Jeremy Goldman, and Jenna McNamee

The Daily: Silicon Valley Bank's collapse, the fallout, and what it could mean for advertisers

Audio

On today's episode, we discuss what happened to Silicon Valley Bank, its knock-on effect on the media and retail worlds, and how this is affecting advertisers. Tune in to the discussion with our director of Briefings Jeremy Goldman and analyst Jenna McNamee.

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Episode Transcript:

Marcus Johnson:

Hey gang, it's Thursday, March 23rd. Jenna, Jeremy, and listeners, welcome to the Behind the Numbers Daily and eMarketer podcast Made possible by Meltwater. I'm Marcus, and today

I'm joined by two folks. We meet them immediately. We start with one of our banking analysts on the briefings team based out of Pennsylvania. It's Jenna McNamee.

Jenna McNamee:

Yes. Hi Marcus.

Marcus Johnson:

We're also joined by our senior director of briefings based out of New York. It's Jeremy Goldman.

Jeremy Goldman:

How are you doing?

Marcus Johnson:

Today's facts. Who's the youngest person to summit Everest? So Everest, for reference, is six times the height of the Empire State Building. So how old do you think is the youngest person to have summited Everest? Any guesses?

Jenna McNamee:

I'm going to go with nine years old.

Marcus Johnson:

Nine years old. Nine. Jenna can walk jellos like six. Jenna says nine. Jeremy?

Jeremy Goldman:

I'm going to say 10, so I'm closer to correct than Jenna.

Marcus Johnson:

Oh, well played, well, played. Strategic. Okay. I shouldn't have asked because it slightly less impressive now, it's 13. So in 2010, 13 year old Jordan Romero from California with his dad and three Sherpa guides climbed it. The previous record was held by a 16 year old Nepalese boy. At the time, Jordan had scaled the highest mountains on six of the world's seven continents. He climbed Africa's Mount Kilimanjaro aged 10.

Jeremy Goldman:

Did you know that somebody actually climbed when they were two months pregnant? So I guess technically that fetus was the youngest ever. Just saying.

Jenna McNamee:

Oh God.

Marcus Johnson:

Two months. That is young. Can't believe if you guys said nine, why would you? That completely ruined the delivery. I thought you'd be like, wow, 13. Jenna and Jeremy are like, oh, pretty old, teenager. Also bees can fly as high as Everest. I don't know what they're doing up there. It's nice to have the option. Anyway, today's real topic, Silicon Valley Bank, the fallout and what it could mean for advertisers.

In today's episode, we'll cover Silicon Valley Bank, the fallout, what it means for advertisers. There's no another news segment today. There's too much to talk about here. So Silicon Valley Bank, SVB, you may have heard of recently, it's founded in 83 after a poker game, it became the fuel that would power a lot of the tech industry's success. Over two and a half thousand VC firms banked there and tech executives as well. SVB would come to do business with nearly half of all US tech startups backed by venture capitalists. It was the 16th largest bank in the US before its collapse, which made it the second biggest bank failure in US history after Washington Mutual in 2008.

SVB was shut down and taken over by US regulators, Friday, March 10th. It was too concentrated in one sector in tech and was overexposed to assets whose values came under pressure from rising interest rates. SVB fell in less than 48 hours. Customers had tried to withdraw $42 billion in deposits on March 9th alone, that's a quarter of the bank's total deposits in a single day. US lender, Silvergate Bank also went down with Signature Bank of New York, which had gotten into crypto, and then, of course, Credit Suisse, First Republic, other banks have been in the news who have been struggling. So Jenna, I'll start with you. You cover banking for us. And let's start with Silicon Valley Bank. We'll get an explanation from an expert. How did it fail exactly?

Jenna McNamee:

Sure. Yeah. So Silicon Valley Bank, I think it really starts all the way back in November of last year with the fall of FTX, the Crypto Exchange, FTX. That really perpetuated the first bank failure of Silvergate, which you had mentioned just a moment ago. And the failure of Silvergate, I think brought some hesitancy in the crypto market, which fueled a little bit of the Silicon Valley Bank failure as well, because Silicon Valley Bank, SVB, if we can call it that now, that's what most people know it as. SVB was also a crypto-friendly bank. And it also catered to, as you had mentioned, early stage startup firms.

So basically it was a mixture of two things. The first was that, as you had mentioned, the funding environment for early stage startups has been pretty dry. 2022, it was pretty low, not record lows, but pretty low. They're having difficulty funding some of their startups. So what happened is they leaned quite a bit on their savings. So they had started already withdrawing, not in a panic or anything like that, but just to keep their businesses going. But with the fall of Silvergate, they became a little bit nervous like okay, here's one crypto-friendly bank that went under. SVB is a very crypto-friendly bank. We know regulators are putting pressure on the crypto market, so we're going to keep an eye on what's happening. SVB then had to start liquidating some of its long-term treasury bond portfolio to meet the withdrawal demand.

