

Class 11 Business Studies

Chapter - 4

Business Services



Services & Goods



- **Services are those which are separately identifiable, essentially intangible activities that provides satisfaction of wants and are not necessarily linked to the sale of a product or another service.**
- **Goods can be defined as physical products which are delivered to a buyer and also involves the transfer of ownership from the seller to the buyer.**

Features / Nature of Services

Five types of Services are

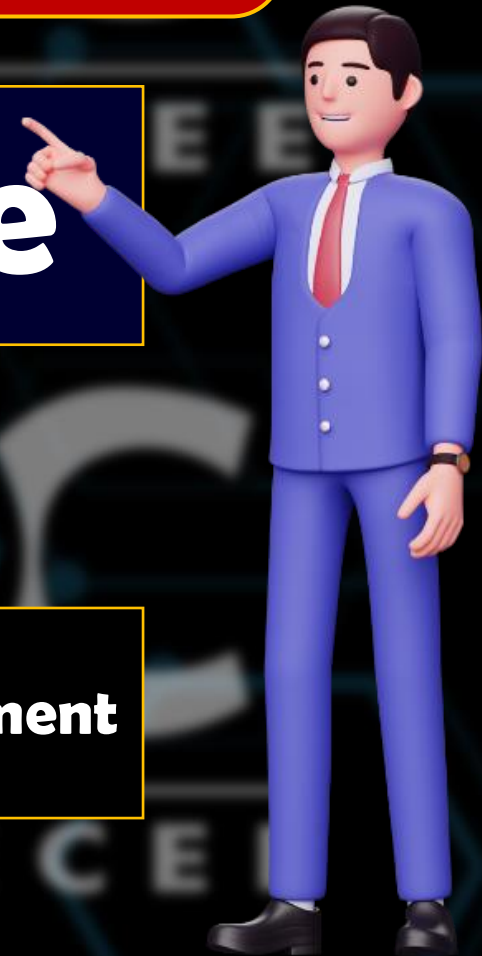
Intangibility

Inconsistency

Inseparability

**Inventory /
Storability**

Involvement



Characteristics of Services

Intangibility

- **Services are intangible in nature 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.**
- **Therefore, the suppliers must try to offer good quality services to customers so that they demand them again after experiencing them.**

Inconsistency

- **The second important characteristic of services is inconsistency.**
- **Service providers are required to change their offers according to the expectations and demands of the customers.**

Inseparability

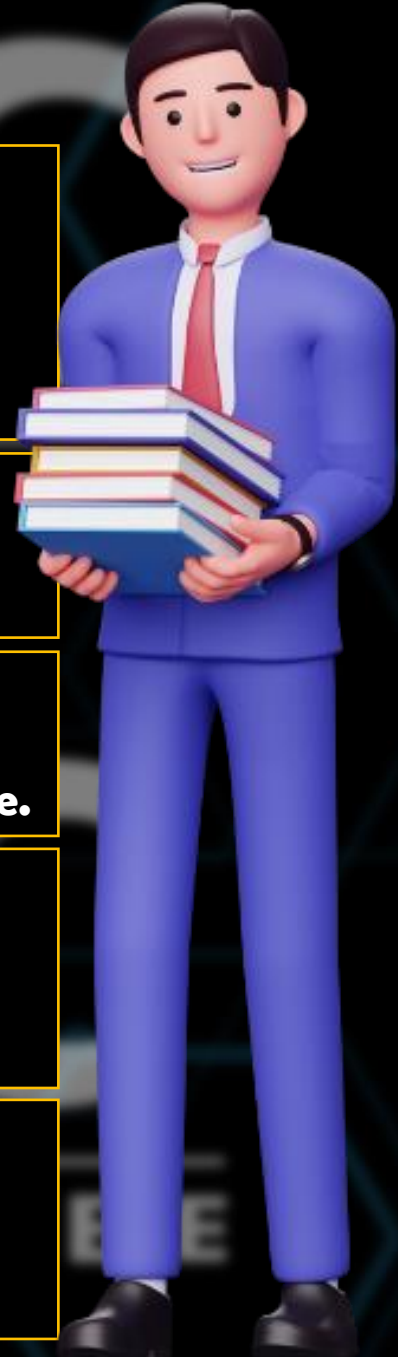
- **Another important characteristic of services is the simultaneous activity of production and consumption being performed.**
- **This makes the production and consumption of services seem to be inseparable.**

