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Credit Insights:

Reflections on SVB’s downfall

Regulatory support is critical to instill stability in a confidence-sensitive environment and banking system in Vietnam

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Key Takeaways



SVB's downfall resulted from a multitude of issues including business concentration, executive risk-taking, and inadequate risk management

SVB's business growth was geared towards the tech sector, with significant deposits from tech-related companies. Following easing of regulations, bank management embarked on a risky growth strategy to boost profitability but failed to manage the associated risks. Much of its investments were long-dated and interest rate risks were largely unhedged, resulting in significant losses as interest rates climbed. Deposit withdrawals grew out of control as market learnt about its losses and liquidity challenges eventually brought down the bank.



Banks in Vietnam have diversified funding sources; but they operate in a confidence-sensitive environment and small banks are most vulnerable to deposit runs

Vietnamese banks have a diversified deposit base made up of both retail and corporate customers. Nonetheless, deposit runs have happened in the past. We consider small banks to be more vulnerable to confidence events and 'flight to safety' due to their limited physical network and weaker deposit franchise.



Regulatory support is critical to instill stability in the banking system

During past deposit runs and periods of liquidity crunch, the State Bank of Vietnam (SBV) promptly intervened to extend support through a wide range of actions including making public statements and liquidity support to reassure depositors and stabilize banks' operation. In addition, all banks in Vietnam are rigorously regulated by a wide range of prudential ratios, regardless of their size



Asset risks are more considerable for banks with significant exposure to real estate and low loan loss coverage

Interest rate risk is minimal as long-term, fixed-rate government securities only contribute 5% to total assets. Meanwhile, because lending to customers contributes majority of bank assets, credit risk is an important consideration to Vietnamese banks, with banks having significant exposure to real estate-related sectors and low loan loss coverage being most at risk

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Reflections from SVB's
downfall - flaws in risk
governance and risk
management

Flaws in risk governance and risk management led to SVB's downfall

- » On 10 March 2023, Silicon Valley Bank (SVB), the 16th largest bank in the U.S. was taken over by the FDIC, after a run on the bank's deposits of over USD42 billion over a three-day period.
- » Below outlines the key issues in SVB's operations that led to its downfall:



High concentration risks

- SVB's business model focused on the tech sector, particularly for deposit funding.
- It provided banking services to nearly half of all US venture-backed technology and life science companies
- Industry concentration exacerbated the impact of deposit runs on its liquidity



Executive risk-taking post regulatory easing

- In 2018, SVB was exempted from various supervision requirements including stress tests, capital, and liquidity requirements
- Executives embarked on a strategy to boost profitability by acquiring riskier assets



Risk management issues

- SVB did not have a Chief Risk Officer for 8 months (Apr 2022-Jan 2023)
- Significant interest rate risk unhedged in a rapid rising rate environment
 - SVB mostly invested in 5.5-year duration, fixed-rate treasury, and agency securities during a low-rate environment from 2021

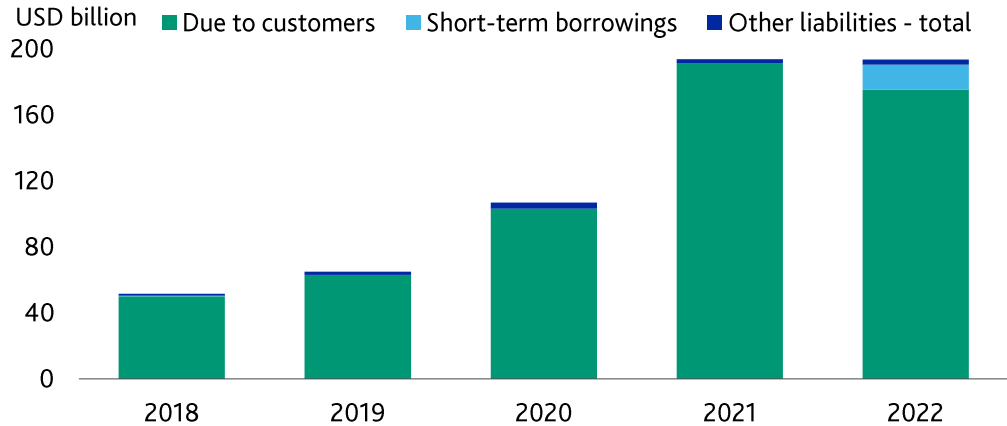


Liquidity and solvency challenges

- Vast majority of its long-dated bond investments were liquidated at a loss to meet deposit withdrawals, triggering more market panic
- In the wake of a confidence crisis, SVB was unable to raise new equity to offset its losses

