Rob Rubin, Tiffani Montez, and Jenna McNamee

The Banking & Payments Show: The SVB debacle—Looking ahead

Audio

On today's episode, we dive deeper into the banking debacle created by Silicon Valley Bank's meltdown in order to see what the path forward will look like. In our "Headlines" segment, we discuss the challenges startups that banked at SVB are currently facing and how some existing banks are treading lightly with SVB's former customers—while others are embracing them. In "Story by Numbers," we turn the spotlight toward consumer trust in banks. And in

“For Argument’s Sake,” we debate whether fintechs will need to operate in an environment with more regulatory scrutiny. Tune in to the conversation between host Rob Rubin and our analysts Tiffani Montez and Jenna McNamee. Listen and subscribe today.

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Episode Transcript:

Rob Rubin:

Hello and welcome to the Banking & Payments Show, A Behind the Numbers podcast from eMarketer. Today is April 4th. I'm Rob Rubin, GM of Financial Services here at Insider

Intelligence and your host. If you enjoy this podcast, please give us a five star rating and subscribe. The title of today's episode, The SVB Debacle: A Look Forward. And I invited back principal analyst, Tiffani Montez and Jenna McNamee, our banking analyst, following these developments. Hi guys, how you doing?

Jenna McNamee:

Hi, Rob.

Tiffani Montez:

Hey there. It's good to talk to you again.

Rob Rubin:

Yeah, we just spoke.

Tiffani Montez:

We got to stop meeting like this, Rob.

Rob Rubin:

Jenna, this is our first time together on the podcast and I'm really excited to have you.

Jenna McNamee:

Yeah, I'm excited to be here. Thanks, Rob.

Rob Rubin:

Before we get into it, let's play a quick game of quickfire questions. I'm going to start with you, Jenna. What's the best thing about your primary bank?

Jenna McNamee:

So I'm going to throw a little bit of a curveball at you and tell you that I'm actually using a credit union rather than a bank. So I've been kind of a little bit immune to what's been going on in recent events.

Rob Rubin:

Well, what's the best thing about your credit union?

Jenna McNamee:

The thing I love best about my credit union is the low fees, the low interest rates and the great rates on savings.

Rob Rubin:

There we go. What would make you switch?

Jenna McNamee:

This is a good one. I would have to say that poor customer service, fueled by poor communication is probably the biggest thing that would make me switch. And I've been driven close to the edge before but I haven't quite gotten there yet.

Rob Rubin:

Poor member service, if you're speaking of a credit union.

Jenna McNamee:

Member service, exactly.

Rob Rubin:

Tiffani, same first question. What's the best thing about your primary banking institution, whether it's a bank or a credit union?

Tiffani Montez:

The best thing, I would keep it simple and say that they protect my money and my data.

Rob Rubin:

Okay. I'm not going to ask you what would make you switch, I'm going to ask you to complete this sentence. I would move my everyday banking to a non-traditional bank if ...

Tiffani Montez:

I felt like my money was not safe.

Rob Rubin:

So if it wasn't safe in an everyday bank, you might feel it was safer with Google?

Tiffani Montez:

Potentially. Whoever's going to keep my money safe is what's important to me.

Rob Rubin:

All right. Well, that was interesting and I'm asking those questions to foreshadow some of what we're going to be talking about today and we have a lot to cover, so let's get right to the headlines. In the headlines, we chat about a top story as it relates to our episode. For today's headline, I've selected an article we published a few weeks ago.

After SVB Collapse: Headaches for Startups Has Just Begun. The article points to challenges startups who used SVB have to replicate the services that they were receiving from the bank. And the article indicated that many banks are treading lightly to acquire some of those customers and others are going all in. Jenna, I want to ask you, how do you think the replacement of SVB will evolve?

Jenna McNamee:

Thanks, Rob. So we already know that First Citizens Bank has purchased the loans and deposits from SVB from the FDIC earlier in the month. But before that, we know that a lot of startups pulled their money out of SVB before the actual collapse occurred. A lot of them went to big banks. We know that JP Morgan, Bank of America, those banks that they really benefited from that mostly because clients felt their money was more secure there but a lot did go to digital banks or neobanks.