Inventory

- **The main feature of services is that services are consumed at the same time when they are produced.**
- **So, there is no need to maintain inventory. If services are not consumed immediately then it is a total loss.**

Involvement

- **Involvement of customers in the service delivery process is the most important feature of the services.**
- **An opportunity is given to the customer to bring changes in the services according to his/her requirements.**



The differences between Goods and Services are :

Basis	Goods	Services
Meaning	Goods can be defined as physical products which are delivered to a buyer and also involves the transfer of ownership from the seller to the buyer.	Services are those which are separately identifiable, essentially intangible activities that provide the satisfaction of wants and are not necessarily linked to the sale of a product or another service.
Nature	Goods are physical objects For example: railway tickets.	Services can be an activity or a process. For example: railway journey.
Type	Goods are homogenous.	services are heterogeneous.
Intangibility	It is tangible.	It is intangible.
Inconsistency	Different customers getting standardized goods.	Different customers have different demands.
Inventory	Goods can be kept in stock.	Services cannot be kept in stock.
Inseparability	There is a time gap between production and consumption.	Services are produced and consumed simultaneously.
Involvement	Involvement at the time of delivery is not necessary.	The involvement of customers at the time of service delivery is essential.



Types of Services

Three Types of Services

**Business
Services**

**Social
Services**

**Personal
Services**



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.



Social Services

- Social services are those services that are generally provided voluntarily for achieving certain social goals.
- **For example** : health care and education services provided by certain non-government organizations (NGOs) and government agencies



Personal Services

- Personal services are those services which are experienced differently by different customers.
- These services are not consistent in nature. **For example** : tourism, recreational services, restaurants etc.



Business Services

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

Business services

Banking



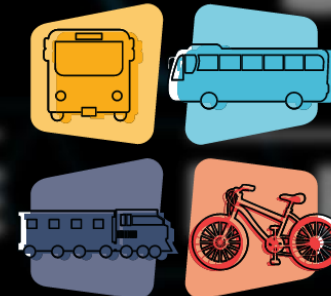
Insurance



Warehousing



Transportation



Communication services



Banking



Banking means accepting, lending and investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, draft, and order or otherwise.

A bank may be defined as an institution which performs the function of accepting deposits, lending funds and making investments to earn profits.

Banks



Types of Banks

Four Types of Banks

**Commercial
Banks**



**Cooperative
Banks**



**Specialized
Banks**



**Central
Banks**



1) Commercial Banks :

- Commercial banks are institutions governed by the Indian Banking Regulation Act 1949. These are the institutions dealing in money and perform two functions i.e. accepting deposits and lending funds.



- **There are two types of commercial banks :**

a) Public Sector Banks : These are those in which the government has a major stake and they usually need an emphasis on social objectives than on profitability. For example: PNB, SBI etc.

b) Private Sector Banks : These are owned, managed and controlled by private individuals to earn profit. For example: HDFC, ICICI bank etc.



2) Cooperative Banks :

- Cooperative banks are governed by the provisions of the State Cooperatives Societies Act. They meant essentially for providing cheap credit to their members.
- It is an important source of rural credit, i.e., agricultural financing in India.

3) Specialized Banks :

- Specialized banks are foreign exchange banks, industrial banks, development banks, and export-import banks catering to specific needs of these unique activities.
- These banks provide financial aid to industries, projects and foreign trade.



4) Central Banks :

- The central bank of the country supervises, controls and regulates the activities of all the commercial banks of that country.
- **Central bank performs various functions like :**
 - a) Act as a banker's bank.
 - b) Act as a banker to the government.
 - c) Currency authority and controller of money supply
 - d) Custodian of foreign exchange reserves.
- Reserve Bank of India (RBI) is the central bank of India.



Functions of Commercial Banks

- 1) **Acceptance of Deposits** : The first important function performed by commercial banks is the acceptance of deposits. Any person who wishes to deposit any amount with the bank and bank provides various interest on these deposits.

