Trump administration.

But what really happened, and what are the implications? Most crucially,



what strategies can the industry adopt to adapt effectively to these continually evolving challenges? Our white paper seeks to provide comprehensive answers to these critical questions, offering an in-depth analysis and actionable insights for the banking sector.

02 The Rise and Fall of Silicon Valley Bank: A Detailed Analysis

A. Anatomy of a Collapse: Tracing the Downfall of SVB

Exponential Growth and the Pitfalls: SVB's Deposit Surge: Between 2019 and 2021, Silicon Valley Bank (SVB) experienced a meteoric rise in popularity, with its deposits surging from \$61 billion to \$180 billion. A cornerstone of its success was its strategy to draw in customers by offering interest rates on deposits that were notably higher than those provided by larger banking institutions. In this period of rapid growth, major international entities, including TikTok, entrusted SVB with a significant volume of uninsured non-interest-bearing deposits, collectively totalling around one billion dollars. Parallel to its expanding business, SVB also went on a recruitment spree, significantly bolstering its workforce to support its growing operations.

On February 21, 2023, SVB was featured on Forbes' annual ranking of America's Best Banks for the fifth consecutive year and was also named to the publication's inaugural Financial All-Stars list. This recognition was based on Forbes' assessment of the best-performing banks in the United States, considering various financial metrics and overall bank performance.

The Interest Rate Quagmire: SVB's Strategic Missteps: In the banking sector, deposits are considered liabilities, as they bring with them the responsibilities of client service and the obligation to pay interest on



accounts like checking accounts. Banks leverage these deposits to generate income, typically by lending them to businesses or investing in financial instruments such as U.S. Treasuries and Mortgage-Backed Securities (MBS). During the period from 2019 to 2021, SVB saw its deposits triple, which consequently increased its liabilities and the costs associated with servicing these deposits. To manage this surge effectively and seek profitable returns, SVB embarked on a strategy of purchasing long-term assets. The bank allocated over \$80 billion towards MBS with a 10-year duration, offering a yield of 1.56%. At that time, this yield was considered very appealing, and SVB opted for minimal hedging strategies against potential interest rate hikes.

However, SVB's strategic decisions soon faced challenges. The bank was impacted by a downturn in the tech sector, a reduction in venture capital activity, and a significant rise in interest rates (by 5.5% in the last 12 to 15 months), causing the value of its bond portfolio to decline. As tech companies began to withdraw their deposits, SVB found itself grappling with a severe liquidity crisis.

The Domino Effect of Rising Rates: SVB's Leverage and Losses: Rising interest rates inversely affect the prices of fixed-income assets, particularly those with longer durations, such as bonds. At SVB, this impact was exacerbated by the bank's high leverage ratio, which exceeded 10:1. This meant that for every dollar of shareholder equity, SVB owed more than ten dollars, intensifying the losses as asset values plummeted.

To address the mounting withdrawal demands from its clients, SVB was compelled to liquidate a portion of its bond holdings. The bank announced the sale of \$21 billion worth of its MBS. This move, however, resulted in a substantial financial hit for the bank, leading to a loss of \$1.8 billion. This figure starkly mirrored its net income for the entire year of 2021, highlighting the significant impact of this strategic decision on the bank's



financial health.

Crisis Unfolds: The Triggering of SVB's Bank Run: The crisis at SVB escalated rapidly, beginning with the bank's announcement on March 8, 2023, of a plan to raise an additional \$2.25 billion in capital through new common and convertible preferred shares. This move, intended to offset incurred losses, unexpectedly triggered widespread panic among investors and customers. The swift spread of information through social media, especially Twitter, significantly amplified this panic.

03/10/23 (12:00 AM) - 03/11/23 (12:00 AM)

1.5M

Engagement



1.1K%

Increase



- Collapse of Silicon Valley Bank (SVB): The majority of the posts discuss the sudden collapse of SVB, one of the largest banks in the US, with assets totaling \$210 billion. Posts mention that customers are panicking and trying to withdraw their deposits, leading to police being called at SVB's Manhattan branch.

