NEWS LETTER

STARTUPSCALE 360

ISSUE 11 • APRIL 2023

APRIL FOOL'S DAY

While **April Fool's Day** may have marked the beginning of last month, there's nothing foolish about the articles and insights we have in store for you.

A month before brought unexpected twists and turns, as even the most savvy startups and venture capital funds were caught off guard by the surprising **collapse of Silicon Valley Bank**.

However, amidst the turmoil, there were moments of inspiration and collaboration. Startupscale360 partnered with **TikTok for Business** fostering connections and knowledge exchange. Furthermore, we are pleased to introduce the new management committee for the **Entrepreneurship World Cup 2023.**

Join us as we dive into the latest trends, stories, and happenings from the dynamic world of startups and venture capital.

STARTUPSCALE360 NEWSLETTER

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Xclusive!

COLLAPSE OF THE
SILICON VALLEY BANK

The collapse of SILICON VALLEY BANK

T he bank's downfall has sent shock-waves throughout the industry and had a profound impact on the economy as a whole, the reason being that this is the first largest bank to have failed since the 2008 financial crisis and the second largest bank failure in the US history. In this article, we will take a closer look at the events leading up to the collapse of SVB Bank and its aftermath.

SVB Bank was founded in 1983 and quickly established itself as a leading provider of banking and financial services to the technology industry. The bank's success was built on its ability to provide customized financial solutions to its clients, which included some of the biggest names in the tech industry such as Airbnb, Fitbit and Pinterest along with several Venture Capitals.

RAPID GROWTH

In the early 2000s, SVB Bank experienced rapid growth, expanding its operations and increasing its lending portfolio. The bank's success attracted the attention of investors, who were eager to get in on the action. In 2004, the bank went public, raising $446 million in an initial public offering (IPO). The IPO was a huge success, with the stock price soaring on the first day of trading.

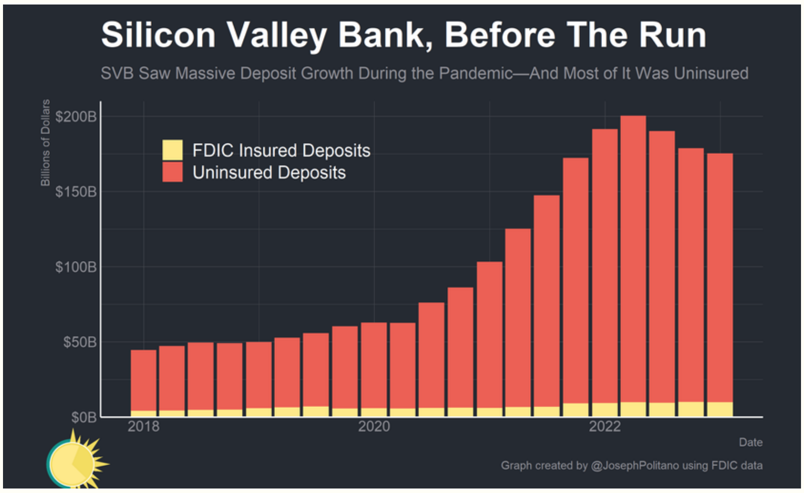
ABOUT THE AUTHOR

AKASH KUMAR
Akash Kumar works as the Head of Due Diligence with Startupscale360 FZE. He is responsible for screening all startup deals and performing detailed due diligence.

From our Staff's desk

THE TROUBLES FOR SVB started with the pandemic and the Russia-Ukraine war being the nexus points which have already affected the global economy in a massive scale. According to the Bureau of Labour Statistics, the US saw its highest inflation in the last decade. The inflation touched to a shocking 9.1% from a mere 2.5% which spiked to 5% post pandemic and shot to 9.1% because of the war. The general response of most Central banks is to increase the interest rates. So how are these interest rates linked to the banks?

In simple terms most Central banks lend money to the commercial banks at an interest rate called the repo rate in exchange for securities such as government bonds or treasury bills as collateral. The banks then lend customers money at an interest rate higher than the repo rate which creates the margin of revenue for the banks.



SVB, before the run

THE RIPPLE EFFECT

The increase in inflation creates a ripple effect wherein the central banks raise the repo rates and in turn banks raise their own interest rates. This sudden change in interest rates effects the purchasing power of the consumers, to compensate for the rise of which, the consumers by default spend less of their income on other commodities. On a macroscopic scale the demand for products decreases and hence companies are forced to decrease prices as well suffering losses.

