Class XI Business Studies

Chapter 4 Business Services

Revision Notes

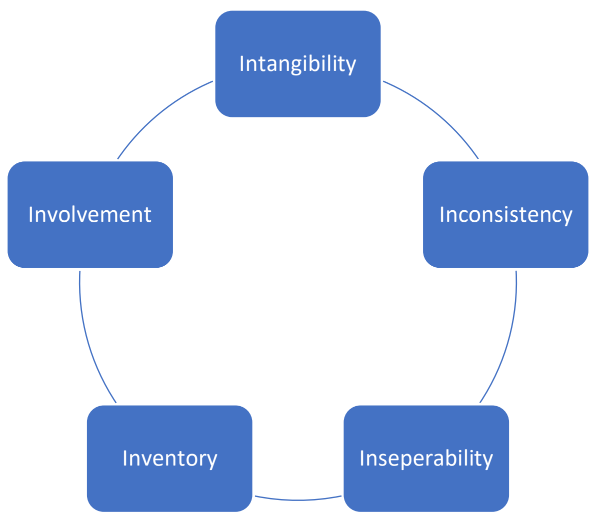
Goods

- A good is a physical product capable of being delivered to a purchaser and involves the transfer of ownership from seller to customer

Services

- Services are those separately identifiable, essentially intangible activities that provides satisfaction of wants, and are not necessarily linked to the sale of a product or another service

Nature of Services



1. Intangibility

- They cannot be touched. They are experiential in nature
- Quality of the offer can often not be determined before consumption
- Service providers should consciously work on creating a desired service so that the customer undergoes a favourable experience

2. Inconsistency

- There is no standard tangible product, services have to be performed exclusively each time.
- Different customers have different demands and expectations.
- Service providers need to have an opportunity to alter their offer to closely meet the requirements of the customers.

3. Inseparability

- Simultaneous activity of production and consumption makes the production and consumption of services seem to be inseparable
- Services have to be consumed as and when they are produced.
- Service providers may design a substitute for the person by using appropriate technology but the interaction with the customer remains a key feature of services.

4. Inventory

- Services cannot be stored for a future use. That is, services are perishable and providers can, at best, store some associated goods but not the service itself.
- This means that the demand and supply needs to be managed as the service has to be performed as and when the customer asks for it.
- They cannot be performed earlier to be consumed at a later date.

5. Involvement

- Characteristic of service is the participation of the customer in the service delivery process.
- A customer has the opportunity to get the services modified according to specific requirements

Difference Between Goods and Services

Basis	Services	Goods
Nature	An activity or process. e.g., watching a movie in a cinema hall	A physical object. e.g., video cassette of movie
Type	Heterogeneous	Homogenous
Intangibility	Intangible e.g., doctor treatment	Tangible e.g., medicine
Inconsistency	Different customers having different demands e.g., mobile services	Different customers getting standardised demands fulfilled. e.g., mobile phones
Inseparability	Simultaneous production and consumption. e.g., eating ice-cream in a restaurant	Separation of production and consumption. e.g., purchasing ice cream from a store
Inventory	Cannot be kept in stock. e.g., experience of a train journey	Can be kept in stock. e.g., train journey ticket
Involvement	Participation of customers at the time of service delivery. e.g., self-service in a fast food joint	Involvement at the time of delivery not possible. e.g., manufacturing a vehicle

Types of Services

1. ***Business Services:***

Business services are those services which are used by business enterprises for the conduct of their activities. For example, banking, insurance, transportation, warehousing and communication services

2. ***Social Services:***
   Social services are those services that are generally provided voluntarily in pursuit of certain social goals. These social goals may be to improve the standard of living for weaker sections of society, to provide educational services to their children, or to provide health care and hygienic conditions in slum areas. For example, health care and education services provided by certain Non-government organisations (NGOs) and government agencies.

