Confidence Levels After Silicon Valley Bank (SVB) Collapse

Gifted and Talented Mentorship Program

GulfStar Group Investment Bankers

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Introduction

On Friday, March 10, 2023, Silicon Valley Bank (SVB) failed after a bank run, marking the second-largest bank failure in United States history and the largest since the 2008 financial crisis. Seeking higher investment returns, SVB began shifting its marketable securities portfolio from short-term to long-term Treasury bonds in 2021. The market value of these bonds decreased significantly through 2022 and into 2023 as the Federal Reserve raised interest rates to combat rising inflation, causing unrealized losses on SVB's securities portfolio. Higher interest rates also raised borrowing costs throughout the economy and some Silicon Valley Bank clients started withdrawing deposits to meet their liquidity needs. To raise cash to fund withdrawals by its depositors, SVB announced on Wednesday, March 8 that it had sold over $21 billion worth of securities, borrowed $15 billion, and would hold an emergency sale of some of its Treasury Stock to raise $2.25 billion. The announcement, coupled with warnings from prominent Silicon Valley investors, caused a bank run as customers withdrew funds totaling $42 billion by the following day. On the morning of Friday, March 10, 2023, the California Department of Financial Protection and Innovation seized SVB and placed it under the receivership of the Federal Deposit Insurance Corporation (FDIC).

Summary

The focus of this original research endeavor is to explore the changes and reasoning in depositors' confidence as a result of the SVB collapse. Understanding depositors' sentiments can provide insight to public policymakers on what regulatory actions should be taken to prevent or moderate the consequence of such a phenomenon from happening in the future.

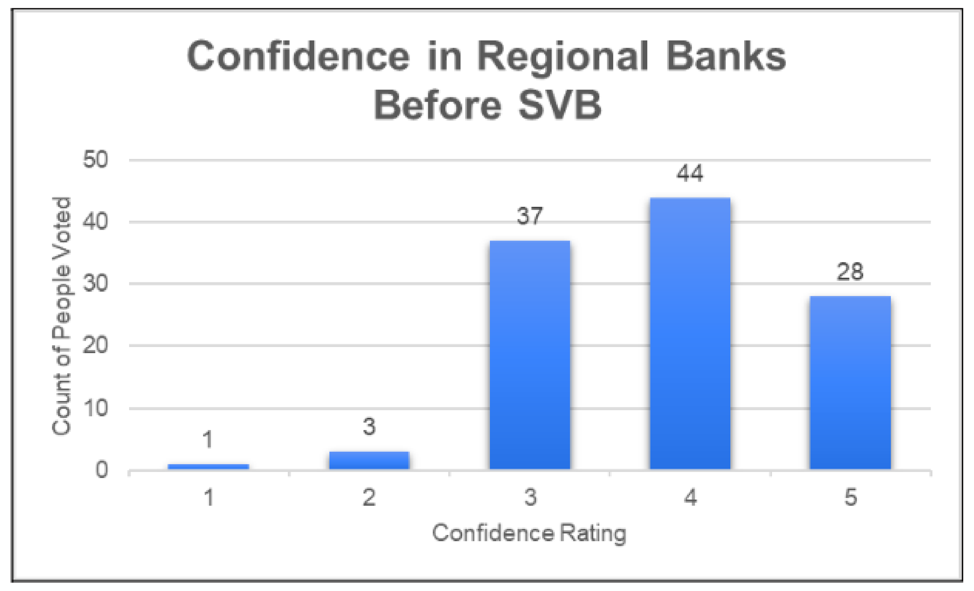
Hypothesis: The SVB collapse will cause decreased confidence in regional banks and increased confidence in large global banks.

