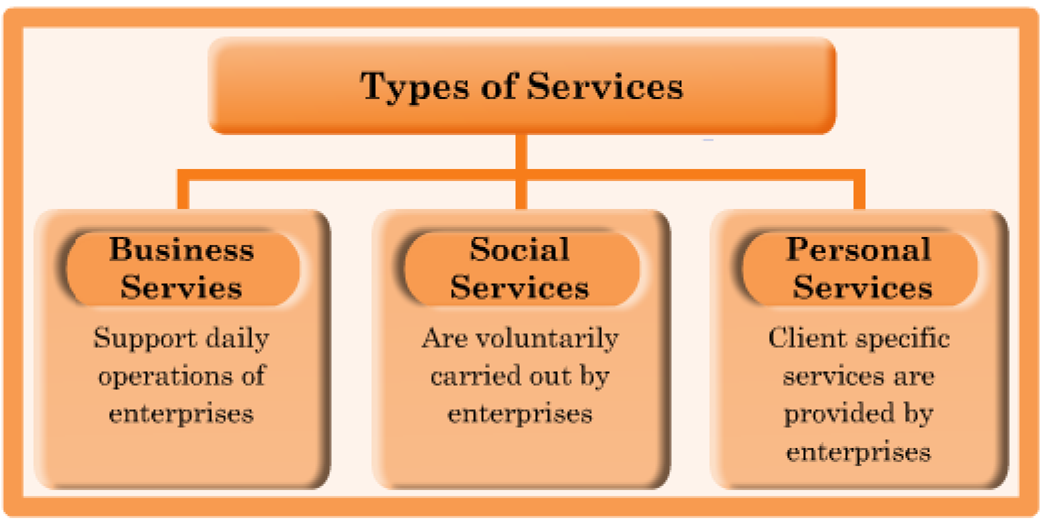
Business Services

❖ Services

➢ Meaning

Services can be defined as the ***intangible activities that require personal interaction*** between a consumer and a service provider for them to be delivered to the consumer. The exchange of services does not involve any physical production or sale of goods.

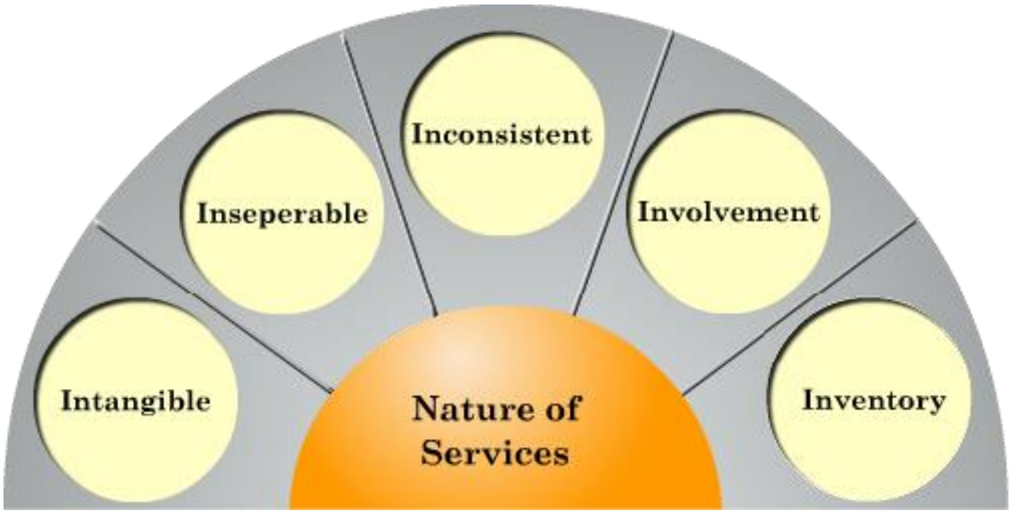
➢ Types of Services



The following table presents the types of services:

Service	***Meaning***	***Type***
Business services	Services provided by business enterprises to support their functioning and operations	Banking, warehousing
Social services	Services that are voluntarily offered by the business enterprises or individuals	Contributing towards various charity programmes organised by NGOs
Personal services	Client specific services that are provided as per the preferences and demands of different consumers For e.g., tourism, restaurant, etc.	For e.g., tourism, restaurant, etc.

➢ Nature of Services



i. ***Intangible*****:** Services cannot be seen or touched rather, can only be felt or experienced.
ii. ***Inseparable*****:** Services are ***produced and used at the same place*** and at the same time. They cannot be separated from their respective providers.
iii. ***Inconsistent*****:** ***No specific standards can be set for providing services*** as the provision of services vary as per the demands and expectations of the users.
iv. ***Customer involvement*****:** The involvement of service users with the service providers is a prerequisite for the customers to experience the services.
v. ***Inventory*****:** Unlike products, services ***cannot be stored*** for sale in the future. Services are provided as and when the customers demand them.

➢ **Goods**

Goods are tangible commodities that can be physically possessed.

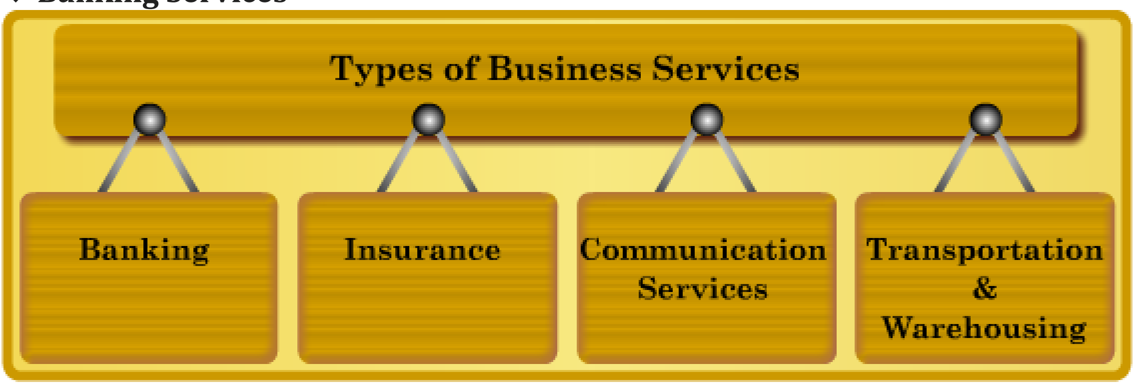
➢ **Difference between Services and Goods**

