Commercial banks vs. Corporate and Investment banks

What is a commercial bank ?

The concept of a commercial bank refers to an institution that offers banking and financial services to the general public. At one time, there were no such entities enabling individuals to secure their deposits or take out loans. They turned to moneylenders to borrow money, and used post offices to deposit their funds. Later, banks emerged to act as bankers for all the country's citizens. These institutions accept deposits at a nominal interest rate (e.g. Livret A in France) and use these funds to grant loans to other customers, considered borrowers, at a higher interest rate. The diversified services provided by commercial banks include, among others, the granting of loans, the opening of current accounts, the possibility of withdrawing money on demand, the provision of withdrawal, debit and credit cards, as well as the provision of online services, and so on.

What is a corporate bank?

A corporate bank distinguishes itself from commercial banks by not focusing on collecting deposits from individuals and lending them out with an intermediation margin. Its exclusive commitment to companies (private or public) positions it as a key partner in their financing and development strategy. This entity plays an active role in the operational management of these companies, holding equity stakes with the aim of generating added value. Corporate banks have three main areas of activity: advisory services, capital management and preparation of stock market transactions. In the advisory field, they specialise in M&As (mergers and acquisitions), assisting their clients in complex operations such as LBOs (Leveraged Buy-Outs), which enable one company to acquire another while minimising the use of equity capital, thanks to leverage.

When it comes to balance sheet management, they focus on the long-term elements of a company's balance sheet, both on the liabilities side (capital owed, borrowings, share capital, reserves, etc.) and on the assets side (fixed assets, etc.). Corporate bankers' tasks include optimising the terms of long-term debt, identifying non-strategic assets that can be sold to generate cash, supervising capital reduction operations in the event of losses, preparing capital increases to finance growth, and playing a crucial advisory role during initial public offerings (IPOs), public takeover bids (PTOs), public exchange offers (PEOs) and so on. Their expertise lies in working as market analysts and marketers with institutional investors in these stock market operations.

What is an investment bank?

An investment bank aims to advise investors (both private and institutional) in financial markets, connecting these investors with companies and assisting the companies in financing their projects.

Investment banks focus on three main areas of activity. The first, inherited from investment banks, is advisory services, particularly in connection with mergers and acquisitions. The second set of activities is closely linked to corporate finance, encompassing the organisation of capital increases, IPOs and the launch of bond issues. Finally, the third area is the search for the most profitable financial investments or hedges, where investment banks act as intermediaries for their clients on the financial and foreign exchange markets. For example, when an investment fund is looking for maximum profitability with a high degree of leverage, the bank can support it in an LBO or design complex products using derivatives, sometimes integrated into securitisation vehicles. These activities have generated substantial profits in recent years, encouraging even traditional banks to get involved in this sector, often through separate subsidiaries, but always affiliated to their parent company. The exceptional profitability of these activities can be explained by the general confidence that was placed in them, the key element in these areas, and also because these operations involve a certain level of risk, returns being well known to be linked to risk.

The main differences between an investment bank and a commercial bank lie in their target audience, their area of activity and their source of income. Commercial banks are aimed at the general public, offering standardised banking services such as deposit management and lending. The investment bank, on the other hand, focuses on corporates, governments and high net worth individuals, offering customised services such as M&A advisory, capital management and preparation of stock market transactions. The two entities can work together on complex projects, but their core activities differ in terms of time management, with investment banking working on long-term transactions, while commercial banking is more focused on short-term transactions.