Unit IB04: Business Services

Name: ______________________

Date: __/__/__

Meaning of Services

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

Nature of Services

(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.

(ii) Inconsistency: The second important characteristic of services is inconsistency. Since there is no standard tangible product, services must 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

(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.

(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.

(v) Involvement: One of the most important characteristics of services is the participation of the customer in the service delivery process. A customer can get the services modified according to specific requirements.

Difference Between Goods and Services

Basis	Services	Goods
Nature	An activity or process such as watching a movie in a theatre	A physical object, such as a DVD
Type	Heterogenous	Homogenous
Intangibility	Intangible, such as doctor treatment	Tangible such as medicine
Inseparability	Simultaneous production and consumption such as eating at a restaurant	Separation of production and consumption such as purchasing ice cream from a store
Inconsistency	Different customers have different demands such as cellular service providers	Different customers getting standardized demands fulfilled such as buying mobile phones
Inventory	Cannot be kept in stock such as experience of a train journey	Can be kept in stock such as train journey ticket
Involvement	Participation of customers at time of service delivery such as self-service in a fast food joint	Involvement at the time of delivery not possible such as manufacturing a vehicle

Types of Services

(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.

(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.

(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.

Banking

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

Types of Banks

1. Commercial Banks: Commercial banks are institutions dealing in money. These banks are governed by Indian Banking Regulation Act 1949 and according to it banking means accepting deposits of money from the public for lending or investment. There are two types of commercial banks, public sector, and private sector banks.
2. 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.
3. Specialised Banks: Specialised banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities
4. 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.

Functions of Banks

(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.

(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.

(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.

(iv) Remittance of funds: Another salient function of commercial banks is of providing the facility of fund transfer from one place to another, because the interconnectivity of branches. The transfer of funds is administered by using bank drafts, pay orders or mail transfers, on nominal commission charges

(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.

E-Banking

Meaning of E-Banking

E-banking or 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.

Benefits for the customer

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

1. E-banking provides 24 hours, 365 days a year services to the customers of the bank
2. Customers can make some of the permitted transactions from office or house or while travelling via mobile telephone;
3. It inculcates a sense of financial discipline by recording every transaction;
4. 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.

Benefits for the Bank

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

1. e-banking provides competitive advantage to the bank;
2. 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 withdrawal needs of the customer;
3. Load on branches can be considerably reduced by establishing centralised data base and by taking over some of the accounting functions

Insurance

Meaning of 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.

Fundamental Principle of Insurance

The basic principle of insurance is that an individual or a business concern chooses to spend a 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 remains but the loss is spread over many policyholders exposed to the same risk.

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,

Functions of Insurance

(i) Providing certainty: Insurance provides certainty 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 certainty.

(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.

General Principles of Insurance

(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 regarding 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

(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.

(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

(iv) Proximate cause: 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.

(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

(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.

(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.

Life Insurance

Meaning of Life Insurance

A life insurance policy was introduced as a protection against the uncertainty 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.

Elements of Life Insurance Policy

1. 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;
2. 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;
3. 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.

Types of Life Insurance

1. <u>Whole Life Policy:</u> 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.
2. <u>Endowment Life Assurance Policy:</u> The insurer (Insurance Company) undertakes to pay a specified sum when the insured attains a specific age or on his death whichever is earlier. The sum is payable to his legal heir/s or nominee named therein in case of death of the assured.
3. <u>Joint Life Policy:</u> 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.
4. <u>Annuity Policy:</u> 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.
5. <u>Children's Endowment Policy:</u> 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 specific age.

Fire Insurance

Meaning of 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.

Conditions

A claim for loss by fire must satisfy the two following conditions:

(i) There must be actual loss;
(ii) Fire must be accidental and nonintentional.

Elements of Fire Insurance

1. 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
2. Like 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.
3. 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.
4. The insurer is liable to compensate only when fire is the proximate cause of damage or loss.

Marine Insurance

Meaning of 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.

Elements of Marine Insurance

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 can make profit out of the marine insurance contract.

ii) Like 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.

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 the policy covers that nearest cause.

Types of Marine Insurance

1. 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.
2. 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.
3. 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.

