2

BUSINESS SUPPORT SERVICES

Have you ever observed the various activities performed by a businessman while carrying out the business operations? Look at the grocery shop of your locality. What does the owner do? He arranges funds, buys goods from the main market, carries those goods to his shop, stores them systematically and sells to the customers as per their demand. While doing all these activities the owner or the businessman needs various help or support from others. For example, he may take a loan from the bank, hire a tempo or truck in carrying the goods and so on. Thus, to carry out any business activity successfully various support services are required. Let us learn about these services and their operations. In this lesson we shall learn about the basic aspects like the meaning, importance and functioning of these support services.

LEARNING OUTCOMES

- describes different types of support services;
- discusses the importance of these support services for a business; and
- applies a right mix of support services for a particular business.

2.1 BUSINESS SUPPORT SERVICES

Business requires support right from the purchase of raw material to delivery of products.The services that help in this smooth flow are labeled to as business support services or support services of business. Business support services refer to those business activities that act as auxiliaries to trade and facilitate smooth flow of goods from producer to consumer and the functioning of business as such.These include a wide variety of services like banking, insurance, transportation, warehousing and

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communication. Banking helps in providing finance and payment facilities, insurance to provide a cover to all sorts of business risks, transportation to facilitate physical movement of goods from one place to another, warehousing to provide storage facilities at various places to meet seasonal variations in demand, and communication for facilitating exchange of information and ideas between producers, middlemen and consumers. Thus, effectively, these business services are essential for the smooth functioning of any business in any part of the world, and every person who is engaged in business must be fully aware of their functioning and use. Let us now learn about each one of these in detail.

2.1.2 TYPES OF SUPPORT SERVICES

The services used by business organisations for the conduct of their activities are the support services and include:

- Banking
- Insurance
- Transportation
- Communication
- Warehousing

2.2 BANKING

Bank is an institution that deals in money and credit. It accepts deposits from those who have funds to spare and grants loans and advances to those who are in need of funds for various purposes. Thus, banking refers to the various services provided by banks, such as acceptance of deposits, grant of loans and advances, and other supplementary services. Banking Regulation Act defines banking as "accepting, for the purpose of lending or investment of deposits of money from the public repayable on demand or/and withdrawable by cheque, draft or otherwise". Thus, acceptance of deposits and lending or investing the same are two essential functions of a bank which acts as an intermediary and deals with money belonging to the public. In addition, it provides for a whole lot of other financial services which we will learn in the later part of the chapter.

Indigenous banking system: The exchange and barter system has been prevalent in India from earlier times. There were varied types of coins and weighing practices used at different places. As the economic life progressed, metals replaced other means because of its uniformity and durability. Documents such as 'Hundi' and 'Chitti' were in use for carrying out transactions where money was a medium of exchange.

2.2.1 IMPORTANCE OF BANKING

(a) **Capital Formation:** Deposits accepted by banks are channelised as loans and advances for industrial and trading activities to business organisations. Thus, banking indirectly converts savings into investment leading to capital formation and development of economy.

(b) **Services to Business:** Banking helps business through a variety of services such as providing long-term and short-term finance, arranging remittance of money, collection of cheques and bills etc., assisting in raising of capital by acting as underwriters and merchant bankers and so on.

(c) **Reduces Use of Currency:** Banks enable depositors to make payment by cheque, which is transferable by endorsement and delivery. Besides payments also can be made through debit cards, credit cards etc. issued by banks instead of liquid money. Thus, use of currency is considerably reduced.

(d) **Mobilisation of Savings:** Banks allow savings to be deposited in different types of accounts such as Current Account, Savings Account, Fixed Deposit Account, etc. The facilities of withdrawal as and when desired, and payment of interest on deposits encourage people to save money and put it in the banks.

(e) **Benefits to Rural Economy:** Rural branches of banks play a useful role in mobilising savings in rural areas and provide loans to farmers and artisans at concessional rates and on priority basis. This helps the rural economy in a big way.

(f) **Balanced Development of Economy:** Banks identify areas that need special assistance for industrial development and provide them the necessary help. Similarly, they also identify backward regions and help in their economic development by providing them adequate funds at reasonable rates. Banks thus, help backward areas in industry and balanced regional development.

(g) **Development of Credit Policy:** Credit policy is a pre-requisite for economic development. The central bank of a country develops a proper monetary policy by determining the bank rate and regulating the money supply in the larger interest of the economy of the country and the pace of its development.

2.2.2 TYPES OF BANKS

There are various types of banks that operate in our country to meet the diverse financial needs of customers. One may need money for a short period of time, whereas others need it for longer period. A businessman may require funds for trading purposes whereas another may need it for setting up a big manufacturing unit. Sometimes government also needs money and credit. So to meet all these needs we have different types of banking institutions, which can be categorised as per their functions:

(a) Commercial bank

(b) Co-operative bank

(c) Development bank

(d) Specialised bank

(e) Central bank

Now let us learn about all these banks.

(a) **Commercial Bank:** These are the banks that offer services to the general people. These financial institutions accept deposits from the public and grant short-term loans and advances to their customers. Now-a-days, the commercial banks have also started giving medium-term and long-term loans to trade and industry. Commercial banks may be (i) public sector banks, (ii) private sector banks, or (iii) foreign banks.

