CHAPTER 4

BUSINESS SERVICES

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- state the characteristics of services;
- distinguish services from goods;
- classify different types of business services;
- explain the concept of e-banking;
- identify and classify different types of insurance policies; and
- describe different types of warehouses.

All of us have seen a petrol pump. Have your ever thought how a petrol pump owner does his business in a village? How he gets the petrol and diesel to the villages in the interior? How he gets the money to purchase large quantities of petrol and diesel? How he communicates to petrol depots for requirement and also to customers? How he safeguards himself from various risks associated with this business? The answer to all the above questions lies in the understanding of business services. The transportation of petrol and diesel from oil refineries to petrol pumps is carried out by train and tankers (transport services). They are then stored at various depots of oil companies situated in all major towns across India (warehousing services). Petrol pump owners use postal, mail and telephone facilities to be in touch with customers, banks and the depots for the availability of their requirements on regular basis (communication services). As oil companies always sell the petrol and diesel on advance payment, the owners have to take loans and advances from banks to fund their purchases (banking services). Petrol and diesel being highly risky products, the owners have to safeguard themselves from various risks by getting the business, the products, the life of people working there, etc., insure (insurance services). Thus, we see that a single business of providing petrol and diesel at a petrol pump is actually a collective outcome of various business services. These services are being utilised in the entire process of shipment of petrol and diesel from oil refineries to the point of sale at petrol pumps, spread across the length and breath of India.

4.1 Introduction

You must all have, at some time or the other experienced the effect of business activities on your lives. Let us examine few examples of business activity i.e., purchasing ice cream from a store and eating ice cream in a restaurant, watching a movie in a cinema hall purchasing a school bus and leasing it from a transporter. If you analyse all these activities, you will observe that there is a difference between purchasing and eating, purchasing and watching and purchasing and leasing. What is common in all of them is that one is purchasing an item and the other is experiencing a service. But there is definitely a difference between the item or good and the service performed.

For a layperson, services are essentially intangibles. Their purchase does not result in the ownership of anything physical. For example, you can only seek advice from the doctor, you cannot purchase him. Services are all those economic activities that are intangible and imply an interaction to be realised between the service provider and the consumer.

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.

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

4.2 Nature of Services

There are five basic features of services. These features also distinguish them from goods and are known as the five Is of services. These are discussed as below:

(i) Intangibility: Services are intangible, i.e., they cannot be touched. They are experiential in nature. One cannot taste a doctor's treatment, or touch entertainment. One can only experience it. An important implication of this is that quality of the offer can often not be determined before consumption and, therefore, purchase. It is, therefore, important for the service providers that they consciously work on creating a desired service so that the customer undergoes a favourable experience. For example, treatment by a doctor should be a favourable experience.

(ii) Inconsistency: The second important characteristic of services is inconsistency. Since 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. This is happening, for example, in the case of mobile services.

(iii) Inseparability: Another important characteristic of services is the simultaneous activity of production and consumption being performed. This makes the production and consumption of services seem to be inseparable. While we can manufacture a car today and sell it after, say, a month; this is often not possible with services that 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. Automated Teller Machines (ATMs) may replace the banking clerk for the front office activities like cash withdrawal and cheque deposit. But, at the same time, the presence of the customer, is required and his/her interaction with the process has to be managed.

(iv) Inventory (Less): Services have little or no tangible components and, therefore, 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. For example, a railway ticket can be stored but the railway journey will be experienced only when the railways provides it.

(v) Involvement: One of the most important characteristics of services 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.

4.2.1 Difference between Services and Goods

From the above, it is clear that the two main differentiating characteristics of services and goods are non-transferability of ownership and presence of both provider as well as consumer. While goods are produced, services are performed. A service is an act which cannot be taken home. What we can take home is the effect of the services. And as the services are sold at the consumption point, there are no inventories. On the basis of above features, we can have following points of distinction between goods and services.

4.3 Types of Services

When speaking of the service sector, services can be classified into three broad categories, viz., business services, social services and personal services. These have been explained in the following pages.

(i) 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.

Difference between Services and Goods

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

(ii) 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. These services are usually provided voluntarily but for some consideration to cover their costs. For example, health care and education services provided by certain Non-government organisations (NGOs) and government agencies.

(iii) 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.

In the context of better understanding of the business world, we will be limiting our further discussions to the first category of the service sector i.e., business services.

4.3.1 Business Services

Today's world is of tough competition, where the survival of the fittest is the rule. There is no room for non-performance, and hence companies tend to stick to what they can do best. In order to be competitive, business enterprises, are becoming more and more dependant on specialised business services. Business enterprises look towards banks for availability of funds; insurance companies for getting their plant, machinery, goods, etc., insured; transport companies for transporting raw material; and finished goods, and telecom and postal services for being in touch with their vendors, suppliers and customers. Today's globalised world has ushered in a rapid change in the service industry in India. India has been gaining a highly competitive edge over other countries when it comes to providing services to the developed economies of the world. Many foreign companies are looking to India for performing a host of business services. They are even transferring a part of their business operations to be performed in India. We will discuss these in detail in the next chapter.

4.4 Banking

Commercial banks are an important institution of the economy for providing institutional credit to its customers. 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. A bank stimulates economic activity in the market by dealing in money. It mobilises the savings of people and makes funds available to business financing their capital and revenue expenditure. It also deals in financial instruments and provides financial services for a price, i.e., interest, discount, commission, etc.

Public sectors banks are those in which the government has a major stake and they usually need to emphasise on social objectives than on profitability. Private sector banks are owned, managed and controlled by private promoters and they are free to operate as per market forces. There are a number of public sector banks like SBI, PNB, IOB etc., and other private sector banks represented by HDFC Bank, ICICI Bank, Kotak Mahindra Bank and Jammu and Kashmir Bank.

Banking and Social Objectives

In the recent past there has been a concerted effort by the policy makers in reorienting banking towards achieving social objectives. There has been a major shift in the banking policy of the country:

	from		to
(i)	Urban orientation	—	Rural orientation
(ii)	Class banking	—	Mass banking
(iii)	Traditional	—	Innovative practices
(iv)	Short term objectives	—	Development objectives

4.4.1 Type of Banks

The focus of banking is varied, the needs diverse and methods different. Thus, we need distinctive kinds of banks to cater to the above mentioned complexities.