Since these startups were withdrawing more, they had to sell some of their long-term bond portfolio, which as you had mentioned, those bonds they're longterm. So if they would've held onto them for the full term, they would've matured at par and it would've been a big deal. But because of the rising interest rates, the value of these bonds were discounted. And when the bank went to liquidate them, they ended up not getting as much money for them as they normally would if they held them to maturity. So with that, the bank said, okay, we're going to actually issue some shares to bulk up our balance sheet and make up for these bonds that we sold at a loss to make sure that we're able to meet the demand of the withdrawals, have enough liquidity, enough capital.

Marcus Johnson:

And that panicked everyone.

Jenna McNamee:

That caused everybody to panic. Everybody said, okay, crypto bank went under, here's another crypto-friendly bank. Now they're going to raise stock because seems like they're having some issues with liquidity. And that caused all the investors to request their money out because they were afraid that the bank was going to go under.

Marcus Johnson:

Yeah.

Jenna McNamee:

When that started to happen, financial regulators then stepped in, took control of the bank and shut it down.

Marcus Johnson:

Okay. So for context, so SVB, it was 16 times smaller than JP Morgan Chase in terms of assets. As I mentioned, it was the 16th largest, but it was 16 times smaller than JP Morgan Chase for context. The consequences are very real, but for one of the reasons it doesn't feel real because the name sounds made up, it's a bit like it's very on the nose. It's like being called the Rich People Bank, and Ina Fried and Scott Rosenberg of Axios agree, they were writing too much of the country beyond the San Francisco Bay Area. To them, the bank just sounded like a place for tech people to stash their riches. They only had about 24 branches as well, so it's not like they had a big footprint in terms of their branding. So talk to me about Credit Suisse and also First Republic as well, because we're seeing headlines about these two firms. What's going on there?

Jenna McNamee:

Sure. So they're actually two different stories. First Republic in the US that's facing some of the similar issues that we've seen Silicon Valley Bank deal with, and also Signature Bank. They're coming under a liquidity squeeze. Consumers are withdrawing their deposits. Now, when I say consumers, they're withdrawing their deposits, the reason they're doing this is because their deposits are higher than the FDIC insurance limit, which is $250,000. So a lot of these are small businesses, in the case of SVB there are early startup firms, so they have a lot of money at these banks, but only $250,000 is insured by the FDIC.

So with First Republic, these businesses are withdrawing their funds because they're afraid that this bank could potentially face a run just like these other smaller mid-size banks are experiencing, and they're moving them to bigger banks because those bigger banks are more systemically important to the banking system. So if there were an event a bank run on those larger banks, then the FDIC would be more likely to ensure the uninsured portion of their deposit. So that's what's happening. So that's what's happening. First Republic are trying to stave off a bank run this, regulators are stepping in. Some of the other bigger banks are trying to maybe come up with a rescue plan for First Republic, so that doesn't happen to them. So that's what we're seeing.

Jeremy Goldman:

And also, what's really interesting about social media and how that can increase, basically the virality of a, oh, let's all go on a bank run today. That's what makes these smaller banks really potent stories that have the potential to have an outsized impact on the market, is because people have seen this happen. And then now that they've got tools that they're so incredibly interconnected and that all you need is a few major people to start talking about a bank run through social media, and then it becomes more of a real concern for a bigger bank that maybe didn't necessarily have major liquidity issues. And this is how this is very different than 2008.

Marcus Johnson:

Yeah. Easier to take your money out and easier to talk about taking your money out.

Jeremy Goldman:

Yeah.

Jenna McNamee:

Yeah, Jeremy, that's a good point. And I think in the case of SVB, I think there were one or two big name people, I forget exactly who they were on Twitter, who essentially just tweeted out bank contagion or big problem in the banking sector, and all of their followers panicked. So it's perfect example of what you're talking about, Jeremy, how social media can just perpetuate that and then everybody, everybody digitally banks, so they can just log right on and request their money instantly.

Marcus Johnson:

Yeah. So what's going on? What about with Credit Suisse?

Jenna McNamee:

Credit Suisse, that's a little bit different, not based in the US. They had been dealing with a lot of problems prior to this past week's turbulence. They were suffering from major losses, they had very weak financial results. They were dealing with a laundry list of scandals, a lot of accusations of money laundering, things like that. And they were also undergoing a major reorganization plan that maybe investors, shareholders thought was a little overzealous. So it unfortunate timing. But after this past week's turbulence in the US, they came out with a statement saying that there is some material weakness in their financial reporting controls. I guess auditors over reviewed their financial statements and said, things might not be good here. And then Credit Suisse said, look, we need some more financial support. They went to their major shareholder, Saudi National Bank and said, can we have a little bit of an additional financial boost here? And they said no.