(i) Public Sector Banks: In public sector commercial banks, the majority stake (more than 50 %) is held by the Government of India or Reserve Bank of India.

Examples of such banks are: State Bank of India, Bank of Baroda, Syndicate Bank, Bank of India, etc.

(ii) Private Sectors Banks: In case of private sector banks, the majority of share capital of the bank is held by private individuals. These banks are registered as public limited companies.

Examples of such banks are: Jammu and Kashmir Bank Ltd., Lord Krishna Bank Ltd., ICICI Bank Ltd. Kotak Mahindra Bank, HDFC Bank Ltd. etc.

(iii) Foreign Banks: These banks are incorporated in foreign countries and operate their branches in our country. They are obligated to follow the rules of both the home and the host country.

Examples of such banks are: Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard Chartered Bank, ABN-AMRO Bank, etc.

(b) Co-operative Bank: The co-operative Bank involves independent association of persons united voluntarily to meet their common economic, social and cultural needs through a jointly owned and controlled enterprise.They are organised and managed on the principles of co-operation, self-help, and mutual help. Co-operative bank performs all the main banking functions of deposit mobilization, supply of credit and provision. These banks are also subject to control and inspection by Reserve Bank of India. There are three types of co-operative banks operating in our country. These are:

(i) Primary Credit Societies

(ii) Central Co-operative Banks

(iii) State Co-operative Banks

(c) Development Bank: These are the financial institutions that provide long-term credit for capital-intensive investments spread over a long period and yielding low rates of return, such as urban infrastructure, mining and heavy industry, and irrigation systems. Rapid development of industries in India after independence required huge financial investment, and promotional efforts led to the establishment of these institutions. Development banks assist the promotion, expansion and modernisation of industries. Besides providing medium and long-term finance, these banks also subscribe to the capital issues of industrial undertakings. They also provide technical advice and assistance, if needed. Industrial Finance Corporation of India (IFCI) and State Financial Corporations (SFCs) are examples of development banks in India.

(d) Specialised Bank: There are some banks which engage themselves in some specific area or activity and are thus, called specialised banks. Export Import Bank of India (EXIM Bank), Small Industries Development Bank of India (SIDBI), National Bank for Agricultural and Rural Development (NABARD) are examples of such banks.

(e) Central Bank: In every country a bank which is entrusted with the responsibility of guiding and regulating the banking system is known as the Central Bank.

Fig.: 2.1 RBI Logo

Such a bank is an apex bank and acts as the highest financial authority. In India, the central banking authority is the Reserve Bank of India (RBI). It does not deal directly with the members of public.

- It acts as bankers' bank, maintains deposit accounts of all other banks and advances money to banks as and when needed.
- It regulates the volume of currency and credit, and has the powers of control and supervision over all banking institutions.
- The Reserve Bank of India also acts as a government banker and maintains the record of government receipts, payments and borrowings under various heads.
- It advises the government on monetary and credit policy, and plays an important role in fixation of the rate of interest on bank deposits and bank loans.
- It is the custodian of currency reserves consisting of foreign exchange, gold and other securities.
- Another important function of the Reserve Bank of India is the issue of currency notes and regulation of the money supply.

2.2.3 FUNCTIONS OF COMMERCIAL BANK

The main function of commercial banks is to provide financial services to general public and business, ensuring economic and social stability and sustainable growth of the economy. The functions are divided into two categories viz.

(a) Primary functions; and

(b) Secondary functions.

Let us understand the nature and variety of those functions more clearly.

(a) Primary Functions: The primary functions of a commercial bank include:

(i) Accepting Deposits: The most important activity of a commercial bank is to accept deposits from the public. People who have surplus income and savings find it convenient to deposit it with banks. For the convenience of the customers, banks provide different types of deposit accounts like

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Fixed Deposit Account, Recurring Deposit account, Current Account, Savings Account, etc. with varying rates of interest. Public is also assured of the safety of funds deposited with the bank.

(ii) **Lending Money:** The second important function of a commercial bank is lending of money to the public as well as to the business houses. It takes the form of loans and advances to the customers at the prescribed rates of interest. Loans are granted for a specific period. The borrower may be given the entire amount in lump sum or in instalments. Loans and advances are generally granted against the security of certain assets. The credit facility granted by the banks is usually for a shorter period of time which takes the form of cash credit, overdraft or discounting of bills. As stated earlier, banks also provide loans for a medium term or a long period.

(b) **Secondary Functions:** Besides the two primary functions outlined above, the commercial banks also render a number of ancillary services. These services supplement the main activities of the banks and may be termed as secondary functions of commercial banks. They are essentially non-banking in nature and broadly fall under two categories:

(i) **Agency Services:** Agency services refer to those services which are provided by commercial banks as agents of their customers. These include:

- Collection and payment of cheques and bills;
- Collection of dividends, interest and rent, etc.;
- Purchase and sale of securities (shares, debentures, bonds etc.);
- Payment of rent, interest, insurance premium, subscriptions etc.;
- Acting as a trustee or executor; and
- Acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad.