I think part of the draw of that is because they are more tech focused and a lot of SVB's clients were tech-focused startups. Neobanks like Brex, Mercury, NorthOne, they've really benefited a lot from this. And I do think it is very interesting though because those neobanks, they don't actually have banking trotters themselves, so they're backed by usually smaller banks that provide the banking services for them. That is something to think about. They are smaller banks, they may eventually fall under the same liquidity pressures, so it'll be interesting to see how those startups fair at those neobanks.

Rob Rubin:

I would agree and I think you point out this neobank and you mentioned Mercury and the article highlighted how Mercury introduced quickly Mercury Vault, which puts deposits in money market funds through Vanguard and then it spreads the deposits up to 12 different banks to provide up to $3 million in FDIC insurance. Tiffani, that didn't take long, did it?

Tiffani Montez:

It didn't and brilliant branding, right? Nothing says secure like the word vault.

Rob Rubin:

Vault, right?

Tiffani Montez:

I know. It didn't take long. I think we can expect to see other firms that jump in to fill the gap that SVB has left in the market. But really what it's all going to come down to is, do consumers trust whether it is short-term trust that they might place in wherever they're putting their deposits and can banks really step in and build long-term trust so that those deposits stay?

Rob Rubin:

What do you think?

Tiffani Montez:

I think it's going to be challenging. Here's what I say. Even if you think about your financial institution that you do business with, I'm going to guess there isn't very many of us that have heard from a bank in this environment to tell us that our money is secure and that we can count on them. I have one example and that example was from Varo who sent an email shortly after all of this happened to basically say like, "You're protected, don't worry." But that's the only instance of any financial institution that, at least, I've seen in my own personal life, has reached out to do any type of assurance to me that my money is safe.

Rob Rubin:

We were talking about who's going to replace SVB with startups. Do you think that we're going to see a lot of firms replace those services or will there be a few firms that are going to specialize like what Mercury's doing. For example, is that going to give them an edge to win some of this business from other startups?

Tiffani Montez:

Where there's opportunity, everyone will follow. So I would say we will start to see a lot of examples of people trying to fill in the gap but I think we'll see very few succeed.

Rob Rubin:

Right. So a lot of the money that they pulled from SVB went to big banks but do you think that the big banks are going to be in a position to retain that sort of startup business, which is theoretically a little volatile? And that's not necessarily something the big banks love to do.

Tiffani Montez:

Yeah, I think there's still some anxiety. It is an important time for financial institutions to really step in and to focus on maintaining trust. And that means that they need to be transparent about what they do and where they are as it relates to their organization and how their organization is run. They've got to be able to communicate early and often. And they've got to be in integrity and do what's right for their customers and for their shareholders and to manage activities right now around those things.

Jenna McNamee:

Can I just add a point to what Tiffani had said earlier about how we'll see winners and we'll see losers from this? I think in addition to building trust with customers, we also have to think about the features and functionalities that these banks can provide. So when you think about it, an early stage startup is essentially a small business if you really want to get down to it and that's not always a bank specialty.

Actually, small businesses struggle a lot in the United States with finding good banking options. So I think if these players want to take a piece of the pie, they're going to have to update their functionality and make sure that they can serve a small business.

Rob Rubin:

That's really interesting because a lot of banks small business interfaces, are really just the consumer interfaces.

Jenna McNamee:

Yep. Just a consumer on steroids is how I've heard it described before.

Rob Rubin:

Right. But if you have to manage, in other words, if you've taken an investment and you have a lot of capital that you have to manage, you might need something a little bit more robust than a consumer interface.

Jenna McNamee:

Exactly. And it might also be difficult because I think a lot of these startups have learned that maybe diversification in banking is good, as well. So it's probably already tough to find one bank that does small business well but let alone finding two or three so that you can spread out your assets, it's probably going to be tough for them.