The interest rates by the Federal Reserve of the US was just 0.08% between 2020 and 2022 which drove banks to provide loans at lower interest, increasing the number of loans by a huge amount. The Russia-Ukraine war created tremors across the economy leading to rising oil prices and hence inflation which led the Federal Reserve to suddenly increase the interest rates to 4.33% which is an increase of 4.22% that is 425 basis points in just one year. Now that we understand about the inflation and the swift response of America's Central Bank, we can get into understanding how Silicon Valley Bank saw the best two years of its existence and then their sudden crash.

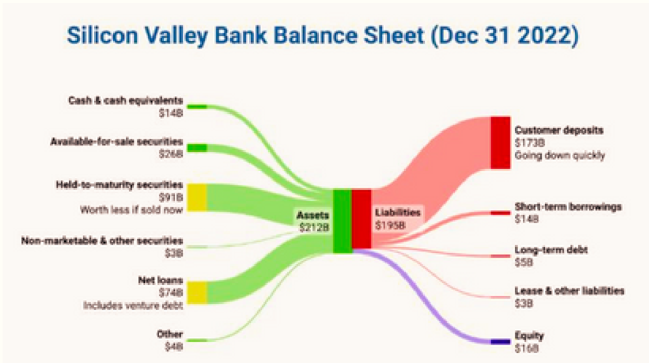
SVB could now borrow from the central bank at the rate of 0.08% and could provide loans at very low interest rates and still make a profit. In 2021, Global Venture Funding reached a whopping $681 Billion and SVB saw a mass influx in deposits. Their deposits jumped from $61.76 Billion at the end of 2019 to $189.2 Billion at the end of 2021 which is triple the amount. Thus began the second phase of SVB, which was their money deployment strategy. In order to compete with the top banks in the US and to attract their customers, SVB started offering higher interest rates on their deposits.

SVB invested around $91.3 Billion Long dated treasury bonds and mortgage bonds which promised steady returns while offering lower interest. The problem was that, these bonds were "Held to maturity" bonds which could be sold for liquidity before maturity, but with very high costs.

> "At a point when the Bank of America was paying 0.96% interest on deposits and the industry average for deposits was 1.17%, SVB was paying 2.33%. While not a big number for an average customer, Startups saw this as an opportunity to have extra revenue to work with for better insight, let's say a startup is depositing $100 million in SVB they would be getting $2.33 million in interests. It was at this point that SVB came across the biggest challenge which was to rotate their deposits in such was so as to make profits while returning the customers 2.33%.

Opportunity for startups

This turned out to be a classic case of Asset liability mismatch, wherein $91.3 Billion were parked in Held-to-maturity investments and only $26.1 Billion were available for sale investments. Out of the $91 Billion SVB had $80 Billion invested in Illiquid mortgage-backed securities most of which had more than 10 years of maturity period and gave out an average weighted yield of 1.56%, while SVB had promised 2.33% to their depositors. To make matters worse, Federal reserves which were buying these bonds stopped doing so, thus decreasing their value. Secondly, when the Federal reserves increased the rate by 425 basis points the loan demands fell further decreasing the value of these bonds and they became less attractive compared to other newly introduced bonds. The value of the securities invested on by SVB dropped from $91 Billion to $76 Billion exposing them to a loss of a staggering $15 Billion.



Source: The Investment Scientist on: March 13, 2023

THE FUNDING WINTER

The third phase of the SVB fiasco came about with the advent of the “startup funding winter”. Although SVB was caught in tough scenario, they could have bounced back and made profits if the economy picked up in few years which would have increased the value of their invested bonds, hence there wasn’t an immediate need to worry. Large tech companies started to come face to face with recession and were suddenly forced into shifting gears from growth mode to survival mode with massive lay-offs amid losses.

Difficulty in getting loans forced startups to withdraw their deposits. SVB could not escape this situation and to catch up with the growing withdrawals, they were forced to sell their bonds. In a surprise disclosure on March 8th 2023, it was reported that SVB had sold $21 Billion portfolio of available for sale securities. At this moment the portfolio put up for sale was yielding an average of 1.79% which was below the 10 year treasury yield of around 3.9%. To cover up the losses SVB tried to raised $2.25 Billion in equity and debt, this started panic in the market and major clients of SVB including Peter Thiel’s Founders Institute, Coatue Management, Union Square Ventures and other VCs instructed their portfolio companies to pull out their deposits from the bank. The news spread like wildfire and accelerated the withdrawals and SVB stocks plunged by 60% in just one day, this led to the Federal Deposit Insurance Corporation which had insured the bank to take control over the $175 Billion customer deposits and other assets under a new bank called the National Bank of Santa Clara.