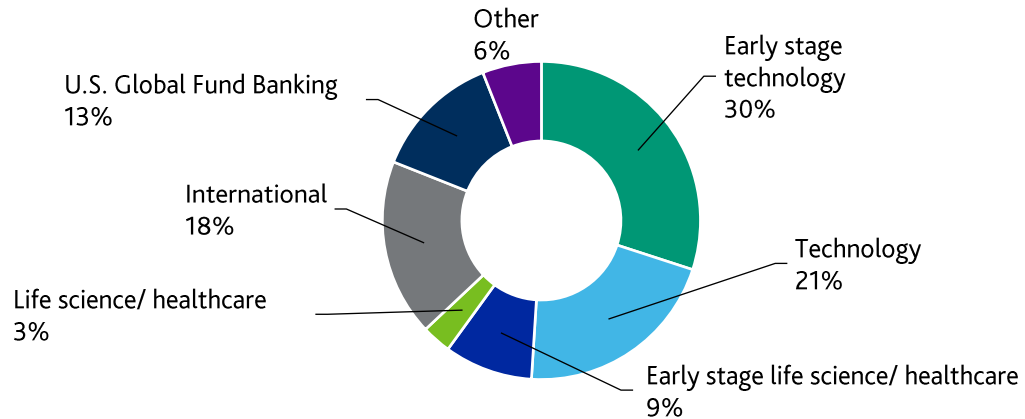
Substantial deposit concentration and unhedged interest rate risks led to SVB's significant losses amid interest rate hikes

Although SVB is primarily funded by customer demand deposits..



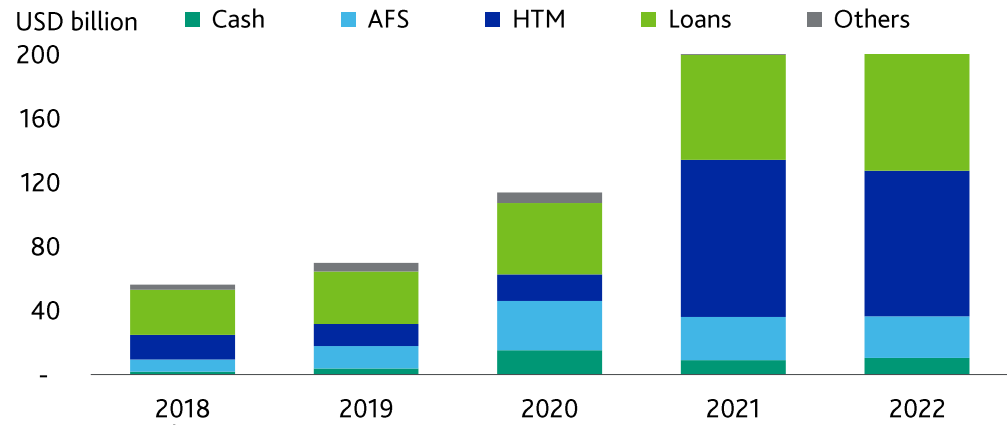
Source: Company data, Vietnam Investors Service

..over 90% of SVB's deposits are from companies in the tech sector



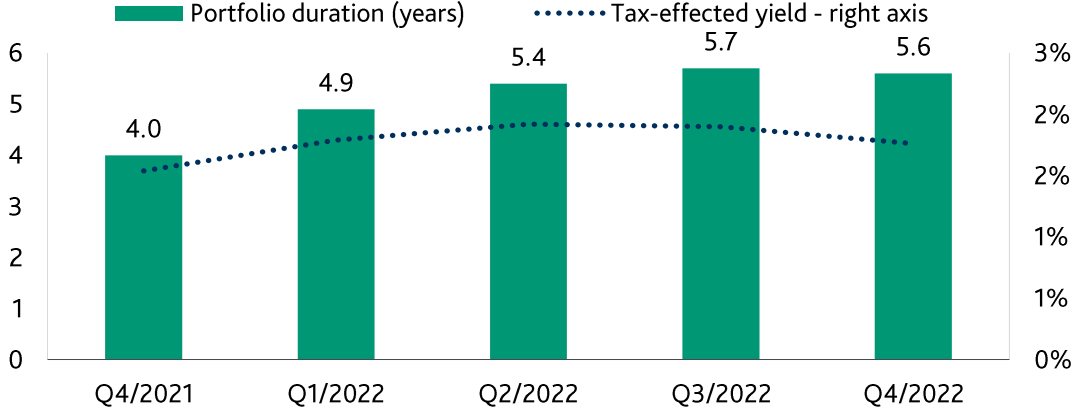
Source: Company data, Vietnam Investors Service

56% of total assets allocated in unhedged treasury and agency securities..



