

Chapter 4

Business Services

Short Answer

Q. 1 Define services and goods.

Answer:

A service is an economic activity that is intangible and implies an interaction between the service provider and the consumer. They are separately identifiable, and intangible activities that provide the satisfaction of wants, and are not necessarily linked to the sale of a product or another service.

A good is a physical product capable of being delivered to a purchaser and involves the transfer of ownership from the seller to the customer. They are also called commodities or items of all types, except services, involved in trade or commerce.

Q. 2 What is e-banking? What are the advantages of e-banking?

Answer:

- a. The development of technology has completely changed all the sectors, especially the banks. E-banking stands for electronic banking.
- b. It is a service provided by banks and financial institutions that allows a customer to conduct the banking transactions over the internet using a personal computer, telephone or mobile phone.
- c. The different services offered by e-banking are Electronic Fund Transfer, TATM, Point of Sales, etc.

The advantages of e-banking are:

- a. It provides 24 hours' service throughout the year.

- b. The customer can easily make a transaction from the comfort of their home or even while traveling.
- c. It improves financial discipline by recording every transaction.
- d. The customer has less risk and greater security which is not limited to the walls of the banks.
- e. It provides a competitive advantage to the bank.
- f. The load on branches is reduced by establishing a centralized database and by taking over some of the accounting functions.
- g. It provides an unlimited network to the banks.

Q. 3 Write a note on various telecom services available for enhancing business.

Answer:

The various telecom services that are available for enhancing businesses are:

- a. Cellular mobile services: All the cellular mobile services are included in this category such as voice, nonvoice, data services, PCO services. It provides direct interconnectivity with any other type of network provider.
- b. Radio paging service helps to transmit the information to people even if they are mobile. It is a one-way broadcasting information system. It is affordable and has a wide reach.
- c. Fixed-line service: It includes both voice and nonvoice messages and Data Services to establish linkages for long-distance traffic. They utilize any type of network equipment connected through fiber optic cable across the country. It also provides connectivity with other types of telecom services.

d. Cable services: These are linkages and switched Services within a licensed area of operation to operate media services. They mainly provide entertainment services.

e. VSAT services: VSAT or very small aperture terminal is a satellite-based communication service. It is suitable for business and government Agencies. Is reliable in both rural and urban areas. It provides uninterrupted communication just like land-based services. Innovative techniques can also be used to maximize its benefits such as providing tele medicines, tele education, and newspaper online.

F. DTH: DTH refers to Direct to Home. It is a satellite based media services provided by cellular services. These services can be received directly through satellite with a small dish antenna and a set top box. Many channels are provided through DTH. It can be easily viewed on tv without any other cable service provider. For example, Airtel provides DTH services.

Q. 4 Explain briefly the principles of insurance with suitable examples.

Answer:

Insurance is a contract or agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make a loss, damage or injury to something of value in which the insured has a pecuniary interest as a result of some uncertain event. This writing is called 'policy'. The person whose risk is insured is called 'insured' and the firm which insures the risk of loss is known as insurer/assurance underwriter.

The principle of insurance is explained below:

a. Utmost good faith: Under this contract, both the parties must have faith over each other. It is the duty of the client to disclose 100% information to the insurance company. If there is any misinterpretation of facts can even lead to the cancellation of the entire contract. For

example, life insurance, all the information regarding the age, previous medical history and any smoking or drinking habits must be disclosed.

b. Insurable interest: The insured must have some interest in the matter of the insurance. For example, a person has an unlimited interest in the life of his or her spouse. This interest must be present at the time of the purchase of the insurance. If there is no interest the contract would become null and void and the insurance company will not issue of policy.

c. Indemnity: Indemnity means compensation against the loss incurred. According to this principle, insurance Company cannot compensate the insured person in an amount which exceeds the insured economic loss. This principle is observed mostly in property insurance as compared to Life Insurance. The insured would be provided the compensation with the amount equal to the actual loss only. The insured will be brought back to the same financial position he was before the occurrence of the loss.

d. Subrogation: This principle allows the insured to claim the amount from the third party responsible for this loss. The insurer can pursue legal methods to recover the amount of loss. For example, if you are injured in a road accident, you will receive compensation from the insurance company and the insurance company will sue the third party to recover the money paid as a claim.