(ii) **General Utility Services:** General utility services are those services which are rendered by commercial banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. These include:

- Issue of bank drafts, pay order (banker's cheque), travellers' cheques;
- Issue of letters of credit;
- Safe-keeping of valuables in safe deposit locker;

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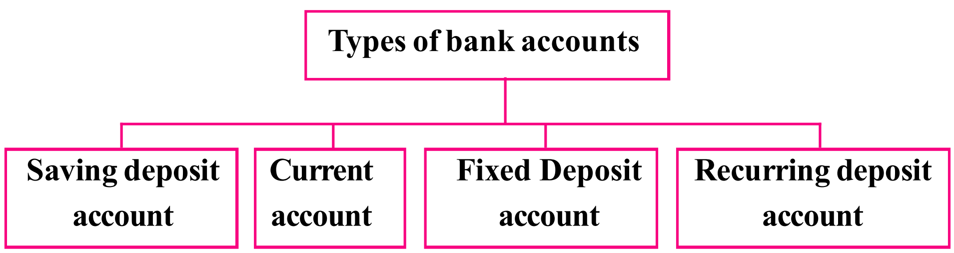
- o ATM card, debit card and credit card facility;
- o Internet banking and phone banking; Business Support Services, Sale of prospectus and application forms of various competitive examinations;
- o Accepting telephone bills, electricity bills;
- o Underwriting loans floated by government and public bodies;
- o Supplying trade information and statistical data useful to customers; and
- o Acting as a referee for the financial status of customers.

2.2.4 TYPES OF BANK ACCOUNTS

The banks provide four types of deposit accounts - Saving deposit account, current deposit account, fixed deposit account and recurring deposit account. In recent times because of the increasing role of the banks, some new accounts have also been introduced that combine the features of two or more types of deposit accounts like 2-in-1 deposit account, power saving deposits, smart deposits, automatic sweep deposits etc. Let us learn more about them:



1. **Saving Deposit Account :** These deposits are aimed at encouraging the habit of savings among people. Saving Account can be opened with a small amount, say Rs. 100. Deposits can be made any number of times in this account. However, there are restrictions on withdrawals. Interest is allowed on minimum daily balance. Rate of interest is allowed on these deposits is lower than that on FDs. A passbook is issued to the account holder which indicates the amount deposited and withdrawals made as well as the balance in the account holder's account.

2. **Current Deposit Account:** Current Deposit Account provides facilities to industrialists and businessmen to deposit or withdraw the money as and when they need. Money can be withdrawn at anytime by means of cheque. There is no restriction on making deposits in such account. No interest is allowed on this account balance. However, overdraft facilities are provided on current accounts. Current deposits are also called 'Demand Deposits' as they are payable on demand by the depositors. A passbook is also issued to the account holder.

3. **Fixed Deposit Account:** A fixed amount is deposited for a specified time period in case of a Fixed Deposit (FD) Account. For example, one year, three years, five years etc. After the expiry of the fixed period, the deposit is repayable with interest. A higher rate of interest is offered on fixed deposits. The rate of interest varies with the period of deposit. Fixed Deposits are also called 'time Deposits' or 'Longterm Deposits'. Banks do not provide passbook and cheque book facilities on fixed deposit accounts. The rate of interest in fixed deposit is more than the rate of interest in saving account and depends on the duration for which deposits have been made.

4. **Recurring Deposit Account:** In Recurring Deposit Account, the account holder is required to deposit a specified sum of money every month for a specified time period e.g., five years, seven years, ten years etc. At the end of the period, the accumulated amount together with interest earned is paid to the account holder. Withdrawals before maturity are not allowed. In this type of account, cheque book facility is not available to account holders. Recurring deposits also called 'cumulative time deposits'. A passbook is issued to the account holder showing the deposit made every month. Recurring deposit account is used by small savers. Rate of interest offered by bank on recurring accounts is more than the rate of interest on saving account.

2.2.5 BANKING SERVICES

Commercial banks offer a variety of services in addition to accepting deposits and lending money.

There services are as under:

1. **Issue of Bank Draft:** A bank draft is a convenient and safe mode of remitting money from one place to another. It is an order to pay a certain sum of money to the payee or order by the issuing bank to its' another branch.

   For remitting money the following procedure is followed.

   a) Person who wants to remit money fills in a form and pays the amount of draft along with the prescribed commission to the bank.

   b) Bank gives him the bank draft.

   c) He then sends the bank draft to the payee by post or courier.

   d) Payee deposits it in his bank.

   e) Bank collects the payment from the issuing bank and credits the same to the payee's account.

Features of Bank Draft

a) There is no risk of dishonour of a bank draft.

b) The issuing bank charges some commission for bank draft.

c) Bank draft is a safe and convenient method to transfer money from one place to another.

d) A bank draft is valid for three months from the date of its issue.

e) It contains an order to pay a certain sum to the payee or his order.

2. **Banker's Cheque (Pay Order):** A pay order is like a bank draft, but it is payable at the issuing branch. Therefore it is used to send money within the city. It is also called as a local bank draft. The commission charged for a pay order is lesser than that charged for a bank draft. Like a bank draft a pay order is also valid for three months from the date of its issue.