3. ***Personal Services:***
   Personal services are those services which are experienced differently by different customers. These services cannot be consistent in nature. They will differ depending upon the service provider. They will also depend upon customer's preferences and demands. For example, tourism, recreational services, restaurants.

Banking

- A banking company in India is the one which transacts the business of banking which means accepting, for the purpose of lending and investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise.
- In simple terms, a bank accepts money on deposits, repayable on demand and also earns a margin of profit by lending money

Types of Banks

Commercial Banks

- These are governed by Indian Banking Regulation Act 1949 and according to it banking means accepting deposits of money from the public for the purpose of lending or investment.
- There are two types of commercial banks, public sector and private sector banks.
- Public sectors banks are those in which the government has a major are a number of public sector banks like SBI, PNB, IOB etc
- Other private sector banks represented by HDFC Bank, ICICI Bank, Kotak Mahindra Bank

Cooperative Banks

- Cooperative Banks are governed by the provisions of State Cooperative Societies Act
- It is meant essentially for providing cheap credit to their members

Specialised Banks

- Specialised banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities
- They provide financial aid to industries, heavy turnkey projects and foreign trade

Central Bank

- The Central bank of any country supervises, controls and regulates the activities of all the commercial banks of that country
- It controls and coordinates currency and credit policies of any country. The Reserve Bank of India is the central bank of our country.

Functions of Commercial Banks

Acceptance of deposit

- Deposits are the basis of the loan operations since banks are both borrowers and lenders of money. As borrowers they pay interest and as lenders they grant loans and get interest.
- These deposits are generally taken through current account, savings account and fixed deposits.
- Current account deposits can be withdrawn to the extent of the balance at any time without any prior notice
- Fixed accounts are time deposits with higher rate of interest as compared to the savings accounts.
- A premature withdrawal is permissible with a percentage of interest being forfeited

Cheque Facility

- The cheque is the most developed credit instrument, a unique feature and function of banks for the withdrawal of deposits. It is the most convenient and an inexpensive medium of exchange.
- There are two types of cheques:
  - bearer cheques, which are encashable immediately at bank counters and
  - crossed cheques which are to be deposited only in the payees account

Lending of Funds

- Provide loans and advances out of the money received through deposits.
- These advances can be made in the form of overdrafts, cash credits, discounting trade bills, term loans, consumer credits and other miscellaneous advances.

Remittance of Funds

- Provides the facility of fund transfer from one place to another, on account of the interconnectivity of branches.
- The transfer of funds is administered by using bank drafts, pay orders or mail transfers, on nominal commission charges.

Allied Services

- Such as bill payments, locker facilities, underwriting services
- They also perform other services like buying and selling of shares and debentures on instructions and other personal services

E-banking

- Online banking also known as internet banking, e-banking, or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.
- Internet banking is a term used to describe the process whereby a client executes banking transactions via electronic means.

- This type of banking uses the internet as the chief medium of delivery by which banking activities are executed

Benefits of E-Banking

1. E-banking facilitates digital payments and promotes transparency in financial statements
2. Banks that offer internet banking are open for business transactions anywhere a client might be as long as there is internet connection (Apart from periods of website maintenance)
3. E-banking helps in reducing the operational costs of banking services. Better quality services can be ensured at low cost.
4. Lower operating cost results in higher interest rates on savings and lower rates on mortgages and loans offers from the banks. Some banks offer high yield certificate of deposits and don't penalize withdrawals on certificate of deposits, opening of accounts without minimum deposits and no minimum balance.
5. Online banking allows automatic funding of accounts from long established bank accounts via electronic funds transfers.
6. A client can monitor his/her spending via a virtual wallet through certain banks and applications and enable payments.
7. The speed of transaction is faster relative to use of ATM's or customary banking.
8. The credit cards and debit cards enables the Customers to obtain discounts from retail outlets.
9. E-Banking helps the bank to provide efficient, economic and quality service to the customers. It helps the bank to create new customer and retaining the old ones successfully
10. The customer can obtain funds at any time from ATM machines