Deposits are of five types :

- 1) **Saving Account** : Usually, small investors and salary people have savings accounts. In saving accounts there are certain restrictions on the number of transactions. However, deposits can be made any number of times.
- 2) **Current Account** : Generally, businessmen open a current account because of numerous daily transactions. There are no restrictions on operating a current account but the bank did not provide any interest on the current account.
- 3) **Fixed Deposits** : Under this amount is deposited for a fixed time and the bank provides a high rate of interest. Usually, two transactions take place i.e. deposit and withdrawal.
- 4) **Recurring Deposit** : In this type of deposit money is required to be deposited at regular intervals and after the expiry of a fixed period bank repays the whole amount along with interest.
- 5) **Multiple Option Deposit** : Under this account deposit over a specified limit is automatically transferred into their deposits. Hence, we can say it is a combination of a savings account and a term deposit.



2) Granting of Loans : Second major activity of commercial banks is to provide loans and advances out of the money received through deposits

There are various types of loans and advances

Overdraft

Cash Credit

**Discounting
Trade Bills**



E-Banking (Electric Banking)



- **E-Banking means any user with a PC, and a browser can connect with the bank to get the benefits of all the banking services without the intervention of any human operator.**
- **All the services that the bank has permitted are displayed on the menu. Any service can be selected and benefits can be availed with just a click of a mouse.**
- **In other words, E-Banking is a service provided by banks which allow customers to conduct banking transactions over the Internet using a PC or a mobile phone.**

Benefits of E-Banking

- **E-Banking facilitates digital payments and promotes transparency.**
- **E-Banking provides 24-hour, 365 days year services to customers.**
- **Customers can make transactions from the office or house or while travelling.**
- **It inculcates a sense of financial discipline.**
- **Greater customer satisfaction by offering unlimited access to the bank.**

Benefits to Banks

- **E-Banking provides a competitive advantage to the bank.**
- **E-Banking provides an unlimited network to the bank and is not limited to the number of branches, ultimately it also helps the banks to gain a greater number of customers.**
- **The burden on branches can be considerably reduced by establishing a data base and by taking over some of the accounting functions.**



Insurance



- **Life is full of uncertainties and risks which include death, disability, fire, burglary, cyclones and other happenings beyond human control. Thus, insurance is a means of providing against loss caused by natural and man-made factors.**
- **Insurance is a contract or agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make good a loss, damage or injury to something of value.**
- **The agreement or contract is known as a policy. The party whose risk is insured is known as the insured and the party who ensures the risk is known as the insurer or assurance underwriter.**

The Functions of Insurance are :

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.



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.

Providing Certainty

- Insurance provides certainty for the risk of loss.
- The insurer charges a premium and helps in removing these uncertainties by guaranteeing payment to the assured for the loss.

Protection

- The second main function of insurance is to protect probable chances of loss.
- Insurance cannot stop the happening of a risk or event but can compensate for losses arising out of it.



The Principles of Insurance are :

1) **Utmost Good Faith :**

- A contract of insurance is a contract of *uberrimae fidei* i.e. a contract found in utmost good faith. Both the insurer and the insured should display good faith towards each other regarding the contract.
- Thus, it is binding on the proposer to disclose all material facts about the subject matter of the proposed insurance.
- It is the duty of the insured to voluntarily make full, accurate disclosure of all facts, and material to the risk being proposed and the insurer to make clear all the terms and conditions in the insurance contract.

2) **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.

3) **Indemnity :**

- All insurance contracts of fire or marine insurance are contracts of indemnity.
- The insurer undertakes to compensate the insured for the loss caused to him/her due to damage or destruction of the property insured. This principle of indemnity does not apply to life insurance.



4) Proximate Cause :

- According to this principle insurance policy is designed to provide compensation only for such losses which are caused by perils which are stated in the policy.
- In the case of two or more causes the proximate cause i.e. the most dominant and most effective is the natural consequence.

5) Subrogation :

- It refers to the right of the insurer to stand in the place of the insured, after the settlement of a claim, as far as the right of the 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 the 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 case of lost property being recovered.

6) Contribution :

- According to this principle in the case of double insurance, the insurers are to share the losses in proportion to the amount assured by each of them.
- In the case of multiple policies, the insured has no right to recover any extra amount above the amount of loss.

7) Mitigation :

- The principle states that it is the duty of the insured to take reasonable steps to minimize the loss or damage to the insured property.
- The insured must behave with great prudence and not be careless just because there is an insurance cover. If reasonable care is not taken then the claim be lost.