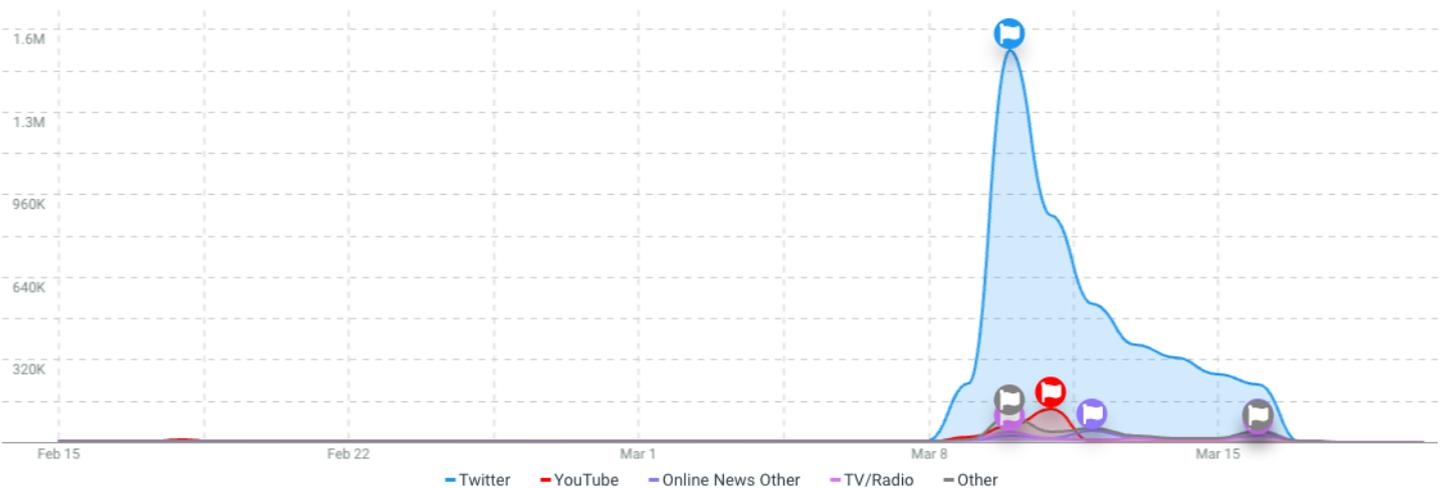
ENGAGEMENT OVER TIME

● Twitter

Results for: 02/15/23 – 03/20/23



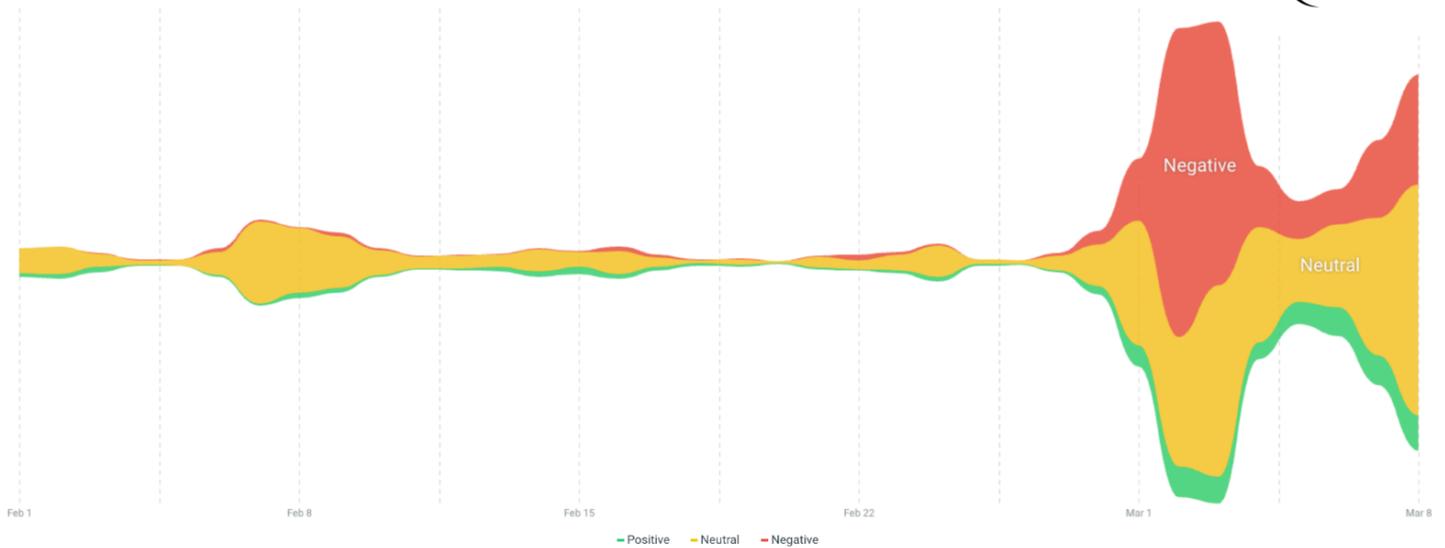
5.1M Engagement



Social Media Engagement on SVB / Source: [Constellation](#)



