

# Analysis of the Causes and Implications of the Silicon Valley Bank Bankruptcy Event

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**Abstract.** On March 8, 2023, Silicon Valley Bank experienced a financial collapse, and on March 10, a trillion-dollar bank with a 40-year history ceased operations. In less than 48 hours, the bank experienced a liquidity crisis, a rapid bank run, and finally its closure and takeover. This was the largest bank bankruptcy in the United States since the 2008 financial crisis. This paper retrospectively reviews the development process of the Silicon Valley Bank bankruptcy, analyzes its internal causes (such as asset-liability mismatch and high concentration of risk) and external causes (such as interest rate hikes, deregulation, and information disclosure failures). It further discusses the current situation of China's commercial banks and extracts lessons for both regulators and financial institutions.

**Keywords:** Silicon Valley Bank; bank run; financial regulation; liquidity risk; China.

## 1. Introduction

The sudden bankruptcy of Silicon Valley Bank (SVB) in March 2023 shocked global financial markets. Within 48 hours, a liquidity problem escalated into the largest bank failure since the 2008 financial crisis. The event has drawn significant academic and policy interest, as it not only exposed structural weaknesses within SVB itself, but also highlighted vulnerabilities in the broader banking and regulatory systems.

This paper first outlines the development process of the SVB bankruptcy, then examines its internal and external causes. Subsequently, the study analyzes the current situation of China's banking industry and extracts key lessons for China, both for government regulators and commercial banks.

## 2. Development Process of the Silicon Valley Bank Bankruptcy Event

The roots of SVB's collapse can be traced back to 2020, when the Federal Reserve maintained near-zero interest rates and engaged in quantitative easing. Startups received abundant venture funding, and SVB's deposit base rapidly expanded from \$76 billion in mid-2020 to around \$200 billion.

To generate returns, SVB heavily invested in long-term U.S. Treasury bonds. However, from 2021 onwards, the Fed's aggressive interest rate hikes triggered mark-to-market losses. By early March 2023, SVB announced the sale of \$21 billion in securities at a \$1.8 billion loss and attempted to raise \$2.25 billion in equity. These moves signaled liquidity stress, sparking a market panic and massive withdrawals. By March 10, SVB was taken over by the Federal Deposit Insurance Corporation (FDIC).

### **3. Causes of the Silicon Valley Bank Bankruptcy Event**

#### **3.1. Internal Causes**

##### **3.1.1. Severe Asset-Liability Mismatch**

SVB's liabilities were dominated by demand deposits (nearly 80% of total), while its assets were concentrated in long-term securities. When interest rates rose, bond values declined and funding costs increased, intensifying the mismatch.

##### **3.1.2. High Concentration of Risk**

SVB relied on venture capital firms and tech startups, with average deposits exceeding \$4 million. Retail deposits accounted for less than 3%. The downturn in the tech sector led to significant outflows, further worsening liquidity pressure.

#### **3.2. External Causes**

##### **3.2.1. Deregulation of Mid-Sized Banks**

Following the Dodd-Frank Act of 2010, regulations were eased in 2018 under the Trump administration, raising the threshold for 'systemically important banks.' SVB thus avoided stringent oversight.

##### **3.2.2. Interest Rate Hikes and Market Shifts**

In 2022, the Fed raised rates seven times, and by February 2023, rates reached 4.5–4.75%. This caused \$620 billion in unrealized losses across U.S. banks, with SVB particularly exposed.

##### **3.2.3. Failures in Information Disclosure**

SVB's announcement on March 8 disclosed past losses but failed to guide future expectations, leading investors to panic and depositors to run.

### **4. The Current Situation of Commercial Banks in China**

#### **4.1. Achievements of Banking Reforms**

- Stronger global competitiveness (rising in global rankings).
- Product and service innovation (expansion of off-balance-sheet activities).
- Improved corporate governance and risk management.
- A more mature prudential regulatory framework.

#### **4.2. Existing Problems**

- Overreliance on net interest margin (NIM) as a profit model.
- Credit risks from real estate and industrial restructuring.
- Homogenization of services and excessive competition.

### **5. Lessons from Silicon Valley Bank for China**

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## **5.1. Implications for the Government**

### **5.1.1. Strengthening Supervision of Mid-Sized Banks**

SVB's collapse demonstrates that even non-systemic banks can trigger systemic panic. China must enhance oversight of mid-sized banks.

### **5.1.2. Building a Modern Regulatory Framework**

Authorities should integrate new tools (machine learning, social media monitoring) into liquidity risk supervision and design forward-looking stress tests that consider climate and geopolitical risks.

### **5.1.3. Addressing Regulatory Failures**

China must curb regulatory corruption and enforce accountability in supervisory institutions.

## **5.2. Implications for Commercial Banks**

### **5.2.1. Avoiding Strategic Mistakes**

SVB over-invested in securities beyond its expertise. Chinese banks should balance specialization and diversification.

### **5.2.2. Broadening Customer Base**

Excessive reliance on niche sectors (e.g., tech startups) increases vulnerability. Banks should ensure customer stability and diversity.

### **5.2.3. Enhancing Information Disclosure and Expectation Management**

Confidence is vital in financial systems. Transparent communication is necessary to prevent panic.

## **6. Conclusion**

The bankruptcy of Silicon Valley Bank highlights how quickly liquidity stress can escalate into systemic crises when asset-liability mismatches, concentrated risks, and weak regulation converge. For China, this case underscores the need for stronger prudential oversight of mid-sized banks, modernization of regulatory frameworks, and improved strategic and disclosure practices by commercial banks.

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