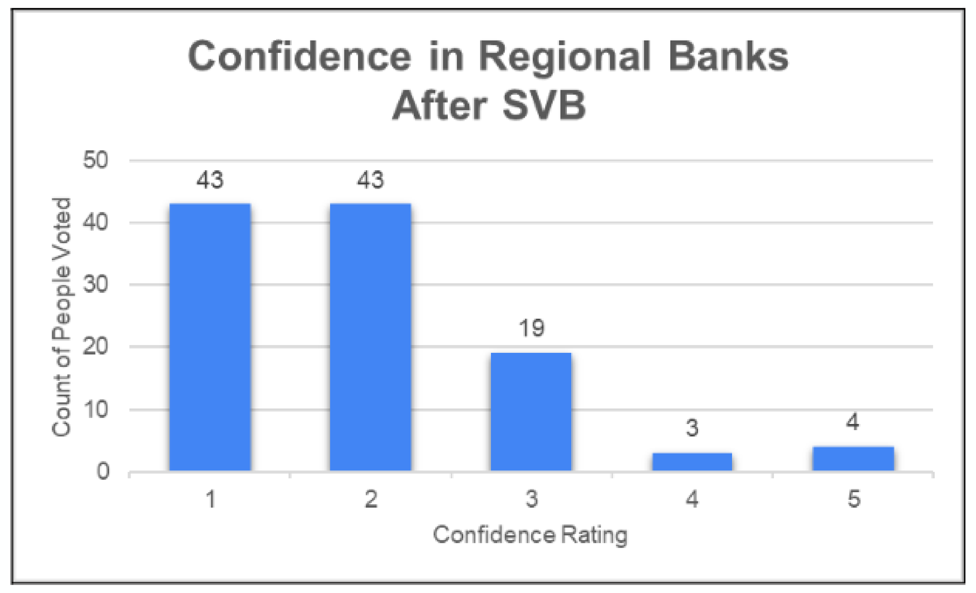
Methodology

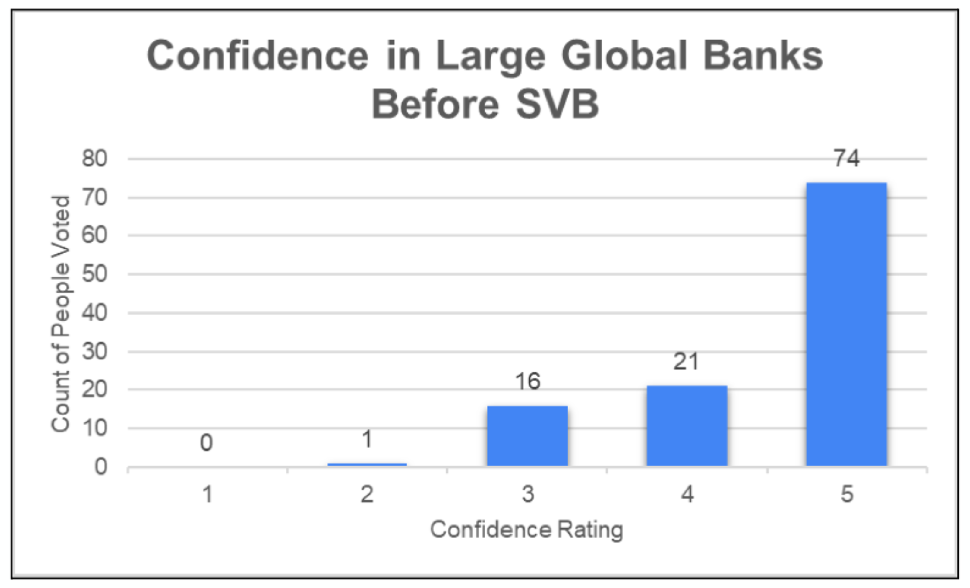
A survey was sent out to the general banking public to collect quantitative and qualitative data on the depositors' opinions and confidence levels regarding the SVB Bank Collapse. The survey presented a Likert scale where individuals ranked their confidence level from 1-5 (1 is low confidence and 5 is high confidence) on regional and large global banks before and after the SVB Bank Collapse. In addition, two open-ended questions were presented.