Insurance

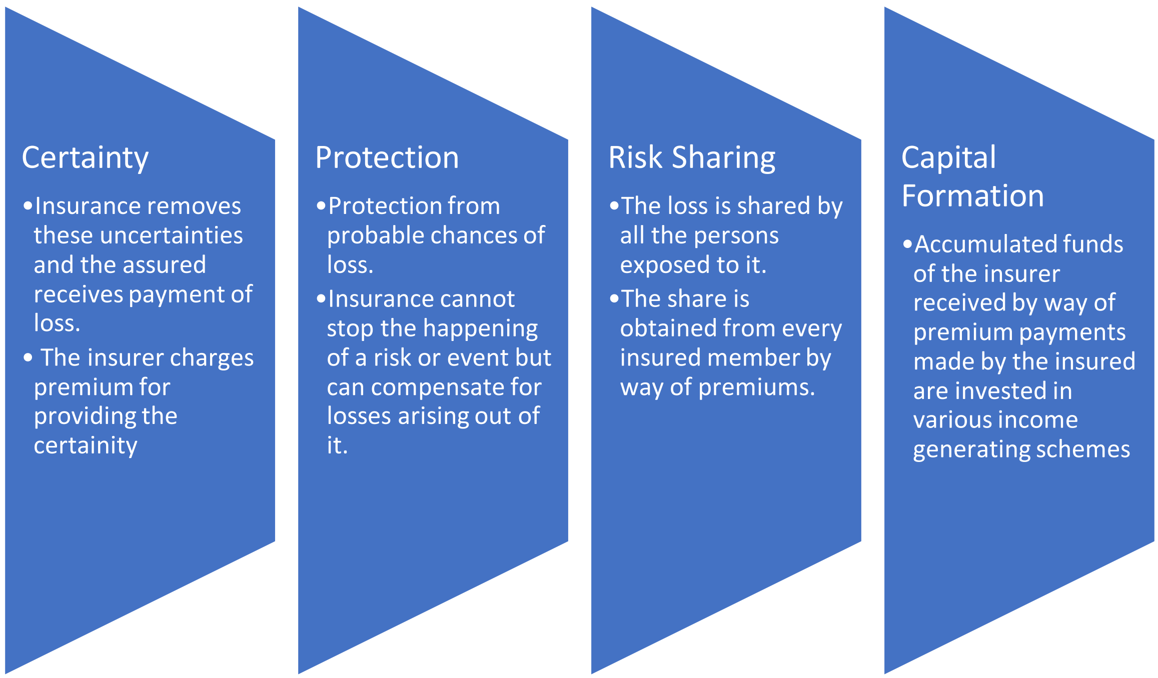
- Insurance is thus a device by which the loss likely to be caused by an uncertain event is spread over a number of persons who are exposed to it and who prepare to insure themselves against such an event.
- It is a contract or agreement under which one party agrees in return for a consideration to pay 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.
- The agreement/contract is put in writing and is known as '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

Fundamental Principle of Insurance

- Insurance is the substitution of a small periodic payment (premium) for a risk of large possible loss.
- The loss of risk still remains but the loss is spread over a large number of policyholders
- exposed to the same risk.
- The premium paid by them are pooled out of which the loss sustained by any policy holder

- is compensated. Risks are shared with others

Functions of Insurance



Principles of Insurance

Utmost Good Faith

- Insurance contracts also require that both parties act with the utmost good faith. This means that both parties must accurately and fully disclose all material information. This not only ensures fairness, but also helps insurance companies accurately price premiums for insurance applicants. Insurance policies can be declared null and void if an applicant made a misrepresentation of material fact that was relied on by the insurance company.

Insurable Interest

- The insurable interest principle requires that the owner of a particular insurance policy have an ownership interest in the particular subject matter of the insurance policy. The absence of an insurable interest can make the insurance policy in question null and void.

