

Why Do Banks Fail? Examining Systemic Risks and Managerial Inefficiencies in Financial Institutions

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Abstract: This is a qualitative, case-based research investigation of the causes of bank failures, to systemic risk and managerial inefficiencies. The research also uses a case study methodology, statistical modeling, and comparative financial analysis leading into Bank United (2009), Federal Savings Bank (2010) and Silicon Valley Bank (2023). It lays out risk factors for which critical failure points exist liquidity mismanagement, inadequate governance, regulatory shortcomings and financial market volatility. Network theory, principal-agent theory and behavioral finance are used in the study, which applies these vulnerabilities to financial instability. The study evaluates needful parameter being regulatory compliances, risk exposure, liquidity ratios, decision making efficiency and capital adequacy. The possible solutions for such research include more appropriate corporate governance structures, stricter regulatory frameworks, better risk mitigation methods, etc.

It is anticipated that an inclusive risk management framework and early warning system capable of picking up the vulnerabilities before the risk escalates into a crisis will come into play. This study presents data driven policy recommendations, the objective for which is to improve the regulatory enforcement and enhance financial resilience as well as set the basis for sustainable banking practices to prevent future failures and preserve the systemic stability. elements of behavioral finance theories, the research takes an all-inclusive approach that will curtail such occurrences.

Keywords: *Bank failures, economic downturns, financial crises, financial instability, governance failures, managerial inefficiencies, regulatory oversight, risk management, systemic risk*

I. INTRODUCTION

Banks act as intermediaries in the various transactions pertaining to capital allocation and support for consumers as well as businesses. There is an understanding amongst many scholars of the great economic outcomes in the banking sector, which can have significant economic effects. The banking sector has often fetched blame for failures, leading to restricted loan access, the transmission of a financial contagion, and economic instabilities. Almost all top financial institutions went bankrupt during the global financial crisis in 2008, leading to shocks to economies. Extensive state intervention was required to

sort out the system [1]. The ongoing collapse of actors such as Silicon Valley and Signature involved variable demand problems regarding the occasional targets on the financial and banking sector. This occurrence reiterated the need for strict risk management and supervisory oversight measures to forestall the return of such challenges in the future [2].

The growing number of failed banks results from equal contributions between systemic risks and inadequate management performance. Systemic risks which include the financial industry network structure and market diffusion effects together with regulatory weaknesses make institutions more vulnerable specifically when economic or

financial market conditions become unstable. Both systemic risks and poor management choices such as governance issues and excessive risk exposure and inadequate oversight. Tests the strength of institutions and makes them more prone to failure [3]. Multiple factors create a cyclical mechanism which allows institutional weaknesses together with management flaws to strengthen each other which leads to more severe crisis conditions. Banks in 2024 were inspected by the Office of the Comptroller of the Currency who found that weak risk management practices existed in fifty percent of their assessed large banks [4]. The research explores bank failure origins by examining both systematic risks together with management failures. The analysis investigates the combined effects of these elements which enhance the weaknesses of financial institutions. The study examines multiple risk factors to deliver important findings that should help establish new safety measures for

foreseeable threats.

The complicating effect of managerial inefficiencies to systemic risk calls for the development of the adequate governance frameworks and regulatory measures. This study also offers insights that are crucial for regulators and policymakers, for all financial institutions, in general. This can also help craft strategies better to lift the degree of operational resilience, improve systemic vulnerabilities and ultimately ensure stability of the global financial system. In an environment of growing interconnections with

increasing complexity in the financial industry, such knowledge becomes important to avoid future shocks and to promote the long run sustainability of the banking institutions [5].

II. LITERATURE REVIEW

A. Systemic Risk

Many works have been devoted in the financial literature to the risks associated with a system of connected financial networks. Such systemic risks result whenever the distress or failure of one financial institution affects systemically, potentially throwing the entire network into turmoil [6].

The exposure between institutions means that interconnectedness magnifies these risks, as institutions are interconnected and through that exposures have contagion pathways which accelerate during crises [7]. Further exacerbating systemic vulnerabilities are regulatory loopholes that allow for excessive risk taking and monitor unmonitored activities as studied following 2008 financial crisis [8]. While these studies add greatly to our understanding of systemic risk, the deployment of technology in financial systems, the need for further attention to systemic risk, such as in the face of regulatory demands and changes, requires a more in-depth study.

B. Managerial Inefficiencies

Bank failures are usually caused by managerial inefficiencies like governance failures, misaligned incentives and risk management. Good governance structure is thought to encourage excessive taking of risk by optimizing short term profit instead of long-term stability, and the research indicates that poor governance structure facilitates excessive risk taker behaviors [3]. In addition, operational challenges like lack of oversight and insufficient resource allocation limits a bank's capability to change to a dynamic market. It is also recognized in the recent studies that cognitive biases play their role in managerial decision-making, thus making the risk management ineffective [9]. These insights, however, leave a blind spot in the knowledge of how these inefficiencies interact with systemic risks, which to combine, increase the vulnerabilities present in the financial institutions.

C. Theoretical Frameworks: Examining Systemic Risk and Managerial Inefficiencies

The proper understanding of the relationship between systemic risk and managerial inefficiency requires a marriage of several theoretical models which provide different insights regarding how such financial institutions operate in the context of broader financial networks. Some key frameworks, to which these phenomena are related, are shown here.

Network Theory

Network theory studies the inter-relationship of financial institutions, on how financial system is stable. A web of their own complexity involves many financial institutions together in this situation, whose failure can cascade affecting the whole system of risks.

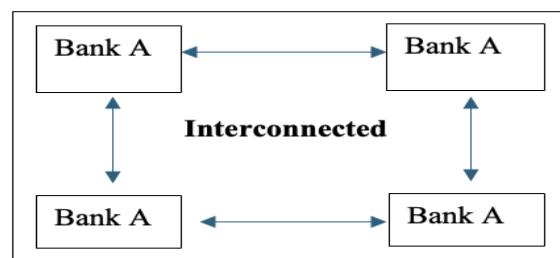


Figure 1: Bank Network Framework (Compiled by Authors)

[10] states that the stability of the financial networks depends on the structures of these connections and how shocks propagate throughout the institutions. The greater the interconnectedness, the higher the potential for contagion and systemic collapse. The flow of money through these interlinked links is like a shock to one bank, such as a liquidity crisis, financial mismanagement, which can propagate and affect other banks and the whole banking system. In this model, the topology of the network,

either centralized or decentralized, is important to the degree of risk from systemic risk.