Bank Shares Tumble in Wake of Failures

New York Times
13 March 2023

The stocks of regional banks fell following the collapse of Silicon Valley Bank and Signature Bank as regulators tried to contain the damage. The Federal Reserve promised an investigation and President Biden urged calm.

The Startup ecosystem is still at risk with many of the deposits still stuck and may face further financial crunch if the money cannot be taken out. Several Y Combinator backed startups along with 40 Indian ones have their deposits in SVB having direct exposure to the SVB fall. The impact is devastating, although blame cannot be completely put on the Silicon Valley Bank

As a result of the 2008 crisis banks were required to hold more capital and reduce their risk. Silicon Valley Bank did just that in holding what are considered nearly risk-free assets, U.S. government bonds. Even after playing by the books the management failed in risk control but the sudden jolt that was created in the market by the panicking startups and VCs accelerated the process in such a manner within days, that actions could not be taken or even assess as to where things went wrong. The regulators also failed to flag the holding composition of SVB which they could have months ago as the balance sheets were hardly kept secret. The entire crisis was preventable if not for reckless policies, panic created by VCs and better over seeing by the regulators. Either a one off scenario or the start of a bigger crisis, the SVB crash sure is an example as to how the entire financial ecosystem needs to be aligned with each other to properly maintain the economic stability.

"Greg Becker, former CEO of SVB, appeared before the Senate banking committee and said he is ‘truly sorry’ for collapse."

"KEEP MOVING,

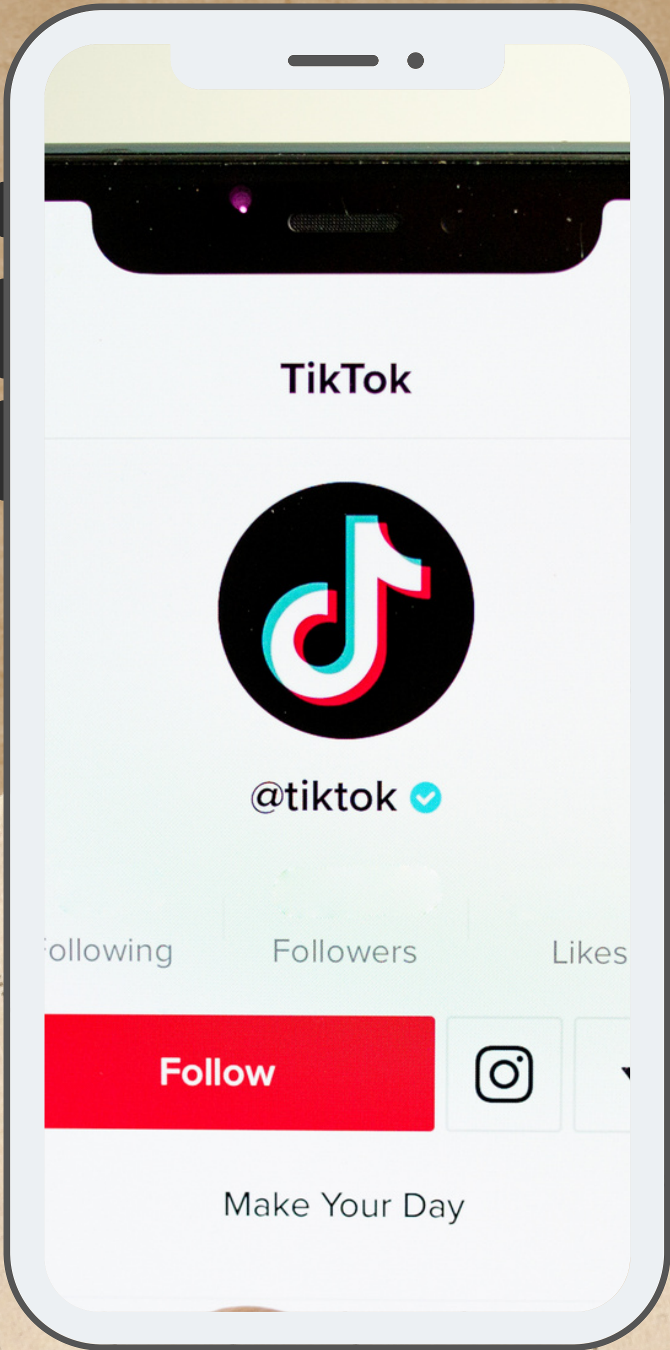
the best is yet to come".