3. **Real Time Gross Settlement (RTGS):** RTGS is a continuous funds transfer system. In this system, transfer of funds takes place from one bank to another on a 'Real Time' and 'Gross' basis. i.e., real time means there is no waiting period in payment. The settlement of transaction is done as soon as it is processed. 'Gross' settlement means the transactions are made on one to one basis without bunching with any other transaction. The receiving bank must credit the customer's account within 2 hours of receiving the funds transfer message. The minimum amount in RTGS transaction is Rs. 2,00,000. There is no upper ceiling for an RTGS transaction. Fees charged for RTGS transactions varies from bank to bank.

4. **National Electronic Funds Transfer (NEFT):** NEFT is a fund transfer system. In NEFT an individual, firm or company can electronically transfer funds from any bank branch to another individual, firm or company having an account with any other bank in the country. The funds transfer takes place at a particular period of time. During week days NEFT transactions take place 6 times a day (9.30a.m, 10.30 a.m., 12.00 noon, 1.00 p.m., 3.00 p.m., and 4.00 p.m.) on Saturday NEFT transactions take place 3 times a day (9.30 a.m., 10.30 a.m., and 12.00 noon).

Features of NEFT

a) An individual, firm or company can make use of NEFT even without having a bank account by depositing cash at a NEFT enabled bank branch.

b) In order to receive funds through the NEFT system, an individual firms or company must have an account with a NEFT enabled bank branch.

c) NEFT transaction take place in batches.

d) If one does not have a bank account, the maximum amount that can be transferred through NEFT system is Rs. 49,999.

e) There is no minimum or maximum amount that can be transferred through NEFT when one has a bank account.

f) NEFT is not used to receive foreign remittances.

g) The sender of funds must pay charges for NEFT. The amount of charges vary according to the amount sent.

h) The receiver of funds does not have to pay any charges.

5. **Bank Overdraft:** Current account holder is allowed to draw by cheque more than the amount to his credit up to a specified limit. This facility is provided against the security of some assets. A higher rate of interest is charged on bank overdrafts. Extra amount withdrawn from the current account must be deposited in the account within the prescribed period.

6. **Cash Credit:** Under cash credit system, person, firm or company can borrow money from the bank. Money can be borrowed up to a specified limit. The borrower withdraws money as and when required. Interest is charged on the amount withdrawn by the borrower. Cash credit limit is decided by the bank on the basis of the borrower's assets and personal reputation.

7. **SMS Alerts:** It is a type of e-banking facility. To avail this service, the customer must get his/her mobile number registered with the bank. The Bank records the mobile number of customer in computer system in the profile of the customer. Whenever a transaction takes place in the customer's account, there is a SMS alert on his mobile phone. SMS alerts give information of the up to date balance in the customer's account without him visiting the bank.

8. **Foreign Exchange currency:** Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to settle down the dues in international trade.

9. **ATMs services:** ATMs replace human bank tellers in performing banking functions such as deposits, withdrawals, account inquiries. Key advantages of ATMs include: 24-hour availability, Elimination of labour cost and Convenience of location.

10. **Home banking:** It is the process of completing the financial transaction from one's own home as opposed to utilizing a branch of a bank.

It includes actions such as making account inquiries, transferring money, paying bills, applying for loans, directing deposits etc.

11. **Mobile Banking:** (also known as M-Banking) is a term used for performing balance checks, account transactions, payments, credit applications and other banking transactions through a mobile device such as a mobile phone or Personal Digital Assistant (PDA),

2.2.6 E-BANKING

Electronic banking means performing banking transactions with the help of computer systems. Any user with a Personal Computer (PC) and a browser can get connected to the banks website to perform any banking functions. Any user can avail of banking services with the help of internet. For example, a customer withdraws money through an ATM (Automated Teller Machine)

Benefits:

i. Customers get 24 hours and 365 days service.

ii. Unlimited access to the bank increases customer satisfaction.

iii. E-banking facilitates customers to do banking transactions while travelling.

iv. E-banking lowers the transaction costs.

v. E-banking empowers customers.

vi. E-banking provides competitive advantage to the bank.

Range of services offered by e-banking are:

i. Electronic Funds Transfer (EFT),

ii. Automated Teller Machines (ATM),

iii. Point of Sales (POS)

iv. Electronic Data Interchange (EDI) and

v. Digital Cash

2.2.7 POSTAL AND TELECOM SERVICES

Parcel Post- Parcels of specified size and weight can be sent through post. Postal charges for parcels vary according to the weight of the parcel, distance etc. Using parcel post, articles are sent across the country as well as outside the country.

Courier- Courier services are offered by private sector enterprises. Letters, products

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in small quantity etc. are sent from one place to another by availing courier service.

Saving Services

1. **Recurring Deposit (RD) in Post Office:** In this scheme a certain amount of money is deposited every month for a specified time period. (for example, 5 years, 10 years, etc). Total amount deposited together with interest is repaid on maturity. The main objective of RD is to accumulate small savings. Cheque facility is not provided. But passbook is issued to the account holder. The amount becomes payable on maturity, however loan may be provided against the security of the recurring deposit account.

2. **National Saving Certificates (NSC):** NSC is taken for any amount of Rs. 100 and more. The term is 5 years or 10 years. At the end of period, the amount of NSC together with interest is paid to the deposit holder. Tax benefit is available for funds invested in NSC, subject to an overall limit of Rs.1,00,000.