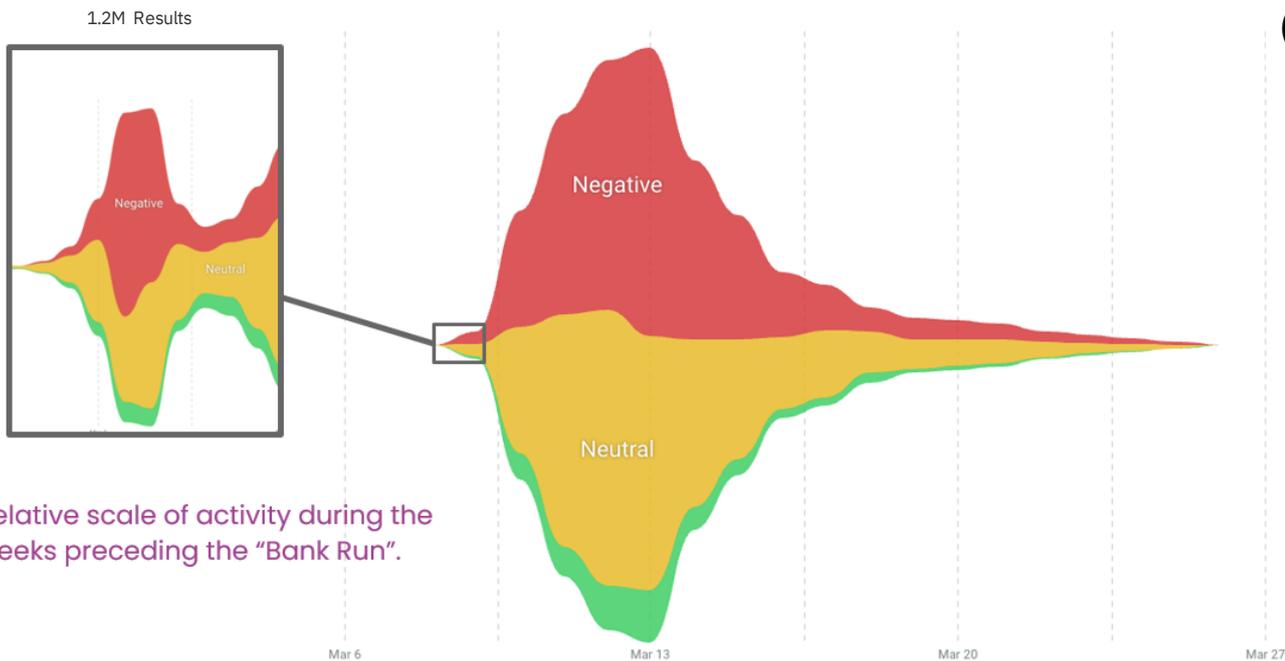
12.5K Results



SVB perception on Twitter/X, You Tube, Blogs, News, Forums / Source: [Constellation](#)

Compounding SVB's troubles were the consecutive downgrades by Moody's, which raised alarm bells about the bank's financial health. The first downgrade occurred on March 8, with Moody's lowering SVB's long-term local currency bank deposit rating from Aa3 to A1 and its issuer rating from A3 to Baa1, indicating a heightened risk perception.

The situation escalated dramatically on March 9, 2023, when Peter Thiel, founder of PayPal, advised his firms to withdraw all their funds from SVB. Greg Baker, SVB CEO held a call with venture capital investors urging them to "stay calm", but spoiler: they did not. By day's end, SVB reported a negative cash balance of \$958 million, resulting in a 60% drop in its stock value. This further eroded confidence in the bank, leading to a massive bank run. On the same day, approximately \$42 billion in deposits were withdrawn, an unprecedented event that overwhelmed the bank's liquidity reserves. Greg Baker, in his testimony before Congress, described the bank as losing a million dollars per second.



SVB perception on Twitter/X, You Tube, Blogs, News, Forums / Source: [Constellation](#)

Moody's followed up with an even more severe downgrade on March 10, reducing SVB Financial Group's senior unsecured rating to C from Baa1 and announcing plans to withdraw the ratings entirely. The culmination of these events led to California banking regulators stepping in and shutting down SVB due to solvency concerns. The bank was subsequently taken over by the Federal Deposit Insurance Corporation (FDIC). This move effectively froze \$180 billion in deposits, marking the event as the third-largest bank failure in U.S. history and the largest since the 2007–2008 financial crisis.

On March 14, 2023, the United States Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) launched investigations into the failure of Silicon Valley Bank.



The Timeline:

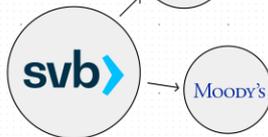


! Who is SVB? Silicon Valley Bank is a 40-year-old commercial bank that was an important lender for the tech and venture capital sector. It's estimated that **half of U.S. venture-backed startups** were customers of the bank.