Principal-Agent Theory

Principal-agent theory [11] addresses the relationship between the bank's owners (principals) and its managers (agents). In this case, things work ideally, and the interests of managers are the same with those of shareholders; such that they take decision which maximizes the value of the bank. In practice, however, managers can pursue their own personal gain (for instance, more bonus or higher power), whereas shareholders can suffer excessive risk taking. The alignment of incentives is particularly risky at times of economic stress when management decisions can increase the bank's exposure to systemic risks.

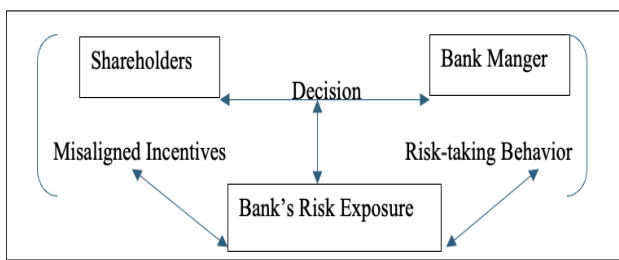


Figure 2: Principal-Agent Problem in Banking (Compiled by Authors)

In the diagram, shareholders (principals) expect managers (agents) to make decisions in their best interest, such as taking measured risks. However, due to misaligned incentives, managers might prioritize short-term gains (like higher bonuses) over long-term stability, leading to poor decision-making and increased risk exposure. These governance failures, combined with systemic risks, can increase the probability of financial instability and bank failures.

Behavioral Finance Theory

Behavioral finance has examined the psychological impacts on the decision-making behavior of the financial institutions. Unlike traditional finance models that assume rational behavior, behavioral finance considers cognitive biases, emotions, and social influences that affect the decisions of bank managers [12].

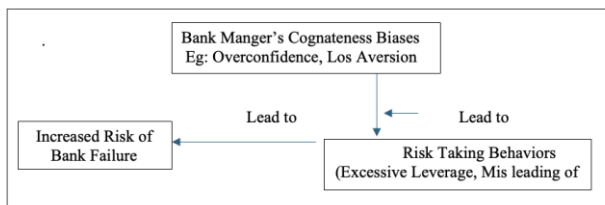


Figure 3: Behavioral Biases in Banking Decision-Making (Compiled by Authors)

According to [9], biases such as overconfidence, loss aversion, and herd behavior can lead to poor risk assessments and overly aggressive strategies. Such biases become much severe in time of uncertainty as managers

may ignore or, to the contrary, under-rate risks. In this framework, cognitive biases affect how bank managers evaluate risks and make strategic decisions. For example, overconfidence might lead to the belief that a bank's assets are more secure than they are, encouraging riskier investments. Loss aversion can result in managers avoiding necessary strategic changes to avoid admitting failure, even when the bank is heading toward trouble. These biases can cause banks to mismanage risks, increasing the likelihood of financial failure, especially in times of economic stress

Research Gaps

A plethora of research has been done on systemic risk and managerial inefficiency, but little is known about how the two interact to increase the financial instability. The subjects of these factors are often studied in isolation by current studies, and either on systemic risks, governance failures or behavioral influences, but not on their joint influence on the financial vulnerabilities. While systemic risk literature typically centers on macroeconomic factors, and research on managerial inefficiencies typically imputes the whole of the causation on systemic risk, the latter completely ignores the role of systemic risk in shaping operational outcomes, and vice versa. This gap implies that strong frameworks are needed which link both macro financial network structures and micro decision-making processes as well as these psychological aspects of managerial behavior. For the reasons described, such an integrated approach is necessary to understand the dynamics that cause bank failures and financial crises.

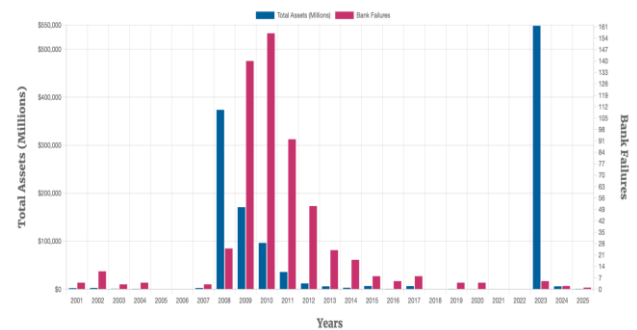


Figure 4: Bank Failures from 2001 through 2025 (FDIC, 2023)

Integrated Framework Model

To achieve this, a framework that both explores systemic risks as well as managerial inefficiencies is integrated by combining the network theory, principal agent theory, behavioral finance. This would help explain how shocks that occur in a financial network impact un-sound managerial decision making and can spawn larger financial crises.

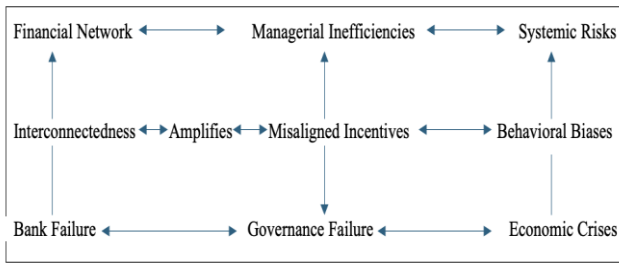


Figure 5: Integrated Framework Model (Compiled by Authors)

The financial network’s interconnectivity (network theory) worsens the impact of managerial inefficiencies (principal agent theory, behavioral biases). The combination of this entails a feedback loop in which systemic risks are amplified in the financial network by governance failures at the managerial level bothered by cognitive aberrations. Such a structure makes that risk of cascading failures higher and put the risk of large economic crises. Theories thus provide the kind of lenses by which to view the complexities of systemic risk and managerial inefficiencies in banking. Drawing lines between network theory, principal agent theory, and behavioral finance allows us to understand how blocks of individual decisions within managerial decision-making impact financial transactions not only but broader financial networks to affect system stability of the banking system. Nevertheless, these models require further work to be integrated within a complete framework to address both the causes and consequences of bank failures.