Source: Company data, Vietnam Investors Service

..highly vulnerable to interest rate risk due to their fixed-rate and high duration



Source: Company data, Vietnam Investors Service

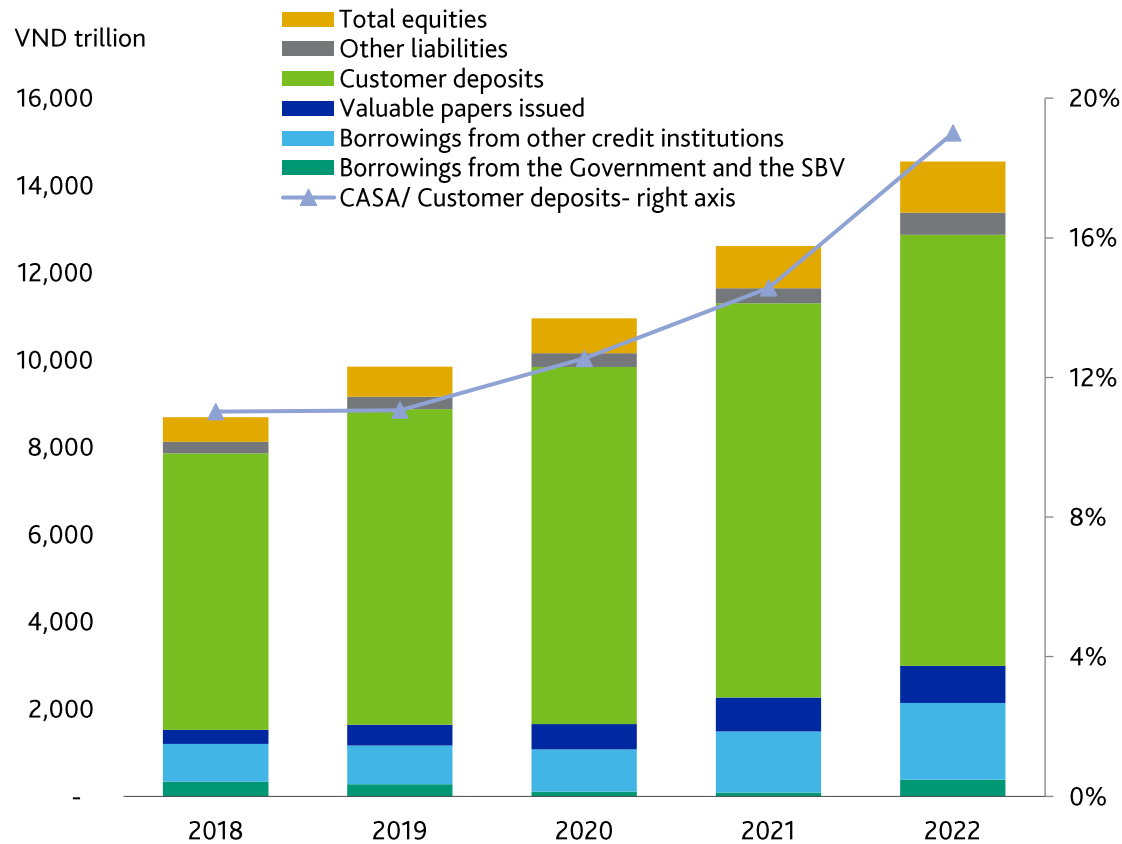
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In Vietnam, deposit runs have occurred; regulatory support is critical to instill stability in banking system

Banks in Vietnam operate in a confidence-sensitive environment and are vulnerable to deposit runs, small banks most at risk