Indemnity

- The principle of indemnity ensures that an insurance contract protects you from and compensates you for any damage, loss, or injury. The purpose of an insurance contract is to make you "whole" in the event of a loss, *not* to allow you to make a profit. Thus, the amount of your compensation for a loss is directly related to the amount of loss that you actually suffered.

Proximate Cause

- The principle of proximate cause, or nearest cause, comes into play when more than one event or bad actor causes an accident or injury. The insurance principle of proximate cause dictates that nearest or closest cause should be taken into consideration to decide the liability.

Subrogation

- Subrogation means that one party stands in for another. In the insurance context, subrogation will arise if you are injured by a negligent third party, and your insurance company reimburses you for your damages. Under the principle of subrogation, your insurance company can stand in your shoes and recover the pay-out from the negligent party. The goal of this principle is to encourage responsibility and accountability by holding negligent parties responsible for injuries they cause.

Contribution

- Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subject matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer. If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers.

Mitigation

- As the owner of an insurance policy, you have an obligation to take necessary steps to minimize the loss of your insured property. The law doesn't allow you to be negligent or irresponsible just because you know you're insured

<u>Types of Insurance</u>

- ***<u>Life Insurance</u>***
    - Life insurance may be defined as 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.
    - This agreement or contract which contains all the terms and conditions is put in writing and such document is called the policy.
    - The person whose life is insured is called the assured.
    - The insurance company is the insurer and the consideration paid by the assured is the premium.
    - The premium can be paid periodically in instalments

  - **Features of Life Insurance are as follows:**
    - The life insurance contract must have all the essentials of a valid contract
    - The contract of life insurance is a contract of utmost good faith. The assured should be honest and truthful in giving information to the insurance company
    - In life insurance, the insured must have insurable interest in the life assured
    - Life insurance contract is not a contract of indemnity. The life of a human being cannot be compensated and only a specified sum of money is paid

  - **Types of Life Insurance Policies**:
    - **Whole Life Policy**: In this kind of policy, the amount payable to the insured will not be paid before the death of the assured. The sum then becomes payable only to the beneficiaries or heir of the deceased.
    - **Endowment Life Assurance Policy**: The insurer undertakes to pay a specified sum when the insured attains a particular age or on his death whichever is earlier. The sum is payable to his legal heir/s or nominee named therein in case of death of the assured. Otherwise, the sum will be paid to the assured after a fixed period
    - **Joint Life Policy**: This policy is taken up by two or more persons. The premium is paid jointly or by either of them in instalments or lump sum assured sum or policy money is payable upon the death of any one person to the other survivor or survivors
    - **Annuity Policy**: The assured sum or policy money is payable after the assured attains a certain age in monthly, quarterly, half yearly or annual instalments
    - **Children's Endowment Policy**: This policy is taken by a person for his/ her children to meet the expenses of their education or marriage. The agreement states that a certain sum will be paid by the insurer when the children attain a particular age

- ***Fire Insurance***
    - Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by fire during a specified period upto the amount specified in the policy.
    - Normally, the fire insurance policy is for a period of one year after which it is to be renewed from time to time
    - A claim for loss by fire must satisfy the two following conditions:
      (i) There must be actual loss; and
      (ii) Fire must be accidental and nonintentional

  - **Features of Fire Insurance**
    - The insured must have insurable interest in the subject matter of the insurance. Without insurable interest the contract of insurance is void
    - The insured should be truthful and honest (Utmost Good Faith) in giving information to the insurance company regarding the subject matter of the insurance
    - The contract of fire insurance is a contract of strict indemnity. The insured can, in the event of loss, recover the actual amount of loss from the insurer. This is subject to the maximum amount for which the subject matter is insured
    - The insurer is liable to compensate only when fire is the proximate cause of damage or loss.

