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March 2023 marked a significant event in the banking sector – as one of the top US lenders faced a historic collapse. You'd be excused for being unaware of Silicon Valley Bank (SVB) until now – but you've almost certainly noticed the shockwaves caused by its demise; and you may be left wondering whether or not we're heading towards another financial crisis. To answer that question, we need to delve into the history of SVB and establish what its collapse actually means.

Established in 1983, SVB had a strong reputation as a top financial institution that served half of all venture-backed start-ups, holding the record for the largest deposits in Silicon Valley. Its ability to structure loans and understand start-up business models was unparalleled and it was ranked the 16th-largest bank in the United States. In 2022, SVB held over $13.9 billion in deposits and had assets worth $209bn, leading to it being named on Forbes' list of the best banks in America.

However, behind the scenes, a disturbing story was unfolding. A series of ill-fated investment decisions – including a decision to invest billions of dollars in long-dated securities such as US treasuries and mortgage bonds – had dire consequences. If interest rates go up, bond prices fall – so when the central bank opted to increase rates to combat inflation, the value of SVB's investments plummeted.

Customers subsequently raced to withdraw their deposits, which led to the bank running out of money. This forced them to sell bonds for far less than their value, in a desperate bid to turn things around. However, Silicon Valley Bank's fate was sealed. With major companies – including Roku and Etsy – having their assets wrapped up in SVB, its collapse would have been catastrophic. The US regulator had no choice but to step in, vowing that those with money at the bank would still have access to it. On Sunday evening, it was announced that Silicon Valley Bank's entire loan portfolio would be acquired by rival First Citizens Bank. Problem solved, right? Unfortunately, not.

At face value, this probably seems like a US story – one with global consequences – but a US story nonetheless. After all, there's no Silicon Valley anywhere else. Well…that's true, but there IS a Silicon Valley Bank UK – and its situation also seemed, to put it mildly, delicate. UK customers held large sums of money in the accounts of both SVB and SVB UK, and many of these funds were uninsured. So over on these shores, we were also facing a catastrophic situation

Experts within the tech industry warned that a failure to negotiate a good deal on SVB's future could lead to an existential threat for many firms within the sector. This is precisely why the UK Government and Bank of England stepped in, and why we've seen a range of cash-flow packages proposed as a lifeline for troubled tech companies here in the UK. In addition, Prime Minister Rishi Sunak and Bank of England Governor Andrew Bailey brokered an agreement to sell the British arm of the now-defunct American lender, which was subsequently acquired by HSBC for the symbolic sum of £1. The Bank of England stated that the measure was implemented to reduce potential disruptions in the UK technology sector and increase trust in the financial system. In truth, the exceptional effort made in this case highlights the strategic importance of ensuring that customers have confidence in the security of their deposits.

Policymakers – and, more importantly, the Bank of England – face two key judgments; the first of which is to ensure that UK banks are not directly materially affected by SVB's collapse. The second is to ensure that the wider UK banking sector continues to remain robust, sound and effectively capitalised to enhance public confidence in the stability of the UK's financial system.

But, as I've mentioned, this is a situation with significant global consequences. Silicon Valley Bank is the second-largest bank to collapse in the history of the United States – behind Lehman Brothers in 2008 … and we all know what happened there. But lessons have been learned, and steps are being taken to safeguard global banking systems – in other words, a worldwide financial crisis is much less likely. That said, it is a tense time. Last week, Credit Suisse – the second-largest bank in Switzerland – worked quickly to address a deepening crisis that resulted in a significant decline in its stock price and its subsequent acquisition by UBS. This led to the end of the 167-year-old bank. The situation was fuelled and exacerbated by the collapse of SVB – highlighting just how fragile the financial system is right now. Deutsche Bank in Germany may also fall prey to the market panic, as evidenced by its 8.22% decline on Friday, due to an increase in the cost of default insurance. Deutsche Bank is in a healthier position than Credit Suisse, having posted a net profit of £1.6 billion in the fourth quarter, in contrast to the Swiss bank's £5.9 billion loss – but there are no guarantees.

While bank failures have been infrequent since the financial crisis of 2008, the impact of SVB's collapse on a global economy recovering from the Covid-19 pandemic while facing geopolitical tensions, inflation, and the invasion of Ukraine cannot be understated. It remains to be seen how the banking sector will recover from this event, but it is clear that the collapse of SVB has left a significant mark on the economic landscape. This indeed is a litmus test for the UK's financial system – and indeed the financial system worldwide.