Basis of Difference	***Services***	***Goods***
Heterogeneous v/s Homogeneous	Services are heterogeneous and vary as per the specific requirements and demands of the users.	Goods are homogeneous.
Tangibility	Intangible	Tangible
Separability	Services cannot be separated from their providers.	Goods can be separated from their sellers.
Stock compilation	Cannot be stocked for sale in the future.	Can be stocked for sale in the future.
Involvement of customer	Involvement of customers is necessary at the time of delivery of services.	Involvement of customers is not necessary at the time of delivery of goods.

Ownership	Cannot be transferred from one customer to the other.	Can be transferred from one customer to the other.
Perishability	Non-perishable	Generally perishable
Supply adjustment	Supply cannot be adjusted easily according to demand.	Supply can be adjusted according to demand.

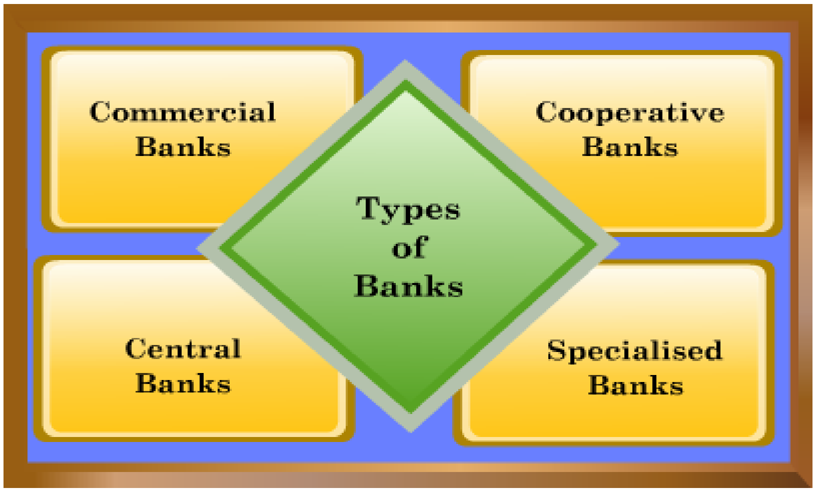
❖ **Business Services**- These services are provided by business enterprises to support their functioning and operations.
The following diagram depicts different kinds of services.

❖ **Banking Services**



• **Banks**
Banks are the financial institutions that accept deposits from the public and lend funds to potential borrowers. While the depositors are paid a rate of interest on the sum deposited, the borrowers of money are charged a rate of interest by the bank. In this way, a bank acts as a link between the lenders and the borrowers.

➢ **Types of Banks**



i. Commercial banks- These are the banks that are ***governed by the Indian Banking Regulation Act, 1949***. The commercial banks can be further classified in two categories. These are as follows:

◦ ***Public sector banks***: In which the ***government has the major share holding and*** work for the service motive.

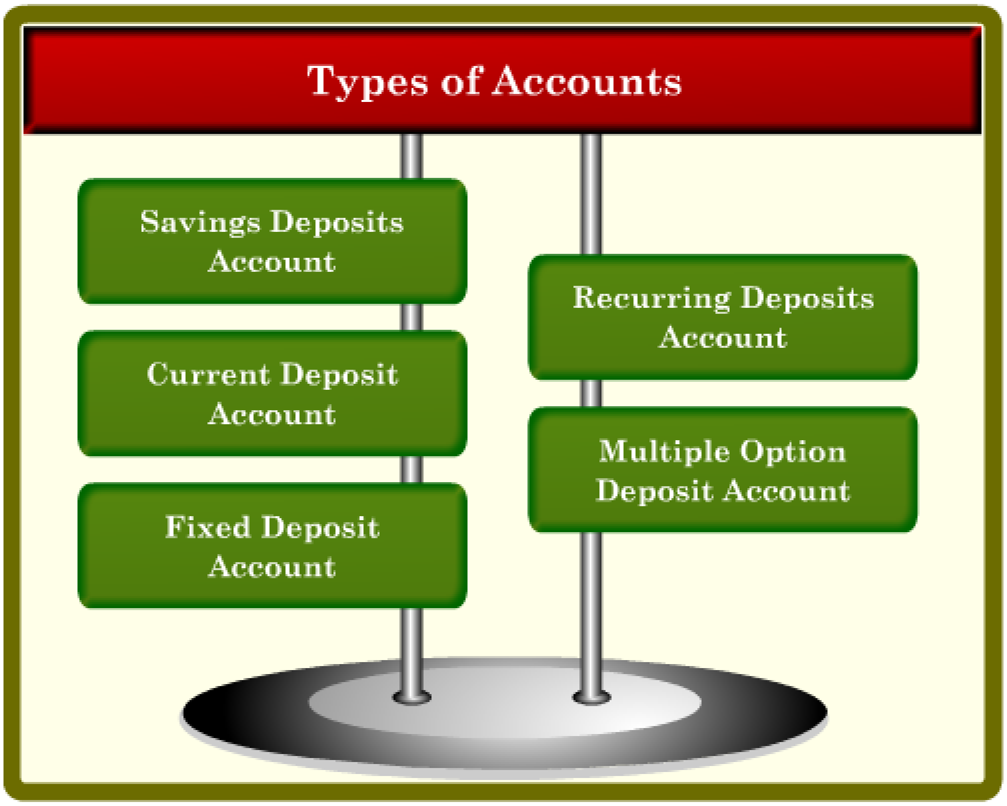
◦ ***Private sector banks***: Which are ***owned and controlled by the private individuals*** and work primarily for the ***profit motive***.

ii. Cooperative banks- These are the banks that are ***regulated under the provisions of the State Cooperative Societies Act***. Cooperative banks are basically formed ***to offer cheap and affordable credit to their members***.

iii. Specialised banks- These banks are established to fund the various ***needs of different industrial and export-import units***.

iv. ***Central banks*****-** These banks ***regulate and control the activities of all other banks and financial institutions*** in any country.