Rob Rubin:

Right. One of the things that SVB did really well is they offered all the founders private wealth management. So here you're taking this investment from this fancy VC and we're going to treat you like a rich person like your investors. And they're going to give them all of these sort of concierge services mostly because they were also limited partners in the fund. Do you think that kind of closeness, is that going to continue?

Jenna McNamee:

I think it'll be tough to get that type of relationship at a big bank. Maybe if one of these smaller new banks like Mercury really leans into it, it could occur there. But I really think it'll be not the same as it was at SVB.

Rob Rubin:

Right. So I think we're going to see something different and that really sums it up, right? SVB existed in a very concentrated area and now I think their business is up for grabs. Really interesting concepts that some of the neobank are taking because my take was, "Oh, they're all going to go to the big safe banks but if the neobanks can offer them the types of products and services that are really well formed for a small business, then maybe they do have a really big shot and, of course, they don't have any shot if they're not trustworthy."

So that brings us to our next segment, Story by Numbers. And in Story by Numbers, we pick a number or two that helps us dig into this episode's topic a little different. And today, for Story by Numbers, we're going to focus on trust, just like as we were talking about earlier and, specifically again, trust in banks. We have a chart that we published recently and I'm going to put the link in the notes so people can go look at it.

The chart says that 35% of consumers are very confident in their primary bank's ability to provide all of their money in their bank accounts if they requested it. 44% are somewhat confident. That's pretty high. I'm very confident in my bank and I would be really sad if I was only somewhat confident. That would make me nervous. But 44% of consumers are somewhat confident and the rest are not so confident.

Interestingly, regional banks had higher confidence percentages than big banks. They also had higher percentages than credit unions and the lowest bank, were digital only banks on the trust factor. If trust is, "Do I trust the bank to give me all my money if I ask for it?" Boomers have the most confidence in their bank and I think that that correlates to why regional banks have the highest score because regional banks customers are older. Gen Z are the least confident, only 30% of Gen Z customers believe that if they requested all their money, the bank would be able to give it.

Tiffani Montez:

That's if they have their money at a digital only bank.

Rob Rubin:

Yeah, that's what I'm saying. Those numbers correlate to where you bank, right?

Tiffani Montez:

Yeah.

Rob Rubin:

But I'm going to go out on a limb here and say that if this survey is done again in two months, the answer's going to be even worse. And I don't think those numbers are actually great. I think they're going to be even worse because I think we're going to be hearing that other regional banks are having some real liquidity issues and we haven't heard about it yet. So let's plan for the problem. Let's just assume that I'm right for the purposes of today. What are the top three things a bank should do right now to keep customers from worrying? Tiffany?

Tiffani Montez:

You want me to go out on that limb with you?

Rob Rubin:

Yeah, let's just say that we're going to have real liquidity problems and you're a bank. Maybe you're a bank that doesn't have liquidity problems if your customers aren't worried about it. So what should you do?

Tiffani Montez:

I think there's probably, as you mentioned, three key areas to focus on. And I would say if a financial institution isn't focused right now on maintaining trust and really communicating to their customers that their money is safe and that their data is protected. And I'm throwing the data thing out there because I think data is also really important in building a relationship. But to really be focused right now on communicating what they're doing and being able to assure customers that their money is safe.

The second part of that communication is really focusing on identifying where there might be weak points in their brand perception. And to start to come up with things to fill the gaps and to strengthen their brand, especially in this period of time. And then the third thing I would say is for our clients that are listening, we do a study every year on banking digital trust. And as part of that study, we get insights from consumers on their view of a certain financial institution.

And we also can break that down just as you shared, Rob, by generation, by gender, by income, by region and really be able to understand what consumer's perceptions are of their brands and be able to use that information to tailor the messaging depending on who they are.

Rob Rubin:

And maybe Jenna, do you think banks are focusing on this right now? If you're a bank and you see what's happening, are you having conversations right now to say, "What do we need to do to make sure our customers trust us?" Or are they just sort of going on and business as usual?