Moody's Investors Service calls SVB and indicates that the ratings firm is preparing to downgrade the bank's credit

! Moody's is among the world's most respected sources for credit ratings



SVB team reportedly discusses the matter with bankers at Goldman Sachs, and fly to NYC to meet with Moody's and other ratings firms



Moody's downgrades SVB; outlook "negative"



SVB announces intention to raise **\$2.25 billion in fresh capital** by selling new shares



Peter Thiel's Founders Fund, among others, advises companies to **pull funds** from SVB



SVB shares are halted

SVB SHARE PRICE

\$293

\$283

\$286

SVB plunges 60% in after-hours trading

\$268

\$172

\$106

feb 28

mar 01

mar 02

mar 03

mar 06

mar 07

mar 08

mar 09

mar 10



Greg Becker, the CEO of SVB, sells \$4M in shares on Feb 27

SVB earns a spot on the Forbes Financial All-Stars ranking



California state regulators take possession of the bank, and appoint FDIC as receivers

On Mar 9, SVB CEO holds call with venture capital investors urging them to "stay calm"
Spoiler: They do not stay calm



Source: [Constellation](#)



B. Navigating the Aftermath: Responses and Resolutions

Government Intervention: The collapse of SVB raised concerns among investors about the possibility of a new financial crisis, characterized by potential bankruptcies among startups with frozen funds in SVB and a domino effect of massive withdrawals from other local and regional banks. This fear of contagion prompted swift action from U.S. government officials to bolster confidence in the banking system. President Joe Biden addressed the nation, reassuring citizens about the security of their deposits and urging against panic withdrawals.

In the U.S., deposits are insured up to \$250,000, but a staggering 97% of accounts at SVB held balances above this threshold. To manage this crisis, the California Department of Financial Protection and Innovation intervened, placing SVB under the receivership of the Federal Deposit Insurance Corporation (FDIC). In a decisive move, the FDIC extended its protection to cover all investor deposits beyond the usual insured limit. Additionally, the FDIC provided loan facilities to other banks burdened with devalued bonds.

The Federal Reserve underscored that these measures did not involve taxpayer funds. Instead, it extended loans to banks, accepting Treasury bonds at their face value as collateral rather than their reduced market value, which had been impacted by rising interest rates.

This extraordinary intervention highlighted the systemic risks threatening the stability of the financial system. Moreover, the U.S. government injected liquidity into the banking sector and established the Bank Term Funding Program, a mechanism designed to offer additional borrowing options to banks facing distress. This comprehensive response underlined the government's commitment to maintaining financial stability and averting a broader banking crisis.

However, there is still confusion among depositors regarding the status of their accounts, with many unsure if they will be able to recover their



full deposits.

The Acquisition and Restructuring of SVB: Following the collapse, SVB began exploring options to salvage its operations, including the pursuit of a potential buyer. This search culminated in First Citizens Bank acquiring SVB's deposits and loans at a favourable discount. However, some of SVB's assets continued to remain under receivership. By April 2023, the transition was evident as former SVB branches reopened under the First Citizens Bank brand.

In a separate but significant development, the international operations of SVB found a new home under HSBC UK, which completed the acquisition in a remarkable £1 deal. This move by HSBC represented a strategic expansion of its services and footprint.

Simultaneously, SVB Financial Group made a strategic decision to divest its investment banking division, SVB Securities. This division was purchased by a consortium led by prominent figures, including Jeffrey Leerink, and supported by the Baupost Group, a notable hedge fund. Following the acquisition, SVB Securities underwent a rebranding, emerging as Leerink Partners. This sale and rebranding marked a new chapter for the division, positioning it for future growth under its new leadership and ownership.

Accountability and Executive Actions: When SVB collapsed, an unexpected fact came to light: both the CEO, Greg Becker, and CFO of SVB had sold substantial shares of the bank shortly before its failure. Notably, Becker sold shares worth \$3.6 million just 11 days prior to the collapse. These transactions, occurring ahead of the bank's steep decline, effectively insulated them from the significant financial losses that followed the drop in stock value. The timing of these sales not only raised questions but also added a complex layer to SVB's dramatic downfall, casting a



shadow over the executives' actions.

Compounding the controversy, SVB distributed annual bonuses to its employees on the very day regulators shut down the bank. While these bonuses, tied to the performance in 2022, were processed days earlier as per routine, with the payment date pre-determined and communicated in advance, the coincidence of the payout with the bank's closure presented a stark contrast. SVB traditionally issued bonuses on the second Friday of March, but the timing in this instance contributed to negative perceptions regarding the bank's leadership decisions.

In the wake of the bank's closure, SVB and its top executives faced legal repercussions. An investor lawsuit accused them of making false and misleading statements, contributing to the crisis. This legal action highlighted the intensifying calls for accountability following the bank's downfall.

President Joe Biden addressed the crisis, advocating for a comprehensive investigation into the factors leading to SVB's collapse. He emphasised the importance of holding those accountable for their roles in the crisis. President Biden further clarified that if a bank were taken over by the FDIC, its management would be removed, underscoring the government's commitment to responsible governance and restoring public confidence in the financial system.