➢ Types of Accounts Offered by Banks



i. *Savings deposit account*

- It is meant to encourage savings among individuals.
- It carries a nominal rate of interest.
- It is repayable on demand (the amount available in the account).
- Facilities of cheque and passbook are provided to account holders.

ii. *Current deposit account*

- It is generally preferred by businessmen.
- It does not carry any rate of interest.
- Banks charge service charges for maintaining such accounts.
- Credit limit and overdraft facility provided.

iii. *Fixed deposit account*

- It is meant to encourage savings over a long period of time.
- It carries a high rate of interest.
- Amount is deposited for a fixed period of time and is repayable only after the completion of that period.

iv. *Recurring deposit account*

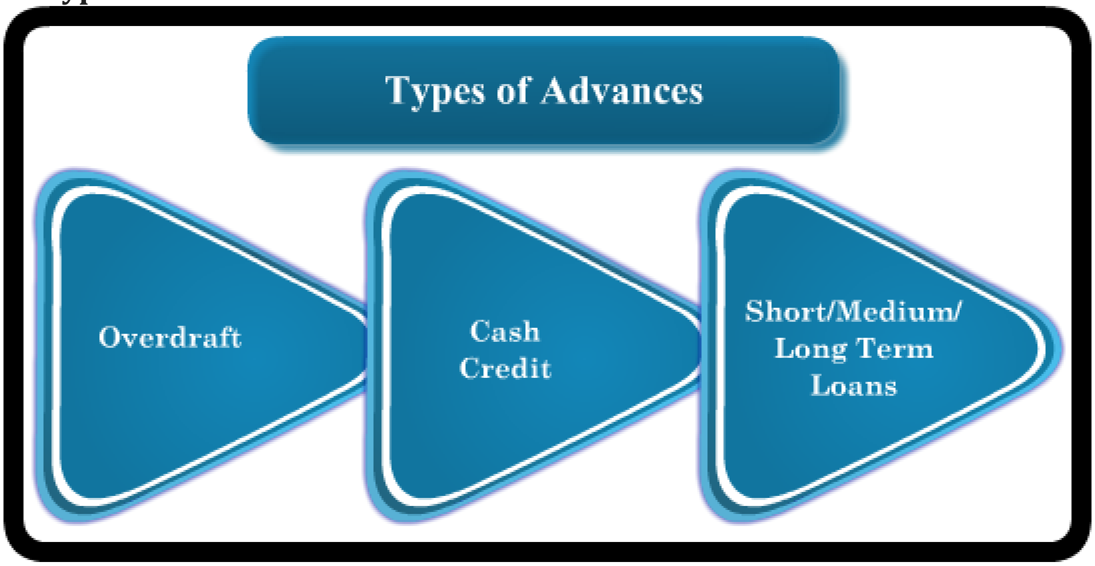
- The account holder must deposit a fixed amount is deposited in these accounts at regular intervals.
- It carries a higher rate of interest than saving accounts.

v. *Multiple options deposit account*

○ It is a combination of saving, current and fixed deposit accounts.

○ Rate of interest is similar to that of a fixed deposit account, and the liquidity is similar to that of a saving or current account.

➢ **Types of Advances**



i. *Overdraft*- It allows the holder of a current account to ***withdraw more (up to a specific limit) than the balance available*** in his/her account. A certain amount of interest is charged on the extra money withdrawn.
ii. *Cash credit*- It allows the customer to ***withdraw up to a certain limit against a security*** deposit.
iii. *Short/Medium/Long term loans*- It implies to a ***lump sum money lent out for a fixed period***. Loans can be repaid in installments.

➢ **Services Provided by Banks**
i. *Bank Draft*:

○ It refers to a cheque drawn by one bank against the funds deposited into it by another bank, authorising the latter to make the payment to that individual on whose name the draft has been issued.

○ It is a financial instrument using which funds can be transferred from one individual to the other.

○ A small commission is charged by the bank for issuing drafts.

ii. *Banker's Cheque*:

○ It instructs a bank to remit funds to the third party.

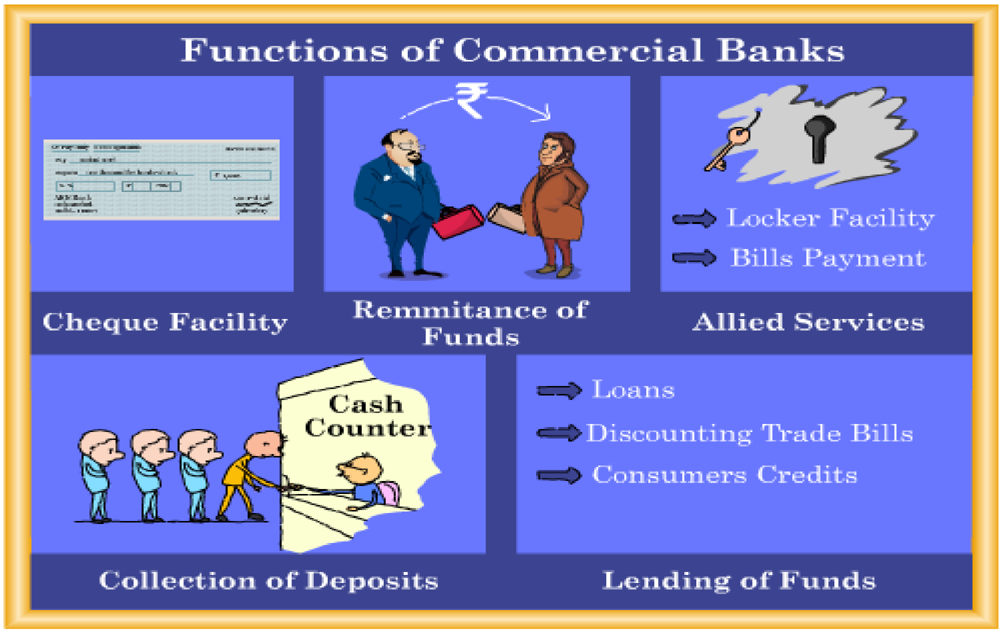
○ It is payable only within a town.