III. METHODOLOGY

This research adopts the qualitative, case-based approach for the study of systemic risk and managerial inefficiency which lead to bank failures. The case study methodology is chosen to better understand the financial crises happening in the real world, such as the ones from Silicon Valley Bank (2023), Bank United (2009), and Federal Savings Bank (2010). In this section, these choices are briefly outlined for the research design, data collection strategies, analytical tools and robustness checks used to maintain the findings as reliable and valid.

Research Design

These research methods involve a use of an exploratory case study design to explore the failures of banks using real examples. The study combines various data sources like financial reports, expert opinions, academic literature, and regulatory filings for triangulating the findings and alleviate the biased data.

Data Collection

This study will employ a case study approach with a focus on central bank failure with a view towards understanding why systematic risks as well as inefficiencies in management cause institutional failure. Three high-

profile bank failures will be evaluated: Bank United (2009), Federal Savings Bank (FSB, 2010), as well as Silicon Valley Bank (SVB, 2023).

For this study, data collection is a primary and secondary source. Publicly available bank financial statements, failure reports from regulatory agencies such as FDIC, Federal Reserve, or OCC, and congressional hearings will be some of the source of primary data. This secondary data will also include studies published in the academia, reports from the financial industry, analyses of media reports and policy documents to further supplement context and insight. In addition to such regulatory data will be important market data with emphasis on liquidity stress tests, capital adequacy ratios, macroeconomic indicators, which include GDP growth and unemployment rate. This will help to analyze the cause of bank failures and the effectiveness of regulatory measures, using these very diverse data sources.

Sources of Data

To analyze drivers in bank failure, a combination will be made from research sources. The sources will be Bank United, Federal Savings Bank, as well as finance reports from Silicon Valley Bank. The sources will provide insights into its position, risk exposure, as well as its management. The research will also study OCC, FDIC, as well as regulators' filings from Federal Reserve to study pre-failure regulators' activities as well as risk management ratings. Consulting firm case report as well as industrial studies will provide professional judgments on internal as well as external drivers that have initiated bank collapses.

Data Analysis

For this study the data analysis is based on the analysis of documents using a document review and synthesis and case study comparison. The Bank United, Federal Savings Bank, Silicon Valley Bank and the regulatory filings of OCC, FDIC, and Federal Reserve are the primary sources of data. These documents will highlight the causes of the banks’ failure both within and outside the banks. Comparative examination will investigate common areas that emerge, with a consideration of governance, failure in regulation, as well as overall macroeconomic circumstances that led to bank collapses [2; 13]. The study will compare these examples to determine whether systematic risks, i.e., market inter-connectedness, have a similar impact as management inefficiencies in terms of poor management as well as risk appetite. Statistical modeling will be utilized in quantifying relationships between risks at a systematic level as well as managerial inefficiencies

To start the analysis, the banks’ financial statements, regulatory filings and a review of their annual reports will provide the information needs such as management decision, risk exposure, regulatory concern and internal controls. The failures will be studied to identify poor

management practices, risky investments, governance issues and weaknesses in the risk management strategies that might have been part of the problem. It will also look at any regulatory warnings or actions taken before the banks' collapse as well.

After the review, the data will be synthesized to obtain the common themes, e.g. the repeated risk exposures or the missteps in managing the risks. This synthesis will deduce the patterns that explain which events in the banks led to failure. This comparison will show the similarities and differences between the banks and use common drivers behind their failures to make comparison. Using the combination of case study comparison of all the banks and document review and synthesis, the study will offer a complete understanding of internal and external factors that contributed to the failure of each of the banks.

IV. RESULTS

Systemic risks are both as much a prevention as a failure understanding challenge. The risks are quantified in terms of macroeconomic circumstances, regulators' exposure, as well as bank network structures. The section that comes is a key discussion on these dimensions with quantitative observations as well as empirical case studies.

Macro-Level Risks: Economic Downturns and Global Interconnectedness

Economic downturns are often the primary triggers of systemic crises, exposing vulnerabilities in financial institutions. During the Global Financial Crisis (2007–2009), the U.S. economy contracted by 4.3% [14]. This contraction coincided with the collapse of Bank United, which held over \$8 billion in mortgage-backed securities that lost significant value when national housing prices fell by 33% during the same period [15].

The failure of Silicon Valley Bank (SVB) in 2023 was significantly influenced by macroeconomic pressures, particularly rising interest rates. Between March 2022 and March 2023, the Federal Reserve raised interest rates from 0.25% to 5.00%. This increase led to a 15%–20% decline in the market value of long-term bonds [16;17]. SVB, which had a bond portfolio exceeding \$91 billion, faced unrealized losses of more than \$15 billion. These losses undermined the bank's liquidity management during a deposit run, ultimately contributing to its collapse [18;2;19]

The Swiss Re Institute estimates that without mitigation efforts, the global economy could lose up to 18% of GDP by 2050 if global temperatures rise between 2.6°C and 3.2°C above pre-industrial levels [20]. Additionally, the Network for Greening the Financial System (NGFS) has highlighted the significant economic risks of climate change, projecting potential impacts of up to 6% of global GDP by 2050, with the potential for even more severe

effects by 2100 [21]. Banks with heavy exposure to carbon-intensive industries or agriculture face heightened risks, emphasizing the need for advanced climate risk assessments and mitigation strategies.

Regulatory Gaps: Failures in Oversight and Stress Testing

Regulatory oversight failed to mitigate the vulnerabilities of SVB in 2023. Nearly 94% of SVB's deposits were uninsured far above the industry average of 48% making the bank particularly susceptible to depositor panic [22;23]. Despite these risks, regulators did not enforce adequate liquidity buffers or deposit diversification measures. [24]

report in 2023 found that 35% of U.S. banks failed to meet liquidity adequacy standards under rising interest rate scenarios. At the time of their failures, both Bank United and SVB reported Tier 1 capital ratios below the regulatory benchmark of 10.5%, highlighting insufficient buffers against financial shocks [22;23].