03 The Domino Effect: Consequences of the SVB Collapse

A. Cascading Impacts Across the Financial Landscape

The abrupt downfall of SVB sent shockwaves through the banking sector, which had been experiencing a period of relative stability. This unexpected



event triggered a wider banking crisis, marked by the failure of two additional banks and significant disruptions in the stock market.

The crisis rapidly spread to other financial institutions. Two days after SVB's shutdown, Signature Bank, a New York-based bank, also collapsed after its depositors withdrew \$10 billion, marking it as the third-largest failure in U.S. banking history. The collapse of these banks, especially SVB, rattled investors and customers, leading to urgent government interventions aimed at stabilising the financial system and restoring confidence.

In Europe, the aftershocks of SVB's demise had far-reaching effects. One of the most notable consequences was the accelerated merger of Credit Suisse under significant pressure. On March 19, in a move reflecting the profound global implications of the SVB crisis, UBS AG considered acquiring its rival, Credit Suisse. This potential takeover, which sought backing from the Swiss government to mitigate associated costs, underscored the extensive impact of SVB's fall on international financial markets. It evoked memories of the 2008 financial crisis and the vulnerabilities within the global banking system.

As the banking industry grappled with this upheaval, major financial players like Goldman Sachs were compelled to reassess their strategies and recommendations. The rapid escalation of the crisis underscored the interconnected nature of global financial markets and the potential for localised incidents to have worldwide economic consequences.

B. Regulatory Reassessment and Reform Initiatives

The recent failures of SVB Financial Group and other regional banks in the US have spurred regulatory authorities to contemplate stricter capital regulations, particularly for mid-tier banks. This move aims to bolster financial stability and resilience within this segment of the banking sector. The Federal Reserve's Vice Chair for Supervision has underscored



the urgency of reinforcing capital and liquidity regulations, expediting the adoption of the comprehensive Basel global banking standards.

The Basel Committee on Banking Supervision (BCBS) formulated Basel III in response to the 2008 global financial crisis. These reforms were intended to strengthen the resilience of banks across economic cycles. The crisis highlighted critical weaknesses in how risk-weighted assets (RWAs) and capital ratios were calculated. The BCBS focused on three key strategies to mitigate future financial crises: augmenting the overall capital relative to risk in the financial system, elevating the quality of capital held by financial institutions, and improving the precision of risk assessments by these entities.

While the US, EU and UK have implemented many Basel III standards through the "U.S. Basel III Final Rule", "EBA Capital Requirements Regulation (CRR) 3" legislative package and the "PRA PS22/21" and "PS21/21", some elements are yet to be fully adopted. In the US, these pending reforms are referred to as the "Basel III Endgame", while in the UK, they are termed "Basel 3.1 standards". Their focus is primarily on refining RWA calculations, enhancing risk measurement in both internal models (IMs) and standardized approaches (SAs), and ensuring consistent risk measurement across firms.

The recent collapses of institutions such as Silicon Valley Bank, Signature Bank, and Credit Suisse have accelerated efforts in the US and globally to adopt the Basel III Endgame reforms more rapidly. This urgency is seen even though the EU and other regions have not experienced financial disturbances on the same scale as the US. The proposed timeline for implementing these reforms, excluding transitional provisions for the output floor, is set for January 1, 2025, in the EU and July 1, 2025, in the US and UK. This swift policy response reflects a global recognition of the need for more robust financial safeguards in the wake of these banking sector upheavals.



However, as emphasised by a senior industry expert, it's crucial to avoid implementing unnecessary changes to banking regulations in response to these failures. Equally important is the assessment of whether the existing regulations were effectively executed. A former regulator also noted the misplaced association of the US Basel III Endgame with the SVB and Signature Bank failures, emphasising that these reforms are part of a long-term process initiated in 2008 to overhaul Basel II.

04 Rethinking Regulatory Responses in Banking Crises

A. Assessing the Impact of Deregulation

A senior industry expert underscored the disconnect between the evolution of market risks and the pace of regulatory updates. In the case of SVB, the oversight was less about misjudging market trends and more about overlooking the growing illiquid risk on their balance sheets. The bank's aggressive pursuit of profits, accompanied by considerable risk-taking, was clearly discernible.

This issue stems from the 2018 amendment to the Dodd-Frank Act, specifically the Economic Growth, Regulatory Relief, and Consumer Protection Act. Sponsored by Republicans and receiving broad bipartisan support, this law raised the threshold for systemically important banks from \$50 billion to \$250 billion. Under the original Dodd-Frank regulations, banks with assets of \$50 billion or more were subject to stringent rules, including enhanced capital requirements and stress tests for liquidity risks. By the end of 2022, SVB's assets totalled about \$209 billion, placing it below this revised threshold. Deregulation created a breeding ground for crisis.