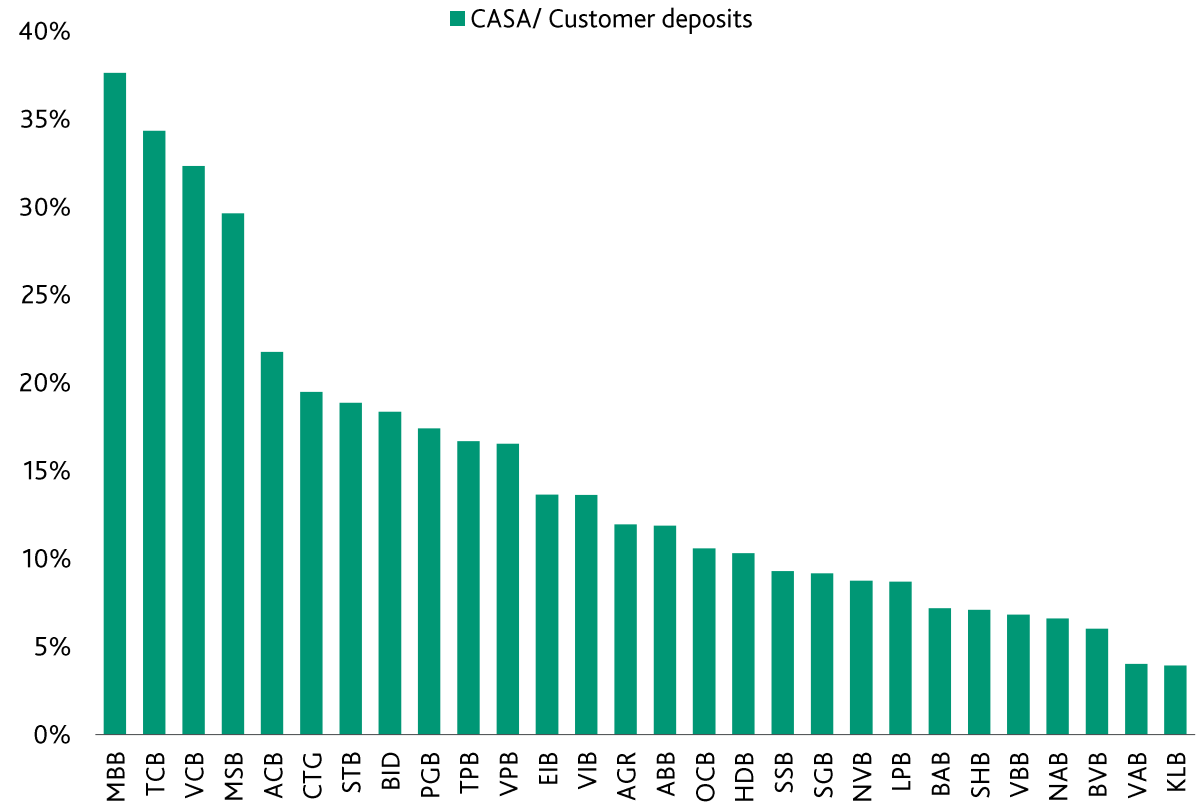
» Past examples of deposit runs include ACB in 2012, VNCB in 2014, and SCB in 2022

On a sector level, banks in Vietnam have a diversified funding base, with nationwide deposits from retail and corporate customers



Source: Company data, Vietnam Investors Service

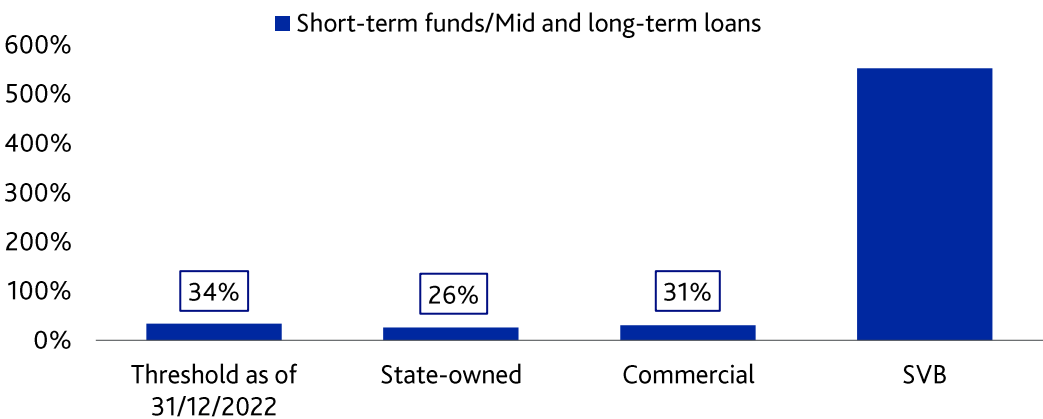
Small banks with marginal customer networks and weak deposit franchises are most vulnerable to 'flight to safety' in event of a confidence crisis