Market Dynamics: Contagion Effects in Financial Networks

The interconnected nature of modern financial institutions significantly amplifies systemic risks. During the 2008 financial crisis, this interconnectedness became evident as interbank lending rates spiked by over 300 basis points (bps), which severely constrained liquidity [25]. The failure of several banks during this period heightened risk aversion, leading to reduced interbank lending volumes. For instance, the Federal Deposit Insurance Corporation (FDIC) closed 25 banks in 2008 alone, illustrating the widespread impact on financial institutions [26]

In contrast, the collapse of Silicon Valley Bank (SVB) in 2023 highlighted how technology and social media have exacerbated financial contagion in the digital age. Within just two days of concerns spreading online, SVB experienced a rapid depositor run, with \$42 billion almost 25% of its deposits being withdrawn [27]. This swift flight of deposits left the bank insolvent, demonstrating the amplified speed of financial crises today, where digital platforms accelerate the spread of concerns, causing market reactions to occur much more rapidly than in previous financial crises.

Numerical Analysis of Contagion: Integrated Numerical and Thematic Findings

The role of uninsured deposits and withdrawals plays a pivotal part in banking crises, as illustrated by the collapse of Silicon Valley Bank (SVB). SVB's balance sheet showed that a 10% withdrawal of uninsured deposits could result in a \$9 billion liquidity shortfall, aligning with the actual depositor run in March 2023 that drained the bank's liquidity. Notably, 94% of SVB's deposits were uninsured, far exceeding the Federal Deposit Insurance Corporation

(FDIC) coverage limit [22;23]. This heavy reliance on uninsured deposits made the bank highly vulnerable to depositor panic, especially during times of financial uncertainty. The interconnectedness of financial institutions further exacerbates contagion risks. [24] reveal that the failure of a Tier 2 bank, like SVB, could lead to a 7% reduction in global liquidity within five trading days, highlighting the fragile nature of the global financial system. Even mid-sized banks can trigger widespread repercussions due to interbank linkages and exposures, as was evident in SVB's downfall.

SVB's collapse was also significantly influenced by sectoral concentration risks. Approximately 70% of its depositors were startups and venture capital firms, which created a cascading effect. As many of these startups faced immediate liquidity crises, struggling to cover payroll and operational expenses, the systemic risk grew. The ripple effect of SVB's failure, especially within the startup ecosystem, deepened financial instability, further heightening the economic fallout [18]. Moreover, gaps in regulatory oversight played a critical role in the bank's vulnerabilities. By the first quarter of 2023, U.S. banks had accumulated unrealized bond losses totaling \$620 billion, primarily due to rising interest rates. The FDIC noted that stress testing models failed to account for these risks, exposing weaknesses in how the banking system assessed its exposure to interest rate changes and bond devaluation [22;23]. This lack of foresight in risk management contributed to the destabilization of banks like SVB.

In the digital era, the dynamics of financial crises have evolved rapidly. [28] found that depositor panic spreads much faster in today's digital age, with withdrawal rates up to five times quicker than during pre-digital crises. The rapid dissemination of information whether accurate or not via social media intensifies anxiety among depositors, precipitating large-scale withdrawals. This digital acceleration of financial crises underscores the need for banks and regulators to adapt their crisis management strategies, ensuring they can effectively respond to the fast-paced, information-driven nature of modern financial systems.

Findings and Analysis

Bank United's 2009 failure in global recession is a source of critical insights into bad risk management as well as excessive high-risk concentration. Bank United in Florida failed in 2009 as a direct fallout from a takeover by the Federal Deposit Insurance Company (FDIC) in the wake of colossal housing market bubble losses. The failure is a source of critical insights into sound risk appraisal, in relation specifically to mortgage portfolios as well as high-risk commercial property ventures [13].

Federal Savings Bank failure is largely attributed to its overextension in subprime mortgage loans as well as more pervasive issues in terms of poor monitoring on regulators' parts as well as poor management decisions. Failure at FSB also raised a question about effective monitoring as well as effective management in a situation with fiscal uncertainty in a situation that can lead to excessive risk. The bank's specialization in subprime loans as well as operational inefficacy, which is attributed to its high concentration in a single sector (subprime loans), accounted for its ultimate failure [29]

The March 2023 failure at Silicon Valley Bank is arguably largest in a series of bank failure examples in America. The bank experienced serious fiscal distress as a direct consequence from its overextension in excess in the tech sector as well as in venture-capital ventures with increased interest rates. The failure at SVB is a case study on a bank failure brought about by management decisions as well as a specialized sector's systematic risks (the tech sector). The key drivers involved included concentration in a single sector, poor management in terms of liquidity as well as poor planning in emergencies [18;19].

Several causes, such as failures in governance, operational weakness, and possible clogs in decision making, have been purported to work consistently towards bank failures despite any other contributions from the economy or estranged capital; more likely, amplifiers, thus, of systemic risk for financial institutions. The present work is an attempt to explore these poor management adverse edges using the latest reports as well as data sources for a wider edge of the situation--details of which have been discussed in the next section.

a. Governance Failures: Poor Leadership and Lack of Accountability

Poor governance is a prevailing cause in bank failure, which is increasingly marked by weak leadership, lack of accountability, as well as weak supervision structures. The 2023 failure at Silicon Valley Bank (SVB) is a case in point in these failings in governance. The report by a Federal Reserve revealed that SVB suffered from significant vulnerabilities due to its core risk management disappearing while the ammunition keeps on increasing fast. It said SVB's board of directors and management did not adequately understand these vulnerabilities, leaving the bank open to increasing interest rates and decreasing activity in the technology sector [30]. The Board of Directors also failed in taking suitable measures on these warning signs in a timely manner, which compounded in its failure in its ability in dealing with increasing interest rates as well as dwindling liquidity.

[27;28] observed that bad leadership in banks is largely with a culture that encourages risk-taking in which

decisions are made in a secluded, centralized manner that does not allow effective communications across functions. In SVB, overinvestment in long-duration bonds with poor planning in case unforeseen circumstances is a failure in governance that did not allow the bank to have effective countermeasure plans in reaction to changed market circumstances. The lack of good risk management and contingency planning also prevented SVB from adapting to shifting market conditions and influenced survival [31].