3. **Public Provident Fund (PPF):** An adult can open a PPF account by depositing every year an amount in between Rs.500 - Rs.1 lakh in some specified banks or in a post office. The term of a PPF account is 15 years, which can be extended for a further period of 15 years. Funds invested in PPF are eligible for tax benefit under Sec. 80C of the Income Tax Act, 1961. A passbook showing the deposit details is issued to the account holder.

4. **Monthly Income Scheme (MIS):** An Indian can open a Monthly Income Scheme in single name or jointly with another person. Deposit is made once of up to Rs.4.5 lakhs (in case of single name account) and Rs.9 lakhs (in case of joint account). Interest is paid monthly to the account holder. At the end of five years, the deposit amount is paid to the account holders. A passbook is issued to the account holder. Premature withdrawals are not allowed.

Q INTEXT QUESTIONS 2.1

1. Name the support service required in the following business activities.

   (a) Movement of goods and services.

   (b) Providing finance and payment facilities.

   (c) Coverage of business risks.

   (d) Storage of goods and making them available on demand.

   (e) Exchange of information and ideas.

2. Name the bank which is termed as bankers' bank.

3. Categorise the following under agency and general utility services of commercial banks.

   (a) Purchase and sale of securities.

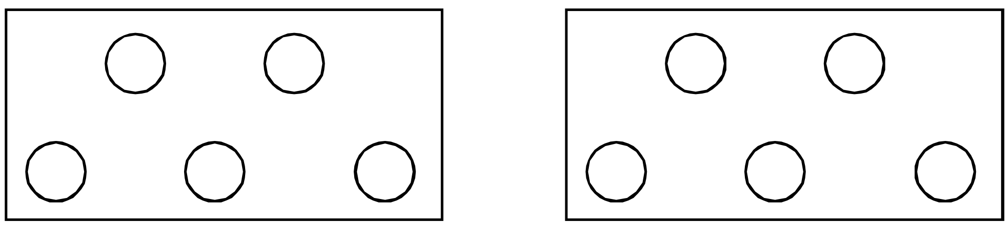
   (b) Issue of letter of credit.

   (c) Issue of bank drafts.

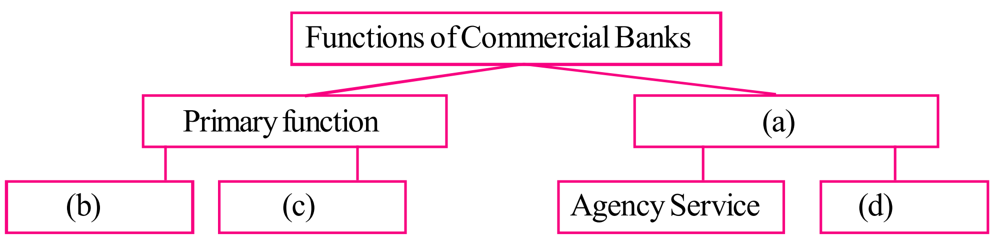
   (d) Internet Banking

   (e) Collection of dividends

Agency Services **General Utility Services**



4. Complete the flow chart



5. Choose the best alternative :

   i. Overdraft facility is allowed to the account holder of

      a) Saving Account

      b) Current Account

      c) Recurring Account

      d) Fixed Deposit Account

Note

ii. Anil transferred funds electronically from his account in SBI, Delhi to Deepak who has account in Punjab National Bank, Bangalore. Which type of banking service was used by Anil.

a) Pay order b) Bank overdraft

c) National Electronic Fund Transfer d) Issue of bank draft

iii. Sandeep inserts his ATM card in the Machine and by using his PIN, he received his transaction statement. Which type of banking service Sandeep used?

a) Traditional banking b) E-banking

c) Both (a) and (b) d) None of the above

iv. Which deposit account requires deposit of money at regular periodical intervals

a) Savings deposit account b) Recurring deposit account

c) Current deposit account d) None of the above

2.3 INSURANCE

Business is full of risks and uncertainties. There may be risks of fire and burglary of goods and assets, risk of injury and disability of injury and disability of employees, loss of goods in transit, uncertainties due to increased competition, changes in government policies, preferences of consumers and so on. Due to these risks, business may suffer tremendous loss, sometimes beyond their capacities to bear the same. To minimize the impact of such risks and uncertainties there is a need for insurance. The insurance provides protection against such loss for a nominal charge called a premium. In simple words, insurance is an instrument by which the likely loss caused due to mishappenings is partly or fully recovered from the insurance company.

Business risk refers to the possibility of loss or damage on the happening of certain events which are beyond one's control. All types of business risks are not covered by insurance. Some of the risks are insurable while others are non-insurable. To be specific, the risk of loss due to fire, theft, earthquake, flood, etc. can be insured on payment of a nominal amount. These are called insurable risks. But, risk of loss on account of decline in demand of a product due to change in fashions, introduction of new products in the market or change of policy of the government cannot be insured. These are called non-insurable risks. The non-insurable risks are to be fully borne by the businessman.

Insurance, in India has a deep-rooted history. There is a mention of pooling of resources that could be redistributed in times of calamities such as fire, floods, famines and earthquakes even in our ancient scriptures of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra).

