

# **Tracing Bank Runs in Real Time**

**By**

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Discussant

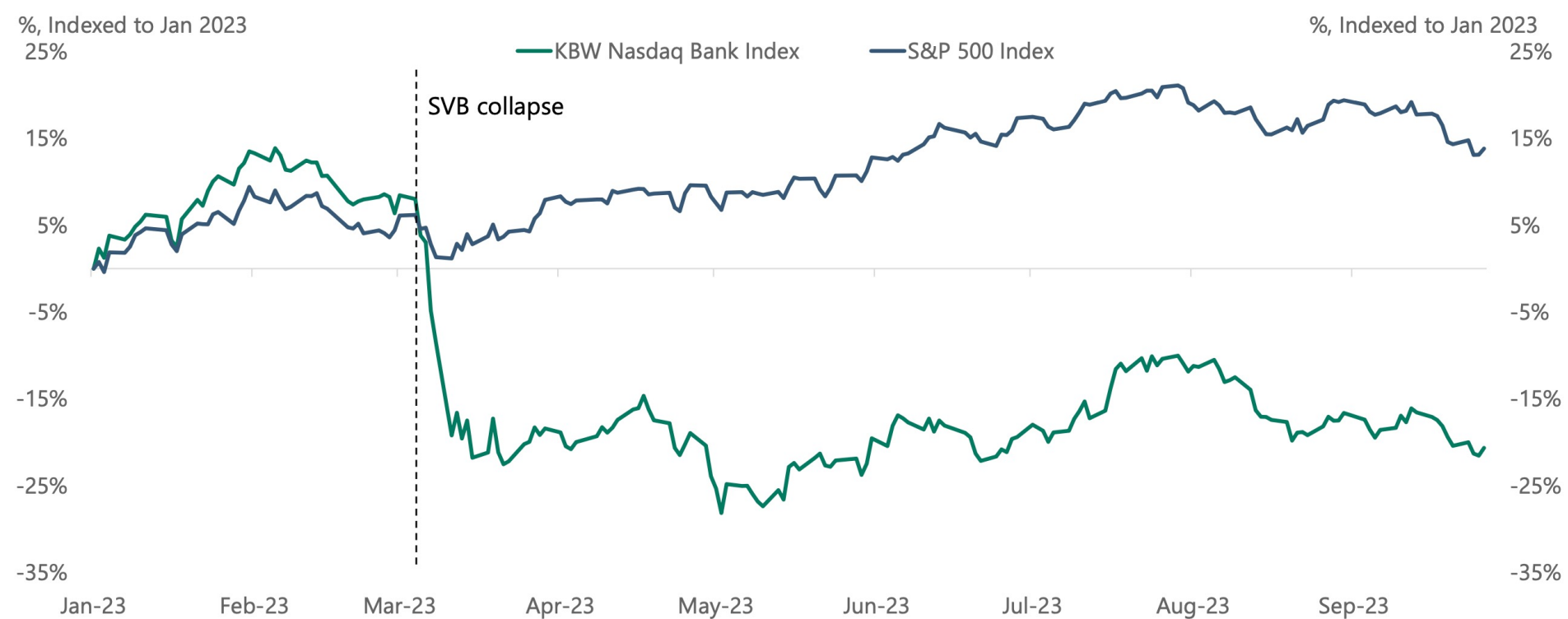
Sascha Steffen (Frankfurt School)