- ***Marine Insurance***
    - 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.
    - Marine insurance provides protection against loss by marine perils or perils of the sea.
    - Three Things involved:
        - **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.
        - **Cargo insurance**: The cargo while being transported by ship is subject to many risks
        - **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

  - **Features of Marine Insurance**

    - The contract of marine insurance is a contract of indemnity. The insured can, in the event of loss recover the actual amount of loss from the insurer
    - The contract of marine insurance is a contract of utmost good faith. Both the insured and insurer must disclose everything, which is in their knowledge and can affect the insurance contract.
    - Insurable interest must exist at the time of loss but not necessary at the time when the policy was taken
    - The principle of causa proxima will apply to it. The insurance company will be liable to pay only if that particular or nearest cause is covered by the policy

__Communication Services__

- Business does not exist in isolation, it has to communicate with others for transmission of ideas and information.
- Communication services need to be very efficient, accurate and fast for them to be effective. In this fast moving and competitive world it is essential to have advanced technology for quick
- exchange of information.
- The electronic media is mainly responsible for this transformation.
- The main services which help business can be classified into postal and telecom.

__Postal Services__

- Indian post and telegraph department provides various postal services across India
- Through their regional and divisional level arrangements the various facilities provided by postal department are broadly categorised into:
    - Financial facilities: These facilities are provided through the post office's savings schemes like Public Provident Fund (PPF), Kisan Vikas Patra, and National Saving Certificate
    - Mail facilities: Mail services consist of parcel facilities that is transmission of articles from one place to another; registration facility to provide security f the transmitted articles and insurance facility to provide insurance cover for all risks in the course of transmission by post
    - Allied Facilities: Greeting post, media post, International money transfer, speed post, passport facilities, e-bill

__Telecom Services__

- World class telecommunications infrastructure is the key to rapid economic and social development of the country

- **Types of telecom services** are:
    - **Cellular mobile services**: These are all types of mobile telecom services including voice and non-voice messages, data services and PCO services utilising any type of network equipment within their service area.
    - **Fixed line services**: These are all types of fixed services including voice and non-voice messages and data services to establish linkages for long distance traffic. These utilise any type of network equipment primarily connected through fiber optic cables
    - **Cable services**: These are linkages and switched services within a licensed area of operation to operate media services, which are essentially one-way entertainment related services.
    - **VSAT services**: VSAT (Very Small Aperture Terminal) is a satellite-based communications service. It offers businesses and government agencies a highly flexible and reliable communication solution in both urban and rural areas.
    - **DTH services**: DTH (Direct to Home) is again a satellite-based media services provided by cellular companies. One can receive media services directly through a satellite with the help of a small dish antenna and a set top box.

Transportation

- Transportation comprises freight services together with supporting and auxiliary services by all modes of transportation i.e., rail, road, air and sea for the movement of goods and international carriage of passengers
- Transportation removes the hindrance of place, i.e., it makes goods available to the consumer from the place of production
- Both government and industry needs to be proactive and view the effective functioning of this service as a necessity for providing a lifeline to a business services

Warehousing

- Storage has always been an important aspect of economic development. The warehouse was initially viewed as a static unit for keeping and storing goods in a scientific and systematic manner so as to maintain their original quality, value and usefulness
- Warehouses have ceased to be a mere storage service providers and have really become logistical service providers in a cost efficient manner
- This makes available the right quantity, at the right place, in the right time, in the right physical form at the right cost

Types of Warehouses:

Private Warehouse

- Private warehouses are operated, owned or leased by a company handling their own goods, such as retail chain stores or multi-brand multi-product companies.
- The benefit of private warehousing includes control, flexibility, and other benefits like improved dealer relations.

Public Warehouse

- Public warehouses can be used for storage of goods by traders, manufacturers or any member of the public after the payment of a storage fee or charges.
- The government regulates the operation of these warehouses by issuing licences
- Benefits include flexibility in the number of locations, no fixed cost and capability of offering value added services, like packaging and labelling.