Banks can be classified into the following:

1. Commercial banks
2. Cooperative banks
3. Specialised banks
4. Central bank

(i) Commercial Banks: Commercial banks are institutions dealing in money. 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.

(ii) Cooperative Banks: Cooperative Banks are governed by the provisions of State Cooperative Societies Act and meant essentially for providing cheap credit to their members. It is an important source of rural credit, i.e., agricultural financing in India.

(iii) Specialised Banks: Specialised banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities. These banks provide financial aid to industries, heavy turnkey projects and foreign trade.

(iv) Central Bank: The Central bank of any country supervises, controls and regulates the activities of all the commercial banks of that country. It also acts as a government banker. It controls and coordinates currency and credit policies of any country. The Reserve Bank of India is the central bank of our country.

4.4.2 Functions of Commercial Banks

Banks perform a variety of functions. Some of them are the basic or primary functions of a bank while others are agency or general utility services in nature. The important functions are briefly discussed below:

(i) Acceptance of deposits: 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.

Savings accounts are for encouraging savings by individuals. Banks pay rate of interest as decided by RBI on these deposits. Withdrawal from these accounts has some restrictions in relation to the amount as well as number of times in a given period. 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.

(ii) Lending of funds: Second major activity of commercial banks is to 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. The funds lent out by banks contribute a great deal to trade, industry, transport and other business activities.

(iii) Cheque facility: Banks render a very important service to their customers by collecting their cheques drawn on other banks. 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 mainly (a) bearer cheques, which are encashable immediately at bank counters and (b) crossed cheques which are to be deposited only in the payees account.

(iv) Remittance of funds: Another salient function of commercial banks is of providing 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. The bank issues a draft for the amount on its own branches at other places or other banks at those places. The payee can present the draft on the drawee bank at his place and collect the amount.

(v) Allied services: In addition to above functions, banks also provide 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 like payment of insurance premium, collection of dividend etc.

4.4.3 e-Banking

The growth of Internet and e-commerce is dramatically changing everyday life, with the world wide web and e-commerce transforming the world into a digital global village. The latest wave in information technology is internet banking. It is a part of virtual banking and another delivery channel for customers.

In simple terms, Internet banking means any user with a PC and a browser can get connected to the banks website to perform any of the virtual banking functions and avail of any of the bank's services. There is no human operator to respond to the needs of the customer. The bank has a centralised data base that is web-enabled. All the services that the bank has permitted on the internet are displayed on a menu. Any service can be selected and further interaction is dictated by the nature of service.

In this new digital market place banks and financial institutions have started providing services over the internet. These type of services provided by the banks on the internet, called e-banking, lowers the transaction cost, adds value to the banking relationship and empowers customers. e-banking is electronic banking or banking using electronic media. Thus, e-banking is a service provided by many banks, that allows, a customer to conduct banking transactions, such as managing savings, checking accounts, applying for loans or paying bills over the internet using a personal computer, mobile telephone or handheld computer (personal digital assistant) The range of services offered by e-banking are: Automated Teller Machines (ATM) and Point of Sales (PoS), Electronic Data Interchange (EDI) and Credit Cards Electronic or Digital cash and Electronic bank transfer (EFT). The two ways in which EFT can be done are: NEFT (National Electronic Fund Transfer) and RTGS (Real Time Gross Settlement).

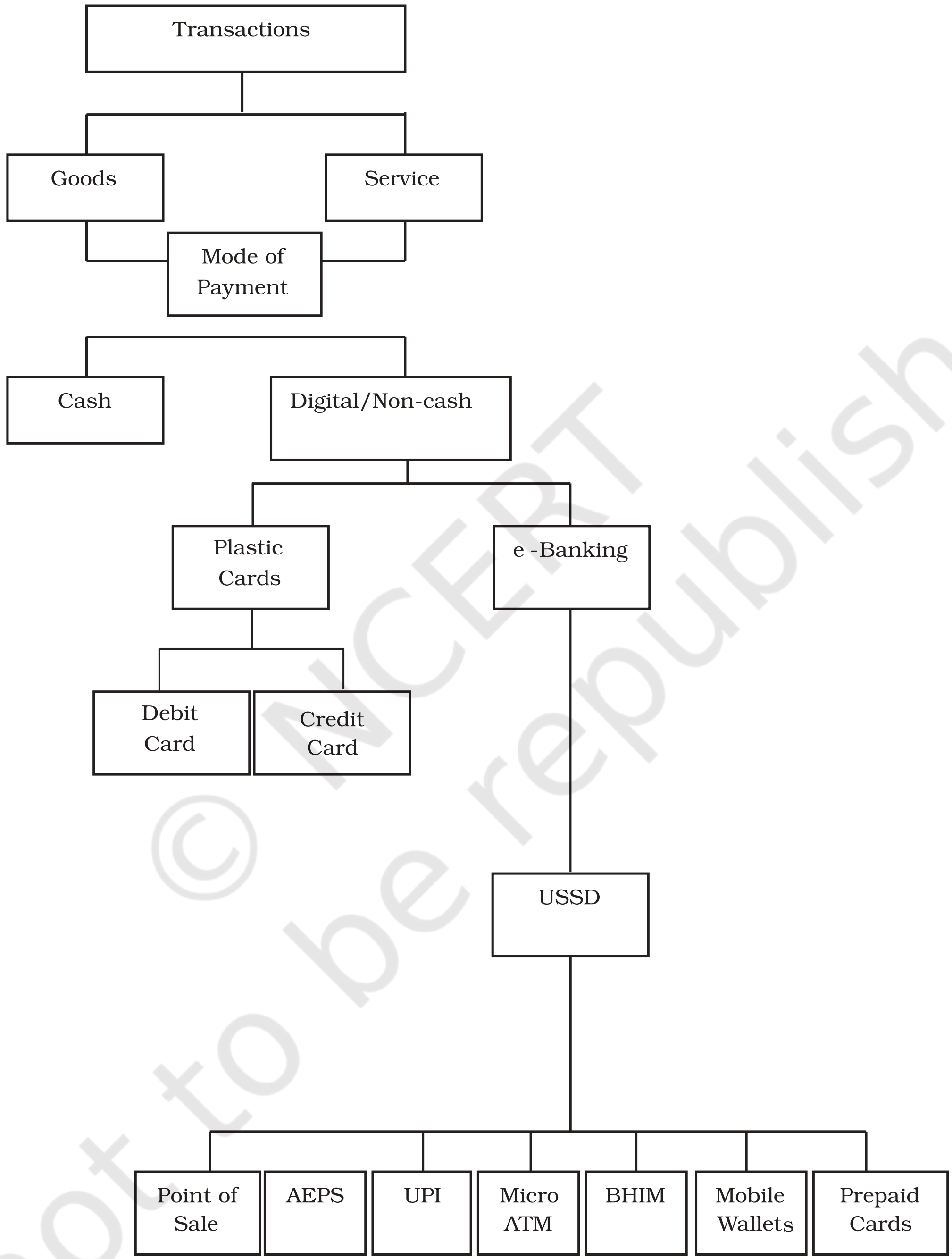
Benefits

There are various benefits of e-banking provided to customers which are:

(i) E-banking facilitates digital payments and promotes transparency in financial statements.