Types of Insurance

Life Insurance

- **A life insurance policy is basically a protection against the uncertainty of life, that is death.**
- **Life Insurance may be defined as a contract in which the insurance company (called insurer) undertakes to insure the life of a person (called assured) in exchange of a sum of money called premium (which may be paid in one lump sum or monthly, quarterly, half yearly or yearly) and promises to pay a certain sum of money either on the death of the assured or on expiry of certain period.**

Importance of Life Insurance

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



Main Elements of a Life Insurance Contract

- **The contract of life insurance is a contract of utmost good faith. The assured should be honest and must disclose all material facts about his health to the insurer.**
- **In case of life insurance policy, a person has insurable interest in his/her own life, in the life of his/her spouse, or in the lives of his/her children. The assured must have insurable interest at the time when the insurance is affected. Insurable interest at the time of maturity is not necessary.**
- **It is to be noted that an employer has insurable interest in the life of the employees. Similarly, a creditor has insurable interest in the life of the debtor upto the amount of debt.**
- **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 death of the assured is fixed in advance.**

Fire Insurance

- Fire insurance is a contract where the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by a fire during a specified period up to the amount specified in the policy.
- **A claim for loss by fire must satisfy the following two conditions :**
 - a) There must be an actual loss
 - b) Fire must be accidental and non-intentional.
- The risk covered by the fire insurance contract is the loss resulting from the fire.

Main Elements of a Fire Insurance Contract

- In fire insurance, the insured must have an insurable interest in the subject matter of the insurance.
- Contract of fire insurance is a contract of utmost good faith.
- The contract of fire insurance is a contract of strict indemnity i.e. no person should be allowed to gain by insurance.
- The insurer is liable to compensate only when the 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 protects against loss by marine perils or perils of the sea. E.g.- a collision of the ship with the rock, or a ship attacked by the enemies, risk of theft of goods, etc.**

So Marine Insurance ensures

1) **Ship or Hulk :**

- **This is an insurance policy for indemnifying the insured for losses caused by damage to the ship. The ship is exposed to much damage from the sea.**

2) **Cargo :**

- **The cargo while being transported by ship is subject to many risks i.e., risk of theft, and loss of goods.**
- **Thus, an insurance policy can be issued to cover such risks to cargo.**

3) **Freight Insurance :**

- **If the cargo does not reach the destination due to damage or loss in transit.**
- **The shipping company is not paid shipping charges therefore freight insurance is for reimbursing the loss of freight to the shipping company i.e. the insured.**



Various Types of Life Insurance Policies

1) 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 premium will be payable for a fixed period (20 or 30 years) or the whole life of the assured.



2) 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 whichever is earlier.



3) Joint Life Policy :

- This policy is taken up by two or more persons.
- The premium is paid jointly or by either of them in installments or lump sum.
- Policy money is payable upon the death of any one person to the other survivor or survivors.



4) Annual 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 installments.
- 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.



5) 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 will be paid, if he died before the maturity of the policy.



Communication



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

Indian Post and Telegraph Departments provide various postal services across India. For providing these services the whole country has been divided into 22 postal circles.

Postal Services



The various facilities provided by the postal department are :

1) **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 accounts, time deposits and money order facility.

2) **Mail Facilities :**

- Mail services consist of parcel facilities that are the transmission of articles from one place to another.
- It also provides an insurance facility to provide insurance cover with all risks in the course of transmission by post.



3) **Allied Facilities :**

- **Greeting Post** : A range of delightful greeting cards for every occasion.
- **Direct Post** : It is for direct advertising and can be both addressed as well as unaddressed.
- **Speed Post** : It has over 1000 destinations in India and links with 97 major countries across the globe.
- **E-bill Post** : It is the latest offering of the department to collect bill payments across the counter for BSNL and Bharti Airtel.
- **Passport Facilities** : A unique partnership with the Ministry of external affairs for facilitating passport application.

Various Types of Telecom Services

Cellular Mobile Services :

- These are all types of mobile telecom services including voice and non-voice messages, data services and PCO services utilizing any type of network equipment within their service area.



Cable Services :

- These are entertainment-related services which provide for the operation of media services within the licensed area of operation.
- The two way communication including voice, data and information services through cable networks.

VSAT Services :

- VSAT (Very Small Aperture Terminal) is a satellite based communications service.
- It offers business and government agencies highly flexible and reliable communication in both urban and rural areas.
- These services are used to provide innovative applications such as telemedicine, newspapers-on-line and tele-education even in the most remote areas of our country.