That caused customers to panic a little bit, saying, okay, now Credit Suisse is dealing with some trouble, very similar to what's happening in the US, but not quite, not totally related. So Credit Suisse then was calling on regulators to help them out and said, please give us a little bit of a lifeline. And they did. The Swiss Central Bank threw them a 50 billion Franc lifeline to weather them through this storm, but unfortunately it just was not enough. Their troubles spiraled. And then in order to stop the chaos, the financial regulators, the Swiss financial regulators orchestrated a buyout of Credit Suisse by UBS. So UBS ended up stepping in purchasing Credit Suisse, and that will combine to become one entity. But financial regulators really saw that there was a huge systemic risk. It was just too great to let Credit Suisse fail, because Credit Suisse and UBS are the two major banks in Switzerland. They're GDP, I think to combine they hold a 140% of assets that contribute to the Swiss GDP.

Marcus Johnson:

Wow.

Jenna McNamee:

So yeah, they couldn't let that fail. So they orchestrated that buyout.

Marcus Johnson:

So let's move to what happens to all these customers focusing on SVB for a second. So I'm picturing that scene from 500 days of summer where it goes split screen and it's what you want to happen alongside what actually happens. I think it's during a potential breakup, I think that's what the situation is, but you have this vision of how you think it's going to go and then how it actually goes. So let's talk about what actually happened to the customers of SVB.

Jenna McNamee:

So SVB, all of the customers were guaranteed their deposit. So even if they were over that $250,000 FDIC insurance limit, they are receiving all of their deposits back.

Marcus Johnson:

Which is only 10% of the deposits would've qualified to be insured as of, according to filings of SVB, as of December of the end of the year, only 10% of deposits would've qualified to be insured under that $250,000 cap that the FDIC covers. So that's huge.

Jenna McNamee:

Yeah. Yeah. I think, yeah, you're right. I think I saw it was 90, 92 maybe percent were not insured. Yep.

Jeremy Goldman:

But what does this do, I would say to the brands and companies and retailers in the future, if, does this set a precedent and do people act in a certain way with their money knowing that they're going to be made whole in the future, or at least presumably they will be? Does this set a precedent? So I've heard a lot of people talk about that and will people be upset if the SVB rule is not followed in the future because it's not actually a rule, it's just basically the policy set forth this time.

Marcus Johnson:

Yeah. Well, let's move on to that then for a second, because there was some reporting on how this is affecting the non-banking world. So [inaudible 00:14:21] of Axios noting Roku, that's one media company. So SVB held 26% of its cash and cash equivalent. That's around $500 million. Roblox said SVB held around 5% of its $3 billion cash and securities balance as of the end of February. So there were other companies and people not involved in banking directly who are affected by this. Jeremy, aside from Roku, Roblox having stashed their money at SVB, how else does this banking debacle affect the media and retail worlds and their customers potentially?

Jeremy Goldman:

Oh my gosh. There's so many different ways, and I think it's great obviously if you're a major player like a Roku or Roblox where you can afford a little bit of a disruption, it's obviously a bit of a headache, but if you're going to be made whole, then it's not the biggest deal in the world though obviously you don't want this to ever happen to you, but there's a lot of downstream effect for smaller players that couldn't necessarily make payroll even for one cycle. A lot of startup brands that are going to be suffering in the short term while they're trying to get access to funds. And again, a small disruption for a smaller company could be a pretty big deal.

Marcus Johnson:

And that's the other side of the split screen in terms of the government stepped in and they made sure that those customers got their money, but had they not, the effect would've been on payroll, means workers not getting paychecks, which means covering rent, mortgage payments, groceries, things like that. Especially troublesome for startups. Companies can't pay businesses, they need to run the business software providers cloud services. Maybe there's mass layoffs, maybe there's mass furloughs. So that's definitely one of the directions this could have gone in, and maybe people are concerned that that could still go this direction in the future.

Jeremy Goldman:

It's interesting, there's a lot of other even effects that we wouldn't necessarily think of, for instance, for Credit Suisse because of the UBS takeover. If you want to go public within the Swiss market in the future, there might be a lack of choice in terms of which bank to work with in terms of going public, which then maybe impacts the costs of going public. So there are all of these downstream effects to be paying attention to.

