
What Comes After the Fall of Silicon Valley Bank?



By INSEAD Knowledge

The bank's collapse could have significant implications for monetary policy and banking regulations.

The recent Silicon Valley Bank (SVB) crisis has raised questions about the stability of the banking industry. It has also reopened the debate about the role of regulation and whether helping financial institutions in distress is the right move despite the moral hazard effects it might create. On top of this, the fact that SVB was heavily involved in tech is yet another negative signal, amid ongoing layoffs at many tech firms, about the state of the sector.

In this [Tech Talk X webinar](#) organised by [digital@INSEAD](#), Professor of Economics [Antonio Fatás](#) spoke with [Huw van Steenis](#) (MBA '95J and Vice Chair and Partner at Oliver Wyman) about the failure of SVB and what it means for the financial system.

The increased volatility in financial markets as a result of the SVB collapse represents a significant shock to advanced economies around the world. This

is due to the implications on lending and increased uncertainty, with van Steenis believing this shock would be equivalent to a 1 to 1.5 percent increase in central bank interest rates. “Central banks are struggling [over] knowing what to do,” Fatás added, referring to decisions about whether to continue the pace of interest rate hikes.

The speakers then moved into a broad conversation on regulatory changes that might lie ahead – such as guaranteeing bank deposits above the current US\$250,000 threshold in the United States – and the differences between the US and Europe when it comes to regulatory standards.

They also discussed new technology in financial markets and the extent to which it could be a solution to some of the issues laid bare by the SVB debacle. However, both Fatás and van Steenis were sceptical that decentralised technologies or central bank digital currencies could help reduce the risks of similar bank collapses occurring in future.

Ultimately, SVB was a clear case of risk management failure, and there is no doubt the incident offers important lessons for additional regulation and supervision going forward.

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