(ii) e-banking provides 24 hours, 365 days a year services to the customers of the bank;

(iii) Customers can make some of the permitted transactions from office or house or while travelling via mobile telephone;



Types of Digital Payments

(iv) It inculcates a sense of financial discipline by recording each and every transaction;

(v) Greater customer satisfaction by offering unlimited access to the bank, not limited by the walls of the branch and less risk and greater security to the customer as they can avoid travelling with cash.

The banks also stand to gain by e-banking. The benefits are:

(i) e-banking provides competitive advantage to the bank;

(ii) e-banking provides unlimited network to the bank and is not limited to the number of branches, Any PC connected to a modem and a telephone having an internet connection can provide cash withdrawl needs of the customer;

(iii) Load on branches can be considerably reduced by establishing centralised data base and by taking over some of the accounting functions.

4.5 Insurance

Life is full of uncertainties. The chances of occurrence of an event causing losses are quite uncertain. There are risks of death and disability for human life; fire and burglary risk for property; perils of the sea for shipment of goods and, so on. If any of these takes place, the individuals and/or, organisations may suffer a great loss, sometimes beyond their capacities to bear the same. It is to minimise the impact of such uncertainties that there is a need for insurance. Investment in factory buildings or heavy equipments or other assets is not possible unless there is arrangement for covering the risks, with the help of insurance. Keeping this in mind, people facing common risks come together and make small contributions to a common fund, which helps to spread the loss caused to an individual by a particular risk over a number of persons who are exposed to it.

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.

4.5.1 Fundamental principle of Insurance

The basic principle of insurance is that an individual or a business concern chooses to spend a definitely known sum in place of a possible huge amount involved in an indefinite future loss. Thus 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. Thus, risks are shared with others. From the analysis of past events the insurer (an insurance company or an underwriter) knows the probable losses caused by each type of risk covered by insurance.

Insurance, therefore, is a form of risk management primarily used to safe guard against the risk of potential financial loss. Ideally, insurance is defined as the equitable transfer of the risk of a potential loss, from one entity to another, in exchange for a reasonable fee. Insurance company, therefore, is an association, corporation or an organisation engaged in the business of paying all legitimate claims that may arise, in exchange for a fee (known as premium).

Insurance is a social device in which a group of individuals (insured) transfers risk to another party (insurer) in order to combine loss experience, which provides for payment of losses from funds contributed (premium) by all members. Insurance is meant to protect the insured, against uncertain events, which may cause disadvantage to him.

4.5.2 Functions of Insurance

The various functions of insurance are as follows:

(i) Providing certainty: Insurance provides certainity of payment for the risk of loss. There are uncertainties of happenings of time and amount of loss. Insurance removes these uncertainties and the assured receives payment of loss. The insurer charges premium for providing the certainity.

(ii) Protection: The second main function of insurance is to provide protection from probable chances of loss. Insurance cannot stop the happening of a risk or event but can compensate for losses arising out of it.

(iii) Risk sharing: On the happening of a risk event, the loss is shared by all the persons exposed to it. The share is obtained from every insured member by way of premiums.

(iv) Assist in capital formation: The accumulated funds of the insurer received by way of premium payments made by the insured are invested in various income generating schemes.

4.5.3 Principles of Insurance

The principles of insurance are the rules of action or conduct adopted by the stakeholders involved in the insurance business. The specific principles of utmost significance to a valid insurance contract consists of the following:

(i) Utmost good faith: A contract of insurance is a contract of *uberrimae fidei* i.e., a contract found on utmost good faith. Both the insurer and the insured should display good faith towards each other in regard to the contract. It is the duty of the insured to voluntarily make full, accurate disclosure of all facts, material to the risk being proposed and the insurer to make clear all the terms and conditions in the insurance contract. Thus, it is binding on the proposer to disclose all material facts about the subject matter of the proposed insurance. Any fact, which is likely to affect the mind of a prudent insurer in deciding to accept the proposal of insurance or in fixing the rate of premium is material for this purpose. Failure to make disclosure of material facts by the insured makes the contract of insurance voidable at the discretion of the insurer.

(ii) Insurable Interest: The insured must have an insurable interest in the subject matter of insurance. One fundamental fact of this principle is that 'it is not the house, ship, machinery, potential liability of life that is insured, but it is the pecuniary interest of the insured in them, which is insured.' Insurable interest means some pecuniary interest in the subject matter of the insurance contract. The insured must have an interest in the preservation of the thing or life insured, so that he/she will suffer financially on the happening of the event against which he/she is insured. In case of insurance of property, insurable interest of the insured in the subject matter of the insurance must exist at the time of happening of the event. In order to name insurable interest however, it is not necessary that one should be the owner of the property. For example, a trustee holding property on behalf of others has an insurable interest in the property.

(iii) Indemnity: All insurance contracts of fire or marine insurance are contracts of indemnity. According to it, the insurer undertakes to put the insured, in the event of loss, in the same position that he occupied immediately before the happening of the event insured against. In other words the insurer undertakes to compensate the insured for the loss caused to him/her due to damage or destruction of property insured. The compensation payable and the loss suffered are to be measured in terms of money. The principle of indemnity is not applicable to life insurance.

(iv) Proximate Cause: According to this principle, an insurance policy is designed to provide compensation only for such losses as are caused by the perils which are stated in the policy. When the loss is the result of two or more causes, the proximate cause means the direct, the most dominant and most effective cause of which the loss is the natural consequence. In case of loss arising out of any mishap, the most proximate cause of the mishap should be taken into consideration.

