

The Banking & Payments Show: The SVB aftermath—Trouble and opportunity

Audio

On this special bonus episode of "The Banking & Payments Show," we take a step back from the Silicon Valley Bank debacle to explore what's on the horizon for the banking industry. In

our "Trouble and Opportunity" segment, we examine the lasting effects from the banking failure (e.g., more regulation) and consider the trends that may arise from this crisis (e.g., more neobanks). Tune in to the conversation between host Rob Rubin and our analyst Tiffani Montez to hear what the path forward will be after the meltdown.

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Episode Transcript:

Rob Rubin:

Hello and welcome to the Banking and Payment Show of Behind the Numbers Podcast from e-Marketer. Today is March 28th. 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. We usually publish episodes biweekly, but with everything going on in banking, we decided to produce a bonus episode that is just a quick look at the aftermath of the SVP debacle. And to help me, I invited Tiffani Montez, principal analyst at Insider Intelligence, and Tiffany was also a banking executive in a former life to join me today. Hey, Tiffani, how you doing?

Tiffani Montez:

Hey, Rob, how are you? It's good to talk to you again.

Rob Rubin:

It's good to talk to you. Before we start, give me one word for how you feel about what's gone on the last couple of weeks.

Tiffani Montez:

One word, let's say dumpster hyphen fire.

Rob Rubin:

Is that one word? That's two words.

Tiffani Montez:

I put a hyphen in there. It's technically one word if you put a hyphen in there.

Rob Rubin:

I guess so. Okay. I'm going to say in hindsight, predictable. We'll say predictable.

Tiffani Montez:

A predictable dumpster fire?

Rob Rubin:

A predictable dumpster fire in a way. There's so much being written about what happened and why, and we're just going to do a short episode here. I don't want us to cover the past. Let's look forward. Let's break today's special episode into two parts, and I'm going to call them

trouble and opportunity, but I want to ask you, which one do you want to cover first? Trouble or opportunity, the good news or the bad news?

Tiffani Montez:

Let's cover the trouble so that I can walk away feeling inspired.

Rob Rubin:

Yes, so we can feel good. Okay, I'm going to put it out there. I think that the knock on effect of what's happening is going to be that we're for sure going to have a recession. I wasn't sure. I think we're 50/50, but now I feel pretty good about that. I think that if small and medium sized banks are worried about a run on deposits, they're going to start tightening up lending. Once credit tightens up, inventories are going to grow. Interest rates have risen again. What do you think?

Tiffani Montez:

Absolutely. I think we've been teetering on a recession for a while now, and I think this might actually push things over the edge. And while there's lots of conversation about small businesses and credit tightening, I think there also will be effects that trickle down to a customer.

Rob Rubin:

Oh, customers. Oh them. What do you think banks are going to be looking at?

Tiffani Montez:

I think that there is going to be a really big focus on fighting to retain customer loyalty. I think that we've seen the flip of loyalty turn on its ugly head over the last couple of weeks, and banks were already on the brink of losing consumer trust to FinTech companies. I think in one of our last episodes that you and I were on together, we talked about the study that we do every year about banking digital trust.

And one of the things that we saw this year in that study was that PayPal was now the provider their customers would trust the most to provide them with banking services and trust for other alternative providers was also increasing year over year. Their current bank or credit union was the second most trusted provider in the list that we gave them. They were already struggling to rebuild trust, and this is really an area where they're going to have to be

really focused on making sure that consumers feel confident that the bank has the wherewithal to remain stable.

Rob Rubin:

I guess in the eighties there was a lot of bank failures a long, long time ago, but I think that a lot of people don't really think about their bank actually failing and they're not really thinking about which bank to do business with based on whether their money's going to be there or not. And that changes the dynamic.

Tiffani Montez:

Yeah. I don't think that the average consumer probably even understands how much money their deposits are insured up to and what that might look like by institution.

Rob Rubin:

It seems like they're insured up to infinity and beyond.

Tiffani Montez:

Yeah. And I will share with you that I've had people say that to me that they think that all of their money, regardless of where it is protected. I think they got a dose of reality when I shared that they're not.

Rob Rubin:

Aren't they?

Tiffani Montez:

Well, yeah, I guess technically yes. Well, we think, right.

Rob Rubin:

We think.

Tiffani Montez:

I think there's still not a whole lot of clarity on what will be protected and under what conditions, at least in my mind.

Rob Rubin:

I just think there's been such a knock on trust in traditional institutions, not just in banking, but in every part of our society on knocking our institutions that we all believed were trustworthy in there. And banks are now part of it, right? Now it's like, "Oh, there's going to be a run on banks," and I don't want to talk too much about the past, but SVB wasn't the only bank that put a lot of their deposits into long-term bonds, so that's why it's going to happen again. How are banks going to deal with it? They really have to focus on their customers.

