SVB Collapse – Risk Indicators that Escaped people's Eyes

It is nowhere written that banks cannot fail,

SVB, Rising to the top,

- Having assets more than $200 Billion in the United States.
- Being recognised as Forbes Best Banks 2023 as late as February 23rd, for the fifth year in a row.
- Being the financial backer for approximately half of all venture-backed firms in the United States.
- Having earned a stock price appreciation return of 420% between March 20 and December 21
- With a solid Return on Equity of 14%

Collapsed dramatically. Nothing this gargantuan sink so rapidly. There must be some risk indicators those were present before the bank run and creating tumult.

SVB collapse was not an exception, it did have indicators posing threat to the existence of the bank,

- **Asset Liability Mismatch**

  Mismatch risk arises when assets generating cash to cover liabilities do not have the same interest rates, maturity dates, and/or currencies.

  SVB had too much of its business dependent on the IT startup industry, who have parked their money with the bank. The bank's deposits increase by 90%, or an additional US $ 88 billion, in 2020 and 2021 as a direct result of the artificial liquidity pumped in post-Covid. SVB reported $120 billion in investment securities at the end of 2022 which accounted for 55% of its assets and was more than double the average for US Banks, out of which 75% of their holdings were in HTM securities, most of were US Treasuries and mortgage-backed securities. These investments had a **weighted average tenure of 6 Years.**

  Digital Startup industry began to slow down in 2022, SVB experienced a severe shortage of funds as customers started to withdraw the funds. Noninterest bearing deposits decreased by 36% to US $45 billion on December 22 and total deposits decreased by US $16 billion (or 9%) from December 21.

  To compensate the decline in deposits, company borrowed about US $14 billion in short-term funds and US $3 billion in long-term funds in 2022. Moreover, the situation worsened after December 2022, prompting the group to sell securities worth US $21 billion at a loss of US $2 billion, and the final knockout punch was hit when the parent of SVB attempted to sell SVB shares for US $2.25 billion.

- **Liquidity Risk**

  Liquidity risk refers to the potential risk that a company or financial institution may not have sufficient cash or liquid assets to meet its financial obligations, such as payment of debts, operating expenses, or other short-term financial needs.

  Asset liability mismatch is double edged sword, it brings along Liquidity risk and may cause bank runs. From the above mentioned the Asset liability mismatch is can be perceived that SVB was having approximately 42% of total asset as the securities HTM with weighted average tenure of 6 years, to meet the withdrawal requests, it had to sell those securities at a loss of US $2 billion.

- **Interest rate Risk**

Most of the securities held by the SVB were US treasuries and mortgage-backed securities (MBS), which poses very low credit risk, however there is significant interest rate risk associated with both. Prior to Fed's rate hike plan, SVB was making profits by riding the yield curve. However, rising in interest rate coupled with weighted average tenure of around 6 years of the securities resulted in 6% loss in the value of these assets for every 1% increase in interest rates.

- **Fraud Risk**

SVB CEO, Greg Becker sold $3.6 million of company stock under a trading plan less than two weeks before the firm disclosed extensive losses that led to its failure. The sale of 12,451 shares on February 27 was the first time in more than a year that Becker had sold shares in parent company SVB Financial Group, according to regulatory filings.

With respect to bonus payment to employee for 2022 had been processed before regulators shut the bank down as it usually paid bonuses on the second Friday of March each year.

- **Operational Inefficiencies**

SVB did not have a Chief Risk Officer (CRO) from April,2022 to December,2023, which is more than 8 months of crucial period and its risk committee more than doubled its meetings to 18, suggesting growing concern with Bank's position.

Concluding the above, it can be understood that there were operational inefficiencies which ultimately collectively resulted in collapse of SVB, among others they include, Poor diversification in assets, too much dependency on IT startups, not deploying the good risk management method such as scenario testing, stress testing, board risk oversight.