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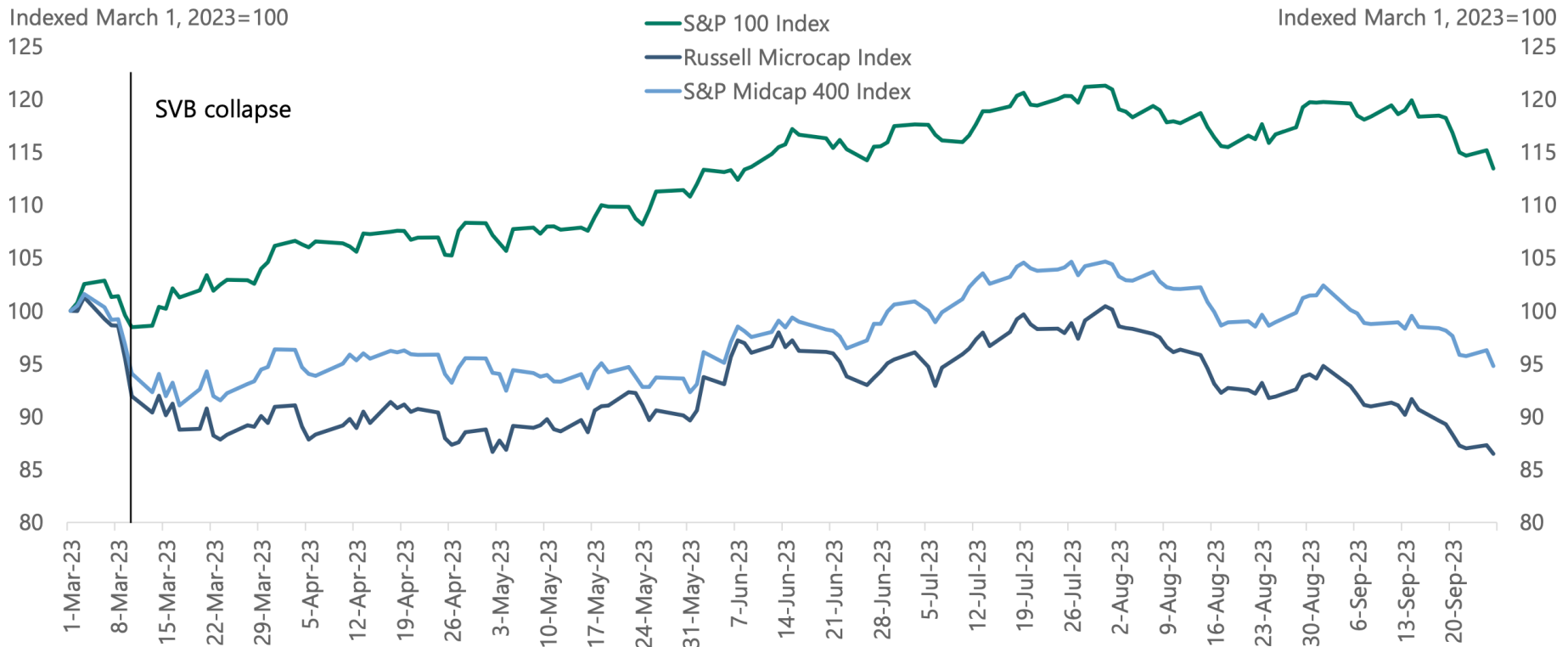
# This paper

- Banks role as liquidity providers! What causes bank runs?
- Setting: (Regional) Banking turmoil following the SVB default
- Great new data on high-frequency deposit flows (institutional and retail deposits)
- New measure for “bank run”:  $z = \frac{n - \mu}{\sigma}$  (  $\leq -5$  )
- 22 banks were run at (on March 10 or March 13, 2023)
  - But only 2 failed

