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Adriana Nunez

SVB's downfall creates payment anxieties among startups

Article

The news: **Silicon Valley Bank's** (SVB's) collapse last week unleashed a torrent of payment challenges for startups.

Quick recap: SVB—a mainstay for Silicon Valley's startup and venture capital (VC) environment for the last 40 years—failed after financial disclosures led to a run on the bank.

After an auction of SVB failed on Sunday, the **Federal Deposit Insurance Corporation** (FDIC), the **Federal Reserve**, and the **Treasury Department** rolled out an expansive emergency program that included fully covering deposits at SVB and **Signature Bank**, which regulators closed over the weekend.

Check out this Banking Innovation article for a full breakdown of SVB's collapse.

Why it matters: Three main payment challenges emerged in the wake of SVB's downfall.

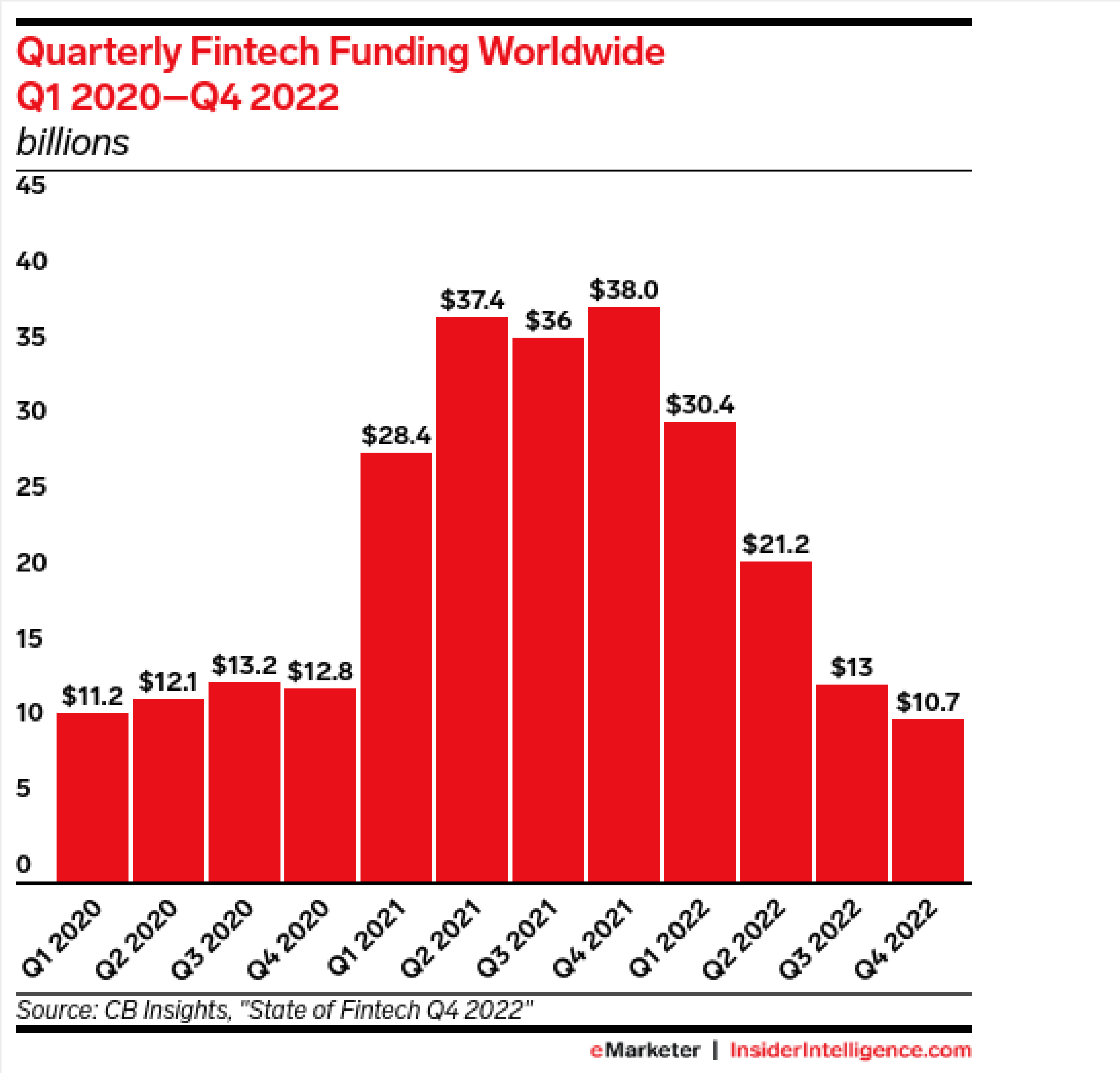
1. **Payment processing issues.** SVB's shutdown sent shockwaves throughout the broader financial system, especially among startups that relied on the bank for processing. **Etsy**, for example, warned sellers on Friday of potential delays in processing disbursements, which many of its clients rely on for daily operations.
2. **Trouble accessing capital.** Thousands of tech startups that held all or most of their funds at SVB are scrambling to figure out how to make payroll and pay their bills as they navigate moving their funds into new accounts.
3. **Cryptocurrency implications.** After **Circle** revealed that $3.3 billion of its USD Coin (USDC) reserves were tied up with SVB, the stablecoin broke the buck—hitting as low as $0.87. (As of writing, USDC is still short of its $1 peg.) As USDC holders bailed, **Tether** stood to gain—raking in more than $1 billion in market cap in just three days. Tether had no exposure to SVB, per CTO Paolo Ardoino.

The bottom line: Despite regulators' quick response, SVB's downfall could have long-lasting effects on the tech space.

Y Combinator CEO Garry Tan called SVB's collapse "an extinction level event for startups [that] will set startups and innovation back by 10 years or more." He called on Congress to bring about stronger regulatory oversight and requirements for regional banks and look into potential missteps taken by SVB executives.

- SVB's collapse also opens up acquisition opportunities for other banking players, like **JPMorgan**, which is exploring acquiring parts of SVB.
- Banking upstarts like **Brex** and **Mercury Advisory** saw a surge in demand as SVB depositors rushed to withdraw funds.
- These smaller players could see a boost in demand as startups seek out other banking partners in the short term—but they may have trouble competing with larger banking

providers after the dust settles.



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