(v) Subrogation: It refers to the right of the insurer to stand in the place of the insured, after settlement of a claim, as far as the right of insured in respect of recovery from an alternative source is involved. After the insured is compensated for the loss or damage to the property insured by him/her the right of ownership of such property passes on to the insurer. This is because the insured should not be allowed to make any profit, by selling the damaged property or in the case of lost property being recovered.

(vi) Contribution: As per this principle it is the right of an insurer who has paid claim under an insurance, to call upon other liable insurers to contribute for the loss of payment. It implies, that in case of double insurance, the insurers are to share the losses in proportion to the amount assured by each of them. In case there is a loss, when there is more than one policy on the same property, the insured will have no right to recover more than the full amount of his actual loss. If the full amount is recovered from one insurer the right to obtain further payment from the other insurer will cease.

(vii) Mitigation: This principle states that it is the duty of the insured to take reasonable steps to minimise the loss or damage to the insured property. Suppose goods kept in a store house catch fire then the owner of the goods should try to recover the goods and save them from fire to minimise the loss or damage. The insured must behave with great prudence and not be careless just because there is an insurance cover. If reasonable care is not taken like any prudent person then the claim from the insurance company may be lost.

4.5.4 Types of Insurance

Various types of insurance exist by virtue of practice of insurance companies and the influence of legal enactments controlling the insurance business. Broadly speaking, insurance may be classified as follows:

Life Insurance

Since life itself is uncertain, all individuals try to assure themselves of a certain sum of money in the future to take care of unforeseen events or happenings. Individuals in the course of their life are always exposed to some kind of risks.

The risk may be of an event which is certain that is death. In that case, what will happen to the other members of the family who are dependent on a particular individuals income. The other risk may be living too long in which an individual may become too old to earn i.e., retirement. In this case also, the earnings will decline or end. Under such circumstances, individuals seek protection against these risks and life insurance companies offer protection against such risks.

A life insurance policy was introduced as a protection against the uncertainity of life. But gradually its scope has widened and there are various types of insurance policies available to suit the requirements of an individual. For example, disability insurance, health/medical insurance, annuity insurance and life insurance proper.

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. Thus, the insurance company undertakes to insure the life of a person in exchange for a sum of money called premium. This premium may be paid in one lump sum, or periodically i.e., monthly, quarterly, half yearly or yearly. At the same time, the company promises to pay a certain sum of money either on the death of the person or on his attaining a certain age (i.e., the expiry of certain period). Thus, the person is sure that a specified amount will be given to him when he attains a certain age or that his dependents will get that sum in the event of his death.

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.

This insurance provides protection to the family at the premature death or gives adequate amount at old age when earning capacities are reduced. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the time of death or at the expiry of a certain period.

Life insurance also encourages savings as the amount of premium has to be paid regularly. It thus, provides a sense of security to the insured and his dependents.

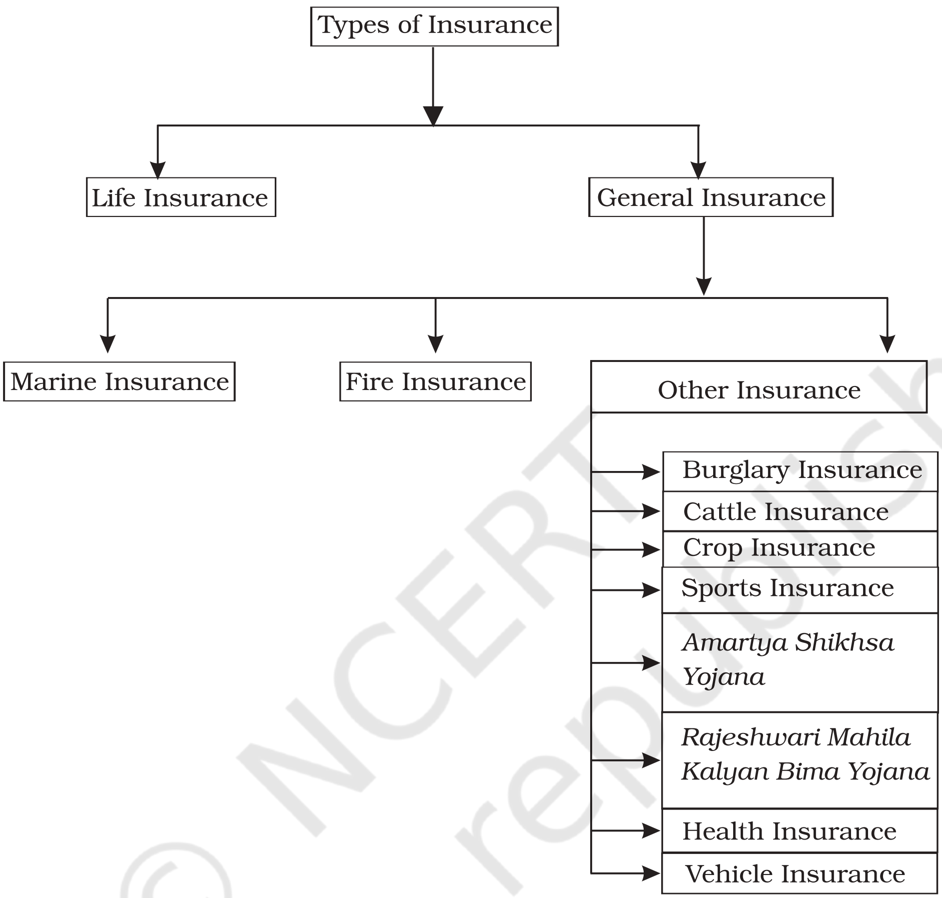
The general principles of insurance discussed in the previous section apply to life insurance also with a few exceptions. The main elements of a life insurance contract are:

(i) The life insurance contract must have all the essentials of a valid contract. Certain elements like offer and acceptance, free consent, capacity to enter into a contract, lawful consideration and lawful object must be present for the contract to be valid;

(ii) 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. He must disclose all material facts about his health to the insurer. It is his duty to disclose accurately all material facts known to him even if the insurer does not ask him;

Examples of facts to be disclosed

Fire insurance: Construction of building, fire detection and fire fighting equipment; nature of its use.
Motor insurance: Type of vehicle; driver details.
Personal Accident insurance: Age, height, weight, occupation, previous medical history.
Life insurance: Age, previous medical history, smoking/drinking habits.



