U.S. Banking Sector

What Europe can learn from the collapse of Silicon Valley Bank and Signature Bank

→ The collapse of Silicon Valley Bank and Signature Bank in 2023 revealed how concentrated deposits, unhedged interest-rate risk, and commercial real estate exposure (CRE) rapidly destabilized these mid-sized institutions in a high-rate environment.

→ While Europe is unlikely to face such episodes of bank failures due to the EU's stronger regulatory framework, the episode offers a clear warning to policymakers: strong frameworks must be continuously enforced to remain effective.

Introduction

The collapse of Silicon Valley Bank (SVB) and Signature Bank in March 2023 sent shockwaves through global financial markets and exposed key weaknesses in their business models and risk management practices.

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Although the European banking system avoided comparable stress and includes a much more rigorous regulatory and supervisory framework than the United States, this article analyzes the 2023 bank failures and explores possible similar vulnerabilities that could emerge in Europe and the lessons the episode may offer.

A hierarchy of banking risks

Policymakers should be able to distinguish between the three layers of banking stress: triggers, amplifiers, and structural factors.

Triggers are abrupt shocks that initiate stress. In the U.S. case, these included a rapid monetary-tightening cycle and sudden confidence shocks that drove bank runs. Amplifiers are balance-sheet or funding characteristics that magnify the impact of these shocks. In 2023, the most important amplifiers in the United States were high concentrations of uninsured deposits, weak interest-rate hedging, and asset-liability mismatches. Lastly, structural factors are deeper characteristics that shape medium-term vulnerability and determine whether a bank can absorb shocks or whether stress becomes existential. In the U.S. case, these included bank size, business-model concentration, geographic exposure, and the degree of diversification in funding and assets.

While triggers like rapid rate hikes are global, amplifiers and structural factors vary significantly across European banking systems, making them potential targets for EU policy intervention.

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The collapse of SVB and Signature Bank

The U.S. banking sector came under severe strain beginning in 2023 when SVB and Signature Bank collapsed. These failures reflected vulnerabilities in balance-sheet structure, funding models, and risk management.

The banks had invested heavily in long-duration securities during the pandemic-era deposit surge and failed to hedge interest-rate risk adequately. As interest rates rose sharply, unrealized losses mounted, while high concentrations of uninsured deposits proved vulnerable to rapid withdrawal once confidence eroded — over 90% of deposits were uninsured.[1] When the Federal Reserve hiked rates, the market value of these assets plummeted by an estimated $2.2 trillion.[2]

Rapid deposit outflows forced the sale of assets at a loss and raised solvency concerns within days. A fast and coordinated response by U.S. authorities helped to contain the broader systemic fallout.[3]

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Europe's banking structure

Compared with their U.S. peers, European banks have more diversified funding and deposit bases.[4] European banks rely more heavily on retail deposits, which tend to be more stable than uninsured corporate deposits, which typified SVB. Higher insured deposit ratios across Europe also reduce run risk compared to U.S. banks.[5]

However, this should not be interpreted as structural immunity. Smaller and mid-sized EU banks remain exposed to localized shocks, supervisory heterogeneity, and delayed asset-quality deterioration, particularly outside core banking systems.

CRE exposure

On the other hand, one of the most salient parallels across banking systems is the role of CRE in credit concentration risk.

In the United States, a large share of CRE loans is held by regional and community banks. From 2018 to 2022, CRE accounted for 44% of total loans at regional banks, compared to about 13% in larger banks.[6] As large volumes of CRE loans mature in a higher-rate environment, borrowers face higher debt-service costs and declining valuations. Significant refinancing challenges loom in the United States, with more than $1 trillion in CRE loans maturing by the end of 2025.[7]

In Europe, CRE accounts for less than 10% of the assets of most large banks.[8] However, certain banks, notably Nordic and German lenders, have CRE concentrations of 13% of total loans, especially at mid-sized lenders.[9]

European CRE performance has so far held up better, defying declining property values since 2022 and structural challenges in the office and retail sectors.[10] Non-performing loans are rising only modestly and largely in localized pockets, though diversification and improved capital buffers help mitigate some threats.[11]

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European CRE financing heavily involves bullet loans, which feature interest-only payments with no principal amortization during the life of the loan, followed by large principal payments at maturity.[12] These loans have come under increased scrutiny in recent years, given the rapid rise in interest rates and the structural changes affecting office buildings.[13] Traditional banks are the primary lenders, though non-bank financial institutions have grown in importance.