Source: Company data, Vietnam Investors Service

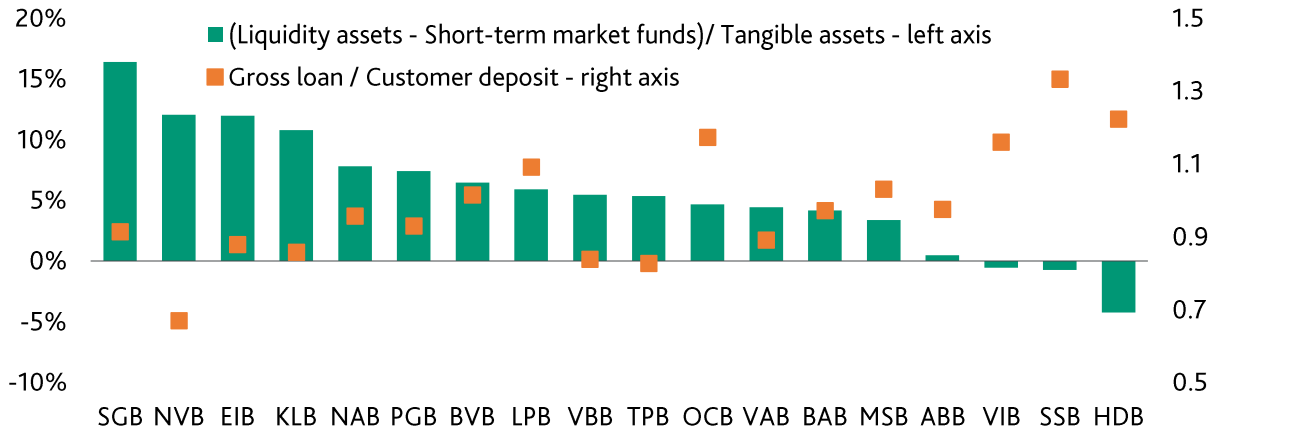
Small and mid-sized banks with high loan-to-deposit ratios and heavy reliance on market funds are more exposed to liquidity risks

Risk of funding mismatch is well regulated compared to SVB's case



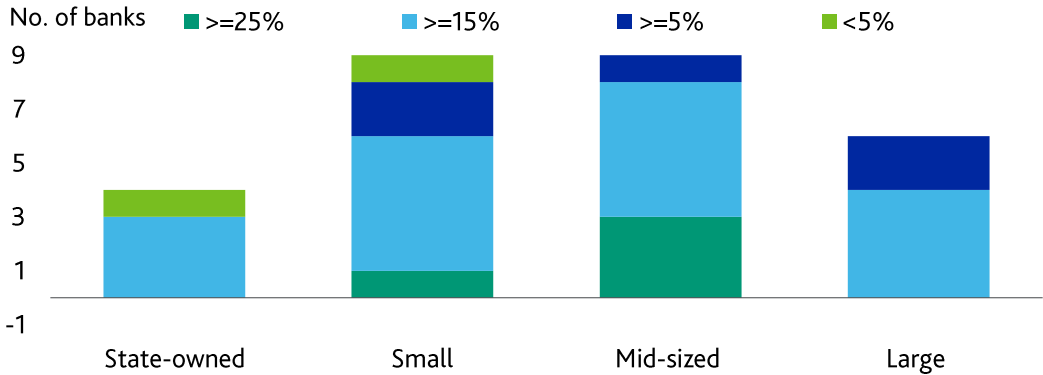
Source: Company data, Vietnam Investors Service

Banks with high loan-to-deposit ratios and low liquid asset buffers are most at risk



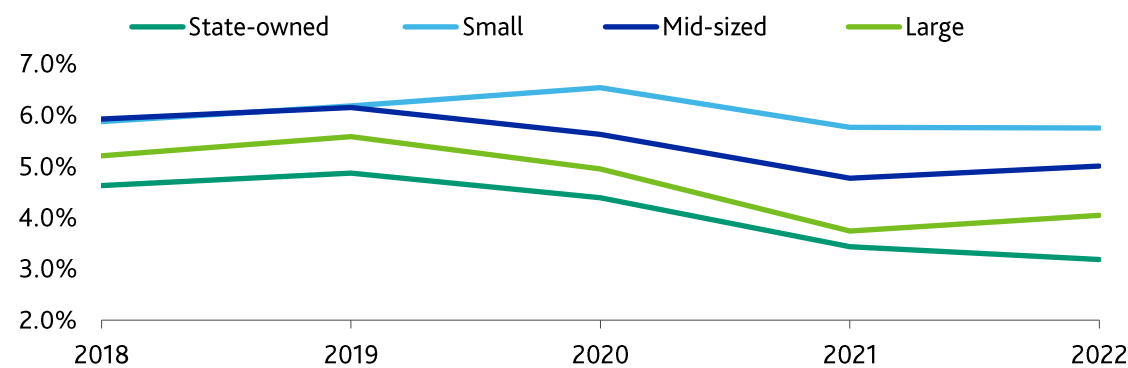
Source: Company data, Vietnam Investors Service

Small and mid-sized banks rely heavily on market funding...