E. Proximate Cause: It means the nearest cause or direct cause. It is applicable when the loss is a result of two or more causes. The most dominant cause is considered to be the reason behind the loss.

F. Contribution: As per this principle it is the right of an insurer who has paid a claim under insurance, to call upon other liable insurers to contribute for the loss of payment.

G. Mitigation: It is the duty of the insured to take reasonable steps to minimize the damage to the insured property, even though it has been

insured. They must not be careless in this regard. If reasonable care is not taken, the claim from the company may be lost.

Q. 5 Explain warehousing and its functions.

Answer:

- a. Earlier, the warehouse was considered as a point of storage in a scientific and systematic manner. The goods were received through rails, truck, and bullocks. They were used by exporters, manufacturers, etc.
- b. Nowadays, they have become a logistic service aimed at providing a solution to its customers. They are equipped with better technological equipment to improve the functions of the warehouse.
- c. There are five types of warehouses- public, government, bonded and cooperative.

The functions of the warehouse are:

- a. The warehouse receives and consolidate goods from different production plants and dispatches the same to a particular customer on a single transportation shipment.
- b. The warehouse divides the bulk quantity of goods received from the production plant into smaller quantities. The smaller quantities are then transported according to the requirement of the clients to their places of business.
- c. The good for raw materials which are not required immediately for sale are stored in the warehouses to be made available to the business depending upon the customer's demand.
- d. The warehouse also provides some value-added services such as in transit mixing, packaging, and labeling. Sometimes a good has to be opened, repackaged and labeled again at the time of inspection by the buyers.

e. The warehouse adjusts the supply of goods with the demand situation and performs the function of the stabilizing price. When the supply is increasing the demand is reduced the prices are controlled and vice versa.

Long Answer

Q. 1 What are the services? Explain their distinct characteristics.

Answer:

A service is an economic activity that is intangible and implies an interaction to be realized between the service provider and the consumer. They are separately identifiable, and intangible activities that provide the satisfaction of wants, and are not necessarily linked to the sale of a product or another service.

The features of services are explained below:

a. The services are intangible and experiential in nature. They cannot be touched. It is not possible to assess its quality before its consumption. So it is important for the service providers to work dedicatedly to create a desired service for the customer to have a good experience. For example, you cannot touch a doctor's treatment. You cannot assess it before undergoing the same. So it is important for the doctors to provide the treatment so that the customer has a favorable experience.

b. The services have to be performed differently every time because there is no standard tangible product. Different customers have different demand and different expectations. The service has to be altered every time to meet the requirement of the customers. For example, the mobile services.

c. Service is a simultaneous activity of production and consumption is performed. The production and consumption of services are inseparable. Although it is possible that the service provider designs a substitute for the person by using the appropriate technology but the interaction with

the customer remains an important feature of the service. For example, the ATM machines have replaced the banking clerks for the front office activities like a cash withdrawal. But at the same time, the presence of the customer is important.

d. Services do not have any tangible component and cannot be stored for a future purpose. Some service providers can store some associated goods but not the service itself. For example, a railway ticket can be stored but the railway journey will be experienced only when the railway provides it.

e. The participation of the customer in services is important for the service delivery process. The customer can get his service modified according to his own requirement.

Q. 2 Explain the functions of commercial banks with an example of each.

Answer:

a. A commercial bank is a financial institution that deals with money.

b. It is governed by the Indian Banking Regulation Act 1945. The act defines a commercial bank institution that accepts the deposit of money from the public for the purpose of lending or investment.

c. There are two types of commercial bank public banks and private sector banks.

d. A public bank is a bank in which the government has a major stake and works on the principle of welfare of the state rather than earning a profit.

e. A private bank is a bank which is owned, controlled and managed by a private individual.

The functions of a commercial bank are explained below:

a. The main function of a bank is to accept deposit from the public.

