Silicon Valley Bank, Signature Bank, and First Republic Failures: Are We in a Banking Crisis?

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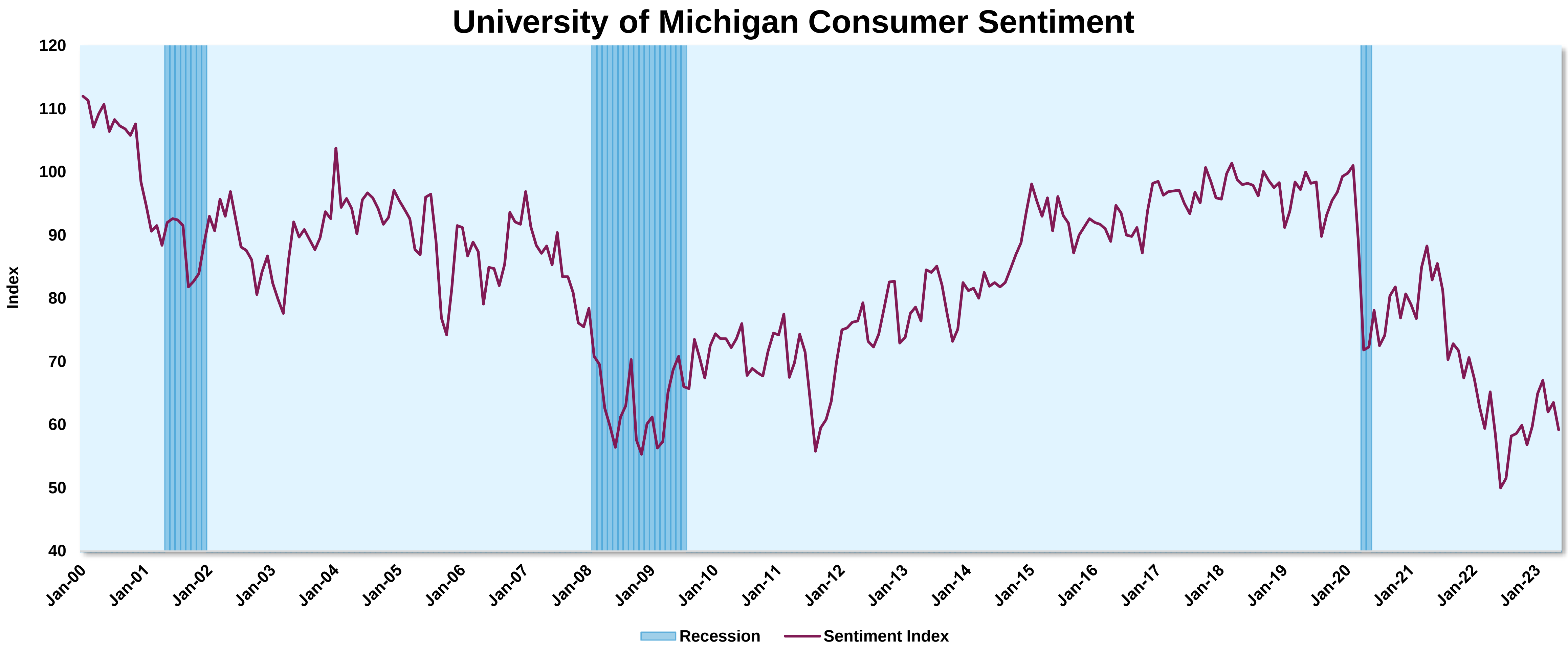
Agenda