Tiffani Montez:

Yeah, I suspect there is a lot of thought and consideration going on right now at banks of all sizes around their balance sheets and really trying to determine what exposure they have and really how transparent they should be about where they are with that exposure.

Rob Rubin:

You know who loves all this? I'm going to make a transition here. The people that love all this are the consultants that do the stress tests because now their phones are ringing off the hook to come and give us stress tests.

Tiffani Montez:

Yeah, and stress tests are heavy lifts. They require a lot of resources to pull off and to make sure that you're running the right scenarios to make sure that you are stable and protected.

Rob Rubin:

Absolutely. And I think our little special episode, trouble section, we both agree trouble.

Tiffani Montez:

Trouble, yes.

Rob Rubin:

And that we're looking at a recession. But if we were working at a bank, we would really focus on talking to our customers customer loyalty and focusing on that at this particular time. And now I want to change our conversation to the opportunity, something a little bit more uplifting. And the opportunity is, I'll put it easy, where's the money? Everybody took their money out of Silicon Valley Bank, Signature Bank, First Republic Bank, so the money's left. Where's it going? And that's the opportunity. Where's it going to land now that it's going? It

might be in safer havens today, but it might not stay there. Where does it land? Well, companies need to spread their operating accounts across lots of different institutions. What are the opportunities that this creates? What's your take?

Tiffani Montez:

If you think about SVP and you think about their client base, I think what we're going to see happen is exactly what you said. I think that consumers will probably turn to the larger financial institutions as a safe haven, but I think across the board we're going to start to see banks and FinTechs alike jump in to fill the gap. And if you start thinking about even recent announcements for different banks that are investing in capabilities to serve the investor communities and the types of features that they were offered at SVP.

Rob Rubin:

Yeah.

Tiffani Montez:

AP Morgan Chase bought a data platform for startups and a push to serve venture capital investors, also had Mercury, which is a neobank that raised their FDIC insurance as well as launching new features to also meet the demand of that customer base. Really a heavy focus on building new capabilities and even raising insurance where there needs to be a new threshold to support that particular customer base.

Rob Rubin:

Do you think though, that while there is a gap that it was so clubby that it's going to just continue to be clubby?

Tiffani Montez:

Yeah, I think that particular customer base relies heavily on their network, right?

Rob Rubin:

Right.

Tiffani Montez:

And they do quite a bit of networking, and as a result of that, I think that they'll just move their club ownership to a new club.

Rob Rubin:

Who's ever going to own the relationship is already in the club. They might not know that they're going to take over yet.

Tiffani Montez:

That they're going to become the ring leader.

Rob Rubin:

Yeah, I guess so, the new ring leader. I think though that regulators might start to have a say a little bit more now. It's like a pendulum, right? There was the pendulum in 2018 around giving the smaller banks a more competitive edge by deregulating them. And I think it's a little ironic in a way that they might not have had the cash on hand to handle a run. I think that there's going to be more regulation that's going to make it harder for such a clubby environment to continue. What do you think?

Tiffani Montez:

Yeah, and I think the little bit of the challenge with that is that there is still so much market volatility and as a result of that, I don't know that we have a true understanding of all the different regulation that will come as a result of that.

Rob Rubin:

Isn't the volatility because we don't have enough regulation? And the problem with FinTechs, or it's not a problem, but FinTechs generally operate in the unregulated areas. I wonder if we really have to have a bigger policy discussion around how are we regulating financial services? Because it's all about confidence, right?

Tiffani Montez:

It is about confidence. Absolutely.

Rob Rubin:

A hundred percent. If we don't have confidence in the banking system, it will collapse.

Tiffani Montez:

Yes. And what I would say is that you can build all the features that you want and you can raise your insurance limits to a place that protects consumer deposits, but that doesn't really give you immunity from what a customer's perception is of your brand. And as financial institutions are going through this journey, it's really important that there's transparency and communication.

Rob Rubin:

I 100% percent agree, and I think that that was a really great way to tie both the trouble and the opportunity together is that to deal with the oncoming doom, we need to focus on customer loyalty. And now really, you also need to focus on customers with the opportunity as well. I think this has been a really fun special episode. I'd like to do more of them. I would like it not to have to be under such dramatic terms maybe, but I want to thank Tiffani.

Tiffani Montez:

Yeah, next time.

Rob Rubin:

And I want to thank Todd, our editor. Thank you, Tiffany. Thanks for jumping on and doing this with me today. I want to thank everybody for listening to the Banking and Payment Show. Our next episode will be on April 4th with Tiffani and analyst Jenna McNamey. And we're going to go deeper into this topic, a look forward after the SVP debacle. Thank you everybody, and we will talk to you soon.