○ Commission charged is lesser than that charged for a bank draft.

iii. *Real Time Gross Settlement System (RTGS)*:
○ It refers to a system of transferring funds from one bank to the other on 'real time' and 'gross' bases. 'Real time' implies that the transactions are processed immediately. By 'gross', it means that the transactions are not bunched together; rather, they are cleared on one-to-one basis.
○ Minimum value of one transaction under RTGS should be Rs 2 lakhs.

iv. *National Electronic Fund Transfer (NEFT)*: It is a nationwide network that facilitates the transfer of funds from one account to another.

➢ **Functions of Commercial Banks**



i. *Collection of deposits*: Banks accept deposits from the public in the form of savings account, current account, etc., and pay interest on them.
ii. *Lending of funds*: Banks grant loans and advances to the account holders by charging a certain rate of interest.
iii. *Extension of cheque facility and bills of exchange*: Cheques drawn on other banks are collected by the banks on behalf of their customers. In addition, banks also collect and discount bills of exchange. This is also known as the ***clearing house function*** of commercial banks.
iv. *Remittance of funds*: Banks help in transferring funds from one account to the other by means of drafts and pay orders.
v. *Provision of allied services*: Various other services provided by the banks are locker facility, underwriting services, bill payments, travellers cheque, etc.
vi. *Agency functions*: These functions include the purchase and sale of shares and debentures, payment of insurance premium, collection of dividends, pensions, etc., on behalf of customers.

➢ **e- Banking**

➢ **Meaning**

It refers to the use of the electronic medium (computerised medium) for providing banking services.

➢ **Services provided by e-banking/Electronic Services**

Following are some of the e-banking services provided by banks:

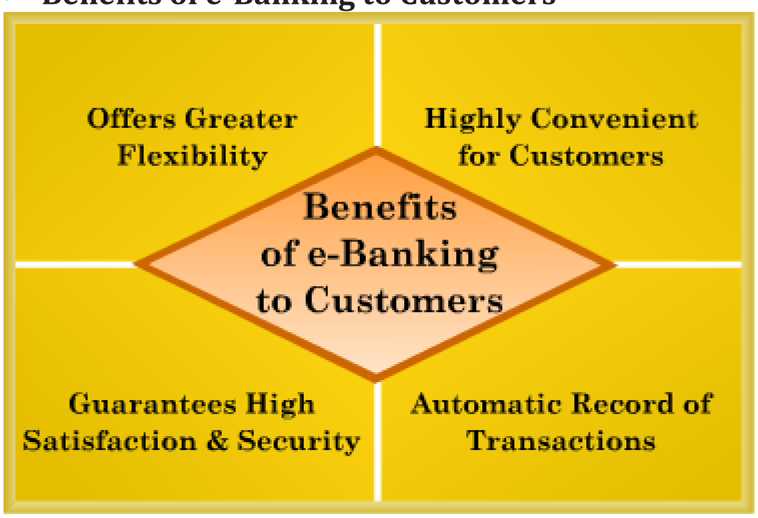
i. *Electronic Fund Transfer (EFT)*: This system facilitates the transfer of funds directly from one account to another.

ii. *Automated Teller Machine (ATM)*: It facilitates the withdrawal of money, at any time, from the account.

iii. *Credit card*: It allows the card holders to withdraw up to a specified limit, irrespective of the amount in their account. The amount withdrawn needs to be repaid within a specific period of time.

iv. *Debit card*: It allows the account holders to withdraw or make a payment up to the balance in their account.

➢ **Benefits of e-Banking to Customers**



i. It ***offers greater flexibility*,** i.e., it is available 24 × 7 throughout the year.

ii. It is ***highly convenient for customers*,** as they can carry out transactions whenever and wherever they want.

iii. All the ***transactions in e-banking are automatically recorded*;** hence, it gives the customers a sense of ***financial discipline***. It ***guarantees high satisfaction and security*,** as it does away with the need of cash for various transactions.

• **Benefits of e-Banking to Banks:**

i. It ***reduces the workload of banks*,** as most of the accounting functions are now performed via e-banking.

ii. It adds to the banking relationship, thereby providing a ***competitive advantage*** to the banks.

iii. It has a ***wider coverage***.

iv. It ***lowers the transaction costs*** to a great extent.

❖ **Insurance**

➢ **Meaning**

Insurance refers to the services that provide protection from certain types of risks arising out of uncertain events. It assures the individuals a certain sum of money in case of their death or damage to their personal property in return for a regular payment of premium.

➢ **Features of Insurance**

The following are the basic features of insurance:

i. An insurance contract ***covers two parties*****,** i.e., the insured (the one who gets the insurance policy) and the insurer (the one who issues the insurance policy).