Jenna McNamee:

I think I might agree with what Tiffany had said earlier in that she has only heard from one bank that was proactively communicating that-

Rob Rubin:

That's why I asked, yeah.

Jenna McNamee:

... consumer deposits are safe. I haven't heard anything and I'm reading the news day to day. I think what's happening is, I don't think that fully lies with banks. I think regulators also need to discuss what's actually happening. I think your average consumer doesn't understand FDIC insurance covers up to $250,000 of your deposits. So I think these regional banks are facing liquidity pressure that maybe isn't warranted. It's just people don't quite understand what's going on.

So I do think it is really important that these banks reach out to their customers and say, "Here's what's going on. Here's what happened. SVB was kind of a unique situation, a very niche bank that served very specific types of customers who had a lot of uninsured deposits. And that's not what's happening at our bank. That's not what's happening with your deposits. So you don't need to worry about this. You're safe. You have your deposits insured up to this level." So, I agree. I think it's vital that banks do this but I don't see it happening.

Rob Rubin:

One of the problems that SVB got into is that they took all that money in deposits and they put it into treasury notes that had a higher rate at the time than they could borrow the funds at. So the cost of funds was lower than that. So now their problem is that they didn't have enough cash on hand to manage all the deposits and in order for them to pay the depositors, the cost of funds is so high.

So they lose money every time they do that. That's why they got into their trouble. What I've read is that other banks are having that problem, as well. If you're a bank and you're in that scenario where if you do have even a relatively light run, it's going to cause a huge problem. How do you communicate that? Do you or do you just try to talk in a gauzy way?

Jenna McNamee:

This is actually a big discussion around what happened is because communication is so rapidly moving these days. So for a bank to come out and say, "We're having a little bit of trouble coming up with the liquidity we need to manage our deposits." As soon as that gets out there, it spreads like wildfire across the Internet.

Rob Rubin:

You're done.

Jenna McNamee:

Exactly.

Rob Rubin:

Right. So if they said, "Oh, if 10% of our customers withdrew their funds, we'd be cooked." What do they communicate? Because they can't be transparent about that, can they?

Jenna McNamee:

Right, exactly. Because as soon as it's out there, they're done, like you had said. There's no coming back from that. So I think now is a great time for banks and financial regulators to kind of reevaluate their communication strategy to figure out a way to ... I don't know, maybe work together. And if a bank is running into trouble like that, go to a financial regulator and say, "Here's what's happening. We might need to raise additional funding. We might need to sell some securities at a loss."

Help us do this in a way that won't set off this avalanche of information that ultimately does become misinformation. It just kind of gets out of control, whispered down the lane and then a bank run happens. So I think there is an opportunity here where even though communication is changing among consumers and just among citizens of the world, I think that this is an opportunity for banks and regulators to work together and capitalize on this new way of communicating.

Rob Rubin:

Well, that is actually a fantastic segue into what we're going to talk about in our third segment for argument's sake. But I just want to sum up what we've just talked about in that, banks in this time, especially if they're facing issues. And I guess we agreed that we're not sure what they should do if they actually have liquidity issues. But being transparent, communicating early and often and communicating with integrity and showing your integrity is going to be so important to keep your customers confident in the bank.

Because the truth is that if 100% of the customers of every bank wanted all their money, the bank would be out of business, every bank. So they need to really communicate early and often, as you say. And before we jump into, for arguments sake, let's take a moment to hear about our upcoming webinar, Enhancing the Customer Experience Through Open Finance.

Consumers want controlling connectivity in the apps they use while expecting personalized customer experiences. This is driving advancements in open finance, allowing customers to securely manage personal data and money matters on their own terms. If you want to learn more about enhancing the customer experience through open finance, join us on Thursday, April 6th at 2:00 PM Eastern time, 11:00 AM Pacific for a live tech talk webinar with Okta and Plaid. You'll learn about the key consumer trends that are driving open finance, how to safeguard customer data across banks, credit unions and FinTech apps and what the best practices are for the future of digital finance and the open economy. Check out the links in the show notes to register. We hope to see you there.