DTH Services :

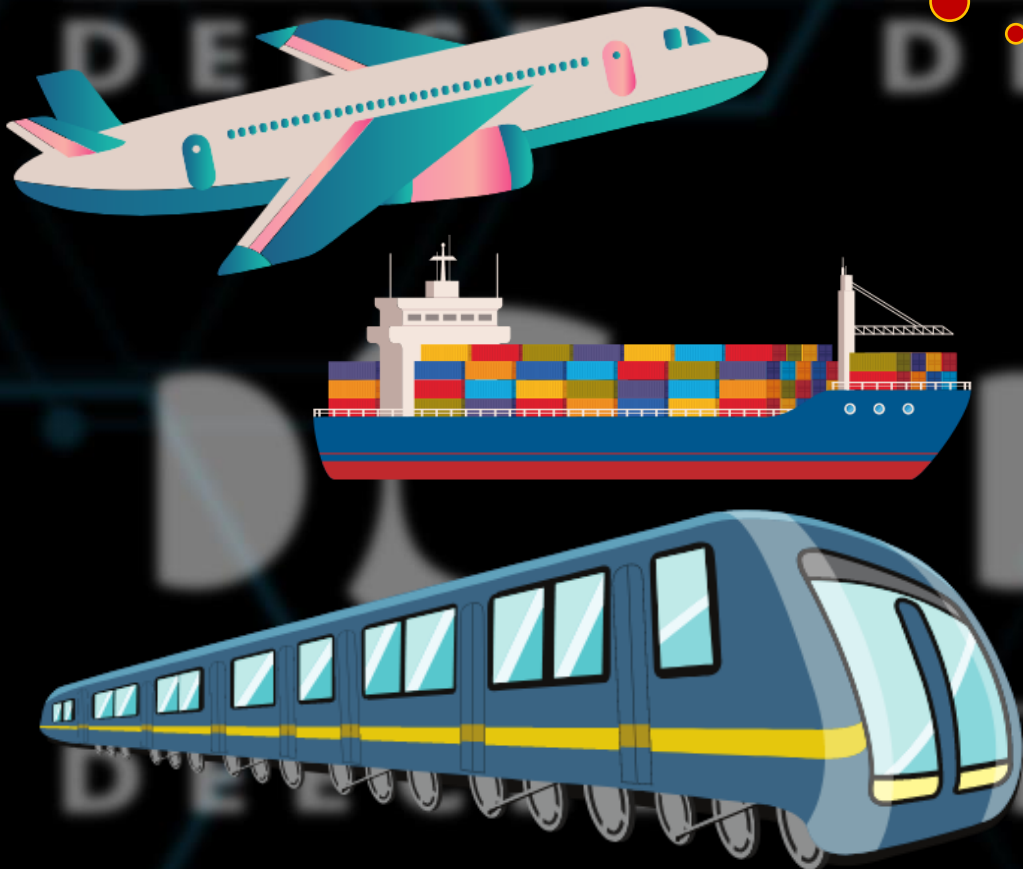
- DTH (Direct To Home) is a satellite-based communication service provided by cellular companies.
- Services can obtain through a satellite with the help of a small dish antenna and a set-top box.



Fixed Line Services :

- These services help in establishing a link for long-lasting traffic.
- They use network equipment connected through fibre optic cables laid across the country. They are also connected with other types of telecom 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.**
- **Transportation removes the hindrance of place i.e. it makes goods available to the customer from a place of production.**

Warehousing



- **The warehouse was initially viewed as a static unit for keeping and storing goods scientifically and systematically manner to maintain their original quality, value and usefulness.**
- **It helps in removing the hindrance of shortage/time.**

Types of Warehousing

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.**
- **The benefit of private warehousing includes control, flexibility and other benefits like improved dealer relations.**

Public Warehouses

- **Public warehouses can be used for the storage of goods by traders, manufacturers or any member of the public after the payment of the storage fee or charges.**
- **The government regulates the operation of these warehouses by issuing licenses for them. They also provide other facilities like packaging, labelling etc.**



Bonded Warehouses

- Bonded warehouses are licensed by the government to accept imported goods before payment of tax and customs duty. These goods are imported from other countries.
- Importers are not permitted to remove goods from the docks or the airport till customs duty is paid. The goods are kept in bonded warehouses till the time the duty is paid by the importer.
- These warehouses also provide facilities like branding, packaging, grading etc. Thus, it facilitates the marketing of goods.