But the 2018 legislation also allowed the Federal Reserve discretion to decide whether banks with assets over \$100 billion should be subjected to the same rigorous standards as larger institutions. Both SVB and Signature Bank surpassed this lower threshold in 2019 and 2020, respectively. The Fed could have required these banks to undergo liquidity stress tests and adhere to liquidity coverage ratio rules, potentially highlighting the risks of deposit flight and losses from asset sales to both management and regulators. Such measures could have altered their operational strategies and possibly averted their failures.

A clear step Congress could take is to revert the threshold for stringent banking regulations to its original level. If not for the raised limit, both SVB and Signature Bank would have been subject to mandatory stress testing and rules designed to withstand sudden deposit withdrawals.

The U.S. effectively created a dual banking system, where medium-sized banks faced fewer restrictions than larger counterparts. In contrast, European banks must meet uniform standards regardless of size, avoiding the issue of weaker oversight for a significant portion of their financial system. As the 16th largest U.S. bank, SVB was not a small player. Notably, mid-sized regional banks, including SVB, heavily lobbied to increase this threshold, arguing that the costs of compliance were too burdensome for banks of their size and complexity.

However, both failed U.S. banks could have been compelled by regulators to better manage their liquidity and asset risks. The legislative changes granted the Fed discretion over applying stricter standards to banks like Signature and SVB. The invocation of systemic risks to justify the support package for SVB over the weekend suggests that tighter governance was warranted.

Michael Barr, vice-chair for supervision at the Fed, speaking last week at the Peterson Institute for International Economics, noted the Fed's light-touch approach to smaller institutions, emphasizing that it's up to these banks to



be mindful of their risk exposure. He deemed this approach appropriate, highlighting the nuanced balance between regulatory oversight and the banks' own risk management responsibilities.

B. Regulatory Flaws or Supervisory Failures?

In response to this banking crisis, President Joseph Biden has committed to advocating for enhanced banking regulations through Congress and the Federal Reserve. In response, regulators are now considering stricter capital rules for mid-tier banks like SVB and exploring "reverse stress testing" to better prepare banks for extreme adverse scenarios.

However, there's a consensus in the industry that the existing regulations could have been more effectively utilised. Fed Vice Chair for Supervision, Michael Barr, in his report published on April 28, 2023, pinpointed supervisory lapses, highlighting that there's an urgency for supervisors to identify and rectify issues more swiftly and enforce corrective measures on banks.

The collapse of SVB has undeniably exposed gaps in regulatory oversight, encompassing not just the regulators but also investors, depositors, and other stakeholders. "The San Francisco Fed had identified 22 Matters Requiring Immediate Attention (MRIAs) at SVB before its collapse, compared to the usual maximum of 5 MRIAs. These warnings are meant to draw the attention of executives to fix problems to avoid more severe sanctions. Supervision failed, not regulation", underlined a senior industry member. He also expressed scepticism about relying solely on the Basel endgame reforms to prevent similar crises, suggesting that a focus on ratios alone is insufficient.

In March, following the collapse, the Senate Banking Committee conducted a rigorous inquiry with top officials from the Federal Reserve, Treasury, and Federal Deposit Insurance Corporation (FDIC), that admitted to inadequate



oversight and failure to foresee and prevent the downfall of the California-based lender. Federal Reserve examiners, in particular, found it challenging to adapt their oversight from treating SVB as a smaller regional entity to applying the more stringent scrutiny required for its growing size. This transition exposed gaps in the deployment of adequate resources and expertise in monitoring the bank's activities, leading to a shortfall in effective supervision. The Senate Banking Committee's interrogation aimed to uncover these lapses and understand the regulatory shortcomings that allowed such a significant banking institution to spiral into collapse.

The Federal Reserve's inspector-general reported that officials had debated removing Greg Becker from the San Francisco Fed's board in 2022 but refrained due to concerns about signalling the bank's troubles to the market. The report also revealed that Fed examiners had considered downgrading SVB's interest rate risk rating but ultimately did not, concluding that stronger earlier actions should have been taken to address SVB's weaknesses. Dennis Kelleher, CEO of Better Markets, a lobbying group, called for an independent review of the Fed's actions, pointing out the glaring failures in supervision. While the primary responsibility lies with the bank executives, Kelleher highlighted the supervisory shortcomings as significant contributors to the crisis.

Federal Reserve Gov. Michelle Bowman, speaking at a symposium in Frankfurt on May 12, 2023, acknowledged the need for specific regulatory adjustments but cautioned against unrelated, complex regulatory changes. She warned that imposing new, complex regulations on a broad spectrum of banks could lead to fewer banks, adversely affecting individuals and businesses, especially those at the lower end of the economic spectrum. Bowman also emphasised the necessity to review and update Federal Reserve services, such as the Fedwire, given the central bank's role as the lender of last resort.



