

SVB meltdown highlights importance of banking trust and dangers of not diversifying

Article

The news: The US government is doing its best to cut fears of a looming banking crisis, including President Joe Biden saying that the public should “rest assured that our banking

system is safe.”

The government also guaranteed all deposits at collapsed lenders Silicon Valley Bank and Signature Bank, which have been taken over by regulators.

What government action means for banking: In the last week, crypto-focused lenders Signature and Silvergate have both gone under. And SVB’s meltdown is the biggest US banking failure since the financial crisis.

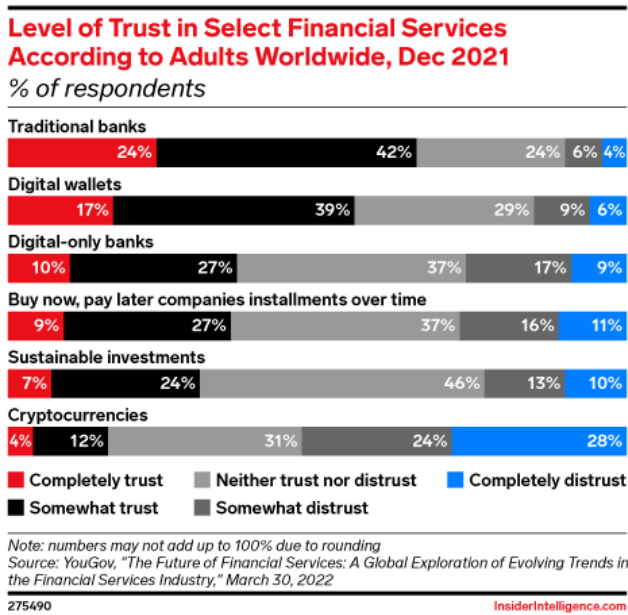
That’s convinced the authorities that turmoil could spread and forced them into action. **Government intervention sets a precedent** for protecting depositors and having a hands-on approach to regulating small lenders in the future. And the government may have to step in again: Shares in regional banks including First Republic nosedived on Monday amid fears of a deepening crisis.

Lessons learned from banks’ collapse:

- 1. Trust remains crucial for banks.** Before last week, SVB was generally considered a profitable and financially healthy bank. But last week’s social-media-driven run highlighted that in a highly digitized economy, panic can spread rapidly. No banks are immune to market fears. Maintaining shareholder and customer trust is paramount. This may give long-established major lenders an advantage over smaller, boutique banks.
- 2. Banking for startups could change.** Tech startups will be more likely to lean toward traditional Wall Street lenders and away from specialist banks like SVB, which could be viewed as too risky. Remaining banks that focus on early-stage tech firms and crypto will be pushed to rethink their strategy and diversify away from a single industry to spread risk.
- 3. Faith in the system has been battered.** Investor and consumer confidence in banks is being tested, along with belief in regulators’ ability to police the space. Three bank collapses in the space of a week will rightly worry the public and raise questions around risk management practices at smaller banks and whether financial controls are strong enough to prevent a full-scale crisis.

Analyst’s take: “Contagion will not spread as far and wide as speculated,” according to Insider Intelligence Principal Analyst Tiffani Montez.

“The FDIC’s swift action to protect taxpayers’ deposits and the Federal Reserve’s new BTFP facility will reassure markets. Still, the markets are hyper-sensitive and could react in an outsized way to any bank or startup communications around performance or balance sheet management.”



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