And I think finally one of the other key things is that if you are a brand, are you going to be a little bit more timid in terms of making moves just because you're concerned of not just what happened at SVB, but just the overall banking ecosystem. And I think Jenna could speak better to this, but is it going to be harder to get money out of the banking ecosystem as they're being tapped with saying, let make sure that you've got more money in reserve, and if stress tests become more of a conversation, well then it becomes harder for the brands of tomorrow to compete with the major players who are on the market right now.

Marcus Johnson:

So Jenna, yeah, to that point, what happens now? Now these banks have collapsed or are significantly struggling, how do we see the government and the banking space calming down customers trying to calm the markets?

Jenna McNamee:

Yeah. Right now, regulators are focused on just stopping the outflow of deposits from these mid-size banks and moving them to the larger banks. That's their number one priority right now. In the longer term, I think they are going to have to take a look at some of the capital requirements that these smaller to mid-size banks will have. They're not as tight as they are for traditional bigger banks. Back in 2018, during the Trump administration, they rolled back some of the Dodd-Frank regulations, which outlined how much capital should a bank have in the event that something like this happened? And those requirements were rolled back for those smaller size banks. Now I think regulators are going to have to take a look and say, maybe we need to up that again and make sure that these smaller banks are well capitalized because they are a little bit more systemically tied to the banking system. And if something like this were to happen again, it could lead to something even worse, maybe even for larger banks.

Marcus Johnson:

Yeah. Finally, Jeremy, how are advertisers viewing the situation and how does all of this affect them moving forwards?

Jeremy Goldman:

I think that we were talking about the downstream effects before, and one of the things that happens is that advertisers become a little bit more cautious depending on, especially some of the people that they're reaching out to. So perfect example is you've got some brands in the luxury market that largely have been unscathed, but there's some people that are postulating that banks put a lot of scare in the upper echelon of consumers, like when you have bank runs in the news, and that's the kind of thing that could make luxury consumers who haven't really been impacted by inflation start to pull back. So I think you're going to see a lot of advertisers that are going to really monitor the situation as it unfolds and look to see how consumer demand is impacted, which is then going to cause advertisers to pull back, which obviously creates economic ripples. So yeah, there's a lot of different downstream effects that we can look at here.

Marcus Johnson:

I liked your point as well. You wrote about how advertisers may prefer working with companies that have diversified their cash holdings to avoid those with too much exposure to a particular financial entity, may request a level of transparency before working with a partner as well. So it could change things that way. Another point that you made.

Jenna McNamee:

Jeremy, can I ask you a question about digital banking? Do you see, with all these issues with traditional banks, do you see any of these brands moving to a neobank or a digital bank as maybe an alternative?

Jeremy Goldman:

I think that it's a really interesting question. I think the answer is probably people are going to look at that as one of many different places where they can park their revenues. It's certainly, there's obviously advantages to digital banking and to some extent disadvantages. So because of that, I think that that might even be something that more of them start to look at just in terms of diversifying and feeling better about their ability to weather future crises.

Marcus Johnson:

So I think a good point to end on. So the Axios article I referenced, noted for decades much of the tech intelligentsia argue the public sector is more nuisance than necessity, and tech products offer efficient replacements. Crypto has long preached new currencies. Institutions built on computer code will turn today's financial system into a relic, but in a financial crisis, it sure is nice to have a government that can arrest a confidence meltdown and block a bank failure from taking out an entire sector. Yeah, big tech was already having a bit of a down moment to put it mildly, and this definitely hasn't helped its course. That's all we've got time for, for this episode and, of course, for the post-game report. Quick takeaways, Jeremy, I'll start with you. Ten second takeaway from the episode. What do the listeners need to remember?

Jeremy Goldman:

They need to remember that sometimes situations are very fast evolving, so be sure to tune into future episodes of the Daily because this is going to be unfolding and I think you haven't heard the last of this story for better, for worse.

Marcus Johnson:

Great plug. Well played. Jenna, how about you?

Jenna McNamee:

Yeah, I agree with Jeremy. I would say stay tuned, make sure you're keeping being abreast of what's going on. It is quick changing. And I think that there are going to be some regulatory changes that banks for sure will need to be aware of, but consumers, customers should also be aware of as well.

Marcus Johnson:

Excellent points, folks. That's all we've got time for this episode. Thank you, of course, to my guests. Thank you to Jeremy.

Jeremy Goldman:

Thank you as always.

Marcus Johnson:

Thank you to Jenna.

Jenna McNamee:

Thank you Marcus.

Marcus Johnson:

And thanks to Victoria who edits the show, James, who copy edits it, and Stuart who runs the team. Thanks to everyone for listening in. We'll see you tomorrow for the Behind the Numbers Weekly Listen, an eMarketer podcast made possible by Meltwater.