Government Warehouses

- These warehouses are fully owned by the government and are managed through organizations like the Food Corporation of India (FCI), Central Warehousing Corporation etc.



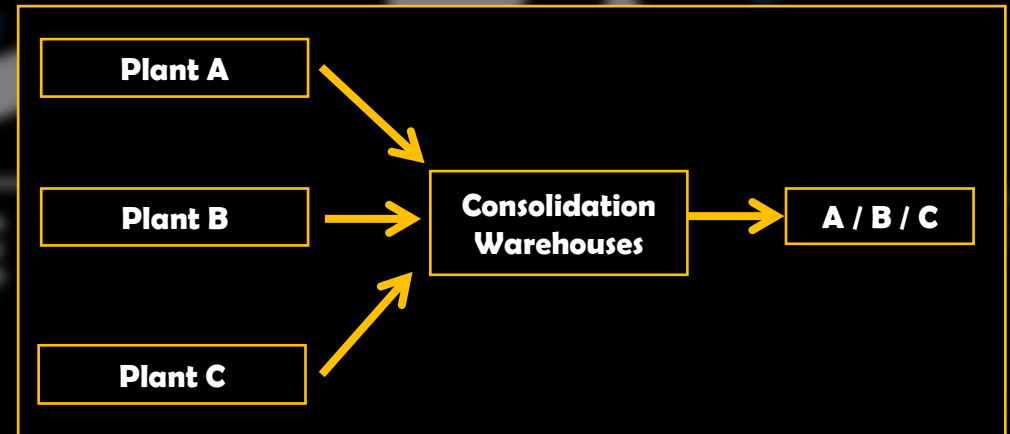
Cooperative Warehouses

- These warehouses are established by cooperative societies like marketing or agriculture cooperative societies for the use of their members.

Functions of Warehousing

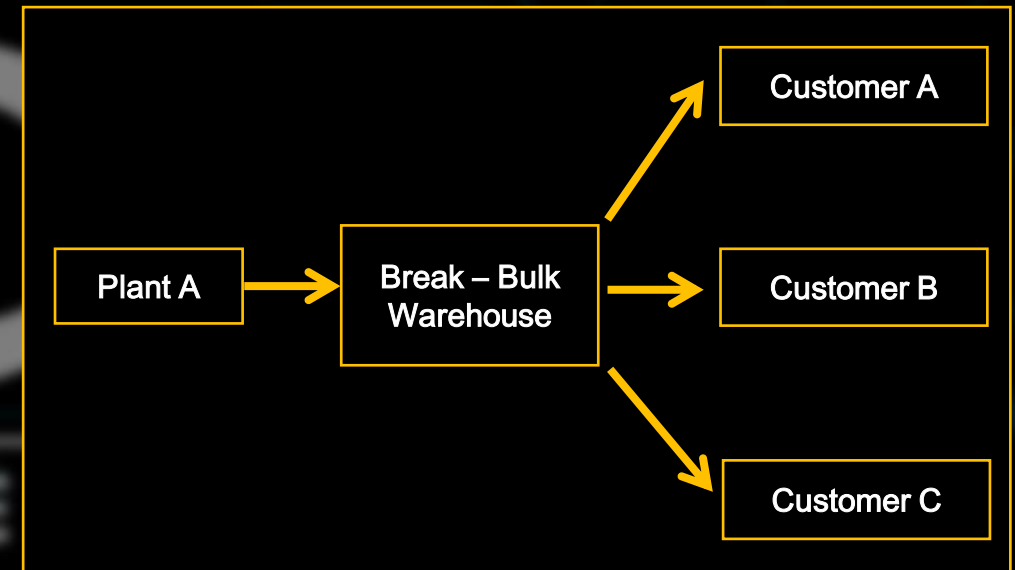
Consolidation

- In this function, the warehouse receive and consolidate, goods from different production plants and dispatch the same to a particular customer on a single transportation shipment.



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.



Financing

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

Stock Piling

- The next function of warehousing is the seasonal storage of goods to select businesses.
- Goods which are not required immediately for sale or manufacturing are stored in warehouses and are made available whenever demanded by customers.
- Agriculture products which are harvested at specific times also need to be stored.

Value-added Services

- Certain value-added services are also provided by the warehouses, such as in-transit mixing, packaging and labelling etc.
- Goods sometimes need to be opened and repackaged again at the time of inspection.
- Grading and dividing goods according to quantity is another function.

Price Stabilization

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