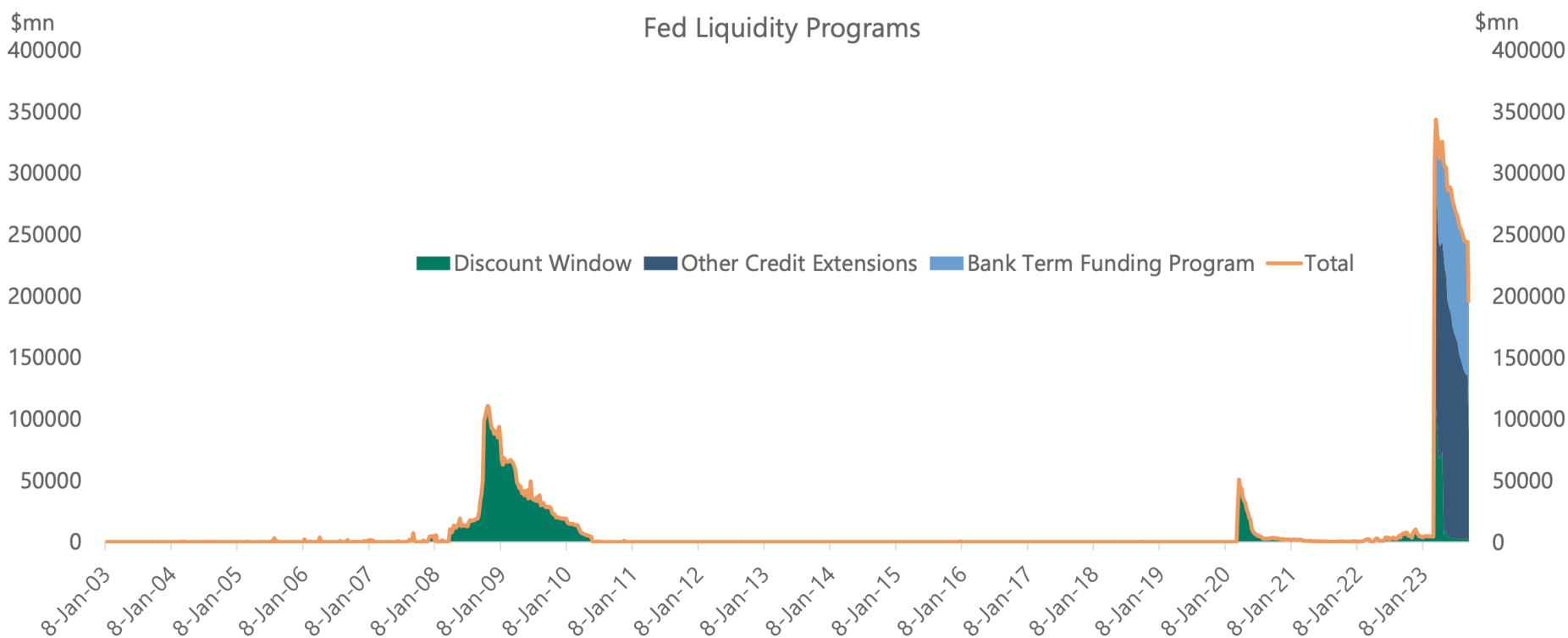
# Bank stock prices remained depressed while economy at large appeared unaffected



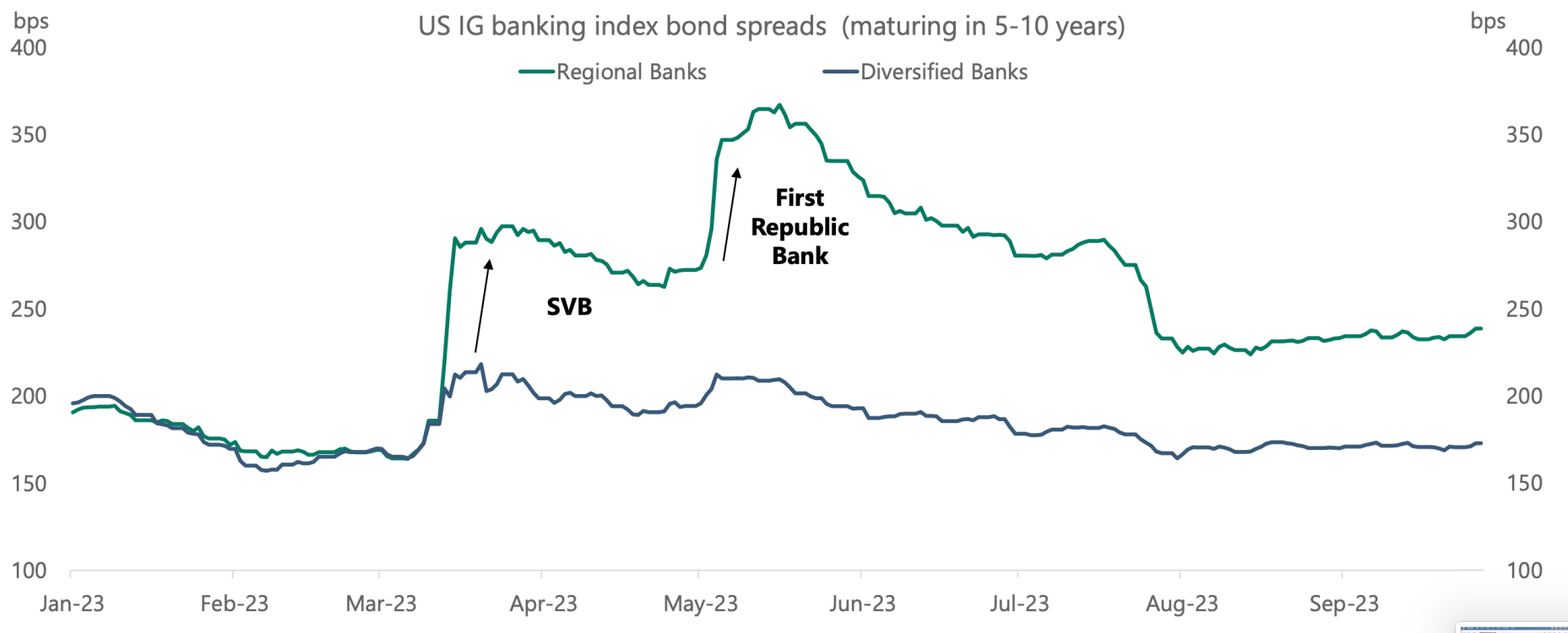
# Negative impact on small and medium-sized companies