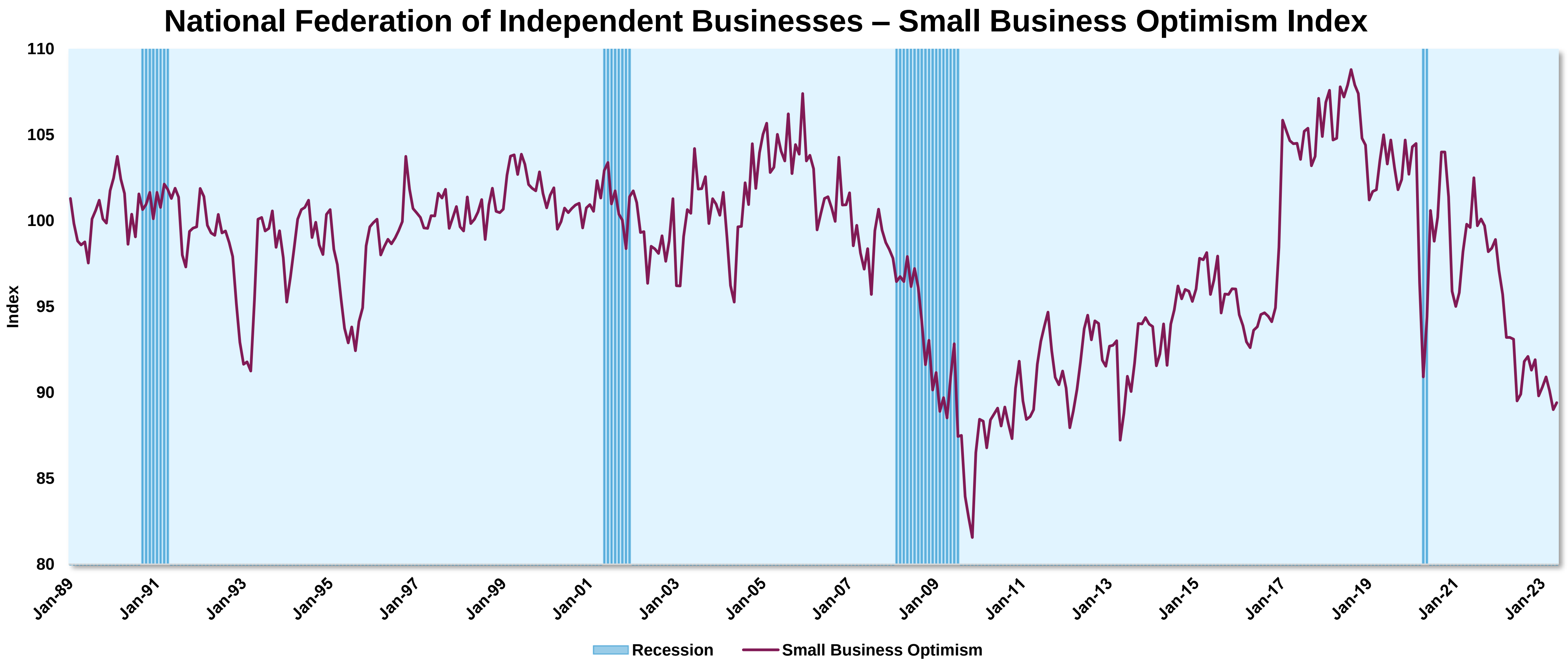
- How did we get here?
- Impact on the insurance industry
- Could this happen to insurers?
- Lessons learned

How did we get here?