STARTUPSCALE 360

TikTok

PARTNERSHIP

We are pleased to announce our partnership with TikTok for Business. We would like to invite you to our first in-person bootcamp taking place on ***Monday, the May 29th, from 5:00-7:00pm*** *at TikTok Lounge, Motor City, Dubai Studio City, Dubai.*



StartupScale360 x TikTok Bootcamp Dubai

CLICK HERE *to register for the FREE bootcamp*

Event Location:

Announcing the New Management Committee of Entrepreneurship World Cup 2023 UAE Final

Click on the Image to hear what ***Tapiwa Senah*** *and* ***Ramzi Qannati*** *have to say about joining the Management Committee.*

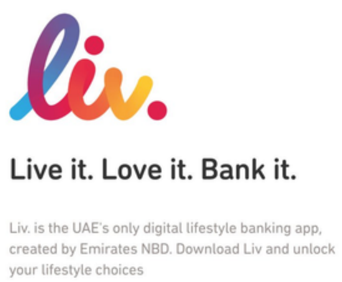
THE DIVERGENT: INSIDE-OUT AND OUTSIDE-IN • 2ND PART

DIGITAL BANKING

The future roadmap of Digital Banking in general, and also in the UAE in particular, will be a tug of war between customer, technology and processes. It will be guided by regulatory guidelines and will always push the envelope.

Let's look at some examples of how Digital Banks have evolved and also at some examples of how Fintech has been used successfully by traditional banks.

Banks have, in essence, followed 3 routes. At their most ambitious, there are new banks with new licenses. They have no banking antecedents (or limited to hiring the right crew) and are truly attempts at blue sky thinking. They use new technology platforms and seek to grow organically in terms of products and services and acquisition of customers. **ZAND** is an example of this concept. Owned by an impressive list of shareholders, they have made a fresh start with developing a tech stack that is nimble and suitable for a new world Digital Bank. They aim to be a full-service bank offering Personal and Corporate banking services. Expectedly, they have done some things which are truly customer focused, but have also stuttered in some crucial areas due to the lack of uncomplicated thinking.



DIGITAL BANK BY TRADITIONAL BANK

Then there "home owned" Digital Banks. These are "banks" owned by traditional banks in the region. They are built by existing players who have traditional banking franchises. They use available and existing technology, in an as-is manner or adapted to meet requirements of the new approach. They also may use some elements of new technology to augment the experience that they want their target customers to undergo. Examples of this in the UAE are **LIV** by Emirates NBD and **WIO** by FAB. While LIV is focused on Personal banking, WIO is focused on the business segment. The play here is again between managing the baggage of the existing banking domain practices and pushing the boundaries to make it new world. The big advantage is the availability of an existing customer base. With a deft strategy of pull and push, the customer base of these "banks" become impressive much quicker.

COMPLEX APPROACH

The 3rd approach is more complex. These are truly new players who have decided not to invest in a technology stack but to piggyback ride on an existing technology by collaborating with an existing bank. They provide the front end but use the technology back-end of existing banks. They generate the customer, but the customer resides on the banking system of an existing bank. This is white labeling at its very best. An example of this is YAP that resides on technology from RAK Bank.

This is a complex model but brings about constraints and advantages of its own. The advantage is that there is no need to invest heavily in technology but the challenge is that they are dependent on the bank's servicing capability; also, they need to attract customers organically. The future roadmap, in case of a breakdown of the relationship, potentially makes customer vulnerable.

"By partnering with fintech startups, banks will give their account holders the right measure of security and speed. Account holders can know that their money is safe, and they can enjoy the latest financial technology. This is the way to become a digital bank."

- Chris Skinner

ABOUT THE AUTHOR

SONAM SAHAI

Sonam Sahai is a Strategic & Transformational leader, with 30+ years of progressive experience in leading organizations in the financial services sector. With an approach that balances customer experience and the commercial agenda, he has been successful in transforming businesses during periods of growth and consolidation. He was Director, Operations and Transformation at RAKBANK. Prior to that he held senior roles in Mashreq covering various areas of Operations and led a bankwide Transformation program under the sponsorship of the CEO. Sonam has expertise and a proven track record in banking operations, digital transformation , program management and organizational transformation.

NO PERFECT APPROACH

Looking at these diverse models, it is evident that there is no perfect approach. So long as the thinking is uncomplicated with a clear vision of goals, the nimble use of technology and processes will make the project a success. As we said in our previous article, the truth lies somewhere in between!