Source: Company data, Vietnam Investors Service

... so they have to offer higher rates to secure deposits compared to large banks

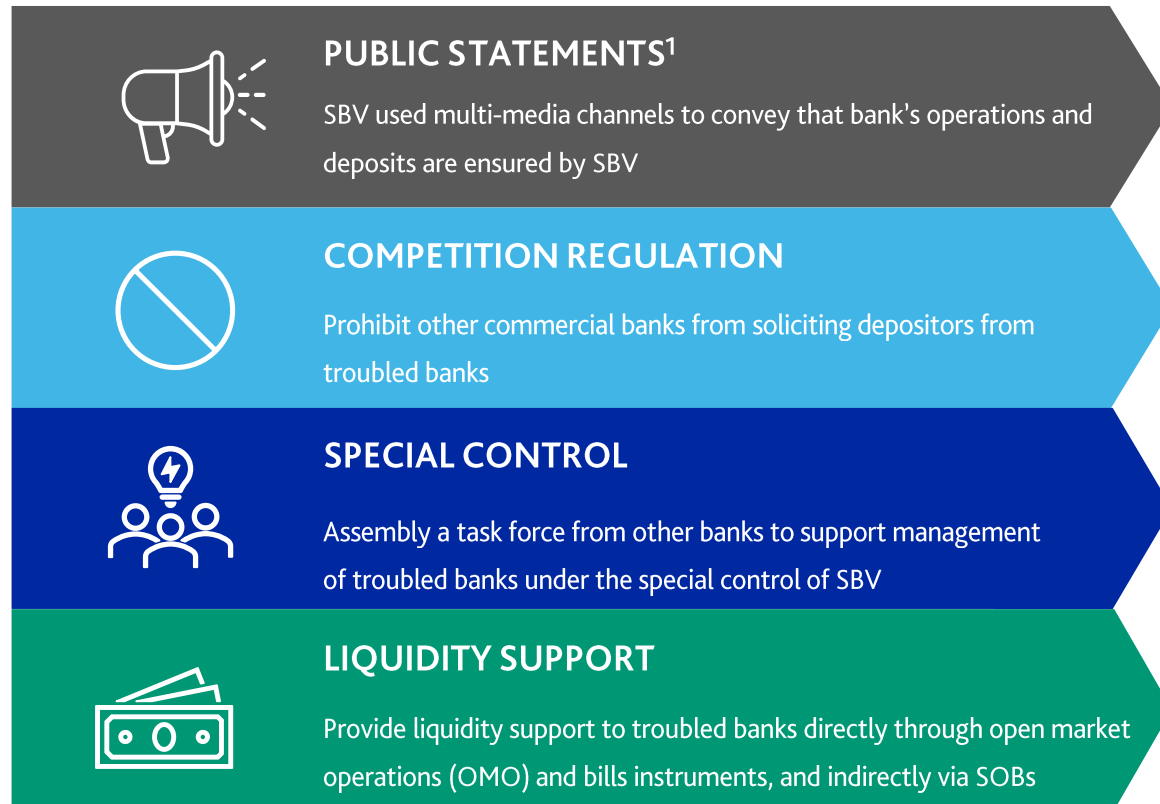


Source: Company data, Vietnam Investors Service

Regulatory support is critical to instill stability in banking system

- » The State Bank of Vietnam (SBV) promptly intervened to extend support using a wide range of actions during past deposit runs and periods of liquidity crunch
- » In addition, SBV's requirements of prudential ratios are strictly regulated and applied to all banks, regardless of their size