Difference Between Life Insurance, Fire Insurance, and Marine Insurance

Sl No	Basis	Life Insurance	Fire Insurance	Marine Insurance
1	Subject matter	Human life	Physical property or assets	Ship, cargo, or freight
2	Element	Has elements of protection and investment	Only element of protection	Only element of protection
3	Insurable Interest	Must be present at the time of taking up the policy	Has element of protection and not element of investment	Has only element of protection.
4	Duration	5years to 30 years or whole life of the insured	Does not exceed a year	Policy covers a voyage, period or mixed
5	Indemnity	Not based on principle of indemnity	Based on principle of indemnity	Based on the principle of indemnity
6	Loss measurement	Loss is not measurable	Loss is measurable	Loss is measurable
7	Surrender or paid up value	Has a surrender or paid up value	Not applicable	Not applicable.
8	Policy amount	Any amount	Amount cannot be greater than subject matter	Amount insurable is equal to the market value of ship or cargo.
9	Contingency of risk	Event of death or maturity of policy can lead to claim	Fire may or may not happen, so element of uncertainty exists and so no claim may be made	Loss at sea may or may not happen, so element of uncertainty exists and no claim may be made.

Postal Services

Meaning of 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.

Facilities of Postal Service

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 account, time deposits and money order facility.
2. Mail facilities: Mail services consist of parcel facilities that is trans-mission 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 during transmission by post. Postal department also offers allied facilities of the following types:
    a) Greeting post —A range of delightful greeting cards for every occasion.
    b) Media post — An innovative and effective vehicle for Indian corporates to advertise their brand through postcards, envelopes, aerograms, telegrams, and through letterboxes.
    c) Direct post is for direct advertising. It can be both addressed as well as unaddressed.
    d) International Money Transfer through collaboration with Western Union financial services, USA, which enables remittance of money from 185 countries to India.
    e) Passport facilities — A unique partnership with the ministry of external affairs for facilitating passport application.
    f) Speed Post: It has over 1000 destinations in India and links with 97 major countries across the globe.
    g) e-bill post is the latest offering of the department to collect bill payment across the counter for BSNL and Bharti Airtel.

Telecom Services

Meaning of 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.

Types of Telecom Services

(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.

(ii) Radio paging services: Radio Paging Service is an affordable means of transmitting information to persons even when they are mobile. It is a one-way information broadcasting solution, and has spread its reach everywhere.

(iii) 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 fibre optic cables laid across the length and breadth of the country.

(iv) 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. Offering services through the cable network would be like providing fixed services.

(v) 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.

(vi) 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.

Transportation

Meaning

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. Their services are important for business since speed is of essence in any business transaction.

Warehousing

Meaning

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 to maintain their original quality, value and usefulness.

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 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.

(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.

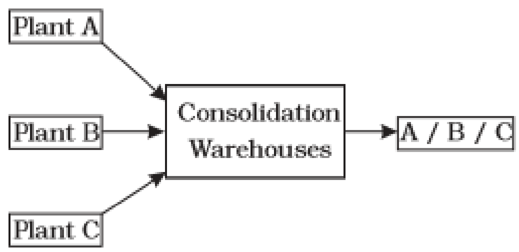
(iii) Bonded warehouses: the government licenses Bonded warehouses to accept imported goods prior to payment of tax and customs duty. These are goods which are imported from other countries. Importers are not permitted to remove goods from the docks or the airport till customs duty is paid.

(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.

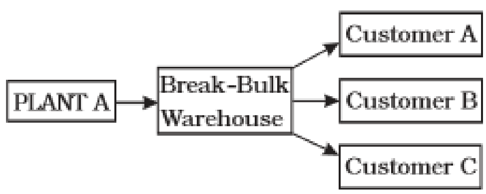
(v) Cooperative warehouses: Some marketing cooperative societies or agricultural cooperative societies have set up their own warehouses for members of their cooperative society.

Functions of a Warehouse

Consolidation: In this function the warehouse receives and consolidates, materials/goods from different production plants and dispatches the same to a 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.



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.

Value added services: the warehouses also provide certain value-added services, such as in transit mixing, packaging and labelling.

Price stabilisation: 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.

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