(iii) In life insurance, the insured must have insurable interest in the life assured. Without insurable interest the contract of insurance is void. In case of life insurance, insurable interest must be present at the time when the insurance is affected. It is not necessary that the assured should have insurable interest at the time of maturity also. For example, a person is presumed to have an interest in his own life and every part of it, a creditor has an insurable interest in the life of his debtor, and a proprietor of a drama company has an insurable interest in the lives of the actors;

(iv) 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. That is why the amount payable in life insurance on the happening of the event is fixed in advance. The sum of money payable is fixed, at the time of entering into the contract.

A contract of life insurance, therefore, is not a contract of indemnity.

Types of life insurance policies

The document containing the written contract between the insurer and the insured alongwith the terms and conditions of insurance is called the Policy. After the proposal form is filled by the insured (or the proposer) and the insurer (insurance company) accepts the form and the premium, a policy is issued to the insurer.

People have different requirements and therefore they would like a policy to fulfill all their needs. The needs of people for life insurance can be family needs, children's needs, old age and special needs. To meet the needs of people the insurers have developed different types of products such as Whole Life Assurance, Endowment type plans, combination of Whole Life and Endowment type plans, Children's Assurance plans and Annuity plans. Some of these are explained below:

(i) 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.

The premium will be payable for a fixed period (20 or 30 years) or for the whole life of the assured. If the premium is payable for a fixed period, the policy will continue till the death of the assured.

(ii) Endowment Life Assurance Policy: The insurer (Insurance Company) undertakes to pay a specified sum when the insured attains a particular age or on his death which ever 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 i.e., till he/she attains a particular age. Thus, the endowment policy matures after a limted number of years.

(iii) 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. The assured sum or policy money is payable upon the death of any one person to the other survivor or survivors. Usually this policy is taken up by husband and wife jointly or by two partners in a partnership firm where the amount is payable to the survivor on the death of either of the two.

(iv) Annuity Policy: Under this policy, the assured sum or policy money is payable after the assured attains a certain age in monthly, quarterly, half yearly or annual instalments. The premium is paid in instalments over a certain period or single premium may be paid by the assured. This is useful to those who prefer a regular income after a certain age.

(v) 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. The premium is paid by the person entering into the contract. However, no premium wil be paid, if he dies before the maturity of the policy.

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. The premium may be paid either in lump sum or instalments. 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 non-intentional.

The risk covered by a fire insurance contract is the loss resulting from fire or some other cause, and which is the proximate cause of the loss. If overheating without ignition causes damage, it will not be regarded as a fire loss within the meaning of fire insurance and the loss will not be recoverable from the insurer.

A fire insurance contract is based on certain fundamental principles which have been discussed in general principles. The main elements of a fire insurance contract are:

(i) In fire insurance, the insured must have insurable interest in the subject matter of the insurance. Without insurable interest the contract of insurance is void. In case of fire insurance, unlike life insurance insurable interest must be present both at the time of insurance and at the time of loss. For example, a person has insurable interest in the property he owns, a businessman has insurable interest in his stock, plant, machinery and building, an agent has an insurable interest in the property of his principal, a partner has insurable interest in the property of a partnership firm, and a mortgagee has insurable interest in the property, which is mortgaged.
(ii) Similar to the life insurance contract, the contract of fire insurance is a contract of utmost good faith i.e., *uberrimae fidei.* The insured should be truthful and honest in giving information to the insurance company regarding the subject matter of the insurance. He is duty-bound to disclose accurately all facts regarding the nature of property and risks attached to it. The insurance company should also disclose the facts of the policy to the proposer.
(iii) 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. For

example, if a person has insured his house for ₹ 4,00,000 the insurer is not necessarily liable to pay that amount, although the house may have been totally destroyed by fire; but he will pay the actual loss after deducting depreciation within the maximum limit of ₹ 4,00,000. The purpose being that a person should not be allowed to gain by insurance.

(iv) 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. Marine perils are collision of ship with the rock, or ship attacked by the enemies, fire and captured by pirates and actions of the captains and crew of the ship. These perils cause damage, destruction or disappearance of the ship and cargo and non-payment of freight. So, marine insurance insures ship hull, cargo and freight. Thus, it is a device wherein the insurer undertakes to compensate the owner of a ship or cargo for complete or partial loss at sea. The insurer gurantees to make good the losses due to damage to the ship or cargo arising out of the risks incidental to sea voyages. The insurer in this case is known as the underwriter and a certain sum of money is paid by the insured in consideration for the guarantee/protection he gets. Marine insurance is slightly different from other types. There are three things involved i.e., ship or hull, cargo or goods, and freight.

(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 voyage etc. Thus, an insurance policy can be 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 i.e., the insured.

The fundamental principles of marine insurance are the same as the general principles. The main elements of a marine insurance contract are:

(i) Unlike life 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. Under no circumstances, the insured is allowed to make profit out of the marine insurance contract. But cargo policies provide commercial indemnity

Difference between Life, Fire and Marine Insurance

	Basis of difference	Life Insurance	Fire Insurance	Marine Insurance
1.	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.
2.	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.
3.	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.
4.	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.
5.	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 maximum limit of the policy amount.	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.
6.	Loss measurement	Loss is not measurable.	Loss is measurable.	Loss is measurable.

7.	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.
8.	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.
9.	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.

rather than strict indemnity. The insurers promise to indemnify the insured *"in the manner and to the extent agreed."* In case of 'Hull Policy', the amount insured is fixed at a level above the current market value;

(ii) Similar to life and fire insurance, 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. The insured is duty-bound to accurately disclose all facts which include the nature of shipment and the risk of damage it is exposed to;

(iii) Insurable interest must exist at the time of loss but not necessary at the time when the policy was taken;

(iv) 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. For example, if a loss is caused by several reasons then nearest cause of loss will be considered. Refer to page 105 for types of insurance and social secuirty scheme.

4.6 Communication Services

Communication services are helpful to the business for establishing links with the outside world viz., suppliers, customers, competitors etc. 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. For providing these services the whole country has been divided into 22 postal circles. These circles manage the day-to-day functioning of the various head post offices, sub-post offices and branch post offices. Through their regional and divisional level arrangements the various facilities provided by postal department are broadly categorised into:

(i) Financial facilities: These facilities are provided through the post office's savings schemes like Public Provident Fund (PPF), *Kisan Vikas Patra*, and National Saving Certificates in addition to normal retail banking functions of monthly income schemes, recurring deposits, savings account, time deposits and money order facility.

