



One lesson is clear from Silicon Valley Bank's collapse: there should be greater scrutiny of depositor concentration risk.

FILE PHOTO: REUTERS

The free fall of Silicon Valley Bank



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For nearly 40 years, Silicon Valley Bank (SVB) was heralded as the go-to bank for startup companies sponsored by venture capital funds. SVB was the 16th largest bank in the United States and the lender-of-choice for many young firms in California's technology (tech) sector, the so-called tech hub in the country. All that changed when it collapsed on March 10, an event that captured headlines across the globe. This is the biggest bank failure in the US since the 2008 financial crisis. What happened to the 40-year-old bank that was so highly regarded among all stakeholders in America's tech sector?

Understanding the chain of events that led to SVB's demise requires some historical perspective. Following the onset of the pandemic, the American tech sector experienced a meteoric rise in capital inflow, owing to the increase in demand for more digital services as everything moved online. Flush with capital from venture capital funds during this low interest rate environment, many tech companies deposited their large influx of cash into SVB. In other words, SVB's deposits became over-reliant on large commercial deposits. While a concentrated depositor base is not unheard of, it is inherently riskier since fewer entities would need to pull their money out before the bank faced liquidity and solvency problems.

What could SVB do with this bonanza of deposit inflow? Without a sufficiently large number of corporate clients to lend to, SVB did what any bank would do: it poured all that excess liquidity into government-backed treasury bonds and mortgage securities. In fact, at the end of 2022, around \$117 billion of SVB's portfolio comprised these securities. That's nearly 60 percent of its entire assets.

But what are the benefits and costs of investing in these bonds? The advantage is that they have low default risks. The cost is that their returns are relatively low and, more importantly, their prices are sensitive to changing interest rates. The latter is what proved to be SVB's Achilles' heel. Even a student of Economics 101 can tell us that when interest rates rise, the price of these low-yielding bonds would fall since new bonds will offer more attractive returns. Given such a large investment in interest-rate-sensitive securities, one must wonder why the bank did not hedge this risk.

SVB's likely strategy with these available-for-sale bonds was to wait for a time when interest rates are sufficiently low, so that the value of these bonds exceeds their cost, thus allowing for a profit. Or perhaps CEO Greg Becker got a bit too greedy and chose not to pay the cost of hedging, and hoped their depositors would always remain true to them.

This mistake proved costly. SVB's heyday came to an end as the US Federal Reserve began raising short-term interest rates to tackle

historically high inflation. Venture capital funds received a lower influx of capital from all types of investors due to two reasons: the looming threat of a recession, and a growing near-term uncertainty surrounding the tech industry.

Consequently, venture capital funds supplied lower capital to many companies that happened to be SVB's biggest depositors. Not surprisingly, these startup companies began to pull out their deposits from SVB to meet routine operations – an effect that was amplified due to rising inflation. As deposit withdrawals spiked sharply, SVB was forced to sell a large share

2012 and 2015, short-term interest rates (federal funds rates) in the US remained flat and close to zero percent. During the same period, there were 101 bank failures in the US, according to the Federal Deposit Insurance Corporation. All of these were much smaller banks than SVB and hence did not draw as much attention. Ultimately, bank success or failure boils down to proper risk management given its preferred business model.

The second question relates to the current regulatory architecture governing the US banking system. Owing to its relatively smaller size, SVB was not subject to some of the toughest regulatory requirements that the largest banks are. At present, the toughest capital and liquidity requirements have to be met by banks whose assets are larger than \$250 billion. Specifically, the largest banks need to have enough high-quality liquid assets to meet 30 days of unexpected net cash outflows.

SVB faced a more relaxed requirement. This is not necessarily an obvious solution, because there

If higher interest rates are the biggest factor, we should not see bank failures during periods when rates remain low and unchanged. For example, between 2012 and 2015, short-term interest rates (federal funds rates) in the US remained flat and close to zero percent. During the same period, there were 101 bank failures in the US, according to the Federal Deposit Insurance Corporation. All of these were much smaller banks than SVB and hence did not draw as much attention.

of their government securities at steep losses since they did not have enough cash on hand to pay their depositors.

This was the final nail in the coffin. Many of the remaining depositors naturally became concerned about the bank's solvency and overall financial health, leading to another wave of deposit withdrawals. As many commercial depositors withdrew their funds from the bank simultaneously, the bank experienced what economists often call a "bank run." With no other choice, regulators shut the bank down and took control to mitigate the damage and stop the contagion from spreading across the financial system.

The drama hardly ended there. Two days later, on March 12, frightened investors pulled their money out of Signature Bank, which had large amounts of deposits from the cryptocurrency sector. What would have been very hard to believe even a week ago, quickly became reality: the US saw a second bank run in the space of three days, leading regulators to shut down Signature Bank barely 48 hours after SVB. It's small wonder that bank stocks have been tumbling ever since, with financial experts predicting that we may not have seen the end of bank shutdowns just yet.