In our final segment, for argument's sake, we're going to argue nicely, I hope, about whether increased regulations are good or bad for FinTechs. So for the purposes of this segment, we're assuming Fin Techs will need to operate in an environment with more regulatory scrutiny. And that doesn't necessarily mean the regulators are looking directly at them but regulators could be looking more carefully at their bank partners, for example.

So I'm going to kick off this conversation by saying that I think that regulatory scrutiny is going to be a good thing for Finserv users overall because as we've been talking about, banking is about confidence and trust. So that's why we have regulations so that we know that banks are operating fairly and making good decisions and having good governance. I think that more regulatory scrutiny is going to be good for big banks because they are well suited and used to handling regulations and they're organized for it.

And it's also going to be good for later stage startups because they have more scale and they can handle it because it can be very consuming. I think it's going to be bad for smaller banks and it's going to be probably not so great for early stage Fin Techs for sure because they're innovation oriented and they tend to operate in unregulated spaces. So I'm kicking it off. I think that regulatory scrutiny is going to ultimately be good for Fintech. Jenna, you want to opine here?

Jenna McNamee:

Yes, so I agree with you. I think regulatory scrutiny will be good for big banks, good for later stage Fin Techs but I don't necessarily think it'll be bad for early stage startups and smaller banks. I just think it might be tougher. It might require more resources, a little bit more planning, just to make sure that they're compliant.

Rob Rubin:

But do they have the resources? That's one of the things about regulations and handling it. It consumes a lot of resources that startups don't have and that small banks don't have.

Tiffani Montez:

And it's distracting.

Jenna McNamee:

Yeah, I agree. It's definitely going to be tough. But I do think down the line, it could become a matter of survival because then it would ultimately prevent failures like we have seen in the banking industry and other Fin Techs or startups that are maybe struggling. And it also kind of puts a clear line of what's expected from these smaller banks and what's expected from early stage startups, especially if they're serving the financial service sector, people's money. That's a sensitive topic. So I think making sure that there is tight regulation around it, no matter who it is, is important. And if you can't cut it, then you can't cut it. Maybe you're not meant to succeed then.

Rob Rubin:

But there's a lot of regulatory bodies in the US. There's for Profiteering, there's state regulators, there's different types of national regulators. I know that you're saying that it's going to ultimately be good for early stage Fin Techs but how are they going to have the competency? Where is that competency going to come? Is there going to be another player emerge? How do these Fin Techs get the competencies that they need to do that? The early stage ones?

Jenna McNamee:

Yeah, that's a really great question. And it is tough, I know, to hire somebody with that expertise as a startup. It could be an opportunity for maybe even a new business where they say, "Hey, we're going to help you become compliant." It could be an opportunity.

Rob Rubin:

There are consulting firms that do that but they're expensive. I wonder if it's a service that the FinTech VCs are going to be providing to their portfolios? Tiffany, what do you think of that? I'm just trying to think about, startups have to start somewhere. But it's going to really stifle innovation in a way if we're going to put a big regulatory overhead on top of a company that's trying to innovate.

Tiffani Montez:

Yeah. Startups have to start, right? In my mind, I'm going to sort of summarize what I think I've heard you both say and perhaps add to that. Regulation is really distracting. I think I said this when we chatted in the last episode, Rob. It's still like nothing is really clear. Policies aren't well written. And if I start to think about early stage Fin Techs, many of them are just trying to make it. Just trying to make it to profitability and along comes distraction around regulation and the chaos in the industry.

And I'm wondering if that distraction is going to end up being so distracting for them that we start to see them fold because they aren't good at reacting like regulation as big banks are, right? Big banks are prepared for it because they know at any given moment that regulation could come and threaten their business model. It could threaten the processes and the systems that they've invested in. So they know it's coming and are constantly prepared to be able to react. And I'm not sure that, I think that Fin Techs are. They may say that they're nimble and not bogged down by legacy systems.

But when you have a massive change that comes along, you may not be able to react quick enough. And if you're working with other big banks, you may not be able to meet whatever the changes that need to happen, to be able to react to that regulation quickly enough.

