

Commercial Bank vs Investment Bank: Meaning, Functions & Examples

The commercial bank vs investment bank comparison highlights the distinct roles these institutions play in the financial system. Commercial banks focus mainly on providing basic banking facilities, such as deposits and loans, and payment facilities to individuals and businesses. Investment banks, on the other hand, specialize in corporate finance activities, such as raising capital and managing mergers and acquisitions, or providing investment advisory services. To make the proper choice of financial partner for their needs, businesses, investors, and individuals have to understand these differences.

What is Commercial Banks?

Commercial banks are financial institutions that accept deposits, provide loans, and offer various financial services to individuals, businesses, and governments. These banks operate with the primary objective of earning profits while supporting [economic activities](#). They are regulated by central banks to ensure stability and compliance.

Functions of Commercial Banks

Commercial banks provide essential services that help individuals, businesses, and the economy function smoothly. The [functions of commercial banks](#) include accepting deposits, providing loans, facilitating payments, offering foreign exchange, and assisting with investments.

1. **Accepting Deposits:** Banks collect funds from individuals and businesses, ensuring their money is safe. Deposits include savings accounts, fixed deposits, and current accounts.
2. **Providing Loans:** Banks lend money to businesses, farmers, and individuals for various purposes. Loans include term loans, overdrafts, and credit lines.
3. **Facilitating Payments:** They provide payment services through cheques, [demand](#) drafts, and digital platforms. Online banking and mobile banking have made transactions seamless.
4. **Foreign Exchange Services:** Commercial banks assist with currency exchange and international trade.
5. **Investment Services:** Banks help customers invest in government securities, mutual funds, and other financial products.

What is Investment Bank?

An investment bank is a [financial institution](#) that specializes in corporate finance and advisory services. These banks primarily serve large corporations, governments, and high-net-worth individuals by helping them raise capital and manage investments.

Functions of Investment Banks

Investment banks offer specialized services to help businesses raise capital and manage complex financial activities. They assist with underwriting, mergers and acquisitions, market research, and risk management to support growth and stability in the market.

1. **Underwriting:** Assist companies in issuing securities by buying and selling them to investors.
2. **Merger and Acquisition Support:** Help businesses negotiate and execute mergers or acquisitions.
3. **Market Research:** Provide insights into market trends to guide investment decisions.
4. **Risk Management:** Use financial instruments like derivatives to mitigate risks.

Commercial Bank vs Investment Bank

Commercial banks and investment banks differ in their purpose, services, and target customers. While commercial banks focus on everyday banking needs, investment banks specialize in complex financial transactions. Let's understand the differences:



Core Function

- **Commercial Banks:** Commercial banks primarily focus on providing everyday [banking services](#), including accepting deposits, offering loans, and managing financial transactions. They serve individuals, businesses, and governments with services like savings accounts, mortgages, and personal loans.
- **Investment Banks:** Investment banks specialize in raising capital for businesses and governments, advising on mergers and acquisitions, and providing investment-related services. They also assist companies with structuring deals and managing large financial transactions.

Example: HDFC Bank provides home loans to individuals, while Goldman Sachs advises large corporations on mergers and acquisitions.

Target Audience

- **Commercial Banks:** [Commercial banks](#) serve a broad range of customers, including individuals, small businesses, and large corporations. They offer services that meet the daily financial needs of customers, such as savings accounts, credit cards, and business loans.
- **Investment Banks:** Investment banks focus on serving large corporations, governments, and high-net-worth individuals. Their services cater to those needing specialized financial advice or capital for large-scale investments or corporate deals.

Example: SBI helps retail customers with personal savings accounts, while JPMorgan Chase manages investments and financial strategies for global corporations.

Revenue Generation

- **Commercial Banks:** Commercial banks generate revenue by charging interest on loans they provide to customers and through service fees, such as account maintenance or transaction charges. They primarily earn from the difference between the interest rates on loans and deposits.
- **Investment Banks:** Investment banks earn revenue through advisory fees, underwriting commissions, and profits from trading activities. They assist companies in issuing securities, managing investments, and executing complex financial transactions.

Example: ICICI Bank earns interest from personal loans, while Morgan Stanley earns fees for managing initial public offerings (IPOs) and other large transactions.

Regulation

- **Commercial Banks:** Commercial banks are strictly regulated by central authorities like the Reserve Bank of India (RBI), which ensures that they maintain financial stability, offer secure banking services, and protect customer deposits.
- **Investment Banks:** Investment banks operate under relatively less stringent regulations compared to commercial banks. They focus on capital markets and are primarily governed by bodies like [SEBI](#) (Securities and Exchange Board of India), which oversees market activities and ensures transparency.

Example: RBI monitors SBI's daily operations, while SEBI oversees ICICI Securities' activities related to securities and market trading.

Risk Profile

- **Commercial Banks:** Commercial banks operate with a lower risk profile since they primarily deal with savings and loans. Their focus is on maintaining stability and ensuring that deposits are secure while offering loans at moderate interest rates.
- **Investment Banks:** Investment banks assume higher risks due to their involvement in securities trading, capital market activities, and large-scale financial transactions. These activities can lead to greater profits, but also higher exposure to market fluctuations.

Example: HDFC Bank ensures the security of customer savings with low-risk lending practices, while Goldman Sachs engages in high-risk market trading, aiming for higher returns.

Aspect	Commercial Bank	Investment Bank
Core Function	Everyday banking (loans, deposits)	Corporate finance and investments
Target Audience	The general public and businesses	Corporations, governments, investors
Revenue	Interest on loans, service fees	Advisory fees, underwriting commissions
Regulation	Strictly regulated by RBI	Less regulated, market-focused
Risk	Low	High
Examples	SBI, HDFC Bank	Goldman Sachs, Morgan Stanley

Commercial Bank vs Investment Bank FAQs

1. What is the main difference between a commercial bank and an investment bank?

Commercial banks focus on deposits and loans for the public, while investment banks specialize in raising capital and providing corporate finance advisory services.

2. Are investment banks regulated like commercial banks?

No, investment banks face less strict regulations compared to commercial banks, as they primarily deal with capital markets.

3. Can a bank function as both a commercial and investment bank?

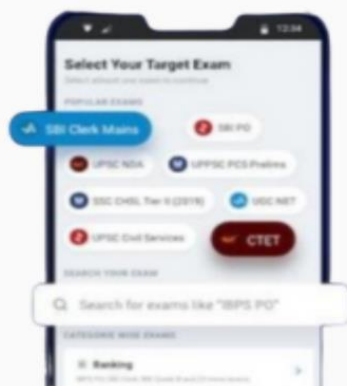
Yes, some banks, like JPMorgan Chase, operate as both commercial and investment banks, offering diverse services.

4. Which bank type involves higher risk: commercial or investment?

Investment banks involve higher risk due to their activities in securities trading and capital markets.

5. What are examples of commercial and investment banks in India?

Examples include HDFC Bank and SBI for commercial banks and ICICI Securities for investment banks.



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