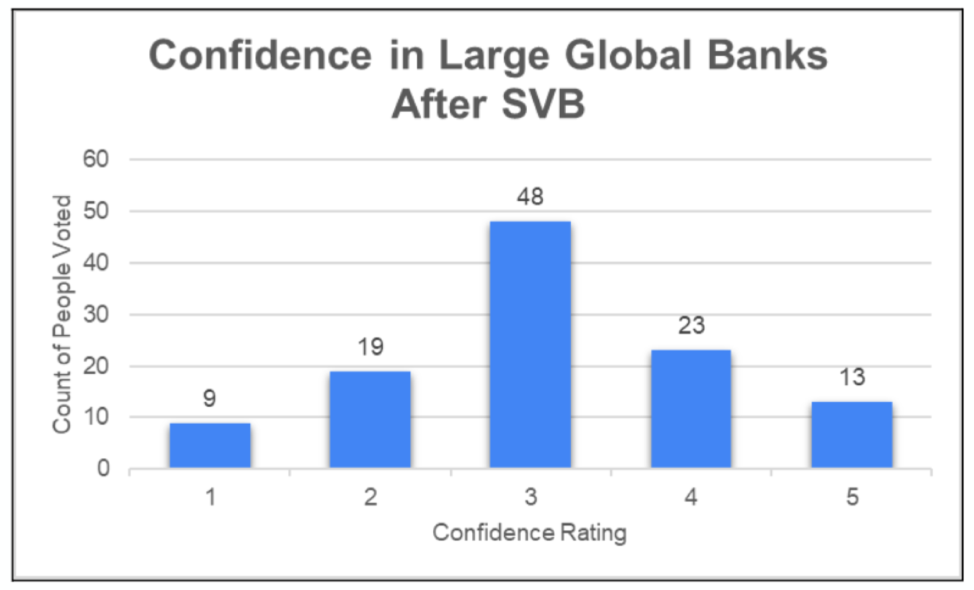
Results

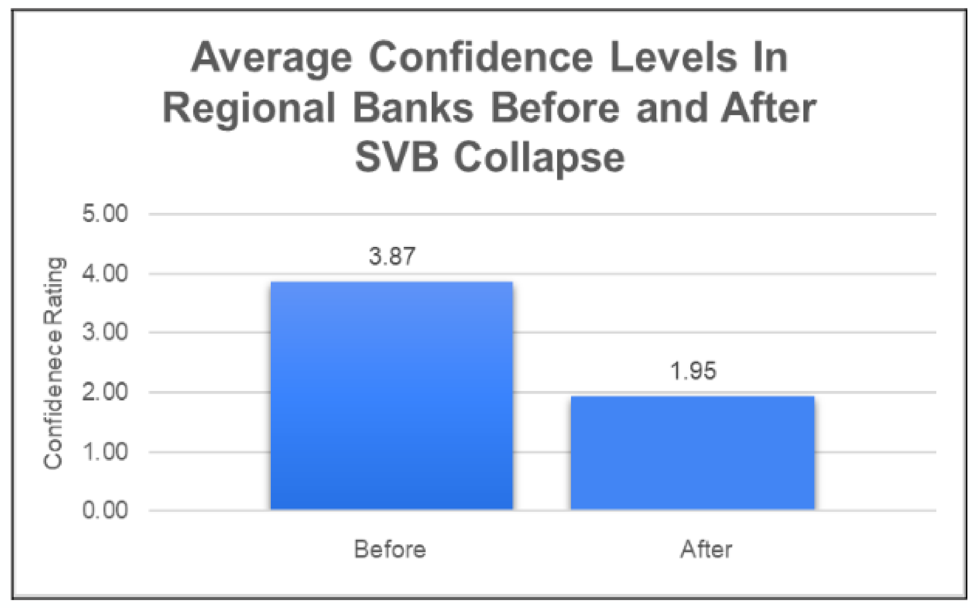
Quantitative Data

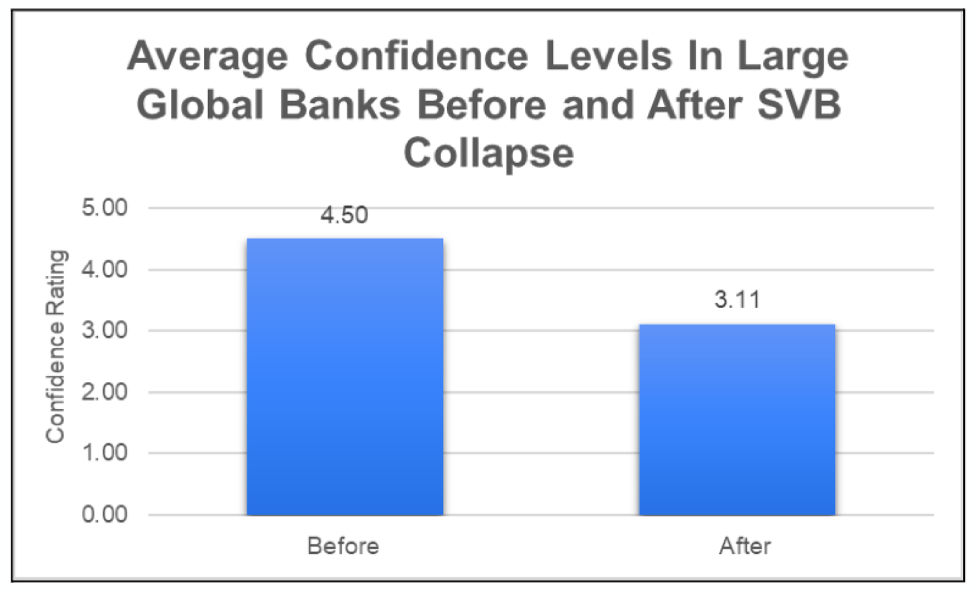












Qualitative Data

What was your reasoning for the shift in confidence levels for regional banks?
SVB collapsing caused me to question the safety of my money in regional banks
SVB's collapse increased my concern in the safety of storing my money at a regional bank
Regional banks aren't safe to keep money in and cant insure.
The collapse of SVB illustrates the potential vulnerability of regional banks to market fluctuations. Given that we have seen the bailout of national/global banks in the past, but not of regional banks (at least as far as my admittedly limited knowledge of the topic goes), the latter appear more exposed to market fluctuation, with less of a safety net in the case of collapse.
Decline of stability in a short period of time
Small shift because a massive bank collapsed. I realize that there's an effect to those around me, especially smaller, less established banks.
Regional Banks do not have as many assets to begin with
Because of the unreliability of them keeping a certain amount of reserves within their bank bc of their smaller clientele base

What was your reasoning for the shift in confidence levels for the big global banks?
The SVB collapse cause me to have more trust in the safety of my money being held with the "Big Banks" as opposed to smaller regional banks
The shift in my confidence in regional banks has had the opposite effect on my confidence in big global banks with strong balance sheets
There is something systematically wrong with the banking sector.
Since they hold larger, highly-important accounts, they seem the most prone to losses.
Assumed that large bank corporations were infallible and this questions that belief
Makes confidence shake if the second largest bank collapsed. Banks that seemed too big to fail suddenly seem vulnerable.
If a bank as big as SVB can collapse, then so can some other big global banks.
banking sector is shaky as of now

Findings/Conclusions

