SVB Collapse: 4 Things Indian Bank Depositors, Investors Should Keep In Mind

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While the Silicon Valley Bank collapse is a cause for concern, sticking to your basics and maintaining proper asset allocation will help you weather the storm should something similar happen again

While the US banking crisis making headlines, the Reserve Bank of India (RBI) has said in a statement that the Indian banking system remains stable and resilient.

Nevertheless, news of the Silicon Valley Bank (SVB) collapse has sent jitters down many Indians, as a lot of Indian start-ups domiciled in the US have their deposits in the bank. Those fears have been somewhat assuaged after the US government announced that depositors can withdraw any amount from their bank beyond what was covered under the deposit insurance.

In this context, what should Indian investors keep in mind?

Says Hemant Beniwal, certified financial planner, and director at Ark Primary Advisors, a financial planning firm: "The crisis at Silicon Valley Bank was primarily due to concentration and liquidity risks rather than credit risk. In an event that all State Bank of India (SBI) clients demand their money back simultaneously, even SBI could fail. Fortunately, the US government has guaranteed all deposits, and we should not expect another Lehman Brothers situation."

He says it is unnecessary to alter one's investment strategy or asset allocation based on this incident.

Here are a few steps on how to properly diversify one's investment strategies.

Maintain Proper Asset Allocation In Your Portfolio According To Your Risk Appetite: Irrespective of how the markets are behaving, one should always maintain proper asset allocation according to their risk appetite. If your desired asset allocation is 80 per cent in equities and 20 per cent in debt, the equity proportion may go up when the market performs well. "People should review their portfolios, especially if they have concentrated portfolios or positions," says Shweta Jain, founder of Investography, a financial planning firm.

Sticking to your desired allocation is something you should be doing irrespective of market conditions.

Reiterates Vishal Dhawan, CEO and founder, Plan Ahead Wealth Advisor, and a Securities and Exchange Board of India (Sebi) – registered advisor: “Investors need to keep in mind that their strategic asset allocation should not be changing due to recent challenges in parts of the US and European financial sector, but they may wish to tactically be underweight on equities as an asset class, as equity valuations in India continue to be at a premium to their long-term averages. With fixed income becoming attractive due to higher yields, investors may wish to consider investing in a combination of short-term debt and hold-to-maturity debt funds to lock into current yields. However, they should avoid moving all their monies to debt just because of this uncertainty, and also continue with their equity systematic investment plan (SIP) strategies.”

Do Not Keep Over Rs 5 Lakh In Small Banks Just Because They Are Offering Higher Interest: Sometimes, we are lured to keep more than Rs 5 lakh in deposits in small banks because they offer a higher rate of interest. Anant Ladha, founder, Invest Aaj For Kal, a financial planning firm, says that

this is something that one should avoid because in case the bank goes bust, any amount of over Rs 5 lakh will not be covered under the Deposit Insurance and Credit Guarantee Corporation.

Look At Debt Funds: At present, debt funds are providing attractive yields and can provide good tax-effective returns in a three-year plus time horizon.“So, this asset class can be important to watch out for. Plus they provide stability in your portfolio,” says Ladha.

Agrees Beniwal, “For conservative investors, long-term debt mutual funds may be a viable option at present, and a reversal of interest rate hikes is likely to occur sooner or later. If an investor has a horizon of more than three-four years, they can expect better returns than FDs.”

Adds Abhishek Kumar, founder and chief investment advisor at SahajMoney, a financial planning firm: “For short-term goals or liability, invest 100 per cent in short-term debt products, such as liquid or overnight funds or fixed deposits.”

Keep Investing Through SIPs: Finally, one should continue with their systematic investment plans (SIPs). Says Ladha: “During volatile periods, SIPs are best as they provide the benefit of rupee cost averaging, and if you want to further increase your returns, you can actually top-up during bad days.”

Pulling out of SIPs, if the markets are volatile, is a bad idea, because you may lose out as you may not be invested when the markets are recovering.