SVB failure in independent monitoring also largely worked towards driving the bank into collapse, again stressing that effective structures in terms of governance are essential in maintaining stability in finance [27;28].

b. Operational Shortcomings: Risk-Taking Behaviors and Inadequate Controls

Operational inefficiencies come hand in hand with risk activities as with poor controls. Over-risking is among the leading drivers to a high bank failure rate because of poorly designed strategies. The case in focus is the Federal Savings Bank (FSB) that defaulted into failure in 2010. The bank had about 45% of its book in high-risked subprime mortgage loans, although its risk management strategy did not foresee a decent downside on these investments. According to a [29], FSB's management ignored regulatory red flags, allowing the bank to operate with high levels of risk without implementing effective risk mitigation strategies. Similarly, during the 2008 financial crisis, Bank United suffered from risk-taking behaviors that were not properly checked by its operational controls. Bank United's exposure to mortgage-backed securities, particularly high-risk real estate assets, was underestimated, contributing to its eventual collapse [13]. The bank's internal controls failed to assess or adjust for market risks tied to the housing market downturn, which led to substantial losses. [24] report highlights that the failure to maintain an appropriate risk management infrastructure, especially for financial institutions involved in high-risk sectors such as real estate and technology, often leads to poor decision-making under financial stress, as seen with SVB's sudden liquidity crisis.

c. Decision-Making Bottlenecks During Crises

The bank suffered some policy bottlenecks during the crisis emanating from the control of way many or incomplete risk exposures after the crisis had broken out, which could have caused numerous policy inconsistencies. For example, the SVB crisis in 2023 is a case in point, where the senior leadership has the powers to deal with the emerging issues yet does not act at all to rapid deposit outflows. [30] Silicon Valley Bank (SVB) senior leadership did not perform well in managing basic interest rate and liquidity risks. It is aware of these issues but did not take necessary remedial measures to deal with these challenges. Thus, deposits being frozen. No such measures took place

once the capital was annihilated and there was no scope of recovering the asset or a process of transition or reconstruction of the assets at the necessary point of time.

Additionally, SVB's lack of diversification made the customer base in the technology sector more concentrated and consequently more stressful for decision making, having little flexibility to go through the crisis efficiently [32]. With the bank's smaller size, compared to its competitors, it made it even more difficult to implement effective countermeasures [33]. The GAO [19] report further exhibit that the mission creep of SVB, coupled up with the objectionable crisis process architecture, handicaps the bank's ability to satisfy the depositors in expeditious manner. And indeed, the delay in making such decision only made the situation SVB found itself in prone to get worse.

d. Quantitative Insights into Managerial Inefficiencies

The recent bank studies show that bank directors' inability to make effective decisions has a potential distress on efficiency, stability and therefore profitability. [24] revealed that losses could come about in a much shorter period for banks with lean structures, weaker organizational defenses or ineffective oversight during times of stress. Effects of poor risk management was identified within one bank greatly leading to a failure rate that was higher by 40% than well-governed banks in a stress test assessment. For example, the poor quality of risk management structure was seen to worsen the firm's riskiness where a rise in distress resulted in a 'tented worked and' was 40% for such banks, compared to other well-governed banks.

An analysis of the balance sheet of SVB shows that the capital base of the bank was low as per the industry standards with the Tier 1 capital ratio in 2023 hovering at 7.8% as opposed to the industry standard of 10.5%. Thereby placing such a bank at a credit risk since the bond's duration could not be shortened within the period miscaptioned the bank's capital buffer was not that strong such that the bank failed to share up in such a way that it failed due to the deposit withdrawal and fall in value of long-term bonds [16;17]. Operating a domestic bank business in a certain territory however does not imply an unlimited flexibility, indeed there are various constraints essential for the avoidance of untoward consequences and this is what many lenders failed to consider. Bank United experienced a high leverage ratio prior to its failure, which means that it had an excessive amount of debt in relation to its equity. This put the bank in a more precarious position arising from any financial disruption, as its back book was predominantly mortgage-backed securities. Subsequently, the bank closure turned out to be evident with operational risks, specifically the management's inability to deal with real estate risks particularly markets [13]. Systemic risks can be significantly exacerbated when firms suffer from

these begrudgingly aforementioned inefficiencies that is governance malfunctions, operational lapses and decisional constraints. It would be appropriate to say that performance appreciably falls when issues of such costs as the cost of capital are considered, which takes another form of interest coverage as this is the case when people foresee financial and other strategic problems. Silicon Valley Bank (2023) and Federal Savings Bank (2010) went down the same path and proved to the world that excessive risk in financial capital is dangerous, which is destructive and costly.

From all these case study's recurrent themes strengthen their findings, such as in diversification known risks, or lack thereof, risk management in the overall portfolio performance, and weaknesses in quick response to stressful situations. In addition, when the empirical and qualitative evidence from multiple sources is fused, it becomes clear that poor management is not specific only to cases mentioned in the previous paragraph, rather it contributes towards the overall financial crisis. To reduce the impact of bank failures in the future, it is important to pay more attention to improving risk management systems, corporate governance, and allow some flexibility in the vulnerable decision-making process in crisis moments.

e. Interplay Between Risks and Inefficiencies

The goal of this first part at hand is to explain these issues individually as well as in relation to one another using the example of the most complicated financial crises and the role of these crises in exacerbating the vulnerability of financial institutions.

The bankruptcy of the Silicon Valley Bank (SVB) that occurred in March 2023 serves as a classic example illustrating how systemic risks and inefficiencies of management can reinforce each other. The proportion of SVB deposits attributed to technology start-ups was a level of almost 70%, due to which it was particularly exposed to sectoral and liquidity risks. By the time of the collapse, its bond holdings faced losses of approximately \$15 billion, because of the management of SVB's exposure during the periods of 2022 and 2023 when the Federal Reserve raised interest rates. This suggests major failures of bank's risk control practices [30]. This mismanagement of resources at the bank triggered what would have indeed been there the most execution of the interest rate increases as it affected beyond the operations of the bank to finally overstrain the country's liquidity. In less than 2 days, the bank witnessed 42 billion flowing, leaving everybody scampering for the door, which had softly already closed already [27;28].