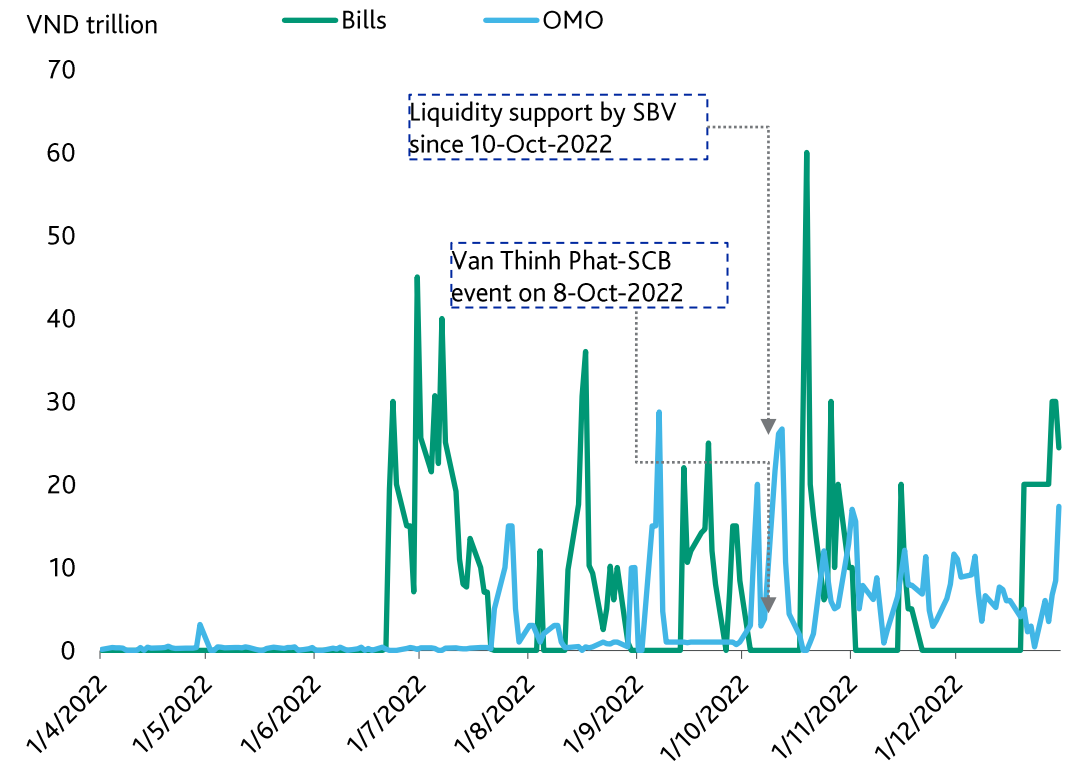
Past intervention by SBV to instill stability in banking system



¹ Refer to [release by SBV](#)

Source: SBV, Vietnam Investors Service

SBV simultaneously provided both OMO and bills instruments to stabilize the interbank market after Van Thinh Phat-SCB event



Source: SBV, Vietnam Investors Service

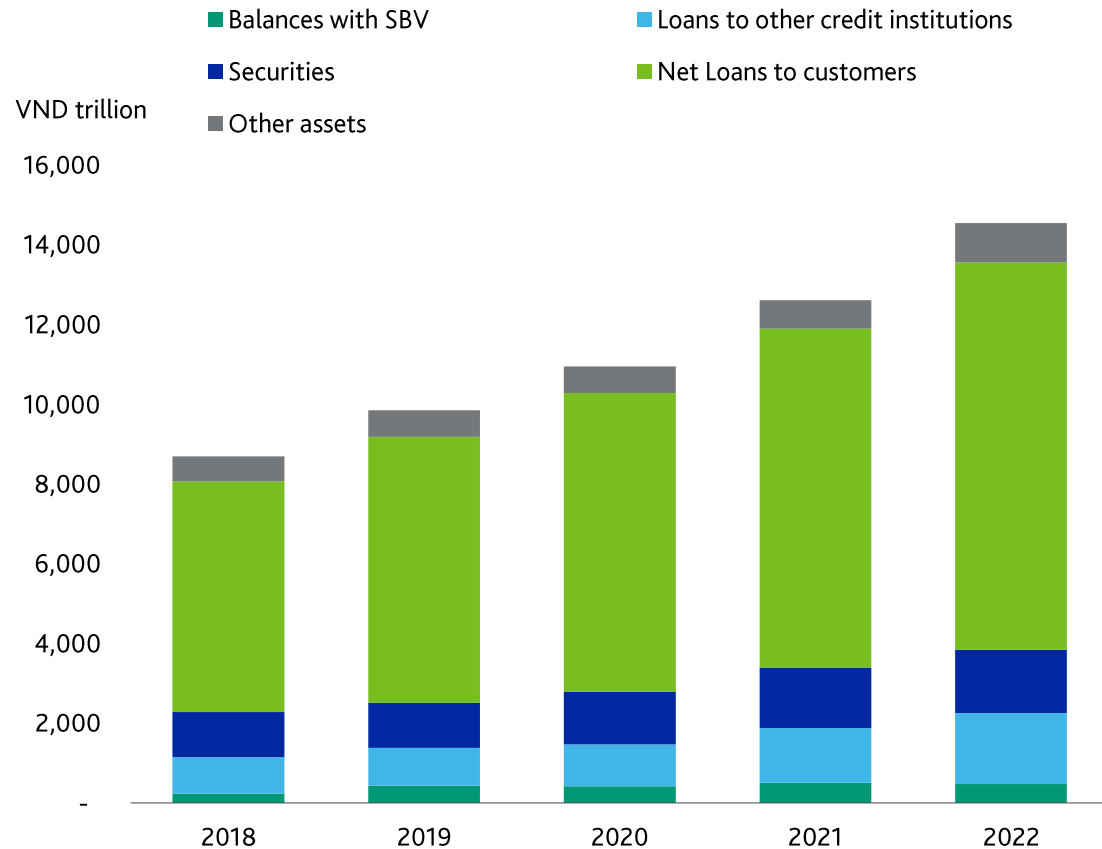
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In addition to liquidity risks,
asset risks stem from real
estate exposures