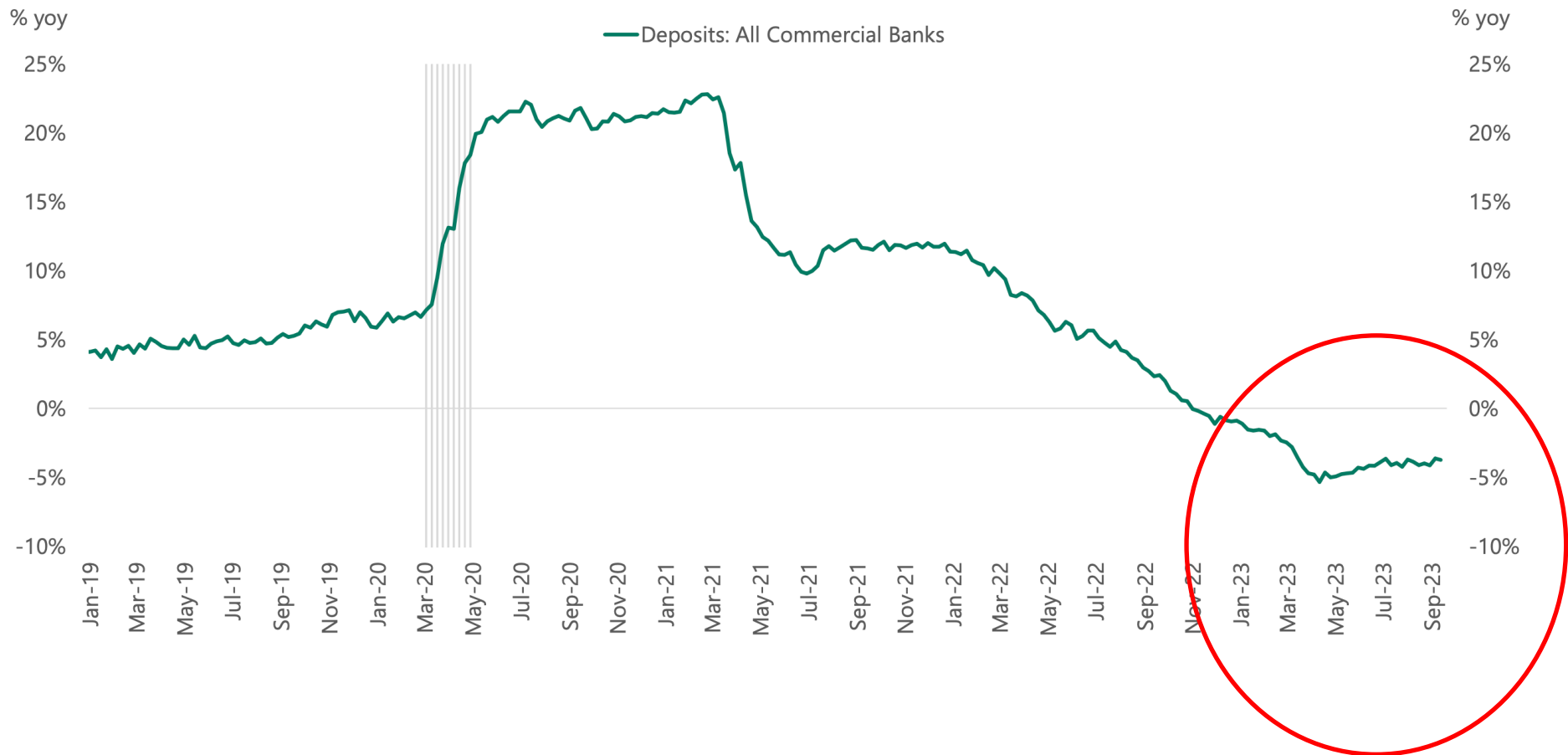
# Fed liquidity borrowing higher than in 2008