There are three types of deposit:

i. Current account deposit: These deposits are the deposit which can be withdrawn to the extent of the balance at any time.

ii. Saving account: The main aim of this type of account is to increase the habit of saving in individuals. The bank pays a rate of interest on the deposit held in these banks. This rate of interest is decided by the central bank of the country. There are certain restrictions on the number of withdrawals and the amount of withdrawals during a given period.

iii. Fixed account deposit: These deposits are also called time deposits as they are for a fixed period of time. The rate of interest given by the bank on this type of deposit account is higher than that of a savings account.

b. Lending fund: The central bank lends out loans and advances from the deposit collected earlier. This is in the form of overdraft, cash credits, discounting trade bills, term loans, consumer credits, and other miscellaneous advances.

c. Cheques facility: Cheques is the most developed instrument and a unique feature of the banks for the withdrawal of deposits. It is a very convenient and inexpensive mode of exchange. There are two types of cheques:

i-Bearer cheques: These cheques are encashable immediately at bank counters.

ii- Crossed cheques: These cheques are to be deposited only in the payee's account.

d. Remittance of funds: The banks provide the facility of transfer of funds from one place to another on account of the interconnectivity of branches. This is administered through Bank draft, pay orders and mail transfers on a nominal commission charge.

e. Allied services: The allied services include bill payment, locker facility, underwriting service, buying and selling of shares and debentures, collection of dividend, payment of insurance premium.

Q. 3 Write a detailed note on various facilities offered by the Indian Postal Department.

Answer:

Indian Post and Telegraph department provide a number of Postal Services across the country. For the smooth delivery of the services, the entire country is divided into 22 postal circles. Each circle has its own set of the head post office, sub-post office, and branch post office.

The different services provided by it explain below:

a. Financial facilities: Financial facilities are provided through the post office saving schemes such as Kisan Vikas Patra, public provident fund, national saving certificate along with other banking functions such as time deposit, saving account deposit, monthly deposit, money order facility and monthly income schemes.

b. Mail facilities: The Postal Services help in the transfer of parcels from one place to another, registration facility to provide security of the transferred good, and life insurance facility to provide insurance cover for all the risks in the course of transfer by post.

c. Miscellaneous activities: The miscellaneous activities include the following:

i- Greeting post consisting of different greeting cards for different occasions.

ii- Media post used by the Indian corporates to advertise their brand through postcards, telegram, aerogram, etc.

ii- Direct post which is used for direct advertising. It can be both addressed or unaddressed.

iv- The Postal Services have also collaborated with the Western Union Financial Services in the USA for international money transfer.

V- It has also collaborated with the Ministry of external affairs for facilitating passport application.

vi - The facility of speed post is available across the country and links with 97 major countries across the globe.

Q. 4 Describe various types of insurance and examine the nature of risks protected by each type of insurance.

Answer:

Insurance is a contract or agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make a loss, damage or injury to something of value in which the insured has a pecuniary interest as a result of some uncertain event. This writing is called 'policy'. The person whose risk is insured is called 'insured' and the firm which insures the risk of loss is known as insurer/assurance underwriter.

The various types of insurance are explained below:

a. Life insurance:

I. A life insurance policy was initially introduced as a protection against the uncertainty of life. Gradually its scope has widened and now there are many types of insurance policies available. For example, disability insurance, health/medical insurance, etc.

II. It is a contract in which the insurer in consideration of a certain premium, either in a lump sum or by other periodical payments, agrees to pay to the assured, or to the person for whose benefit the policy is taken, the assured sum of money, on the happening of a specified event contingent on the human life or at the expiry of certain period.

III- There are different types of insurance policies- Whole Life policy, endowment policy, joint life policy, Children's endowment policy, and annuity policy.

B. Fire Insurance:

I- Fire insurance is a contract in which the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by fire during a specified period up to the amount specified in the policy.

II - It is for a period of 1 year after which it is to be renewed from time to time

III - The premium may be paid either in lump sum or installments.

IV - A claim for loss by fire must satisfy the two following conditions- There must be an actual loss, and the fire must be accidental and nonintentional.

C. Marine insurance:

I- A marine insurance contract is an agreement whereby the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed against marine losses.