Rob Rubin:

One of the interesting things about technology over time and investing in technology is that startups don't need as much money today as they used to need to get started because they don't have to buy big servers and there's a lot of hardware that they used to have to buy and technology and it tends to be a little cheaper to start up at the earliest stages.

But I'm wondering if it sort of swung back and actually now for Fin Techs, the costs for starting might be higher. So it's not going to be getting your product to market for a couple of million bucks. If it's a consumer-oriented FinTech, it's going to be spending that plus probably an equal amount on some kind of regulatory framework.

Tiffani Montez:

Yep. And can they scale up fast enough to be able to make those changes and not take their eye off the ball for their next product release or their next deployment, right? And that is where big banks are good, they can scale up if they need to.

Rob Rubin:

So it's going to be interesting to see. I had an episode a while ago where I had some folks from Wells Fargo on the show, and they were talking about the benefit of Fin Techs working with big banks. And they said one of the benefits, of course, is that it provides a level of confidence for their investors. Like if a Wells Fargo says, "We're going to make an investment in this company," it speaks to what that company can provide.

But at the same time, I think that maybe because this was before the SVB collapse, I think the big bank sales pitch is really that we can make sure that your bases are covered from a regulatory perspective. So I'm going to go back to what I said in the beginning, which is, I think that the big banks are going to be the real winners here.

I think that they ultimately got a lot of the deposits. I don't know if they're going to keep them. I think that they're going to win. If the Fin Techs have to spend more time worrying about regulations, the big banks are going to be better partners than the small banks, in my opinion. I don't think you disagree with me on that, Tiffany?

Tiffani Montez:

Still on the limb with you. I haven't jumped off, yet.

Rob Rubin:

You haven't jumped off. There might be a very tech oriented, a very good small bank that's really good at regulations, too.

Tiffani Montez:

Yep.

Rob Rubin:

How's that expertise?

Tiffani Montez:

Yeah. I think that's ... Well, they'll be able to capitalize on opportunity, the ones that are really good at regulation.

Rob Rubin:

So that's really another area that banks, as they make investments, what they bring to the table and the future is going to be regulatory prowess and expertise and horsepower to be able to cover that for the Fin Techs, to keep them innovating.

Jenna McNamee:

And to be fair, what Tiffany said about these bigger banks being adaptable enough to adjust to these regulations, I do think regulations also need to be nimble. We do see these smaller banks and these Fin Techs really pushing the envelope on innovation. We see that especially in the crypto market. But we've also seen regulators stall and hem and haw about creating crypto regulations and it kind of led to a disaster last year.

Rob Rubin:

Yeah, yeah.

Tiffani Montez:

Last year's disaster?

Rob Rubin:

I agree. I think that there's definitely an opportunity for the regulators to raise their game, too, so that the industry can continue to innovate and they play a role in that. That is the time that we have for today. Just to sum up our section because we really did go on for a bit about whether we think regulations are going to be good or bad. We think that they, right now, lean on the big banks as an opportunity because they're good at regulation.

But as we point out, the regulators, they have to provide better regulations. And if they can provide clearer regulations, then it might be easier for smaller banks to operate. But then small banks also need to develop a better expertise to help their FinTech partners navigate the labyrinth of regulations that exist. I want to thank you guys. Tiffany, Jenna, this was so much fun. Thank you.

Tiffani Montez:

Thank you.

Jenna McNamee:

Thank you.

Rob Rubin:

Jenna. This was your first time on. I guarantee you, it won't be the last. This was so much fun to have you.

Jenna McNamee:

Yep. Looking forward to it. Looking forward to doing this again, for sure.

Rob Rubin:

Definitely. I want to thank everyone for listening to the Banking & Payments Show, an eMarketer podcast. Also, thank you to our editor, Todd. In today's episode, we referenced an article on a chart from our daily briefings to clients and we're putting links in the episode notes. Our next episode is on April 18th and you'll not want to miss it. See you then. Bye, everyone.