Bonded Warehouse

- Bonded warehouses are licensed by the government to accept imported goods prior to payment of tax and customs duty.
- These are goods which are imported from other countries. Importers are not permitted to remove goods from the docks or the airport till custom duty is paid

Government Warehouse

- These warehouses are fully owned and managed by the government.
- The government manages them through organisations set up in the public sector

Cooperative Warehouse

- Some marketing cooperative societies or agricultural cooperative socities have set up their own warehouses for members of their cooperative society

Functions of Warehousing

1. Consolidation:

The warehouse receives and consolidates, materials/goods from different production plants and dispatches the same to a particular customer on a single transportation shipment.

2. Break the bulk:

The warehouse performs the function of dividing the bulk quantity of goods received from the production plants into smaller quantities. These smaller quantities are then transported according to the requirements of clients to their places of business.

3. Stock piling:

The next function of warehousing is the seasonal storage of goods to select businesses. Goods or raw materials, which are not required immediately for sale or manufacturing, are stored in warehouses. They are made available to business depending on customers’ demand

4. Value added services:

Certain value added services are also provided by the warehouses, such as in transit mixing, packaging and labelling. Goods sometimes need to be opened and repackaged and labelled again at the time of inspection by prospective buyers

5. Price stabilization:

By adjusting the supply of goods with the demand situation, warehousing performs the function of stabilizing prices. Thus, prices are controlled when supply is increasing and demand is slack and vice versa

6. Financing:

Warehouse owners advance money to the owners on security of goods and further supply goods on credit terms to customers

Difference Between Life Insurance, Marine Insurance And Fire Insurance

BASIS	LIFE INSURANCE	FIRE INSURANCE	MARINE INSURANCE
SUBJECT MATTER	The subject matter of insurance is human life.	The subject matter is any physical property or assets.	The subject matter is a ship, cargo or freight
ELEMENT	Life Insurance has the elements of protection and investment or both.	Fire insurance has only the element of protection and not the element of investment.	Marine insurance has only the element of protection
INSURABLE INTEREST	Insurable interest must be present at the time of effecting the policy but need not be necessary at the time when the claim falls due.	Insurable interest on the subject matter must be present both at the time of effecting policy as well as when the claim falls due.	Insurable interest must be present at the time when claim falls due or at the time of loss only
DURATION	Life insurance policy usually exceeds a year and is taken for longer periods ranging from 5 to 30 years or whole life	Fire insurance policy usually does not exceed a year.	Marine insurance policy is for one or period of voyage or mixed
INDEMNITY	Life insurance is not based on the principle of indemnity. The sum assured is paid either on the happening of certain event or on maturity of the policy.	Fire insurance is a contract of indemnity. The insured can claim only the actual amount of loss from the insurer. The loss due to the fire is indemnified subject to the	Marine insurance is a contract of indemnity. The insured can claim the market value of the ship and cost of goods destroyed at sea and the loss will be indemnified

		maximum limit of the policy amount.	
LOSS MEASUREMENT	Loss is not measurable.	Loss is measurable.	Loss is measurable
SURRENDER VALUE OR PAID UP VALUE	Life insurance policy has a surrender value or paid up value	Fire insurance does not have any surrender value or paid up value.	Marine insurance does not have any surrender value or paid up value
POLICY AMOUNT	One can insure for any amount in life insurance.	In fire insurance, the amount of the policy cannot be more than the value of the subject matter.	In marine insurance the amount of the policy can be the market value of the ship or cargo
CONTINGENCY OF RISK	There is an element of certainity. The event i.e., death of maturity or policy is bound to happen. Therefore a claim will be present.	The event i.e., destruction by fire may not happen. There is an element of uncertainity and there may be no claim.	The event i.e., loss at sea may not occur and there may be no claim. There is an element of uncertainty