II- It provides protection against loss by marine perils or perils of the sea.

There are 3 things involved in it -

a) Ship or hull insurance: Since the ship is exposed to many dangers at sea, the insurance policy is for indemnifying the insured for losses caused by damage to the ship.

b) Cargo insurance: The cargo while being transported by ship is subject to many risks. These may be at port i.e., risk of theft, lost goods or on the voyage, etc. The insurance policy is issued to cover against such risks to cargo.

c) Freight insurance: If the cargo does not reach the destination due to damage or loss in transit, the shipping company is not paid freight charges. Freight insurance is for reimbursing the loss of freight to the shipping company.

Q. 5 Explain in detail the warehousing services.

Answer:

The different types of warehouses are:

a. Private warehouse: It is operated, owned or leased by a company handling their own goods. This type of warehousing has an advantage in control, flexibility, and improved dealer relations. For example, retail chain stores or multi-brand multi-product companies.

b. Public warehouse: These are used for storage of goods by traders, manufacturers or any member of the public after the payment of a storage fee. It is regulated by the government.

c. Bonded warehouse: These warehouses are licensed by the government to accept imported goods before the payment of taxes and customs duties. The importers are not allowed to remove the goods from these until the custom duty is paid.

d. Government warehouses: These are completely owned and managed by the government who manages them through organization set up in the public sector. For example, Food Corporation of India and Central Warehousing Corporation.

e. Co-operative warehouse: A Cooperative warehouse is a warehouse which is a result of the marketing cooperative societies and agricultural cooperative societies. It is formed by the members of the cooperative society.

Projects/Assignments

Q. 1 Identify a list of various services you use on a regular basis and identify their distinct characteristics.

Answer:

A service is an economic activity that is intangible and implies attain social interaction to be realized between the service provider and the consumer. They are separately identifiable, and intangible activities that provide the satisfaction of wants, and are not necessarily linked to the sale of a product or another service.

There are mainly three types of services that we use:

- a. Business Services: These services are used by business enterprises to conduct their activities. For example, banking, insurance, transportation, warehousing and communication services.
- b. Social Services: These services are provided voluntarily to attain social goals. For example, improve the standard of living for weaker sections of society, provide educational services to their children, provide health care and hygienic conditions in slum areas, etc.
- c. Personal services: These are experienced differently by the customers. They are not consistent in nature and have to be altered every time according to the needs of the customer. For example, tourism, restaurants, etc.

The features of services are explained below:

- a. The services are intangible and experiential in nature. They cannot be touched. It is not possible to assess its quality before its consumption. So it is important for the service providers to work dedicatedly to create a desired service for the customer to have a good experience. For example, you cannot touch a doctor's treatment. You cannot assess it before undergoing the same. So it is important for the doctors to provide the treatment so that the customer has a favorable experience.

b. The services have to be performed differently every time because there is no standard tangible product. Different customers have different demand and different expectations. The service has to be altered every time to meet the requirement of the customers. For example, the mobile services.

c. Service is a simultaneous activity of production and consumption being performed. The production and consumption of services are inseparable. Although it is possible that the service provider designs a substitute for the person by using the appropriate technology but the interaction with the customer remains an important feature of the service. For example, the ATM machines have replaced the banking clerks for the front office activities like a cash withdrawal. But at the same time, the presence of the customer is important.

d. Services do not have any tangible component and cannot be stored for a future purpose. Some service providers can store some associated goods but not the service itself. For example, a railway ticket can be stored but the railway journey will be experienced only when the railway provides it.

e. The participation of the customer in services is important for the service delivery process. The customer can get his service modified according to his own requirement.

Q. 2 Do a project on banking services? Approach a nearby bank and collect information about various services offered by them and also collect leaflets about salient features of different schemes. Compile and suggest what extra services you may like to propose.

Answer:

A bank is a financial institution that deals with money. It is governed by the Indian Banking Regulation Act 1945. The act defines a commercial bank institution that accepts the deposit of money from the public for the

purpose of lending or investment. There are two types of commercial bank public banks and private sector banks.