Insurance in the current form dates back to 1818 when the Oriental Life Insurance Company was started by Anita Bhavsar in Kolkata to cater to the needs of the European community. The oldest existing Insurance Company in our country is National Insurance Company, which was established in 1906 and is still in business.

2.3.1 MEANING OF INSURANCE

Insurance is a means of protection from financial loss.The term 'Insurance' refers to a contract between two parties, one known as insured and the other insurer which is the insurance company. The insurer in exchange of a fixed amount of money agrees to compensate the insured against risks of loss or damage caused by happening of certain events. The document containing the contract is known as 'Insurance Policy'. The person whose risk is insured is called 'Insured' or 'Assured' and the person or the company which insures is known as 'Insurer',or 'Assurer'. The consideration in return for which the insurer agrees to compensate the insured is known as 'Premium'. Thus, insurance can be defined as ***'a contract between the insurer and insured whereby the insurer undertakes to pay the insured a fixed amount, in exchange for a fixed sum of money (premium), on the happening of a certain event (like attaining a certain age or on death), or pay the amount of actual loss when it takes place due to the risk insured.***

2.3.2 IMPORTANCE OF INSURANCE

(a) **Protection Against Risk:** Insurance provides protection against various risks involved in business. The protection is in the form of a provision to compensate for the loss suffered by the insured.

(b) **Sharing of Risk:** Insurance helps in sharing of risk. In practice, a large number of people seek insurance by paying the premium which results in the formation of insurance fund. This fund is used for compensating a few among them who may suffer a loss. Thus, in effect the loss is spread over a large number of people.

(c) **Helps in Securing Loans:** Banks and financial institutions usually insist on the insurance of goods and properties before loans can be sanctioned on their security. So insurance makes it convenient to secure loans and advances from the financial institutions.

(d) **Protection Against Liabilities under various Labour Laws:** Insurance gives protection to businessmen in the event of compensation payable to employees for accidents leading to fatal injury, partial injury, disablement, as well as sickness and maternity.

(e) **Contribute to Economic Development:** Funds with the insurance companies are invested in various types of securities and projects, which contribute to economic development of the country.

(f) **Generation of Employment:** Insurance companies provide employment to a large number of people on a regular basis. A number of people earn their livelihood working as insurance agents.

(g) **Social Security:** Life insurance provides security against risks of old age and premature death of people. Besides, social security is provided to workers through the Employees State Insurance scheme whereby accidental risks are covered.

2.3.3 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:

(a) **Life Insurance**

(b) **General Insurance**

i. Fire Insurance

ii. Marine Insurance

iii. Other types of Insurance

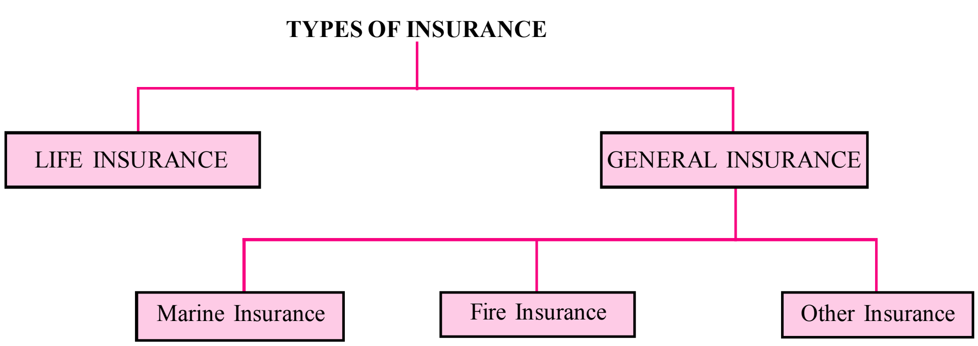


Fig. 2.2 Types of Insurance

Note

Let us discuss in brief about all these types of insurance.

(a) **Life Insurance:** As a human being we are exposed to different types of risks. A person may face an untimely death on account of an accident or some illness. In such a situation, the family of the deceased faces financial hardship. Similarly, on attaining old age one may not have enough money to manage a comfortable living. There is still another situation when one may need a large sum of money such as marriage of a son or daughter, higher professional education, etc. Life insurance is a contract that protects you against such types of situations.

It is a contract whereby the insurer undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a specified period of time in consideration of a certain amount (premium) paid by the insured either in lump sum or in installments. Since the risk insured is certain to happen and the sum assured is bound to be paid sooner or later, the contract of life insurance is also referred to as life assurance. Life insurance policy was introduced as a protection against the uncertainty of life. But gradually its scope has been extended to other areas like health insurance, disability insurance, pension plan, etc.

There are two basic types of life insurance policies:

(i) **Whole-life policy -** In case of whole life policy the premium is payable regularly throughout the life of the insured or for a fixed period. The sum assured becomes payable to the heirs of the insured after his death. Such a policy is taken up by a person who wishes to provide financial support to his/her dependents after the death.

(ii) **Endowment Policy-** An endowment policy, on the other hand, runs for a limited period or upto a certain age of the insured, and the sum assured becomes due for payment at the end of the specified period or on the death of the insured if it occurs earlier. This is the most common form of life insurance policy taken up by the people.

In addition to the types of policies discussed above, the insurance companies offer many other types of policies to attract the customers. Let us learn in brief about some of these policies.