Similarly, during the global financial crisis of 2007-2009, Bank United's collapse illustrated the catastrophic effects of poor governance compounded by systemic financial shocks. Bank United's exposure to mortgage-backed securities and high-risk real estate investments

contributed significantly to its downfall. As housing prices dropped by 33%, the bank suffered an \$8 billion loss [15]. This case highlights the interaction between poor leadership in managing credit risk and the broader systemic risks of the financial market collapse.

i. Role of Crises (Financial Downturns, Pandemics) as Catalysts for Failure

Economic downturns often serve as critical triggers for bank failures by exposing or amplifying existing vulnerabilities within financial institutions. For example, the 2008 global financial crisis led to a sharp decline in asset prices and a tightening of credit. Many banks were unable to manage their exposure to risky assets, such as subprime mortgage-backed securities, resulting in significant losses and the failure of multiple banking institutions [5]. Pandemics like COVID-19 not only trigger operational and liquidity risks but also highlight governance challenges. [24] revealed that during the pandemic, many banks failed to adapt their operational strategies and risk management frameworks quickly enough, resulting in cascading failures across the banking sector. This, in turn, exacerbated global financial instability [34]. These examples illustrate how managerial inefficiencies, particularly in decision-making and leadership, can magnify systemic risks during times of crisis.

ii. SVB's Depositor Concentration and Liquidity Shortfall

Valley Bank (SVB) had a high reliance on deposits from startups, venture capital firms, of more than 70% of its total deposits. The last was a concentration: the bank was particularly vulnerable to being hit by the failure of key clients, who pulled their deposits rapidly out of the bank. The Federal Reserve (2023) did a simulation of a \$9 billion (\$10% of uninsured deposits) withdrawal, which should have resulted in a liquidity shortfall. This shortfall was experienced by SVB in real time as there was a high-risk exposure and insufficient capital buffers, forcing SVB to melt down in March 2023 [30;35].

iii. Capital Adequacy and Governance Failures

Both SVB and Bank United were operating with Tier 1 capital ratios below the industry average of 10.5% during their failures, demonstrating weak capital positions and governance failures [22;23]. These failures in governance contributed to their inability to withstand market shocks such as the rapid interest rate hikes in 2023 or the collapse of the housing market in 2008.

iv. Global Financial Network Vulnerability

The interconnectedness of modern financial institutions means that failures, such as those seen with SVB, can cause systemic contagion. [24] report found that the failure of a Tier 2 bank could reduce global financial system liquidity by 7% within five trading days. This phenomenon was

evident during the SVB collapse, where the ripple effect caused major disruptions in venture capital markets and led to cascading failures in startups that were heavily reliant on bank loans.

Thematic findings

A. Systemic Amplification via Interconnectedness

The failure of SVB was not only a result of internal managerial inefficiency but also the interconnectedness of global financial systems. With over 70% of its deposit base coming from tech startups and venture capital firms, the collapse of SVB led to widespread liquidity crises among startups, which faced immediate operational challenges [16;17].

B. Regulatory Oversight Gaps

Unrealized bond losses across U.S. banks, including SVB, totaled \$620 billion by Q1 2023 [22;23]. Despite these looming vulnerabilities, regulatory stress tests did not account for such large-scale bond devaluations in a rising interest rate environment. This regulatory oversight gap was a key factor in both SVB's and other banks' vulnerabilities during periods of systemic stress.

C. Behavioral and Market Dynamics in the Digital Age

There has been drastic change in customer dynamics because of digital technology. In a survey conducted by McKinsey and Company in 2023, during a digital crisis deposit withdrawals were five times faster compared with the existence of traditional bank crisis. It is no surprise that this aspect was mainly predominant during the collapse of Symbionese Bank as the use of forums and social media greatly contributed to the bank run [27;28].

V. DISCUSSION

Focusing on case studies of Silicon Valley Bank (SVB) oversites or failures, the epic of Bank United; Federal Savings Bank precludes macroeconomic problems, along with culpability and operational failures from across the industries, is shown to have in many cases caused banks to fail altogether. In such a scenario, it is an obligation to implement these provisions rather than allow profitability-seeking entities to exploit the benefits provided by these provisions. This part will consolidate existing knowledge and propose recommendation that may be used to develop the policy.

A. Synthesis of Findings: How Systemic Risks and Inefficiencies Contribute to Bank Failures

If macroeconomic slowdowns, regulatory deficits, and contagion in the financial network have created failure at the micro level of banking, the initiation of analyzed technical impairments of risk management frameworks must be present to recommend a detailed corrective action. In effect, high-interest rate deterioration-as shown in the

2023 bankruptcy of SVB-was accompanied by major market-related mark-to-market unrealized losses on long-term government bonds impacting liquidity. This hence put a company under tremendous pressure to obtain liquidity [16;17]. SVB's exposure to the industries affected by climate change only compounded the problem. Financial institutions that have heavily invested in sectors exposed to climate risks are exposed to heightened stress from which there may be liquidity shortfalls and solvency concerns. This scenario is consistent with that banks overexposed to industries that could be heavily impacted by climate change should be experiencing those levels of stress [36].

It is less-skilled management that systems are handling in terms of the inadequacy of necessary responses to systemic financial crisis occasions. The fateful thing that not only made the systemic characteristics of SVB and Bank United worse was poor governance, scanty capital buffers and poor stress testing, of course. SVB was heavily hit due to the hitches it had to deed on increasing interest rates and since it was uncovered, it was not hedged against what was happening. These were the ones that ran off the dot.com depositors that acted during the period of a very hot time in deposit raising. Most of them came from tech sectors. Furthermore, there was some of the most serious managerial-level errors: failing accountabilities up to the top management and low levels of internal communication [22;23]. Decision-making bottlenecks experienced during adversities make it difficult to act on time to reduce risks.

