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SVB collapse impact Indian start-ups

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Why is in news? Recently, banking regulators in the U.S. took control of the Silicon Valley Bank (SVB), which typically catered to start-ups, venture capitalists and tech firms, after it suffered a sudden collapse

Measures taken by US Government

The Joe Biden administration moved in quickly with the Federal Reserve, the U.S. Treasury Department, and the Federal Deposit Insurance Corporation (FDIC) deciding to guarantee all deposits at SVB.

It also seized another bank New York's Signature Bank, which had a large exposure to investors in cryptocurrencies and the digital assets sector.

"Your deposits will be there when you need them," President Biden said at the White House, an announcement aimed at reassuring the American public that the country's banking system was sound and had the backing of the administration.

He also made clear that taxpayers would not have to foot the bill for the government's actions, and that the money would come from the fees that banks pay into the FDIC.

Impact on India's startup ecosystem

According to media reports, at least 21 start-ups in India had exposure to SVB, which had approximately \$209 billion in assets and about \$175.4 billion in total deposits as of December 31, 2022.

In a Twitter Spaces interaction Mr. Chandrasekhar said India's start-ups collectively had about \$1 billion of their funds deposited in SVB.

Earlier in the week, the start-ups had apprised the minister about the fallout including specifically about difficulties in carrying on their business due to blockages in international wire transfers, lack of communication from U.S. agencies, limits on withdrawals and so forth.

Finance Ministry officials said the failure of SVB was likely to impact some Indian tech start-ups and IT firms, but that any broader "contagion" that might arise would neither reach Indian shores in a hurry nor were they likely to trigger "systemic risks".

A number of industry stakeholders said while the immediate impact would be minimal because of the bailout, the change in sentiment may have some dampening effect on the entire tech industry for a while.

Peter Bendor-Samuel, CEO, Dallas-based Everest Group, told The Hindu that given that the U.S. was guaranteeing all deposits, the direct impact on the industry and Indian firms, "is likely to be modest."

Avinash Vashistha, Chairman Emeritus, Tholons, a New York-based global innovation advisory and investment firm that had a banking relationship with SVB, told this newspaper: "Many start-ups will be impacted and may have challenges in making U.S. payroll and investments for a week or so.

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For start-ups and venture funds that have less than \$2,50,000 per account at SVB, they should have a minor hitch.”

Lessons to be learned

Start-ups do need banks that are simple and supportive of their needs. We need more regional banks, not less.

A second banking crisis in 15 years is troubling for the stability of investors and start-up founders

Tech industry insiders stress that this is an excellent opportunity for start-up boards to form sub-committees for treasury management, particularly for those that have raised Series A rounds of funding or higher and are sitting on a significant cash pile.

Indian start-up board members must prioritise financial planning and establish clear strategies for dividing funds across two to three bank

It can also help put the money to work, especially in a rising interest rate environment, to reduce burn and possibly increase runway by up to a quarter.

This prudent financial management could significantly impact the company’s runway and [possibly] its valuation

The recent crisis at SVB highlights the need for Indian founders to take treasury management seriously

Founders of all sizes must diversify their deposits across multiple banks and establish board-approved treasury plans that outline a clear strategy for managing funds, including approved liquid and money market funds

By doing so, startups can mitigate risks and protect their businesses from unexpected financial upheavals.

The way lies ahead

Start-ups in India operate in a different market environment. Firms like Microsoft and Google already invest in the Indian start-up ecosystem. There are still huge amounts of money swelling many global investment funds, and India’s start-up scene is starting to look a lot more attractive than Silicon Valley for many investors and VCs. Policies that force banking relationships to be tied to loans can exacerbate concentration of risk. It’s best to diversify where you put your funding so that you don’t head into bank runs and this type of a scenario