Asset risks are more considerable for banks with significant real estate-related exposure and low loan loss coverage

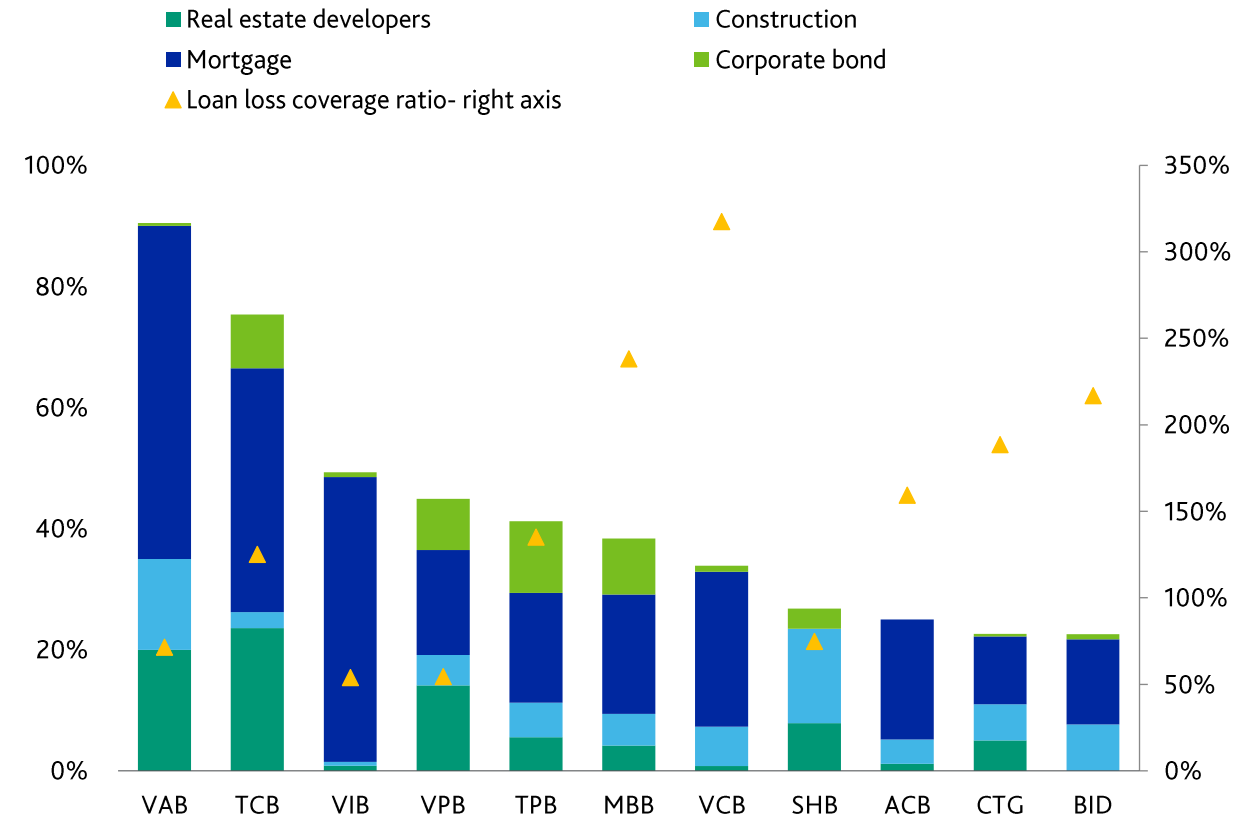
» Long-term, fixed-rate government bonds only contribute 5% to total assets, which limits Vietnamese banks' exposure to interest rate risks

Loans to customers contribute nearly 70% of total assets



Source: Company data, Vietnam Investors Service

Real estate-related exposure accounts for nearly 40% of selected banks' credit portfolio



Source: Company data, Vietnam Investors Service



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