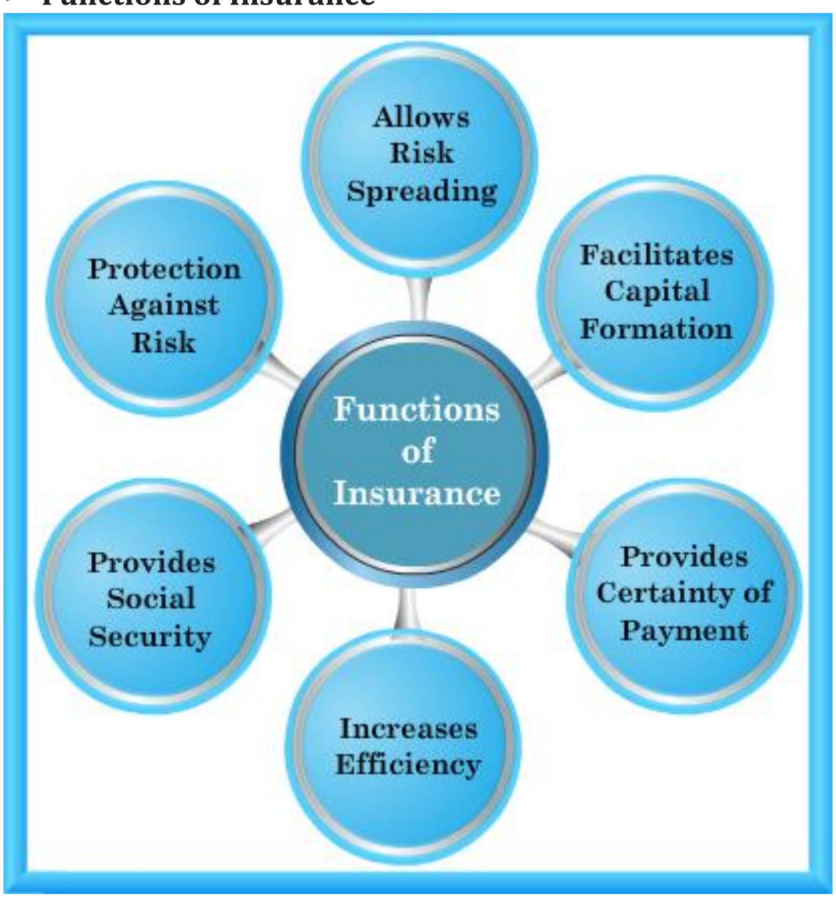
ii. The ***risk insured should be uncertain*** at the time of enrolment..

iii. An insurance contract is a ***contract of indemnity*****,** i.e., the insurer promises to compensate the insured against any loss or damage suffered due to the occurrence of event against which the insurance is taken.

iv. The insured should have an ***insurable interest*** in the context of the insurance; in the absence of which, the contract will be void.

v. There should be ***good faith*** on part of both the parties involved in the contract, i.e., all the necessary details and facts connected to the subject matter of the insurance must be presented by both the parties.

➢ **Functions of Insurance**



i. Insurance provides ***protection against the risk of loss due to the occurrence of any uncertain event***.
ii. ***It allows the individuals to spread their risk*** of loss caused due to the occurrence of any uncertain event. This is because the ***compensation is paid out of the pooled premium payments*** of different insurance holders.
iii. By collecting and investing the funds (in the form of premium), paid by the insured, the insurer helps in ***capital formation*.**
iv. ***It provides the certainty of payment*** to the insured ***in the event of a loss*.**
v. As the risks are covered by the insurance company, ***businessmen feel safe and secured, which, in turn, increases their efficiency*.**
vi. It also provides ***social security*** through policies like old age pension, education funds, etc.

➢ Fundamental Principles of Insurance

It states that an individual willing to take up an insurance policy for safeguarding himself/herself from any uncertain loss in the future must pay a definite amount of money (known as premium) to the insurance company at regular intervals. In return, the insurance company will help make good the loss suffered by the insured due to the occurrence of any uncertain event. Insurability of a risk depends upon the following factors:
i. It should be ***possible to estimate the loss*.**
ii. ***The risk must be uncertain*** at the time of enrolment.
iii. The ***risk must be spread over a large number of policy holders*.**
iv. The policy ***should be in terms of money*** only.
v. The ***policy holders should be geographically dispersed*.**

➢ Principles of Insurance

Following are the principles of insurance on which insurance contracts are prepared:
i. *Utmost good faith*: Both the insurer and the insured should have faith in each other and in the contract signed by them. They must present all the necessary details and facts related to the subject matter of insurance.
ii. *Insurable interest*: The insured must have vested interest in the object insured by him/her, in the absence of which the insurance policy will be considered as a gamble and the contract will become void.
iii. *Indemnity*: It implies that the purpose of an insurance contract is to bring back the insured to the same financial position as he/she was before the loss occurred to him or her (because of a mishap).
iv. *Proximate cause*: It states that the reason for a loss or damage to the insured object should be related to the subject matter of the insurance, otherwise the insured can be denied compensation.
v. *Subrogation*: Once the compensation is paid, the right of ownership of the damaged property passes to the insurer.
vi. *Contribution*: If an individual has more than one insurance policy on the same object, then all the insurers will collectively compensate the insured for the actual amount of loss.

vii. *Mitigation*: The insured should take care of the insured object in the same way as he or she would have in the absence of the insurance.

❖ **Types of Insurance**

The following are the two categories of insurance:

○ ***Life insurance* -** It is a contract to pay a pre-specified amount of money to the insured or to his/her beneficiary on the occurrence of his/her death or on the maturity of the insurance contract, whichever is earlier.

○ ***General insurance*-** This can be further divided in three categories as fire insurance, marine insurance and other insurance.

➢ **Elements of Insurance**

The following are the elements of insurance:

i. An insurance policy ***must have all the essentials of a valid contract*** such as consent of the parties involved in the contract, existence of a lawful object, etc.

ii. It is a ***contract of utmost good faith*,** wherein all the parties must truthfully disclose all the necessary details related to the subject matter of the insurance contract.