Consumer Sentiment Recovering from Lows

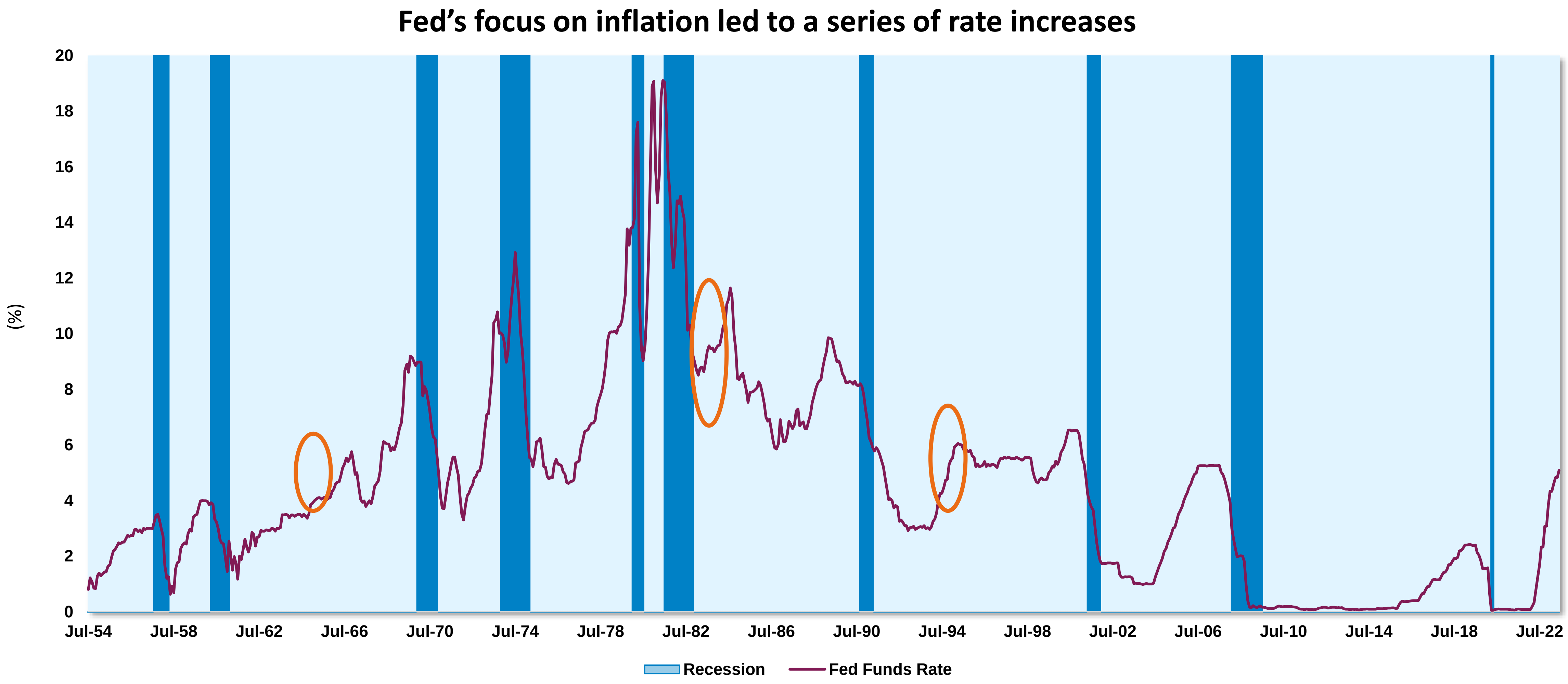


Business Sentiment Still at Pandemic-Era Low



Our Insight, Your Advantage™

Federal Funds Rate



What happened to SVB?

- A concentrated investor base—fund inflows and outflows were not diversified
- A sharp drop in venture capital funding in 2022, leading to slower inflows and, more importantly, outflows as clients withdrew cash to fund their businesses
- Majority of investments in long-dated, hold-to-maturity mortgage-backed securities
- Funding imbalance that caused the bank to sell its MBS portfolio at a loss, triggering the bank run
- Bank run exacerbated by social media and technology

Direct Impact on the Insurance Industry

Insurance Industry Exposure to SVB

- Exposures to SVB bonds and stocks were minimal.
  - Exposures to First Republic and PacWest were also minimal.
- Largest exposure by company to SVB was less than 5% of C&S.

Insurers’ Bond and Equity Exposures to Regional Banks under Duress, 2022
($ millions)

Company Name	Bond Holdings	Equity Holdings	Total
SVB	1,135.0	93.5	1,228.4
First Republic	666.1	549.0	1,215.1
PacWest	0.0	95.8	95.8

Exposure to Other Banks

- Extremely limited, if any, exposure to cryptocurrencies
- Relatively minimal exposure to regional banks as a whole

Insurers' Bond and Equity Exposures to the KBW Nasdaq Regional Banking Index Components

($ millions)

Company Name	Bond Holdings	Equity Holdings	Total
First Commonwealth Financial Corp.	0.0	365.9	365.9
Fulton Financial Corp.	289.3	46.7	336.0
First Financial Bancorp	177.5	78.8	256.3
Cadence Bank	146.9	12.1	159.0
BankUnited	152.5	5.1	157.5
New York Community Bancorp	112.2	30.7	142.9
Cullen/Frost Bankers	89.6	44.5	134.1
Bank of Hawaii	0.0	111.2	111.2
WSFS Financial Corp.	98.2	4.4	102.6
Independent Bank Corp.	67.5	28.0	95.5
Bank OZK	74.8	6.3	81.1
Brookline Bancorp	64.7	0.3	65.0
Hope Bancorp	60.8	3.1	63.9
Washington Federal	0.2	52.4	52.7
Trustmark Corp.	34.6	1.7	36.2
Glacier Bancorp	0.0	24.1	24.1
First Hawaiian	0.0	15.3	15.3
First Financial Bankshares	0.0	13.7	13.7
Popular, Inc	1.1	7.8	8.8
Eastern Bankshares Inc.	0.0	6.6	6.6
United Bankshares	0.0	5.0	5.0
First Bancorp	0.0	4.7	4.7
Provident Financial Services	0.0	2.0	2.0
Total	**1,369.9**	**870.2**	**2,240.0**

Near-Miss on D&O Losses

- Directors' and officers' insurance
  - Protects the personal assets of the board of directors and key executives if they are sued for wrongful acts in managing a company
  - Covers legal fees and settlements arising out of litigation
- SVB's management and board could have been sued for
  - Breach of fiduciary duty
  - Lack of corporate governance
- Without the government backstop, tech companies would have lost millions from their exposures to troubled banks, resulting in lawsuits against the directors and officers

Can a bank-run scenario happen to Insurers?

Vulnerability to a Run on Banks

Life insurers are not typically vulnerable, but there have been some life insurance failures:

- **Equitable Life (UK), 2001**
  - High guaranteed rates to policyholders were perceived as unsustainable following the collapse of technology stocks early in 2000
- **General American (US), 1999**
  - Borrowed money and invested the proceeds in long-term securities
  - Lenders could demand their money back in a week
  - Downgrade by Moody's triggered a run on the bank
  - Redemption requests reached more than $4 billion and grew to unsustainable levels
- **Executive Life (US), 1991**
  - Oversized exposure to junk bonds in search of higher yields
  - In 1989, the insurer wrote off more than $1 billion
  - Policyholders started surrendering their policies

Lessons Learned

Lessons of SVB Collapse for the Insurance Industry

Highlights critical importance of:

- Enterprise risk management
- Asset/liability management
- Liquidity profiles
  - Especially for annuity writers in a rising interest rate environment
- Business diversification
- Communication and transparency

Q&A