(ii) Mail facilities: Mail services consist of parcel facilities that is transmission of articles from one place to another; registration facility to provide security of the transmitted articles and insurance facility to provide insurance cover for all risks in the course of transmission by post.

Postal department also offers allied facilities of the following types:

1. Greeting post — A range of delightful greeting cards for every occasion.
2. Media post — An innovative and effective vehicle for Indian corporates to advertise their brand through postcards, envelopes, aerograms, tele-grams, and also through letterboxes.
3. Direct post is for direct advertising. It can be both addressed as well as unaddressed.
4. International Money Transfer through collaboration with Western Union financial services, USA, which enables remittance of money from 185 countries to India.
5. Passport facilities — A unique partnership with the ministry of external affairs for facilitating passport application.
6. Speed Post: It has over 1000 destinations in India and links with 97 major countries across the globe.
7. e-bill post is the latest offering of the department to collect bill payment across the counter for BSNL and Bharti Airtel.

Telecom Services

World class telecommunications infrastructure is the key to rapid economic and social development of the country. It is in fact the backbone of every business activity. In today's world the dream of doing business across continents will remain a dream in the absence of telecom infrastructure. There have been far reaching developments in the convergence of telecom, IT, consumer electronics and media industries worldwide. Recognising the potential in enhancing quality of life and to facilitate India's vision of becoming IT super power by the year 2025, new Telecom Policy Framework 1999 and Broadband Policy 2004 were developed by the Government of India. Through this framework the government intends to provide both universal services to all uncovered areas and high-level services for meeting the needs of the country's economy.

The various types of telecom services are:

(i) 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. They can also provide direct inter connectivity with any other type of telecom service provider.

(ii) 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 laid across the length and breadth of the country. The also provide inter connectivity with other types of telecom services.

(iii) 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. The two-way communication including voice, data and information services through cable network would emerge significantly in the future. Offering services through the cable network would be similar to providing fixed services.

(iv) 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. Compared to land-based services, VSAT offers the assurance of reliable and uninterrupted service that is equal to or better than land-based services. It can be used to provide innovative applications such as tele-medicine, newspapers-on-line, market rates and tele-education even in the most remote areas of our country.

(v) 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. The service provider of DTH services provides a bouquet of multiple channels. It can be viewed on our television without being dependent on the services provided by the cable network services provider.

4.7 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. You have already studied the comparative advantages and disadvantages of different modes of transportation in earlier classes. Their services are considered to be important for business since speed is of essence in any business transaction. Also transportation removes the hindrance of place, i.e., it makes goods available to the consumer from the place of production. We need to develop our transportation system to keep pace with the requirements of our economy. We need better infrastructure of roads with sufficient width and high quality. We have few ports and they too are congested. 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. In sectors like agriculture and food, there are massive losses of product in the process of transportation and storage.

Different Types of Insurance

1. Health Insurance

Health Insurance is a safeguard against rising medical costs. A health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed-upon price (the premium). Depending upon the policy, premium may be payable either in a lump sum or in instalments. Health insurance usually provides either direct payment or reimbursement for expenses associated with illness and injuries. The cost and range of protection provided by health insurance depends on the provider and the policy purchased. In India, presently the health insurance exists primarily in the form of Mediclaim policy offered to an individual or to any group, association or corporate bodies.

2. Motor Vehicle Insurance

Motor Vehicle Insurance falls under the classification of General Insurance. This insurance is becoming very popular and its importance increasing day-by-day. In motor insurance the owner's liability to compensate people who were killed or insured through negligence of the motorists or drivers is passed on to the insurance company. The rate of premium under motor insurance is standardised.

3. Burglary Insurance

Burglary insurance falls under the classification of insurance of property. In case of burglary policy, the loss of damages of household goods and properties and personal effects due to theft, larceny, burglary, house-breaking and acts of such nature are covered. The actual loss is compensated.

(i) Insurable interest must exist at the time of loss but not necessarily at the time when the policy was taken.

(ii) The principle of *causa proxima* will apply to it. The insurance company will be liable to pay only that particular or nearest cause that is covered by the policy. For example, if a loss is caused by several reasons then the nearest cause of loss will be considered.

4. Cattle Insurance

A contract of cattle insurance is a contract whereby a sum of money is secured to the assured in the event of death of animals like bulls, buffaloes, cows and heifers. It is a contract against death resulting from accident, disease, or pregnant condition as the case may be. The insurer usually undertakes to pay the excess in the event of loss.

5. Crop Insurance

A contract of crop insurance is a contract to provide a measure of financial support to farmers in the event of a crop failure due to drought or flood. This insurance covers against all risks of loss or damages relating to production of rice, wheat, millets, oil seeds and pulses etc.

6. Sports Insurance

This policy assures a comprehensive cover available to amateur sportsmen covering their sporting equipment, personal effects, legal liability and personal accident risks. If desired the cover can also be made available in respect of the named member of insured's family residing with him. This cover is not available to professional sportsmen. The cover is available in respect of any one or more of the following sports: angling, badminton, cricket, golf, lawn tennis, squash, use of sporting guns.

7. *Amartya Sen Siksha* Yojana

This policy offered by the General Insurance Company secures the education of dependent children. If the insured parent/legal guardian sustains any bodily injury resulting solely and directly from an accident, caused by external, violent and visible means and if such injury shall within twelve calendar months of its occurrence be the sole and direct cause of his/her death or permanent total disablement, the insurer shall indemnify the insured student, in respect of all covered expenses to be incurred from the date of occurrence of such accident till the expiry date of policy or completion of the duration of covered course whichever occurs first and such indemnity shall not exceed the sum insured as stated in the policy schedule.

8. *Rajeswari Mahila Kalyan* Bima Yojana

This policy has been designed to provide relief to the family members of insured women in case of their death or disablement arising due to all kinds of accidents and/or death and/or disablement arising out of problems incidental to women only.

Social Security Schemes

1. ***Atal Pension Yojana :*** This scheme is offered to individuals in the age group of 18 to 40 years. The individual is expected to contribute in the scheme until he/she attains the age of 60 years. The scheme acts as an investment for availing old-age pension.
2. ***Pradhan Mantri Suraksha Bima Yojana :*** This scheme offers accidental and disability cover of Rs. 2 lakh at a premium of Rs. 12 per year. Any individual holding a savings account can be enrolled under this scheme.
3. ***Pradhan Mantri Jan Dhan Yojana :*** The scheme offers savings account with no minimum balance. The Rupay ATM-cum-Debit card has in-built accident and life cover of Rs. 1,00,000 and Rs. 30,000, respectively. The scheme, suitable for economically weaker sections of society.
4. ***Pradhan Mantri Jeevan Jyoti Bima Yojana :*** The scheme offers a protection term insurance cover of Rs 2,00,000 to the dependents of the policy holder in the event of his/her death at a premium of Rs. 330 per year. Any individual in the age group of 18-70 years having a savings account can opt for this scheme.