There are also impressive examples of Fintechs collaborating with banks in different areas to make impactful benefits to customers and banks. Let's look at a few examples.

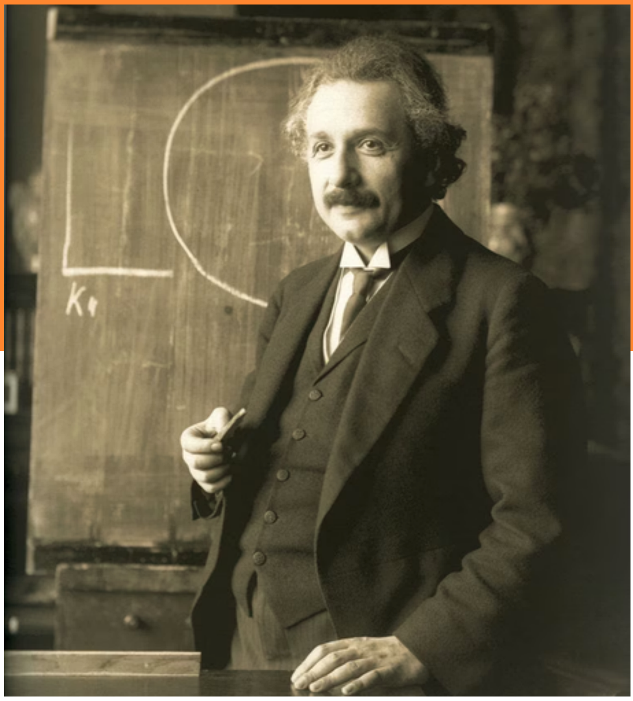
Payments is one area that has seen true disruption. Many countries, such as India, are at the forefront of these changes but many other countries have seen changes too. Not long ago, transfer of money was a painful exercise. Whether in-country or cross border, it was a long-winded process. It is now instantaneous. While banks have innovated to make this happen, the use of Fintechs have made the process seamless. Let's look at cross border remittances. From taking at least 3 days just a few years ago, they are now done is less than a minute. The technology for this was a classic case of good team play between traditional banks and out of the box service providers. RAK Bank has used this exceptionally well and so have many other banks such Emirates NBD and Mashreq.

Another great example is in the use of BOTs. While "old" BOTs have made a big difference to customer service by streamlining and shortening lengthy processes, they have not been exposed to the customer. Hence, they have not been able to make the association between these BOTs and the benefits they accrue. However, Chat Bots and Voice Bots have been seen and experienced by customers. Many such implementations have been done poorly and irked customers, but the truth of the matter is that, if implemented properly and for the right services, they serve customers very well. The ADIB Contact Center has used this well.

As a conclusion, the banking eco-system has been repeatedly disrupted and will continue to have more such disruptions. Both, traditional and digital banks will evolve and learn to co-exist. So long as they keep the customer at the center of their being, they will survive and thrive!

CRITICISM OR COMPLIMENTS?

INSPIRED FROM STORY WRITTEN BY SANSKRITI ARADHYA



Last week, I met Sanskriti Aradhya who shared the below short inspirational story written by her.

"Albert Einstein was once writing the 9 times tables on a chalkboard while his students were watching. None of them reacted to this; it was just an ordinary class. When Einstein got to ‘9x10’, he wrote 91, the correct answer obviously being 90. Immediately his class broke out into laughter. He paused and turned around waiting for his students to calm themselves and began speaking. *“I wrote 9 out of the 10 equations correctly and no one congratulated me. Yet, when I made a mistake on this one answer, you all began to laugh.”*

Why do we do this? Why do we worry about others’ mistakes when we ourselves make them? Everyone makes mistakes, we’re only human after all. This may sound like a reasonable way of thinking; it’s only natural to make mistakes. However, when it comes to things that other people have created, we all are bound to be envious.

Whilst looking at other people’s accomplishments, we may feel that if we had done the job, we would receive the same amount of applause and compliments. Thus, leading us to look for the smallest of mistakes that people make (even if it's something really silly) just to prove that they themselves haven’t done anything too special. It is important to remind ourselves that everyone makes mistakes. No one is picture perfect.

Going back to Einstein, his students felt a sense of equality with him when they noticed his mistake. The Albert Einstein made a mistake as simple as this? He isn’t that extraordinary, he’s just like us:a normal human who makes mistakes.