Risks also vary significantly by property type. Offices are most exposed to structural shifts in workplace habits and valuation declines. Retail is also heavily exposed due to the shift to e-commerce, though well-located stores continue to perform well. By contrast, the logistics and retail segments face more diverse pressures, including high costs, supply chain issues, and changing consumer behavior.[14]

Funding and currency risks

These banks' failures also highlighted the importance of stable funding structures. Europe faces a different but related set of funding challenges.

European banks have increased reliance on U.S. dollar funding, posing potential vulnerabilities if dollar liquidity tightens.[15] This underscores the need for robust liquidity buffers and cross-currency risk management.

Conclusion: Lessons for Europe

Although the European banking sector's regulatory framework is substantially more robust than that of its U.S. counterparts, several lessons remain relevant for EU policymakers:

Liquidity risk is about intraday run dynamics, not the LCR. Liquidity stress testing should focus on run velocity, depositor concentration, and operational capacity to mobilize liquidity under digitally driven confidence shocks.

Concentrated and uninsured deposits can behave like wholesale funding. Banks and supervisors should segment deposit "stickiness" and hard-wire monitoring of depositor concentration, sectoral correlation, and early-warning triggers.

Manage interest-rate and liquidity risk jointly. Unrealized losses can quickly turn into liquidity stress when assets must be sold, requiring conservative IRRBB assumptions, effective hedging, and tight links between market and liquidity stress scenarios.

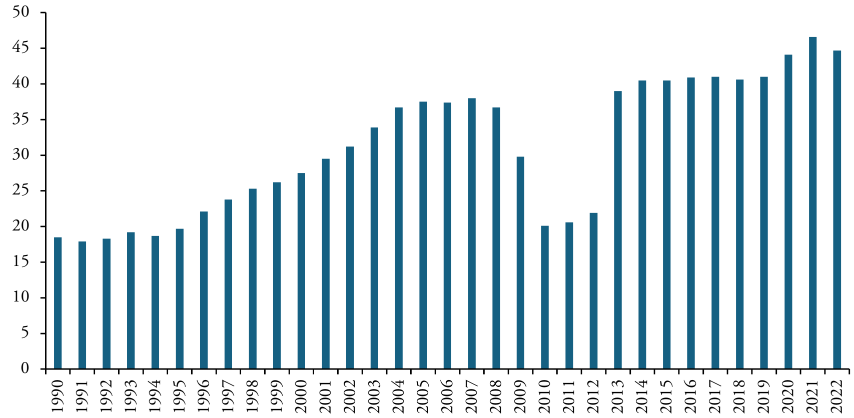
Pillar 2 supervision and governance are the confidence backstop. The priority in Europe is consistent follow-through on ALM limits, hedge governance, escalation routines, and credible contingency and resolution capacity.

EXHIBIT 7.0 – HIERARCHY OF RISKS

Risk Category	Elements in the 2023 Events
Triggers	Rapid Federal Reserve rate hikes and sudden shocks to depositor confidence
Amplifiers	High concentrations of uninsured deposits and the failure to effectively hedge interest-rate risks
Structural Factors	SME business models, lack of scale, and high exposure to long-duration assets during low-yield period

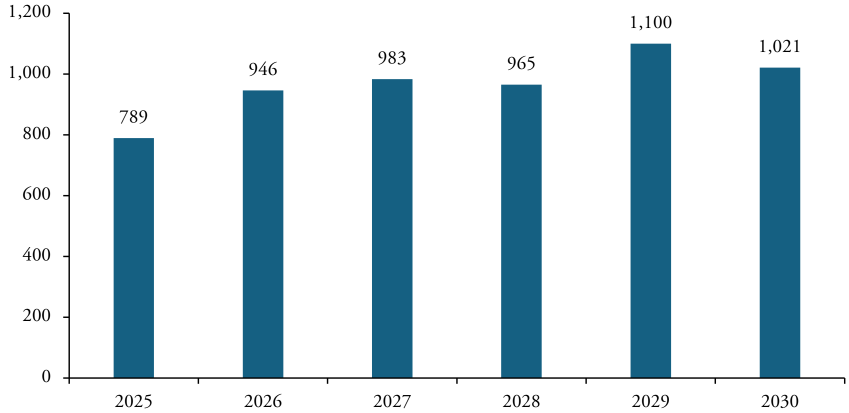
Source: Funcas.

EXHIBIT 8.0 – UNINSURED DEPOSITS, UNITED STATES, 1990-2022 (PERCENTAGE)



Source: Federal Deposit Insurance Corporation.

EXHIBIT 9.0 – AMOUNT OF U.S. CRE MORTGAGES ESTIMATED TO MATURE, BASED ON AMOUNTS AT ORIGINATION, U.S. DOLLARS BILLIONS



Source: S&P Global.

Notes

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