# SVB and FRC lifted funding costs permanently



# Negative deposit growth



Source: Apollo Research

# This discussion

My discussion focuses on three aspects:

1. Narrative – What does the evidence in this paper tell us?
2. Why were small (but not large) banks run at? “*Claims to Potential Liquidity*” (*Liquidity Risk*)
3. Implications for policy and regulators

## Narrative – What does the evidence in this paper tell us?

- Paper needs a framework in which to interpret the results
- Key results from the paper
  - Many results that are consistent with the literature
  - Deposit outflows from smaller banks, flight-to-quality, FHLB and discount window borrowing etc.
- New results using the novel data could be focus (“coordination” problem vs solvency-based run)
  - High intensity of wholesale runs concentrated in a few days

# How do outflows compare to the LCR?

**Table A.1:** Deposit outflow of distressed banks

| Bank                      | Deposit outflow | Number of days |
|---------------------------|-----------------|----------------|
| SVB (2023) <sup>(a)</sup> | 85%             | 2              |
| FRC (2023) <sup>(a)</sup> | 57%             | 90             |
| SVB UK (2023)             | 30%             | 1              |
| CS (2023)                 | 25%             | 7              |
| SBNY (2023)               | 20%             | 1              |
| Icesave (2008)            | 20%             | 75             |
| Northern Rock (2007)      | 20%             | 4              |
| WaMu (2008)               | 10%             | 10             |
| IndyMac (2008)            | 8%              | 14             |
| LCR <sup>(b)</sup>        | 3% - 40%        | 30             |

Source: BIS (October, 2024)

- Speed of deposit outflows in 2023 vis-à-vis historical episodes
- Large relative to LCR? How do deposits outflows of 22 "run" banks compare to LCR
- None of these banks (except CS), were subject to LCR!?

## “Coordination” problem vs solvency-based run

- Can you add deposit flow data for the 2008-2009 crisis period?
- 2023 bank runs (except SVB) are likely all not solvency based runs.
- Comparing the both crisis episodes might shed light on causes of bank runs
- Did post-SVB Fed / government intervention stop bank runs in 2023?
  - What ”solves” the coordination problem among (uninsured) creditors?

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  - Deposit outflows from smaller banks, flight-to-quality, FHLB and discount window borrowing etc.
- New results using the novel data could be focus (“coordination” problem vs solvency-based run)
  - High intensity of wholesale runs concentrated in a few days
  - Public banks are more likely to be run at -> Why?
    - Endogeneity (public banks are differently run, business model etc.)
    - Early information about solvency concerns?
      - Use returns, changes in MV (relative to e.g. uninsured deposits) to predict runs

# Why were small (but not large) banks run at?

- *Liquidity risk* of small banks likely important determinant of banks runs after the SVB default
- Quantitative easing (similar to government guarantees) encouraged *tail-risk seeking* of small banks not subject to LCR requirements ([Acharya, Chauhan, Rajan, Steffen](#) 2024)
- During QE, banks financed reserves via uninsured demand deposits and issued credit lines
- These claims on liquidity did not shrink when the Fed halted QE or turned to QT.

# Claims to potential liquidity by bank size



- Liquidity risk: Small banks issued claims to liquidity but had limited access to liquidity (reserves, eligible assets)

## Small and mid-sized banks suffered more after SVB

- (Small and mid-sized) Banks with higher claims to potential liquidity
  - had lower stock returns during the SVB turmoil (March 1 – March 13)
  - lost more uninsured deposit in Q1-Q4 2023
  - accessed FHLB and discount window relatively more
- Potentially also more leveraged carry trades (in US Treasuries)
- Overall, these banks likely had a higher likelihood to be run at.

# Implications for policy and regulators

- What do the results suggest regulators should do?
- High-frequency deposit flow data should be used by supervisors to monitor banks (in good and crisis times)
  - Ongoing discussion in Basel, ECB
- Should have LCR framework be adopted by small and mid-sized banks to avoid runs?
- Do regulators need to rethink liquidity regulation?
  - Definitions of HQLA? Haircuts?
- Mark capital to market, stress test it -> raise capital?

# Overall

- Paper has great data, lots of potential
- Too many results but framework is missing
- Possible path forward would be to focus on intensity wholesale runs comparing GFC and SVB and to delineate better coordination vs solvency-based bank runs