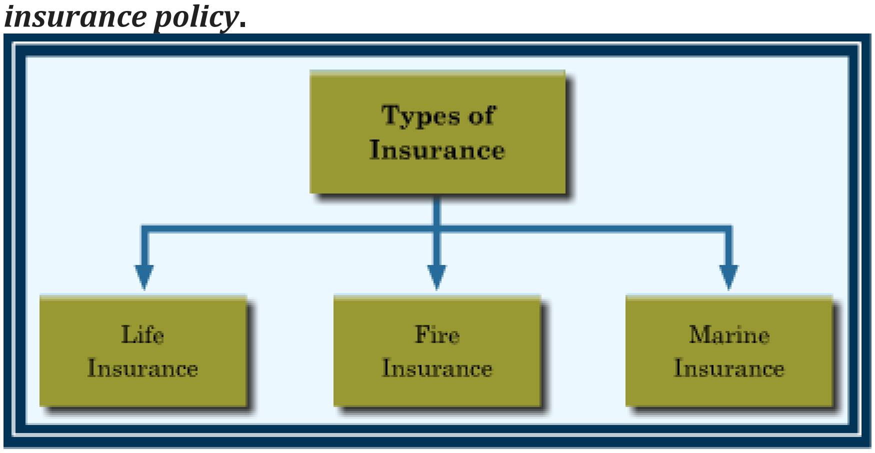
iii. An ***insurable interest*** must be present at the time of taking the policy and/or at the time of its expiry.

In case of ***life insurance*,** the interest of insurable must be present ***only at the time of taking the policy*** and not necessarily at the time of receiving the claim. On the other hand, both ***fire insurance and marine insurance*** demand the interest of insurable to be present ***at the time of taking the policy as well as at the time of receiving the claim*.**

iv. It is a ***contract of indemnity*,** implying to bring back the insured to the same financial position as he or she was before the loss occurred to him or her (because of a mishap).

In this regard, a ***life insurance policy is not a contract of indemnity*** because there is no way to measure the loss of life. On the other hand, a ***fire or marine insurance policy is a contract of indemnity*.**

v. The ***compensation to the insured*** in case of a fire insurance policy or a marine insurance policy ***depends on the proximate cause of damage*.** This ***is not applicable in case of a life insurance policy*.**



❖ ***Life Insurance*-** It is a contract to pay a pre-specified amount to the insured or to his/her beneficiary on the occurrence of his/her death or on the maturity of the insurance contract, whichever is earlier.

➢ **Types of Life Insurance Policies:**

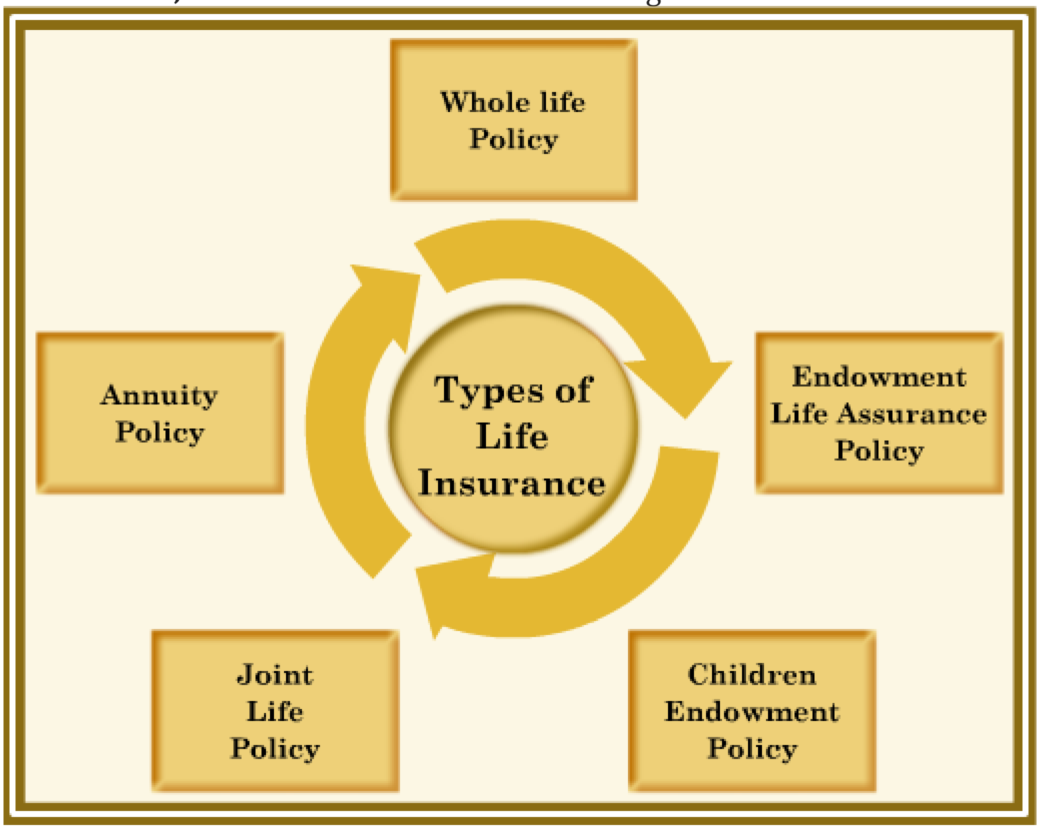
i. Whole life policy: Under this policy, the ***sum assured is paid to the beneficiary only after the death of the insured*** and not at any time earlier.

ii. *Endowment life assurance policy*: Under this policy, the ***sum assured is paid either on the death of the insured or at the expiry of the contract,*** whichever is earlier. In case of death of the insured, the amount is paid to the legal heir or the beneficiary of the contract. On the other hand, in case the insured survives, he/she himself receives the amount.

iii. *Children endowment policy*: Under this policy, a ***specified amount is paid to the insured when his/her child (for whom the policy is taken) attains a particular age*** (basically for the purpose of education, marriage, etc.)

iv. Joint life policy: This is a special type of policy that ***secures the lives of two or more individuals against the payment of a fixed premium by the same individuals or any one of them.*** In such a case, the compensation is payable to the survivor at the event of death of any one of the insured.

v. *Annuity policy*: Under this policy, the ***insured is paid the amount, due in regular instalments,*** after he or she reaches a certain age.