I had approached a public sector bank. A public bank is a bank in which the government has a major stake and works on the principle of welfare of the state rather than earning a profit.

The services provided by the bank are explained below:

a. The main function of a bank is to accept deposit from the public.

There are three types of deposit:

i. Current account deposit: These deposits are the deposit which can be withdrawn to the extent of the balance at any time.

ii. Saving account: The main aim of this type of account is to increase the habit of saving in individuals. The bank pays a rate of interest on the deposit held in these banks. This rate of interest is decided by the central bank of the country. There are certain restrictions on the number of withdrawals and the amount of withdrawals during a given period.

iii. Fixed account deposit: These deposits are also called time deposits as they are for a fixed period of time. The rate of interest given by the bank on this type of deposit account is higher than that of a savings account.

b. Lending fund: The central bank lends out loans and advances from the deposit collected earlier. This is in the form of overdraft, cash credits, discounting trade bills, term loans, consumer credits, and other miscellaneous advances.

c. Cheque facility: Cheque is the most developed instrument and a unique feature of the banks for the withdrawal of deposits. It is a very convenient and inexpensive mode of exchange. There are two types of cheques:

i-Bearer cheques: These cheques are encashable immediately at bank counters.

ii- Crossed cheques: These cheques are to be deposited only in the payee's account.

d. Remittance of funds: The banks provide the facility of transfer of funds from one place to another on account of the interconnectivity of branches. This is administered through Bank draft, pay orders and mail transfers on a nominal commission charge.

d. Allied services: The allied services include bill payment, locker facility, underwriting service, buying and selling of shares and debentures, collection of dividend, payment of insurance premium.

Q. 3 Visit a nearby bank branch in your locality and collect information about various types of account available for customers to open as per their requirement.

In the second part of the activity match the information given in column A with the information given in Column B.

S.NO.	Column A	Column B
1.	Multiple option deposit	It is a temporary pass – through account held by a third party during the process of a transaction between two parties unless the transaction is completed.

2.	Saving account	A kind of deposit scheme introduction by different banks, where the excess amount is transferred to a fixed deposit account and the account holder earns more rate of interest. If the bank receives a cheque for this account and the balance is not sufficient, the amount will be transferred from fixed deposit account to saving bank account to clear the cheque. In short, it gives the account holder the interest of a term deposit with the flexibility of partial withdrawal, whereas, the remaining cash will get better interest
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3.	Current Account	It is also called a cumulative deposit scheme. Any resident, individual, Association, club, institution/agency is eligible to open this account in single/joint names. The account can be opened for any period ranging from 6 months to 120 months, in multiple of 1 months for monthly installment. The amount selected for installment at the start of the scheme is payable every month and the numbers of installment once fixed, cannot be changed. The rate of interest is compounded quarterly and the
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		final amount is paid on maturity.
4.	Fixed deposit account	Any resident, individual, association, club, etc., is eligible for this account. It is a kind of modest credit option available to the depositor. Two free cheque books will be issued each year. Internet banking facility will be provided without any charge. Balance inquiry, NEFT, bill payment, mobile recharge, etc., are provided through mobile phones.

		Students can open this account with zero balance by providing the required documents.
5.	Demat account	This account can be opened by any resident, individual, association, limited company, religious institution, educational institution, club etc. payment can be done an unlimited numbers of times. Funds can be remitted from any part of the country to the corresponding account. Overdraft facility and internet banking facility are available.
6.	Escrow account	It is classified as short deposit receipt and fixed deposit receipt

		a. Short deposit receipt b. i. banks accept deposits from customers varying from 7 days to a maximum of 10 years. ii. the period of 'short period' can vary from 7 days to 179 days. iii. the minimum amount that can be deposited under this scheme is Rs. 5 lakhs for a period of 7 – 14 days. b. Fixed deposit receipt i. any resident, individual, association, minor, society, club, etc., is
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		eligible for this account. ii. the minimum FDR in metro and urban branches is Rs. 10, 000 and in rural and semi – urban and the for senior citizens is Rs. 5000. iii. interest rate differs from bank to bank depending upon the tenure of the deposits and as bank changes the rate. iv. additional interest of 0.50% is offered to senior citizens on deposits placed for a year and above.
7.	Recurring deposit account	i. this account offers stress – free transections on the shares.

