

Signature Bank's Collapse: Analysis of Rapid Growth and Governance Failures

Executive Summary

The collapse of Signature Bank in March 2023 represents one of the largest bank failures in United States history, precipitated not by a single event but by a convergence of rapid institutional growth, concentrated deposit structures, and chronic deficiencies in risk governance. While the immediate cause of failure was a liquidity crisis—a bank run triggered by contagion from the failures of Silvergate and Silicon Valley Bank—regulatory reviews identified poor management as the root cause. Signature Bank's assets grew from approximately \$51 billion in 2019 to \$118 billion by the end of 2021, a pace that far outstripped the development of its internal controls and board oversight. Crucially, the bank's failure highlights the dangerous intersection of prudential risk and financial crime compliance. Longstanding, unresolved deficiencies in Anti-Money Laundering (AML) and sanctions controls served as early indicators of a broader governance culture that prioritized expansion and profitability over risk mitigation and regulatory remediation.

Overview of the Collapse

On March 12, 2023, the New York State Department of Financial Services took possession of Signature Bank, appointing the Federal Deposit Insurance Corporation (FDIC) as receiver. This intervention followed a massive liquidity drain that left the institution unable to operate safely.

Scale and Financial Impact

- **Total Assets (Year-end 2022):** Approximately \$110.4 billion.
- **Total Deposits (Year-end 2022):** Approximately \$88.6 billion.
- **The Bank Run:** On March 10, 2023, the bank received over 1,600 withdrawal requests totaling \$18.6 billion—roughly 20% of its total deposit base.
- **Final Liquidity Position:** By the afternoon of March 12, the FDIC estimated the bank's available liquidity at only \$3 billion, or approximately 4% of total deposits.

Root Causes of Institutional Failure

The FDIC concluded that the failure resulted primarily from illiquidity during a bank run, driven by management's pursuit of growth without commensurate risk controls.

Management and Governance Deficiencies

- **Rapid Expansion:** The bank expanded aggressively into commercial real estate, private equity fund banking, venture banking, and digital-asset services without scaling its governance or staffing.
- **"Private-Client" Culture:** The bank utilized an informal decision-making model that granted significant autonomy to private-client bankers. This model proved unsuitable for an institution of Signature's eventual size and complexity.

- **Unresponsive Leadership:** Management was characterized by regulators as insufficiently responsive to supervisory findings, focusing on profitability while allowing a backlog of 61 supervisory recommendations to remain outstanding by the end of the 2020 cycle.

Liquidity and Funding Vulnerabilities

- **Deposit Concentration:** The bank relied heavily on large corporate and institutional depositors whose balances significantly exceeded insurance limits.
- **Uninsured Deposit Estimates:** While initially reported that 90% of deposits were uninsured, later studies refined this to approximately 67% at the time of failure. However, the size of the deposits mattered more than insurance status; the largest depositors were the most likely to withdraw funds during the crisis.
- **Inadequate Contingency Planning:** Signature lacked sufficient arrangements to identify and pledge collateral quickly enough to obtain emergency liquidity during the run.

The Intersection of AML and Prudential Risk

While AML deficiencies did not directly cause the bank run, they were symptomatic of the bank's broader governance failures.

Chronic Compliance Deficiencies

- **Repeat Findings:** Signature had a history of AML issues, including an informal enforcement action in 2016. Although closed in 2018, similar concerns reappeared in subsequent cycles.
- **The 2022 Targeted Review:** A draft supervisory letter at the time of closure indicated that the bank's AML and Office of Foreign Assets Control (OFAC) risk profile was high.
- **Matters Requiring Board Attention (MRBAs):** Eight of the 13 MRBAs arising from 2022 reviews concerned AML-related weaknesses.

Risks of Real-Time Payments

Signature's proprietary real-time payment platform, **Signet**, introduced unique risks that the bank failed to manage effectively:

- **Time Compression:** Real-time payments eliminate the operational window typically used for financial crime screening.
- **Screening Limitations:** Batch screening processes performed after settlement are insufficient for instant payment environments where funds can move through multiple counterparties rapidly.
- **Liquidity Sensitivity:** Digital channels allow large balances to exit the institution instantly, 24/7, accelerating the pace of a bank run.

Reputational Contagion and Digital Assets

Signature Bank's strategic pivot toward the cryptocurrency sector created a reputational "labeling" problem that amplified liquidity risks. | Factor | Impact on Signature Bank || ----- | -----

|| **Digital-Asset Deposits** | Accounted for ~20% of deposits at year-end 2022. || **Withdrawal Behavior** | Crypto-related withdrawals were found to be proportionate to their share of the deposit base. || **Reputational Association** | Social media and market commentary grouped Signature with Silvergate and SVB, causing non-crypto customers to panic and withdraw funds.
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Supervisory and Regulatory Contributions

Responsibility for the collapse also extended to supervisory gaps within the FDIC:

- **Delayed Communication:** Some examination reports were issued months after reviews, diminishing their value as timely interventions.
- **Rating Inconsistencies:** The bank maintained satisfactory composite and management ratings despite persistent governance and liquidity concerns.
- **Staffing Shortages:** Turnover within the FDIC's New York supervisory team meant that some personnel lacked the specialized experience required to oversee a bank of Signature's complexity.

Strategic Lessons for Financial Institutions

The collapse of Signature Bank provides a blueprint for necessary reforms in institutional risk management:

- **Alignment of Growth and Control:** Risk infrastructure, including AML and sanctions controls, must expand at the same pace as revenue and deposit growth.
- **Integrated Risk Assessments:** Prudential risks (liquidity, concentration) and financial crime risks (AML, sanctions) should not be managed in isolation. Intelligence from the second line of defense can provide critical insights into deposit stability.
- **Outcome-Based Measurement:** Boards should measure control effectiveness through outcomes (e.g., alert backlogs, data-quality failures) rather than the mere existence of policies.
- **Root-Cause Remediation:** Management must address the underlying reasons for repeat supervisory findings—such as inadequate staffing or aggressive risk appetite—rather than performing technical "fixes" that allow issues to resurface.
- **Technological Readiness:** Institutions implementing real-time payments must deploy real-time screening and monitoring and conduct stress tests that assume rapid digital withdrawals during non-business hours.