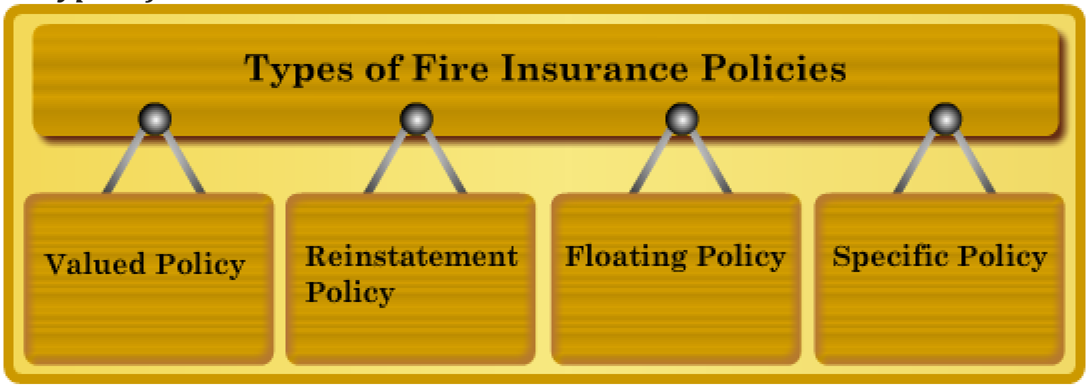


❖ **General Insurance**

The following are the types of general insurance:

Fire Insurance- It refers to the insurance contract that protects the insured against the loss or damage caused by fire over a given period of time.

➢ ***Types of Fire Insurance Policies***



The following are the types of fire insurance policies:

• ***Valued policy***: Under this policy, the insurer is ***liable to pay the insured the value stated in the policy, irrespective of the actual value of loss***.

• ***Specific policy***: Under this policy, the insurer is ***liable to make a payment only up to the amount mentioned in the contract.*** In case the loss is greater than the amount mentioned in the contract, the insured still receives the same amount mentioned in the policy. The rest is borne by the insured himself.

• ***Floating policy***: This policy is usually preferred by large organisations and businessmen in order ***to cover the huge risk involved in holding a large stock of goods*** in different stations, ports, etc.

• ***Reinstatement policy***: In this policy, the insurer can ***replenish the destroyed property instead of making a payment in cash***.

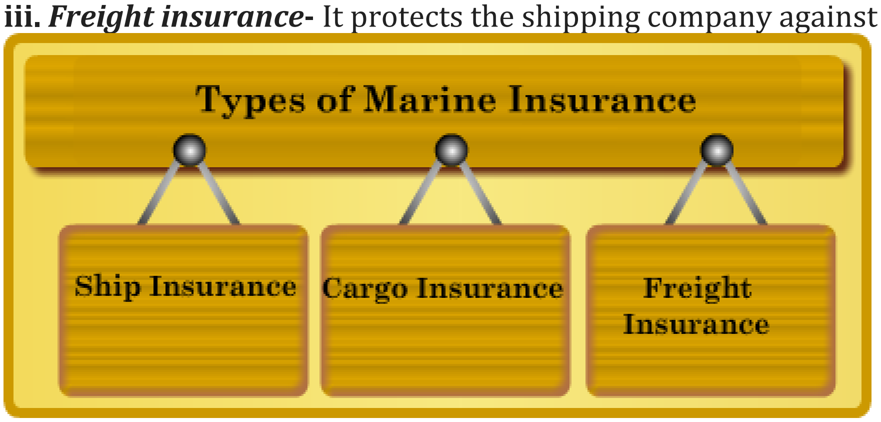
❖ ***Marine Insurance-*** It provides protection to the owner of a ship or cargo against the perils of a sea such as collision of the ship with a rock, attack on the ship by pirates, etc.

➢ ***Types of Marine Insurance Policies***:

i. ***Ship insurance-*** It provides complete protection against any damage or loss to the ship.

ii. ***Cargo insurance-*** It provides protection to the cargo against various risks at voyage and port.

iii. ***Freight insurance-*** It protects the shipping company against the loss of freight.



❖ **Difference between various Types of Insurance**

Basis of difference	***Life insurance policy***	***Fire insurance policy***	***Marine insurance policy***

Compensation	Compensation is paid either at the time of death of the insured or at the maturity of the insurance policy.	Compensation is paid only in the event of loss against fire. Nothing is paid otherwise.	Compensation is paid only in the event of loss due to perils of the sea. Nothing is paid otherwise.
Duration	Long duration, ranging from 5 years to whole life.	Does not exceed 1 year	For 1 year or only for the period of the voyage
Application of the Principle of Indemnity	Not applicable	Applicable	Applicable
Existence of Insurable interest	Only at the time of taking the policy and not necessarily at the time of receiving the claim	Both at the time of taking the policy and at the time of receiving the claim	Only at the time of receiving the claim or at the time of loss
Loss measurement	Not possible	Possible	Possible
Contingency of risk	Inevitable (i.e. death is bound to happen)	Uncertain (i.e. damage due to fire may or may not happen)	Uncertain (i.e. damage due to perils of sea may or may not happen)
Benefit of double insurance	Allowed	Not allowed	Not allowed

❖ **Other Insurances**

The following are some other types of insurances:

i. *Health insurance*: In this insurance, the insurer pays for the cost of treatments (hospitalisation bills, doctor's bill, etc.) undertaken by the insured or any of his/her family members.

ii. *Accident insurance*: In this insurance, the insurer is liable to pay a certain sum of money to the insured in the case of any injury due to an accident or to his/her beneficiaries in case of death due to that accident.

iii. *Fidelity insurance*: In this case, the insurance company is liable to compensate for the misappropriation of funds.

iv. *Crop insurance*: This type of insurance provides protection to the farmers against the risks of crop damage due to flood, drought or other natural calamities.

v. *Motor vehicle insurance*: It covers the risk of loss or damage to the vehicle, death of the passenger due to any accident or the damage payable to the other party in case of any accident.

vi. *Burglary insurance*: This refers to the insurance against loss due to theft or burglary. The insurer pays the amount of actual loss to the insured as compensation.

vii. *Cattle insurance*: It provides protection against the death of any cattle in any accident.

viii. *Sports insurance*: It provides protection to sports persons against the risk related to their sports equipment, personal accidents, legal liability, etc.