In all the case studies, there is a synergy between systemic risks and management weaknesses. For example, the failure of the SVB was not solely due to the rising interest rates but due to the mishaps that affected the risk controls. These concurrence risks have magnified consequences since, some aspects such as changing interest rate regimes increased the weaknesses found in how SVB governs and does its operations. While the example of Bank United and the 2008 global financial crisis underscores a very similar picture, wherein weak governance, ill-advised decision-making, and risk mismanagement led to the institution's failure in face of the other crisis conditions of the market [15].

B. Policy and Practice Implications: Strengthening Regulatory Frameworks and Enhancing Governance and Risk Management Practices.

The main learning from this study is on whether it is the case that risk assessment progresses beyond the traditional. The vulnerability of the Federal Reserve was exposed in terms of preparing for some predictable risks like the impact of long-term bond decline due to increased post-bubble interest rates. The stress tests that we have been exposing banks to during the bubble have not included increases in real interest rates that could lead to serious financial instability down the road. For the assessment to

cope with this, it would involve the need for a much wider range of macroeconomic and sector-specific risks to be valued. Regulators should extensively manage emerging risks-in a changing way and up to interpreting different forms of systemic risks, such as environmental risks associated with climate change, digital-age vulnerabilities, and so forth, like bank runs that may rely on social media. Also, large, interconnected banks, whose potential failure can lead to a contamination effect that goes through the whole worldwide financial system, should focus on the justification and inhibition of systemic threats.

For efficient mitigating measures on both systemic as well as operational risks, clear accountability and decision-making authority in governance structure must be well defined. Risk management practices should be of high quality and comprehensive and be supported by very good liquidity buffers- preferably ones that are very anti-stressful; be made to diversify somewhat from the customer base. What makes a bank discover the critical lessons from the Silicon Valley Bank crisis is the immediate loss it could incur from sector-wide exposures in such stress conditions i.e. 70% of its deposits were stuck in the technology sector, worsening the financial pressure on higher interest rates at SVB [27;28]. Diversify by industry, in respect to such exposures, banks will have to slink down into the different sectors at a fleeting event. This will cover strong governance which largely speaks on wiping out the independent board members of unheard-of companies and strong internal audit functions raised effectively during financial crises upon risk management mitigation. More vividly related to policy is the use of real-time risk monitoring enabled by digital means. This entails the recognition of the increasing speed in the use of digital banking, with the propensity for social media networks to induce volatility in depositor behavior. Therefore, by making use of AI-empowered tools, banks can research on real-time sentiment and early warning signs regarding a liquidity crisis. For example, the unrest among the social media-influenced depositors of SVB led to massive withdrawals that could have been checked by proactive crisis management strategies [27;28]. Hence, the regulatory bodies urge deployment of systems of real-time monitoring, which can predict and prevent crises.

C. Theoretical Contributions: Insights into the Interplay Between Systemic and Managerial Factors

One of the things that were investigated was about the interaction between systemic risks and managerial failure. How it is enhancing one thing even worse, and how these two really lead to that financial crisis. Thus, it's suggestive in a detailed explanation about the cash and the market economy that drives the banking organization into bankruptcy, especially during the period of an economic depression. The focus for this paper, however, goes even to

characterize the governance failures and the officially caused macroeconomic shocks, along with the fact that managerial failures in decision-making retroactively as much as metamorphose external systemic risks into acute threats. In the traditional banking approach, this study shows that systematic risk is more derived from managerial issues. There is a call for a more holistic strategic plan to ensure financial security that would deal with those factors at the same time instead of isolating the issues of systemic risk from traditional risk management. With this, much more can be accomplished. An optimal mix must thereby be set up, among several other things, for broadening perspectives about risk and crisis assessment and prevention. At the same time, such a study would look around transforming and adjusting financial stability models toward emerging threats as climate change and the risks of the digital age. The highly dynamic markets, accompanying the recent downturn in Silicon Valley Bank (SVB), also help to assert the conception of the banking discipline in terms of digitalization and its effect on depositors' reactions and market moods.

VI. CONCLUSION

The following empirical research links the subject of systemic risks and management failures that contribute to the failure of large financial institutions. Majorly, the report on different banks, such as Silicon Valley Bank (SVB), Federal Savings Bank, and Bank United, has shown that both external economic factors and the managements behaviors within entities always result in financial crisis instances concurrently. The study of current systems has also advanced us on the important issues of studies such as economic shocks, systems risk such as the wall street events, systems that have challenges and the control mechanism. The study emphasizes that during a crisis significant appetite for risk, heavy-handed managers, obstruction of decision-making procedures, bad governance, call building, and many other problems especially in a banking sector led to economic recovery.

These research conclusions have illustrated the dire need in all financial institutions for a comprehensive preventative practice of risk management. More so that, the elements' corresponding concepts are very pressing. Financial institutions Incorporate more and more significant systemic risks exposure such as, for example, changes in the chemical composition of the soil, the use of modern technologies, or new business Downloaded from its words of the channel. On the other hand, within the confined walls of banks, governance breakdowns, limited control processes, as well as inadequate decision-making processes can only add to these external vulnerabilities. It was also pointed out that despite their promises, the pointed adjustments in state policy and fragile banking practices are

not enough to do away with possible imminence of financial collapse.

To provide an effective final point that demonstrates the increase of the resilient financial systems, which were softened to the crisis response measures risks, the following sectors must act in tandem: regulators, finance enterprises, and policy makers to targeted factors which affect systemic hinge as well as managerial shortcomings. Governance reforms, more vigorous and sensitive stress tests and will land frankly, various technological solutions such as predictive analytics are the most obvious and coherent progressive financial sector-making measures. Moreover, financial stability concept and the need for any international co-operation as well as development of such relatively stable structures of regulation is the inevitable enhancement of the regulation It is a very bone of contention within finance reform. Although resistance is widespread, the focus appears to bring back monetary stability. It would prove wise to avoid band-aid solutions and rather go for the creation of more durable countermeasures, strong ones that even could survive future crises.