The quantitative data shows the average confidence level of people within the survey for regional banks before and after the SVB collapse was 3.87 out of 5 and 1.95 out of 5, respectively. The average confidence level of people within the survey for the big global banks before and after the SVB collapse was 4.5 out of 5 and 3.11 out of 5, respectively. Therefore, quantitative results present an average decrease in confidence levels after the SVB collapse of 1.92 for regional banks and 1.39 for the big global banks. This proves the proposed hypothesis inaccurate as a downward trend in confidence levels can be seen with both types of banks after the SVB collapse.

The qualitative data displays several responses that indicate the increased concern for the "safety of their money," and the exposure of "vulnerability," "stability," and "reliability," in regional banks. Furthermore, responses discussing the large global banks indicate conflicting opinions as some individuals believe the large global banks are more trustworthy while others disagree. The minority "have more trust in the safety of my money" from the "strong balance sheets" within the big global banks while the majority believe the big global banks are "most prone to losses," due to their "vulnerability." In summary, a common reason for people to have decreased confidence in regional and large global banks is the untrustworthiness of the banking sector.

Discussion

This study is deemed successful as the data collected gives an accurate and valid result to investigate. With the results showing significance, the conclusions can be an indicator for public policymakers to implement more regulatory actions to restrict the consequence of such a phenomenon from happening forward and prevent negative economic market impacts. In addition, this study may be further investigated in different industry sectors to see if differentiating results occur depending on what profession one is in.

Limitations of this study may be presented as conclusions were based on results collected from 112 responses to one survey that could have underrepresented several groups under the general public of individuals who use banking. Due to the possible underrepresentation, this study could have voluntary response bias. If the survey collected a response with significantly greater responses, the conclusions can be strengthened as it will show a definitive recurring trend.