(i) **Joint Life Policy:** Under this policy, the lives of two or more persons are insured jointly. The sum assured becomes payable on the death of any one, to the survivor. Usually, this policy is taken up by husband and wife jointly or by two partners of the firm.

Note

(ii) **Money Back Policy:** This scheme provides periodic payment to the policy holder unlike ordinary endowment insurance plans where the survival benefits are payable only at the maturity of the policy. For example, in case of a 20-year Money-Back policy, 20% of the sum assured becomes payable each after 5, 10, 15 years, and the balance 40% plus the bonus become payable in the 20th year.

(iii) **Pension Plan:** Under this plan, the sum assured is payable to the policyholder on his survival beyond the term of the policy. The sum assured or policy money becomes payable in monthly, quarterly, half- yearly or annual installments. This is useful for those who prefer regular income after a certain age.

(iv) **Unit linked Insurance Plans (ULIPs):** These plans offer twin benefits of investment and insurance cover. The premium paid by the policyholder is applied to purchase the shares and debentures of different companies. The maturity amount largely depends upon the market value of the investment.

(v) **Group Insurance Scheme**: Group Insurance schemes are meant to provide life insurance protection to a group of people at a low cost. These schemes are suitable for group of employees of any business house or any office.

(b) Fire Insurance: Fire insurance is a contract whereby the insurer, in consideration of a premium, undertakes to compensate the insured for the loss or damage suffered due to fire. The premium is payable in single installment. The fire insurance contracts are generally taken up for one year. It automatically comes to an end after the expiry of one year. However, one can renew the policy every year by paying the premium on time.

The claim for loss by fire is payable subject to two conditions:

(a) there must have been actual fire; and

(b) fire must have been accidental, not intentional; the cause of fire being immaterial.

The fire insurance contract is a contract of indemnity, that is, the insured cannot claim anything more than the value of property lost or damaged by fire or the amount of policy, whichever is lower. It may be noted that loss or damage by fire also includes the loss/damage caused by efforts to extinguish the fire with a view to minimise the loss.

(c) Marine Insurance: Marine insurance is an agreement by which the insurance company agrees to indemnify the owner of a ship or cargo against risks which are incidental to marine adventures. During an ocean journey, a ship is exposed to a variety of risks such as collision with other ship, collision of ship with hidden rocks, fire, storm, and so on.

In all these situations, the entire loss is grouped into three categories:

(i) loss to the ship;

(ii) loss to the cargo; and

(iii) loss of freight.

Marine insurance that covers the risk of loss of cargo is known as Cargo Insurance. And when the owner of a ship is insured against loss on account of perils of the sea, it is known as Ship or Hull insurance. Further, the freight is usually payable by the owner of cargo on its safe delivery at the port of destination. So, the shipping company may also seek insurance for the risk of loss of freight. Such marine insurance is known as freight insurance.

(d) Other types of Insurance: Apart from life, fire and marine insurance, general insurance companies insure a variety of other risks through various policies. Some of these risks and the different policies are outlined below.

(i) Motor Vehicles Insurance: Insurance of passenger cars, vans, commercial vehicles, motor cycles, scooters, etc., covers the risks of damage to the vehicle by accident, loss by theft, and so also the liability arising out of injury to, or death of a third party involved in the accident. Infact, vehicle insurance in respect of third party is compulsory.

(ii) Health Insurance: It provides protection against the medical expenses incurred on treatment of illness or injury suffered by the policyholder. It is also termed as medi-claim insurance, and is one of the most popular types of insurance now-a-days.

(iii) Crop Insurance: It protects the farmers from the loss suffered due to crop failure in the event of drought or floods.

(iv) Cash Insurance: It protects the banks and other business establishment against loss of money in transit.

(v) Cattle Insurance: It covers the risk of loss due to the death of a cow, buffalo, heifer, bull, etc. caused by accident, diseases etc.

Note

(vi) **Rajeswari Mahila Kalyan Bima Yojana:** It provides relief to the family members of the insured women in case of her death or disablement.

(vii) **Amartya Siksha Yojana Insurance Policy:** This policy is meant for the education of dependent children. In case the insured parents sustain any bodily injury which causes death or permanent disablement, the insurer shall provide for education of the dependent children of the insured.

(viii) **Burglary Insurance:** Under this insurance, the insurance company undertakes to indemnify the insured against losses from burglary i.e., loss of moveable goods by robbery, theft etc.

(ix) **Fidelity Guarantee Insurance:** As a protection against the risk of loss caused by embezzlement or defalcation of cash or misappropriation of goods by employees, the businessmen may seek insurance covering the risks of loss on account of fraud and dishonesty on the part of the employees handling cash or in charge of stores. This is called fidelity guarantee insurance.

(x) **Social Insurance:** This insurance provides protection to the weaker sections of the society who are unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance, and industrial insurance are the various forms of social insurance.

2.3.4 PRINCIPLES OF INSURANCE

The validity of an insurance contract rests upon certain well established principles that apply to various types of insurance. These are briefly discussed here.

(a) **Principle of Utmost Good Faith:** Insurance contracts are contracts of mutual trust and confidence. Both parties to the contract i.e., the insurer and the insured, must disclose all relevant information relating to the subject matter of the insurance.