Of course, this doesn’t imply that every person thinks the same—only that it is a popular opinion. I believe that we should all embrace our mistakes, support each other, and learn to grow from it. Next time you see someone, share their accomplishment, appreciate their efforts while pointing out errors. We all are human, and we must remember that no one can be flawless, though what’s more important is making an effort to improve."

As Albert Einstein once said:

“The only person who never makes a mistake is someone who never tries”

STARTUPS STAND UP AND WALK. MOVE FORWARD.

I meet with many entrepreneurs on a daily basis who with unwavering determination, have a vision to change the world. But when they embark upon the journey, they stumble upon countless challenges and obstacles. They encountered sleepless nights, financial struggles, and doubts from those around them. The setbacks and criticism not just come from people around them, but also from Investors who always find a mistakes or loopholes to bring down the valuation so that the investment's decision is favorable to them. This is still fine with the startups who eventually secure funding, but what about those who are rejected by investor, they are usually emotionally shattered.

Setbacks and criticisms are an inevitable part of their entrepreneurial journey. They must understand early that the world often focused on the mistakes, overlooking the countless successes and achievements that came before.

"It's not the criticism that defined you, but your ability to rise above it, learn from it, and continue moving forward."

The founders, armed with newfound determination, must return to your startup with a renewed perspective. Always gather your team and share the story of Einstein, emphasizing the importance of celebrating the victories, no matter how small, and learning from the mistakes along the way.

The failures must be seen as stepping stones toward growth. Focus on your usual business, try creating a space where innovative ideas thrived, and your team is encouraged to take risks, knowing that they would be celebrated for their efforts.

And so, as the sun set on the horizon, young startups and entrepreneurs everywhere will find solace and inspiration in the tale and wisdom of Einstein. Embark on your own journeys, equipped with the knowledge that success is not defined by a single mistake but rather by the resilience to keep pushing forward, one step at a time.

"Amidst the chaos, an entrepreneurs must persevered, fueled by an unyielding belief in their idea and a deep passion for making a difference."

Sanskriti Aradhya
Gems International School, Dubai, Grade 9E

Swethal Kumar
CEO & Founder, Startupscale360 FZE

BOOK COMPLIMENTARY SESSION WITH EXPERTS

SHIRIN PATWA	HAZEM AL SAWAF	RAJAN MOHINDRA	NAUSHAD OOMER	SONAM SAHAI	MUHAMMAD AKBAR	AHMED SHAWKY
HR TECH AND GOVERNANCE	*MARKETING & BRAND MANAGEMENT*	*GROWTH HACKER & FUNDING*	*STRATEGY AND GROWTH*	*TRANSFORMATIONAL LEADER & GROWTH*	*STRATEGY AND GROWTH*	*CORPORATE GOVERNANCE*
Organization: ACWA POWER	Organization: Department of Culture and Tourism	Organization: DYNASPEDE	Organization: Virgin hyperloop	Organization: RAKBANK	Organization: LYXOR	Organization: UP
Alumnus: London Business School	*Alumnus*: London Business School	*Alumnus*: London Business School, Harvard Business School	*Alumnus*: TEXAS	*Alumnus*	*Alumnus*: London Business School, LSE	*Alumnus*: London Business School, Durham University Business School

YEVGENY BEBNEV	AKSHAY SINGH	ARIZ RIZVI	ARNAV RATH
CAPITAL MARKET, CRYPTOCURRENCY	*DIGITAL HEALTH*	*BUSINESS DEVELOPMENT PROPTECH SPECIALIST*	*FINTECH & FINANCIAL SERVICES*
Organization: BLOCKSTONE CAPITAL	Organization: IBM	Organization: property	Organization
Alumnus: London Business School	*Alumnus*: IIM INDORE	*Alumnus*: London Business School	*Alumnus*: London Business School

A startup can book 30-min complimentary mentoring session with our experts.

CLICK on their picture to book session with them.

Click on in to check their Linkedin page.

MEET OUR TEAM

World Class Team

SWETHAL KUMAR
Founder & CEO
UAE

AKASH KUMAR
Head of Due Diligence
India

RIYA CHATTERJEE
Ecosystem Lead
India

RENE MASSATTI
Head of Playroom
Austria

RADU JITARU
Head of Valuation
Romania

VIKAS MOHANDAS
Head of Venture Studio
UAE

KAVISHA GOEL
CFO360 Lead
UAE

RAMZI QANNATI
Director of Partnership, EWC2023
UAE

TAPIWA SENAH
Director of Operation, EWC2023
UAE

THANK YOU FOR READING!

STAY TUNED FOR OUR NEXT ISSUE