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. The typical warehouse received merchandise by rail, truck or bullock cart. The items were moved manually to a storage within the warehouse and hand piled in stacks on the floor. They are used by manufacturers, importers, exporters, wholesalers, transport business, customs etc., in India.

Today's warehouses have ceased to be a mere storage service providers and have really become logistical service providers in a cost efficient manner. That is making available the right quantity, at the right place, in the right time, in the right physical form at the right cost. Modern warehouses are automated with automatic conveyors, computer operated cranes and forklifts for moving goods and also usage of logistics automation software's for warehouse management.

Types of Warehouses

(i) Private warehouses: 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. As a general rule an efficient warehouse is planned around a material handling system in order to encourage maximum efficiency of product movement. The benefit of private warehousing includes control, flexibility, and other benefits like improved dealer relations.

Infrastructure in Transportation

In the first 50 years of independence, India saw the construction of around 13,000 kilometers of national highways. The ambitious NHAI, Government of India's project consisting of Golden Quadrilateral connecting Delhi-Kolkata-Chennai-Mumbai and the North-South, East-West corridors linking Srinagar to Kanyakumari and Silchar to Porbandar will see the construction of 13,151 kms of National Highways within a span of eight years. This project will not only change the face of road transport in India, but it will also have a lasting impact on our economy. The Ministry of Railways have also done massive innovations in their movement and monitoring of goods trains to facilitate the needs of the business community.

The Government of India is also serious in ensuring better and more facilities at the seaports and airports to provide an impetus to business activities. The government plans not only to enhance capacities of existing ports but also to develop modern and new ports at strategic locations.

(ii) Public warehouses: 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 for them to private parties.

The owner of the warehouse stands as an agent of the owner of the goods and is expected to take appropriate care of the goods.

These warehouses provide other facilities also, like transportation by rail and road. They are responsible for the safety of the goods. Small manufacturers find it convenient as they cannot afford to construct their own warehouses.

The other benefits include flexibility in the number of locations, no fixed cost and capability of offering value added services, like packaging and labelling.

(iii) Bonded warehouses: 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 customs duty is paid.

At times, importers are not in a position to pay the duty in full or does not require all the goods immediately. The goods are kept in bonded warehouses by the customs authorities till the customs duty is paid. These goods are said to be in bond.

These warehouses have facilities for branding, packaging, grading and blending. Importers may bring their buyers for inspection of goods and repackage them according to their requirements. Thus, it facilitates marketing of goods.

Goods can be removed in part as and when required by the importers and buyers, and import duty can be paid in instalments.

The importer need not block funds for payment of import duties before the goods are sold or used. Even if he wishes to export the goods kept in the bonded warehouse he may do so without payment of customs duty. Thus, bonded warehouses facilitate entrepot trade.

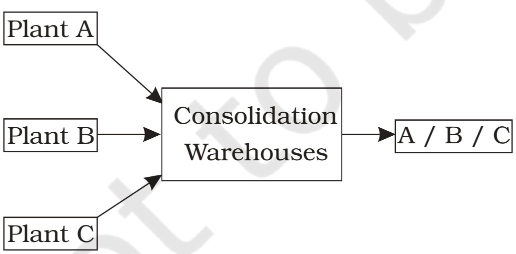
(iv) Government warehouses: These warehouses are fully owned and managed by the government. The government manages them through organisations set up in the public sector. For example, Food Corporation of India, State Trading Corporation, and Central Warehousing Corporation.

(v) Cooperative warehouses: Some marketing cooperative societies or agricultural cooperative socities have set up their own warehouses for members of their cooperative society.

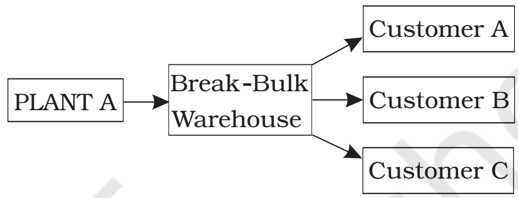
Functions of Warehousing

The functions of warehousing are discussed as follows:

(a) Consolidation: In this function the warehouse receives and consolidates, materials/goods from different production plants and dispatches the same to a particular customer on a single transportation shipment.



(b) 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.

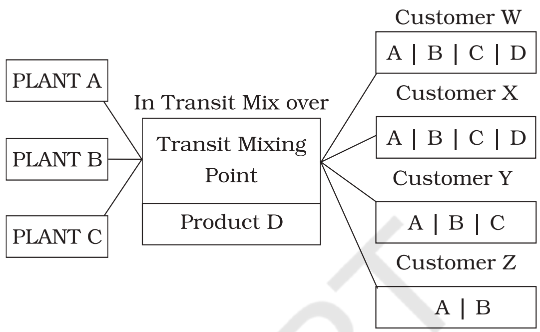


(c) Stock piling: The next function of warehousing is the seasonal storage of goods to select businesses. Goods or raw materials, which are not required immediately for sale or manufacturing, are stored in warehouses. They are made available to business depending on customers' demand. Agricultural products which are harvested at specific times with subsequent consumption throughout the year also need to be stored and released in lots.

(d) 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. Grading according to quantity and dividing goods in smaller lots is another function.

(e) Price stablisation: By adjusting the supply of goods with the demand situation, warehousing performs the function of stabilising prices. Thus, prices are controlled when supply is increasing and demand is slack and vice versa.

(f) **Financing:** Warehouse owners advance money to the owners on security of goods and further supply goods on credit terms to customers.



Key Terms

Business services	Insurance	Subrogation	Fire insurance
Banking	Insurable interest	Contribution	Marine insurance
e-Banking	Indemnity	Mitigation	Telecom services
Commercial banks	Proximate cause	Life insurance	Warehousing

SUMMARY

Nature of services: Services are those separately identifiable, essentially intangible activities that provide satisfaction of wants, and are not necessarily linked to the sale of a product or another service. There are five basic features of services. These features also distinguish them from goods and are known as the five Is of services i.e., Intangibility, Inconsistency, Inseparability, Inventory (less), Involvement.