❖ **Difference between Life Insurance and General Insurance**

Basis of difference	Life Insurance	General Insurance
Certainty of risk	The risk involved is certain.	The risk involved is not certain.
Element of protection v/s investment	It comprises both the elements of protection and investment.	It only contains the element of protection.
Possibility of partial coverage of loss	Partial coverage of loss is not possible.	Partial coverage of loss is possible.
Option of surrendering the policy	It can be surrendered before its maturity.	It cannot be surrendered before its maturity.
Time period	It can be taken for a longer period of time (15-20 years).	Generally, it can be taken for a shorter period of time.

❖ **Communication Services**
These services facilitate the exchange of ideas and information within people.
➢ **Types of Communication Services**
• **Postal Services**
○ These contain a variety of postal services provided by the Indian Posts and Telegraph Department.
○ For this purpose, India is divided into 22 postal circles, which manage the head post offices, sub-post offices and branch post offices.

• **Telecom Services**
○ These refer to various electronic and satellite communication services.
○ These form the backbone of all business transactions.

➢ **Types of Postal Services**
The Indian Postal Department provides the following types of postal services:
i. *Financial facilities*: Some of the banking facilities provided by the Indian Postal Department are as follows:
a. Public Provident Fund (PPF)
b. Kisan Vikas Patra
c. National Saving Certificate (NSC)
d. Recurring Deposit Scheme
e. Fixed Deposit Scheme
f. Money order facility
ii. *Mail facilities*: Mail facilities primarily include three kinds of services. These are as follows:

a. *Post card*: It is the cheapest form of postal service.
b. *Letter*: It ensures the secrecy of the information conveyed, as it is usually sealed inside an envelope.
c. *Registered post*: Registered post ensures that the mail registered is delivered to the addressee properly or returned to the sender in case it is not delivered.
iii. *Parcel facilities*: This facilitates the movement of an article (weighing up to 20 kg) from one place to another.
iv. *Speed post service*: It ensures the speedy delivery of letters or parcels (within 24 hrs) from one place to another. In case, the mail is not delivered in that span of time, the extra amount charged for the same is refunded.
v. *Allied facilities*: Post offices also provide a variety of allied services to their customers. These are as follows:
a. *Passport service*: Post offices accept passport applications on behalf of the Ministry of External Affairs.
b. *Media post*: This includes aerograms and letters through which the corporate firms can advertise their brands.
c. *Direct post*: This includes brochures, questionnaires, pamphlets and CDs/floppies through which addressed as well as unaddressed advertisements can be delivered.
d. *e-bill post*: It collects the bill payments on behalf of large organisations like BSNL.

➢ ***Courier services*:** It involves the delivery of letters or parcels from one place to the other through private operators.

➢ **Types of Telecom Services**
i. *Cellular mobile service*: It comprises voice, non-voice and data transmission services.
ii. *Radio paging service*: In this, information is transmitted in the form of a tone, numeric or alphanumeric message.
iii. *Fixed-line service*: It provides communication services through fibre optic cables laid throughout the country.
iv. *Cable service*: It is used to transmit media-related information to any specific area for which a licence has been acquired.
v. *VSAT* (*Very Small Aperture Terminal*) *service*: It is a satellite-based communication service through which information can be transmitted to far-flung places or remote areas.
vi. *DTH* (*Direct to Home*) *service*: It is a satellite based media service, provided by the DTH companies, to transmit various TV channels to the customers through a dish antenna and a set top box.

❖ **Transportation and Warehousing**
➢ **Transportation**
○ ***It comprises all the*** freight, supporting and auxiliary services for the transportation the goods from one place to the other.
○ It ensures the availability of goods to the customers spread across regions, thereby ***removing the hindrance of place*.**

• **Warehousing**
◦ It helps in ***storing goods in a scientific and organised manner*** so that their value and quality are maintained for a longer period of time.
◦ It also provides ***logistical services*** by offering the right place for the right quantity of goods at the right time and at the right cost.

➢ **Types of Warehouses**

i. *Private warehouses*: Such warehouses are ***owned, operated and managed by the companies themselves for storing their own goods.*** Generally, these are owned by multi-product companies or retail chain stores.
ii. *Public warehouses*: These warehouses are ***operated by private parties after obtaining a licence from the government.*** They can be used by traders and manufacturers in exchange of a fee.
iii. *Bonded warehouses:* These are ***government-licensed warehouses*** that are ***used to store imported goods till the customs duty and other taxes are paid.***
iv. *Government warehouses*: These are ***owned and managed by the government.***
v. *Cooperative warehouses*: These are ***owned and operated by cooperative societies*** for use by their members.

➢ **Functions of Warehouses**
The following are some of the functions performed by the warehouses:
i. *Consolidation*: Warehouses collect the goods or raw materials from different plants and dispatch them to their respective buyers at the same time.

ii. ***Bulk breaking***: Warehouses receive goods or materials in bulk from various production houses and plants and divide them into small quantities for dispatching them to different customers as per their requirements.
iii. ***Stockpiling***: It refers to the storage of goods and raw materials that are not required for immediate sale or manufacturing.
iv. ***Price stabilisation***: In situations of varying demand and supply of goods, warehouses help in stabilising the prices of goods.
v. ***Value-added services***: Warehouses also perform value-added services like grading the quality of goods, packaging and labelling, etc.
vi. ***Financing***: Warehouse receipts can be used as a security to borrow money from banks or other financial institutions.