Секция: Деньги, финансы и кредит

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DIFFERENCE BETWEEN COMMERCIAL AND INVESTMENT BANKS

Investment banks and commercial banks represent two divisions of the banking industry, and each type provides substantially different services.

Investment banks expedite the purchase and sales of bonds, stocks, and other investments, and aid companies in making initial public offerings (IPOs) when they first go public and sell shares. Commercial banks act as managers for deposit accounts belonging to businesses and individuals, although they are primarily focused on business accounts, and they make public loans from the deposited money they hold.

Since the financial crisis and economic downturn beginning in 2008, many entities that mixed investment banking and commercial banking have fallen under intense scrutiny. There is substantial debate over whether the two divisions of the banking sector should operate under one roof or if the two are best kept separate.

Investment banks are primarily financial middlemen, helping corporations set up IPOs, get debt financing, negotiate mergers and acquisitions, and facilitate corporate reorganization. Investment banks also act as a broker or advisor for institutional clients [1].

Big investment banks include JPMorgan Chase (JPM), Goldman Sachs (GS), Morgan Stanley (MS), Credit Suisse (CS), and Deutsche Bank (DB). Clients include corporations, pension funds, other financial institutions, governments, and hedge funds. Many investment banks also have retail operations for small, individual customers. In Ukraine we have authorities of International Investment Bank.

Commercial banks take deposits, provide checking and debit account services, and provide business, personal, and mortgage loans. They also offer basic bank products such as certificates of deposit (CDs) and savings accounts to individuals and small businesses [2]. Most people hold a commercial bank account, rather than an investment bank account, for their personal banking needs.

Commercial banks largely make money by providing loans and earning interest income from the loans. Customer accounts, including checking and savings accounts, provide the money for the banks to make loans.

Customers like commercial banks because their money is secured and regulated by the government, but the interest earned on accounts is little to nothing, particularly compared to mutual funds, stocks, and other investments.

Commercial banks are insured by the federal government to maintain protection for customer accounts and provide a certain level of security. Investment banks differ because they are much more loosely regulated by the Securities and Exchange Commission (SEC) [3]. The Commission offers less protection to customers and allows investment banks a significant amount of operational freedom.

The comparative weakness of government regulation, along with the specific business model, gives investment banks a higher tolerance for and exposure to risk. Commercial banks have a much lower risk threshold. Commercial banks have an implicit duty to act in their clients' best interests. Higher levels of government control on commercial banks also decrease their level of risk tolerance [4].

Historically, institutions that combine commercial and investment banking have viewed with skepticism. Some analysts have linked such entities to the economic depression that occurred in the early part of the 20th century. In 1933, the Glass-Steagall Act was passed and authorized a complete and total separation of all investment and commercial banking activities. Glass-Steagall was largely repealed in 1999. Since that time, banks have engaged in both types of banking [5].

There are some benefits for banks that combine the functions of investment and commercial services. For example, a combination bank can use investment capabilities to aid a company in the sale of an IPO, and then use its commercial division to offer a generous line of credit to the new business. This enables the business to finance rapid growth and, consequently, to increase its stock price. A combination bank additionally gleans the benefits of increased trading, which brings in commission revenue.

As a conclusion we can say that, the primary difference between these two financial intermediaries is the audience they cater to as well as their area of business. While commercial banks serve all the citizens of the country and its main business is to accept deposits and grant loans. Investment banks deal in securities and so its primary activity is to trade in financial assets and provide advisory services.

References

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