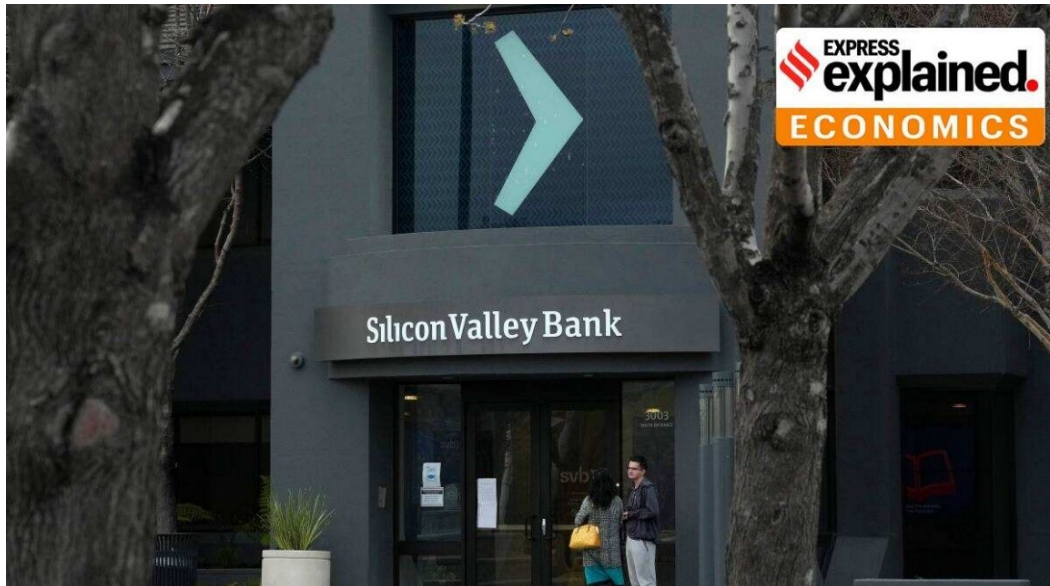


### **3. Failure of Silicon Valley Bank**

**Prelims Syllabus:** Economy

**Mains Syllabus:** GS-III Economics - Inclusive Growth & Issues, Issues relating growth and development, employment



#### **Why in News?**

- On March 10, 2023, Silicon Valley Bank became the largest bank to fail since the 2008 financial crisis.
- The California Department of Financial Protection and Innovation shut down Silicon Valley Bank.
- The move put nearly \$175 billion in customer deposits under the control of the Federal Deposit Insurance Corp (FDIC).
- The FDIC created a new bank to hold the deposits and other assets of the failed one.

#### **Reasons behind Bank's Failure:**

- SVB's downfall can be attributed to a bank run, which is when a large number of depositors withdraw their funds from a bank all at once, typically due to fears of the bank's insolvency.
- In SVB's case, the bank was largely affected by the downturn in technology stocks over the past year as well as the Federal Reserve's aggressive plan to increase interest rates to combat inflation.
- SVB bought billions of dollars' worth of bonds over the past couple of years, using customers' deposits.

- The value of those investments fell because they paid lower interest rates than what a comparable bond would pay if issued in today's higher interest rate environment.
- SVB's customers were largely startups and other tech-centric companies that started becoming more needy for cash over the past year. Venture capital funding was drying up, companies were not able to get additional rounds of funding for unprofitable businesses who then began to withdraw their money.
- To pay those requests, Silicon Valley Bank was forced to sell off some of its investments at a time when their value had declined.
- To fund the redemptions, Silicon Valley Bank on March 08, 2023 sold a \$21 billion bond portfolio consisting mostly of U.S. Treasuries.
- SVB's decision to sell \$2.25 billion in common equity and preferred convertible stock to fill its funding resulted in decline of share price by 60%, as investors believed that the deposit withdrawals may push it to raise even more capital.
- Several SVB clients pulled their money from the bank which spooked investors such as that SVB had lined up for the stock sale, and the capital raising effort collapsed resulting in the failure of the bank.

#### **Effects of Silicon Valley Bank's failure on India:**

- SVB has been a major player in the Indian startup ecosystem, providing banking services and funding to many of the country's most successful startups, including Flipkart, Ola, and Zomato. The closure has sent shock waves in the Indian startups' sector, which was already facing a funding problem.
- It will also dent the fundraising ability of Indian startups as the US-based bank was a key source of funding for tech startups.
- This could lead to a cash crunch for many companies, which may be forced to cut costs, delay projects, or lay off employees. SVB has also been instrumental in helping Indian startups expand into the US market, by providing them with the necessary infrastructure and support to set up operations in Silicon Valley.