C. Proactive Measures Beyond Regulation

The collapse of SVB Financial Group served as a wake-up call for the banking industry, highlighting several important lessons.

1. Reinforcing Risk Management Strategies

Firstly, the collapse of SVB underscored the significance of effective risk management strategies within financial institutions. The aggressive expansion of SVB Financial Group was seen as a contributing factor to its downfall, emphasising the need for banks to carefully assess and manage risks associated with their growth strategies. This includes balancing growth with risk assessment and maintaining strong internal governance and external oversight.

A significant takeaway from SVB's crisis is the clear need for a dedicated Chief Risk Officer (CRO) who possesses a broad, enterprise-wide perspective on risk management. Banks will face pressure to ensure they have the right CRO in place, and there may be increased scrutiny and interest in risk management practices.

In addition to internal governance, the importance of regular audits cannot be overstated. Tools such as the UK's Section 166 reviews (s166) serve as instrumental mechanisms in enhancing the quality of reporting and oversight. Moreover, the concept of reverse stress testing is gaining traction as an essential tool in a bank's risk management arsenal. This approach involves assessing the institution's capacity to withstand severe adverse scenarios, thus enabling proactive management of potential risks and informed capital planning.

2. The Need for Diversification

The incident also emphasised the significance of diversification in lending portfolios and revenue streams. SVB's heavy reliance on the technology



sector as its primary client base significantly contributed to its downfall. This dependency left the bank highly vulnerable to sector-specific downturns, as evidenced by its rapid collapse following shifts in the tech industry.

Diversification in lending and business operations is key to mitigating such risks. During the 2008 financial crisis, for instance, banks that had diversified loan portfolios were better positioned to withstand the economic turmoil compared to those heavily concentrated in real estate or construction loans. SVB's situation serves as a cautionary tale for other financial institutions with similar concentrated exposures. Regulators, ratings agencies, and investors are now more likely to closely scrutinise such banks.

Moreover, diversification extends beyond just loan portfolios to include revenue streams as well. Financial institutions that rely heavily on a few large clients or a single type of fee income are at risk. For example, banks that diversified their income streams to include fees from services like wealth management, transaction banking, and international trade finance demonstrated more resilience during market fluctuations.

3. Transparency and Ethical Corporate Culture

Transparency and communication also emerged as crucial factors during times of crisis. The collapse of SVB has underscored the imperative of sharing internal projections and identifying vulnerabilities transparently with all key stakeholders, including depositors, investors, and regulators. By fostering transparency, organisations can establish and reinforce trust and confidence, even under adverse conditions. While proactive identification of vulnerabilities may entail significant costs, it is a far more favourable approach compared to the potential consequences of institutional failure.

Precision in regulatory reporting is crucial for maintaining this transparency. It requires a well-structured management system and a controlled



environment to ensure accuracy and reliability in the data reported. This disciplined approach to reporting is fundamental to effective risk management and regulatory compliance.

Furthermore, SVB's downfall has highlighted the critical need for a robust corporate culture within financial institutions. This culture should prioritise prudent decision-making, uphold ethical conduct, and focus on long-term sustainability. Cultivating a culture of accountability, where risk management is as much a priority as profit generation, is vital.

Regulators, in turn, should also provide clear guidance, be responsive to banks' concerns, and foster an open dialogue. Regular meetings, industry forums, and collaborative initiatives facilitate trust-building and enhance communication. Sharing information, best practices, and lessons learned further strengthens the partnership between banks and regulators.

Transparency and shared goals between banks and regulators are crucial for successful collaboration.

4. Fostering Collaboration Between Banks and Regulators

Recent crises, including the collapses of SVB and Credit Suisse, call for a more collaborative approach between banks and regulators. Regulators should create an environment that encourages innovation while ensuring effective risk management. Implementing regulatory sandboxes, which allow banks to test new technologies and business models under controlled conditions, can be an effective approach. Additionally, proactive dialogue between regulators and banks is necessary to understand innovative approaches and assess potential risks. Collaboration is key to striking the right balance.



5. Data-Driven Insights for Enhanced Banking Oversight

Finally, as the volume of reporting continues to increase, banks must indeed embrace scalable technological solutions to manage this surge effectively. This includes prioritising data management and use, especially real-time data processing. Technologies like advanced analytics, artificial intelligence, and machine learning are critical for banks and regulators to effectively manage large data sets. For instance, AI algorithms can be employed to detect patterns in transaction data, helping to identify potential fraud or money laundering activities. Similarly, machine learning models can analyse market trends and customer behaviour, enabling banks to offer personalised financial products and advice. These tools are instrumental in pinpointing emerging risks and enhancing decision-making, benefiting both the industry and regulatory bodies.

