A Tale of Two Banks

April 2023

In the space of a few weeks two iconic symbols of finance self-destructed.

Silicon Valley Bank (SVB) represented the bold new face of finance. It gave financial life to startup companies. It was there where other banks feared to tread. It was the banking life and soul of early-stage companies. It was comfortable dealing with entrepreneurs because it was an entrepreneurial bank. It was the banking version of the new economy.

At the other end of the spectrum was Credit Suisse, a 167-year-old institution that represented the financial solidity and probity of Switzerland. It was a serious institution, almost as representative of the country as the cross on the Swiss flag. The hard-working burghers of Switzerland could count on it, rain or shine. It survived financial panics, two world wars and, unlike UBS, did not need to be bailed out by the Swiss government in 2008. It was stability incarnate, a trustworthy institution.

How could this have happened? How could both these banks, one so dynamic and one so traditional, just disappear all of a sudden. Many explanations will come forth, many technical considerations will be discussed, many regulations will be examined but in the end the problem was poor management and a lack of common sense.

SVB’s liabilities were short-term and its assets, although liquid, were long-term. Its deposits came from a relatively narrow range of newly wealthy depositors. As interest rates rose and the economic outlook declined, depositors started taking money out to fund their cash flow negative companies’ operations. Management didn’t want to take a loss on their treasury bond portfolio. Regulators had on multiple occasions warned management of its severely unbalanced book of business. Management, which had an almost willful disregard of the basic tenets of banking, ignored the warnings.

Credit Suisse management wanted the profits and thrills of investment banking. It sought relevance in a world that was not its own. It had strayed into a savannah populated by creatures of a different world. It had bought First Boston, which previously had bought the even more hard charging Donaldson, Lufkin & Jenrette. They admired these animals who were colorful, who prowled silently, who pounced swiftly, who were smooth and had an elegance of motion that beguiled those who were grey suited and slow of action.

Each had an arrogance. One had never become rooted in banking. The other had lost its roots in its banking tradition. Each lacked what the other had in abundance. Perhaps such is the nature of human experience.

Money now moves almost instantaneously. Will we need guarantees of all deposits to prevent bank runs? Who knows? Something new and something old have now gone. An epoch has passed, and so has our eroding belief in many things financial.

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