VII. RECOMMEDARTIONS

Bank failures have been caused by several factors including systemic risk, weak management and its interaction with each other. These factors have been observed in many institutions including banks and so forth; hence the purpose of my research is to indicate perhaps the remedies of them at the policy and institutional levels. These recommendations are with a view to enhancing the risk capacity of the banks financial systems, changing regulatory strategy and creating better conditions for conditioning the banking sector for addressing future risks.

A. Policy-Level Solutions

i. Global Regulatory Reforms for Interconnected Financial Systems

The major banks collapsing at this point underlines most of them, like Silicon Valley Bank (SVB) and Bank United, how vulnerable the financial system becomes with globalization. It is imperative that global regulators take major actions to prevent these systemic shocks taking place because of the extreme threat to substantial's due to the global inter-linkages. By far the most important would be the recent introduction of capital adequacy norms to apply to big banks that enjoy a global presence rather than just anti-contagion measures, which are designed to prevent one institution's failure causing a contagion effect in the global financial system. The regulators should work in tandem to ensure more monitoring on systemic risks and educate themselves on even more stringent advisories on the bigger interconnected banks [24].

ii. Stress Testing and Crisis Simulations

Traditional stress testing models must be updated to reflect emerging risks such as climate change, cybersecurity threats, and digital financial disruptions. Currently, many stress tests primarily focus on economic downturns, liquidity crises, and interest rate fluctuations, but they fail to account for non-traditional risks that could have catastrophic effects on banks. For example, the rapid interest rate hikes experienced by SVB in 2023 revealed significant gaps in stress testing related to bond portfolio devaluation [16;17]. The inclusion of climate-related stress tests and cybersecurity breach simulations would provide regulators with a more comprehensive view of potential vulnerabilities and improve banks' preparedness for future crises (NGFS, 2023).

B. Institutional-Level Solutions

i. Governance Reforms: Clear Accountability Structures:

One of the most important lessons from the failures of SVB, Federal Savings Bank, and Bank United is the lack of strong governance frameworks and accountability mechanisms at the highest levels. Financial institutions must implement clear governance structures, ensuring that risk management and compliance responsibilities are distinct from executive management roles. For the oversight of contingent risk, the independent board of directors should get more actively involved, together with a more powerful internal audit, among others, that should monitor the implementation of any risk management strategies. This consists of having clear lines of accountabilities and designated individuals for managing individual risks [22,23]

ii. Investment in Technology: Predictive Analytics for Risk Management

In light to the highly unpredictable and unstable economic conditions, it is indeed difficult for a bank to be able to overcome a certain amount of threats without investment due to the advancements in technology that can be considered applicable in risk management. In the future, however, with the use of predictive analytic technologies, driven by artificial intelligence and machine learning people will probably have an advance look into the potential threats. For example, they can instantly view the overview of the many client orders and many more behaviors of the New York Stock Exchange through the venues like the Bloomberg terminal online sites. They can be able to investigate sentiments in the stock trading social media, forums and blogs and thereby see whether traders begin pulling their money away from the bank and if so why. This could well create the risks, that's all included. With such principles, the bank will surely be information about any troubles at a much earlier stage without awaiting the formal case. This facilitates proactive rather than reactive avoidance of risk, as well as simpler adherence to

these risk strategies [27;28]. Also, the nice aspect of the tool is real-time as well as the ability to check without activating that o functionality which is the liquidity position or the exposure to the market shock.

Future Research Directions

a. Studying Emerging Risks (e.g., Fintech Disruptions, Climate Risks)

Technological advancements are significantly changing the way of living and how finance is viewed. Technological advances are currently reshaping every aspect of life, especially in the financial sector. Technological development in finance aims to solve the increased risks posed by financial innovation, as well as climate-related risks. Within DeFi (decentralized finance) and blockchain technology marketing is the setting of new regulations for of self-protection against impacts based in contrast to the traditional banking sector, only such measures may be forestalling the expected negative economic disruptions that may fly against the old wisdom [37]. Banking sectors seriously impacted by environmental effects are particularly threatened in terms of financial stability in that cases as those related to changes in the environment, such as climate, cause a risk to some industries [38]. It is clearly the future research avenues to be pursued to explore the interface between technology, climate change, and stability in the financial system- in full realization of the consequences that a new set of risks will have on banking operations and their resilience during times of upheavals [37;38].

b. Assessing the Impact of Digitalization on Financial Stability

There is already an intense need for more in-depth research on the analysis of how digital interfaces change market sentiment and depositor behavior. The panic-raged depositors' catastrophic amplification by using social media could be clearly observed in the SVB bank drama: constant liquidity flight from banks (like depositors turning panicky and scared). The purpose was to draw a listener to study digital communications related to financial stability and then find out if their financial markets are accelerated or only mitigated against financial crises by their continual use of technology by the platforms that bring about great expenses associated with systemic risk. It broadens understanding a lot more, whether digital technologies can accelerate or merely mitigate the reactions financial markets make toward financial crises and how far these platforms exacerbate systemic risk costs [27;28].

c. Exploring the Role of Behavioral Economics in Bank Failures

The perspectives of behavioral economics have informative impact on the idea of how decision-making

errors and herd behavior culminate in the fall of banking institutions. Further studies are required to study psychological factors that would influence investor and depositor behavior in face of a crisis with a view to examining how said fears and uncertainties coupled with loss aversion could affect choices of both consumers and institutional investors in such times. So, it plans to take changes in the risk management and regulatory frameworks by bank and policymakers more usable management tools to manage market shocks in response to responding to the crisis. Suggested enhancement measures are intended to strengthen the resilience of financial institutions and equip banks themselves well to cope with crises in the future. For example, regulators would have to reform the regulation globally by improving stress testing models and coming up with mechanisms for enhanced international co-operations to curb systemic risks. There are requirements to block linkages among different financial institutions included in a broader agenda of making structural changes in improving governance and investment in technology within institutions to enhance risk management capacity given that markets change rapidly. Future research might inform on emerging risks and the influence of digitalization to better realize future potential threats, giving one more reason to ensure the long-term stability of the financial sector.

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DISCLOSURE STATEMENT

The author(s) has/have declared no potential conflicts of interest.

DISCLOSURE STATEMENT

The data is mainly collected form public and online databases in this study and noted as relevant sources towards the paper.

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