For these technologies to function optimally, however, the development of refined data models is essential. This requires the establishment of standardised definitions and reporting frameworks across the industry, which, "despite the lessons from the 2008 financial crisis, are not yet implemented", as noted by a senior industry expert. Indeed, AI and ML algorithms depend on high-quality, consistent data to learn and make accurate predictions or decisions. Standardisation ensures that the data fed into these systems is uniform in format and meaning, reducing the risk of errors or misinterpretations that could lead to inaccurate outcomes. For ML models, in particular, the training process requires large datasets with standardised inputs. Inconsistent data can lead to inefficient training and models that do not perform well when applied to real-world banking scenarios. Standardisation also allows for seamless integration of data from various sources, enabling these advanced technologies to scale effectively and work with large datasets across different banking functions. Finally, with standardised data, advanced analytics can reliably analyse trends and patterns. Inconsistent or poor-quality data can lead to misguided insights, which could negatively impact business strategies and customer relations.



A point of attention is that these standardised models must be flexible enough to adapt to the evolving nature of financial markets and regulatory environments. They need to be engineered to seamlessly incorporate emerging data sources, like social media analytics – which could provide crucial insights in scenarios like the SVB case – or geospatial data. These innovative data types can unlock profound understanding of market trends and consumer behaviours.

05 Conclusion

SVB's collapse is not just a cautionary tale but a catalyst for systemic change in the banking industry. Firstly, the incident has prompted a re-evaluation of banking regulations and supervisory practices. It highlights the limitations of existing regulatory frameworks in anticipating and mitigating such crises. For instance, the 2018 amendment to the Dodd-Frank Act, which raised the threshold for systemically important banks from \$50 billion to \$250 billion, may have contributed to a regulatory blind spot for mid-sized institutions like SVB. This legislative change arguably reduced the frequency and depth of regulatory scrutiny for banks like SVB, which had assets of about \$209 billion by the end of 2022, below the new threshold but still substantial enough to pose systemic risks.

Hence, there has been a heightened call from authorities globally for revisiting these thresholds and reinforcing capital and liquidity rules. The most immediate effect is the accelerated adoption of the remaining Basel III global banking standards. While the US, EU, and UK have already implemented numerous Basel III standards through the "U.S. Basel III Final Rule," the "EBA Capital Requirements Regulation (CRR) 3" legislative package, and the "PRA PS22/21" and "PS21/21," certain aspects are still pending full implementation. In the US, these outstanding reforms are known as the "Basel III Endgame." This sense of urgency persists even



though the EU and other regions have not witnessed financial disruptions on the same scale as the US. The projected timeline for enacting these reforms is now set for January 1, 2025, in the EU, and July 1, 2025, in the US and UK.

This rapid policy reaction underscores a worldwide acknowledgment of the necessity for stronger financial safeguards in light of recent banking sector turmoil. However, it's critical to resist implementing unwarranted changes to banking regulations in reaction to these failures. Equally vital is determining whether the current regulations were effectively enforced. The incidents have also sparked discussions about the sufficiency of the Federal Reserve's oversight, especially considering SVB's high leverage ratio and the decision not to downgrade the bank's interest rate risk rating or remove its CEO from the San Francisco Fed's board in 2022. While boosting capital reserves is key for systemic stability, failures in both internal governance and external supervision should not be overlooked.

The SVB collapse also brought to light the rapid dissemination of information via social media, which significantly escalated the panic and contributed to the bank run. This was exacerbated by some Twitter users who criticised the media's reporting on the event, arguing that it lacked sufficient detail and context. This situation underscores the modern reality of how swiftly information can spread, often leading to unforeseen consequences. A pertinent example is the 2020 incident involving a Middle Eastern bank pre-empt and mitigate the impact of misinformation. In today's digital age, the ability for banks and regulators to conduct real-time analysis and understand market sentiment through advanced tools is becoming increasingly crucial.

As the banking sector continues to evolve with technological advancements and shifting market dynamics, adaptability and resilience become key. The SVB case demonstrates the importance of diversifying client bases and revenue streams to mitigate sector-specific risks, as seen in SVB's heavy



reliance on the tech sector. Moreover, the incident highlights the necessity of robust internal risk management, underscoring the role of Chief Risk Officers in ensuring balanced growth strategies.

A collaborative approach between banks and regulators is emerging as a vital response to these challenges. Regulatory sandboxes, for instance, could enable banks to test new technologies and business models in a controlled environment, fostering innovation while managing potential risks. Enhanced data utilisation and open communication between banks and regulators are also critical for real-time risk identification and management.

In essence, the SVB case highlights the critical importance of heightened transparency, increased accountability, and greater adaptability within banking operations and regulatory structures. Such efforts are crucial in preserving and reinforcing the trust and confidence of customers, investors, and the larger economic landscape. By proactively addressing these key areas, the banking industry can strive to forge a more secure and resilient future.



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