The fall of SVB raises important questions. The first question is whether higher interest rates are the main culprit. Indeed, a lot of commentators believe that aggressive monetary tightening by the US Federal Reserve was the key reason. If higher interest rates are the biggest factor, we should not see bank failures during periods when rates remain low and unchanged. For example, between

is always a trade-off to tougher regulatory requirements. On the one hand, tougher liquidity requirements mean a bank is less likely to face a run by depositors. But on the other hand, it also means a bank can extend fewer loans to truly viable businesses that hire employees from different income groups. This has implications for competition and fair pricing of loans, which ultimately affects ordinary borrowers.

One lesson is clear: there should be greater scrutiny of depositor concentration risk, which dictates funding stability. Much of the existing focus on understanding banking sector health is on the asset side of a bank's balance sheet – i.e. the loans it makes to various companies, and the associated credit risk. There is much less focus on a bank's liability side – i.e. the deposits it receives.

Finally, how will this episode affect the US economy as well as the global banking system? Some overseas spillover effects are already visible from the fall of European bank Credit Suisse, although their demise primarily came from years of scandals and mismanagement. A key trend we are observing is that many ordinary depositors in the US are withdrawing their money from relatively smaller and regional banks and allocating it to the biggest banks in the country, since those are perceived to be safer. Moreover, greater regulatory pressure might slow down credit growth and, by extension, economic activity. Overall, the SVB experience has increased investors' risk aversion and reduced confidence in the banking system, which could also weigh in on near-term growth.

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Ask a student, "How are your studies going?" Don't be surprised if they say one of two things, or both in reply: a) they are finding it difficult to concentrate; and b) they are struggling with a feeling of worthlessness. The two phenomena are intertwined with mental health. Ideally, a university student's responsibility is to study and excel in academics. This gets difficult if they find it hard to concentrate. Being unable to concentrate leads to less-than-optimal academic performance, which then leads one to question one's self-worth.

It goes both ways: one feeds off the other in a series of escalating steps.

than 10 percent cannot seem to concentrate on anything at all, and the rest either find it difficult to keep their minds on anything for long, or are unable to concentrate as well as usual. Extrapolating these numbers across university-going students reflects a serious and disturbing situation.

On the question of worthlessness, 313 indicated not feeling worthless. What is disconcerting is that almost half of our university students feel some sense of worthlessness. Some of them feel worthless in comparison to others, some vis à vis their past selves, and almost 10 percent felt "completely worthless." Is this

Our nagging question is whether such "professional" help is available for the mental challenges students experience so widely.

Slowly, but surely: One cannot expect to heal overnight, just like any physical illness.

Good companionship: It is important to be with people who provide genuine love and care – those who want what is best for the suffering individual. Oftentimes, young people ignore those who have their best interests at heart, seeking the ephemeral approval of those who do not really care.

Physical fitness: The mind and the body are connected; neglecting one's physical well-being may adversely affect one's mental health. It is important to take up a sport, start physical exercise, or even try the martial arts.

Philanthropy: It is important to help others without publicising it and without asking for anything in return. With positive impact, it can



VISUAL: ABIR HOSSAIN

The result is stress, anxiety, and even depression. Academic administrators are blissfully unaware of this, nor do they seem to care that a large number of university students are suffering from mental health issues.

A student struggling with the feeling of worthlessness will find it hard to summon the willpower needed to focus on their studies. This difficulty can be crippling because of the other struggles in their daily lives; when things become near impossible, some fall into depression and go over the edge.

Our recent survey explores the barely traversed topic of depression among university students in Bangladesh. Research on this topic is vital to eliminate the myths, fabrications, and guesswork around this subject. Among other metrics, we explore concentration difficulties and feelings of worthlessness that students frequently experience.

On concentration difficulty, 33 percent of the respondents had none. But an overwhelming majority (67 percent) reported facing some form of concentration difficulty. More

acceptable?

It's worse still that a large proportion of the students feel completely worthless. If these proportions are projected for all the university-going students in Bangladesh, there are deep-rooted problems that cannot be left unaddressed.

We hope the university governing bodies across the country are taking a note. Boasting about how much they value their students (perhaps their pockets only) is one thing; backing up the claims is what the stakeholders ought to demand. Academic fulfilment requires serious attention to students' mental health. Students who are finding it difficult to concentrate and questioning their self-worth might take heart from the fact that others have been there and pulled out.

Here are some things students must keep in mind to bring balance to their lives:

Get professional help: Getting clinically diagnosed and accepting medical treatment can save lives.

do wonders to one's self-worth.

The list is not comprehensive, but something to begin with and incorporate into one's life. If academic institutions really care, they will endeavour to provide support in these areas for all students to preserve good mental health.

It is also important to conduct more studies regularly to track students' mental health status. At the same time, the stigma surrounding mental health challenges needs to be brought out in the open and discussed widely to normalise a condition that exists in all societies. In academia, administrators are urged to develop a keen eye on students' mental health challenges and extend a warm and reassuring hand to those in need of counselling. Their challenge is to nurture students holistically, not just academically.

This op-ed, the second of a four-part series, is the result of faculty-student collaboration designed to impact higher education in Bangladesh.

CROSSWORD BY THOMAS JOSEPH

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