		ii. an individual, non – resident, Indian, foreign institutional investor, foreign national. Corporate, trusts, clearing houses, financial institution, clearing members, mutual funds, banks and other depository account.
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Answer:

The main function of a bank is to accept deposit from the public. There are three types of deposit:

- i. Current account deposit: These deposits are the deposit which can be withdrawn to the extent of the balance at any time.
- ii. Saving account: This account can be opened by any resident, individual, association, limited company, religious institution, educational institution, charitable institution, club, etc. Payments can be done unlimited number of times. Funds can be remitted from any part of the country to the corresponding account. Overdraft facility and Internet banking facility are available. The main aim of this type of account is to increase the habit of saving in individuals. The bank pays a rate of interest on the deposit held in these banks. This rate of interest is decided by the central bank of the country. There are certain restrictions

on the number of withdrawals and the amount of withdrawals during a given period.

iii. Fixed account deposit: These deposits are also called time deposits as they are for a fixed period of time. The rate of interest given by the bank on this type of deposit account is higher than that of a savings account.

1. Multiple Option deposit - A kind of deposit scheme introduced by different banks, where the excess amount in the savings bank account is transferred to a fixed deposit account and the account holder earns more rate of interest. If the bank receives a cheque for this account and the balance is not sufficient, the amount will be transferred from fixed deposit account to savings bank account to clear the cheque. In short, it gives the account holder the interest of a term deposit with the flexibility of partial withdrawal, whereas, the remaining cash will get better interest

2. Saving account- Any resident, individual, association, club, etc., is eligible for this account. It is a kind of modest credit option available to the depositor. Two free cheque books will be issued each year. Internet banking facility will be provided without any charge. Balance enquiry, NEFT, bill payment, mobile recharge, etc., are provided through mobile phones. Students can open this account with zero balance by providing the required documents.

3. Current Account - This account can be opened by any resident, individual, association, limited company, religious institution, educational institution, charitable institution, club, etc. Payments can be done unlimited number of times. Funds can be remitted from any part of the country to the corresponding account. Overdraft facility and Internet banking facility are available.

4. Fixed Deposit - It is classified as short deposit receipt and fixed deposit receipt a. Short Deposit Receipt

(i) Banks accept deposits from customers varying from 7 days to a maximum of 10 years.

(ii) The period for 'short deposits' can vary from 7 days to 179 days.

(iii) The minimum amount that can be deposited under this scheme is Rs. 5 lakhs for a period of 7-14 days.

b. Fixed Deposit Receipt (i) Any resident, individual, association, minor, society, club, etc., is eligible for this account.

(ii) The minimum FDR in metro and Urban branches is Rs. 10,000 and in rural and semi-urban and for senior citizens is Rs. 5000.

(iii) The interest rate differs from bank to bank depending upon the tenure of the deposits and as bank changes the rate.

(iv) Additional interest of 0.50% is offered to senior citizens on deposits placed for a year and above

5. Escrow account - It is a temporary pass-through account held by a third party during the process of a transaction between two parties unless the transaction is completed.

6. Demat account - (i) This account offers stress-free transactions on the shares.

(ii) An individual, Non-Resident Indian, foreign institutional investor, foreign national, corporate, trusts, clearinghouses, financial institution, clearing member, mutual funds, banks, and other depository accounts.

(iii) For opening this account, an applicant requires to fill a form, submit his/her photo along with a photocopy of Voter ID/Passport /Aadhar Card/Driving License and a Demat account number will be provided to the applicant immediately after the completion of processing of the application.

7. Recurring account: It is also called a cumulative deposit scheme. Any resident, individual, association, club, institution/ agency is eligible to open this account in single/joint names. The account can be opened for any period ranging from 6 months to 120 months, in multiple of 1 month

for monthly installment. The amount selected for installment at the start of the scheme is payable every month and the number of installments once fixed, cannot be changed. The rate of interest is compounded quarterly and the final amount is paid on maturity.