Limited Bandwidth Helped Kill SVB
by Charles B. Wendel

All companies, but, in particular, banks operate with limited bandwidth. I'm not talking about the speed of an internet connection or IT sophistication. What I am referring to involves a company's limited ability to assess, prioritize, absorb, and act on multiple initiatives at one time. A bank's "adaptation bandwidth" often has severe limits. Adding new initiatives is often met with resistance from staff or a view that "we can do this but not that."

We ran a revenue producing project at a regional bank where it was virtually certain that the new secured lending product we were helping to introduce would generate more revenue and deepen relationships. In my and the client's view this was a no brainer for the bank. Being consultants, as our project was ending we provided an implementation plan for the bank that would introduce the product in a month to six weeks. An obvious win for the bank.

But no. When we reviewed the timing with a cross-section of support groups, their lack of enthusiasm was notable. We heard only stony silence from the group. Then, the 15-20 attendees started listing other initiatives already underway, pushing our project's implementation back from one month to three or four. I could feel the tsunami. This group had years of expertise in managing the bank processes. This project had to fit in with their world and the timing they had become comfortable with.

Could they have made shorter timing work? Of course. But they would have needed to reorder priorities, maybe drop some tasks, and perhaps even work a few hours more. None of those things was going to happen.

During the past few years, the Diversity, Equity, and Inclusion (DEI) movement has had its day in the banking sun. DEI support groups were established and grown at many banks. All banks at least paid lip service to the concept, hoping to placate woke employees, media, and investors. SVB seems to have made this a major focus. Last week I listed the eight DEI committees operating at SBV. They even had a "Risk Group." It focused on developing, monitoring, and supporting implementation of ESG risk strategy and policy. However, apparently, the bank had been without an asset/liability head for several months until January.

How was SVB's limited bandwidth being used? Not on true risk management. Maybe on feel good and virtue signaling initiatives.

Unfortunately, bandwidth limits can also impact regulators. *The New York* Post just printed a scathing article about the head of the SF Fed, a group that regulates SVB. It's worth mentioned that the CEO of SVB was also a member of that board.

"SF Fed Chief Mary Daly had other priorities, including climate change, George Floyd and Black Lives Matter, inequities between blacks and whites, LGBTQ+ rights and a host of other woke social-justice issues that had nothing to do with banking and finance….Until recently, Daly was opposed to the Fed's hawkish shift to tightening credit to fight inflation. Her bank examiners no doubt shared her dovish mindset and didn't anticipate rates increasing, which may also explain why alarms weren't raised at SVB."

Obviously, this is a strongly worded perspective, but may still convey reality. Was Daly too focused on other issues? Why didn't she pursue a stress test of SVB? Did her focus also push her examiners into non-business critical areas?

Simply stated, bandwidth management involves time, human resources, and priority management for your bank, credit union, or Fintech. Your resources are limited and the adage of robbing Peter to pay Paul seems relevant. A February 2023 NBC News story indicates how some companies may be reordering their priorities. "Diversity, equity and inclusion leaders, who were hired in waves to help companies achieve an ethnically balanced workforce after George Floyd's murder in 2020, are being phased out, surveys indicate, leaving experts in the field concerned that corporations' talk of affecting change was just empty words." Maybe empty words but also bandwidth consuming.

FIC works with senior management and Boards on issues that are critical to a bank's sustainability and growth. We emphasize practical solutions that we customize to a company's capabilities and culture. Reach FIC at cwendel@ficinc.com.