Difference between services and goods: While goods are produced, services are performed. A service is an act which cannot be taken home. What we can take home is the effect of the services. And as the services are sold at the consumption point, there are no inventories.

Types of services: Business Services, Social Services, Personal Services.

Business services: In order to be competitive, business enterprises are becoming more and more dependent on specialised business services. Business enterprises look towards banks for availability of funds; insurance companies for getting their plant, machinery, goods, etc., insured; transport companies for transporting raw material and finished goods; and telecom and postal services for being in touch with their vendors, suppliers and customers.

Banking: A banking company in India is 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.

Type of banks: Banks can be classified into the following i.e., commercial banks, cooperative banks, specialised banks, central bank.

Functions of commercial bank: Some of them are the basic or primary functions of a bank while others are agency services or general utility services in nature. Acceptance of deposits, lending of funds, cheque facility, remittance of funds, allied services.

e-Banking: The latest wave in information technology is internet banking. It is a part of virtual banking and another delivery channel for customers. e-banking is electronic banking or banking using the electronic media. Thus, e-banking is a service provided by many banks, that allows a customer to conduct banking transactions, such as managing savings, checking accounts, applying for loans or paying bills over the internet using a personal computer, mobile telephone or handheld computer (personal digital assistant)

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 are prepared 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 good a loss, damage or injury to something of value in which the insured has a pecuniary interest as a result of some uncertain event.

Fundamental principle of insurance: The basic principle of insurance is that an individual or a business concern chooses to spend a definitely known sum in place of a possible huge amount involved in an indefinite future loss. Insurance, therefore, is a form of risk management primarily used to safe guard against the risk of potential financial loss.

Functions of insurance: Providing certainty, Protection, Risk sharing, Assist in capital formation.

Principles of Insurance

Utmost good faith: A contract of insurance is a contract of uberrimae fidei i.e., a contract found on utmost good faith. Both the insurer and the insured display good faith towards each other in regard to the contract.

Insurable interest: The insured must have an insurable interest in the subject matter of insurance.

Insurable interest means some pecuniary interest in the subject matter of the insurance contract.

Indemnity: According to it, the insurer undertakes to put the insured, in the event of loss, in the same position that he occupied immediately before the happening of the event insured against.

Proximate cause: When the loss is the result of two or more causes, the proximate cause means the direct, the most dominant and most effective cause of which the loss is a natural consequence.

Subrogation: It refers to the right of the insurer to stand in the place of the insured, after settlement of a claim, as far as the right of the insured in respect of recovery from an alternative source is involved.

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

Mitigation: This principles states that it is the duty of the insured to take reasonable steps to minimise the loss or damage to the insured property.

Types of Insurance

Life insurance: 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 a certain period.

This insurance provides protection to the family at premature death of an individual or gives adequate amount at an old age when earning capacities are reduced. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the time of death or at the expiry of a certain period.

The main elements of a life insurance contract are:

(i) The life insurance contract must have all the essentials of a valid contract.

(ii) The contract of life insurance is a contract of utmost good faith.

(iii) In life insurance, the insured must have insurable interest in the life assured.

(iv) Life insurance contract is not a contract of indemnity.

Types of life insurance policies: People have different requirements and therefore they would like a policy to fulfill all their needs. The needs of people for life insurance can be family needs, children's needs, old age and special needs. To meet the needs of people the insurer's have developed different types of products such as Whole Life Assurance, Endowment type plans, combination of Whole Life and Endowment type plans, Children's Assurance plans and Annuity plans.

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 a fire during a specified period upto the amount specified in the policy.

The main elements of a fire insurance contract are:

(i) In fire insurance, the insured must have insurable interest in the subject matter of the insurance.

(ii) Similar to the life insurance contract, the contract of fire insurance is a contract of utmost good faith i.e., uberrimae fidei.

(iii) The contract of fire insurance is a contract of strict indemnity.

(iv) 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. Marine insurance is slightly different from other types. There are three things involved i.e., ship or hull, cargo or goods and freight.

The main elements of a marine insurance contract are:

(i) Unlike life insurance, the contract of marine insurance is a contract of indemnity.

(ii) Similar to life and fire insurance, the contract of marine insurance is a contract of utmost good faith.

(iii) Insurable interest must exist at the time of loss.

(iv) The principle of causa proxima will apply to it.

Communication services: Communication services are helpful to business for establishing links with the outside world viz., suppliers, customers, competitors etc. The main services which help business can be classified into postal and telecom.

Postal services: Various facilities provided by postal department are broadly categorised into financial facilities, mail facilities.

Telecom services: The various types of telecom services are of the following types: Cellular Mobile Services, Radio Paging Services, Fixed line services, Cable Services, VSAT Services, DTH services.

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.

Warehousing: 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.

Today's warehouses have ceased to be mere storage service providers and have really become logistical service providers in a cost efficient manner.

Types of warehouses: private warehouses, public warehouses,bonded warehouses, government warehouses, cooperative warehouses.

Functions of warehousing: The functions of warehousing are normally discussed as follows : consolidation, break the bulk, stock piling, value added services, price stablisation, financing.

EXERCISES

Short Answer Questions

1. Define services and goods.
2. What is e-banking. What are the advantages of e-banking?
3. Write a note on various telecom services available for enhancing business.
4. Explain briefly the principles of insurance with suitable examples.
5. Explain warehousing and its functions.

Long Answer Questions

1. What are services? Explain their distinct characteristics.
2. Explain the functions of commercial banks with an example of each.
3. Write a detailed note on various facilities offered by Indian Postal Department.
4. Describe various types of insurance and examine the nature of risks protected by each type of insurance.
5. Explain in detail the warehousing services.

Projects/Assignments

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

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.	Savings Account	A kind of deposit scheme introduced by different banks, where the excess amount in the savings bank account is transferred to 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.
3.	Current Account	It is also called 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.
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 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.

5.	Demat 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.
6.	Escrow Account	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 lakh 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) 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 transactions on the shares. (ii) An individual, Non-Resident Indian, foreign institutional investor, foreign national, corporate, trusts, clearing houses, financial institution, clearing member, mutual funds, banks and other depository account. (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 Licence and a Demat account number will be provided to the applicant immediately after the completion of processing of the application.