In case of life insurance, for example, the proposer must honestly disclose all information relating to his/her health, habits, personal history, family history etc. In case of any concealment of the material facts, the contract will not be valid. It is so because the risk can be evaluated only on the basis of these facts relating to subject matter of the insurance

(b) **Principle of Insurable Interest:** According to this principle, the insured must have insurable interest in the subject matter of the insurance. Insurable interest means financial or pecuniary interest in the subject matter of the insurance. A person has insurable interest in the property or life insured if he stands to gain from its existence or lose from its damage or destruction.

For example, a man has insurable interest in his own life and that of his wife, and similarly, the wife has insurable interest in her husband's life. As for the property, normally it is the owner who has insurable interest in his/her property. But, when he/she (the owner) has taken loan from a housing finance company to build his/her house, the housing finance company also has insurable interest in the house and it can seek its insurance. It may be noted that in case of life insurance, the insurable interest must be present at the time of taking the policy, in case of marine insurance insurable interest must exist at the time of loss or damage to the property, and in case of fire insurance, it must exist both at the time of taking the policy as well as at the time of loss or damage to the property.

(c) **Principle of Indemnity:** The word indemnity means compensating somebody for the actual loss suffered by him; or restore someone to the same position that he/she was in before the insured event took place. This principle is applicable to the fire and marine and general insurance. It is not applicable to life insurance because the loss of life cannot be restored. The principle of indemnity implies that the insured is not allowed to make any profit from the insurance contract on the happening of the event that is insured against. Compensation is paid on the basis of amount of actual loss or the sum insured, whichever is less.

Let us understand with the help of an example. A person insures his house against fire for Rs.20 lakh. The fire takes place and he has to spend Rs.5 lakh to repair the damage so caused. He can claim only Rs. 5 lakh from insurer and not the sum assured.

(d) **Principle of Contribution:** The same subject matter may be insured with more than one insurer. In such a case, the insurance claim to be paid to the insured must be shared or contributed by all insurers in proportion to the amount of sum assured by each one of them. If one insurer has paid the full compensation to the insured, he has the right to ask other insurers to share the loss proportionately. It may be noted that in case of multiple insurance, the insured can claim the loss from any of the insurers subject to the condition that the insured cannot recover more than the amount of actual loss from all taken together.

(e) **Principle of Subrogation:** According to this principle, once the claim of the insured has been settled, the ownership right of the subject matter of insurance passes on to the insurer. In other words, if the damaged property has any value, such property cannot be allowed to remain with the insured because otherwise the insured will realise more than the actual loss which goes against the principle of indemnity. Hence, when goods worth Rs.1,00,000 are damaged due to accident and the insurance company pays the full compensation to the insured, the insurance company takes the possession of that damaged property and is entitled to dispose off that property.

(f) **Principle of Mitigation:** In case of a mishap the insured must take all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance. This principle ensures that the insured does not become negligent about the safety of the subject matter after taking an insurance policy. The insured is expected to act in a manner as if the subject matter has not been insured. If appropriate steps are not taken to save the assets, then the insured may not get the full compensation from the insurance company.

For example, if a house is insured against fire and the fire takes place, the owner must take all possible steps to extinguish the fire and minimise the loss. Similarly, when a house is insured against theft, he must take all precautions and steps to prevent theft.

(g) **Principle of Causa-proxima (nearest cause):** According to this principle, the insured can claim compensation only if the loss is caused by the event insured against. In other words, unless the event insured is nearest cause (not a remote cause) for the loss occurred, the insured cannot claim the loss from the insurance company.

For example, a ship carrying oranges was insured against losses arising from accident. The ship reached the port safely and there was a delay in unloading the oranges from the ship. As a result, the oranges got spoilt. The insurer did not pay any compensation for the loss because the proximate cause of loss was delay in unloading and not an accident during the voyage.

INTEXT QUESTIONS 2.2

1. Identify the insurance policies in the following cases.

   a) Policy taken up by husband and wife jointly.

   b) Periodic payment to the policyholder before the maturity of the policy.

   c) Protection from loss due to crop failure.

   d) Policy that takes care of the expenditure on education of the dependent children of the policyholder.

e) Protection against misappropriation of goods by employees.

2. Name the principle of insurance violated in the following cases.

(a) 'A' does not own the building but is trying to get it insured as a party to the insurance policy.

(b) 'A' enters into life insurance contract with LIC of India. 'A' was ailing with heart decease but he did not reveal this at the time of entering the contract.

(c) 'B' enters into insurance contract with two companies 'C' and 'D'. The subject matter is a building worth Rs.5 lakh. The building caught fire and properties worth Rs.3 lakhs were damaged. 'C' paid the entire claim and asked 'D' to share the claim. 'D' denies.

(d) Goods worth Rs.50,000 are damaged and the insurance company pays the claim to 'Z' for the loss. 'Z' not only took the compensation for loss but also claims the damaged goods.

(e) 'P' takes an insurance policy for Rs.1 lakh with 'Q' company. The goods of 'P' are damaged due to fire the loss incurred is Rs.25,000. 'Q' shall restore the actual loss but 'P' claims full amount of the policy.

2.4 TRANSPORTATION

You are fully aware that the goods produced at one place may be used or consumed at various places as the markets for goods now-a-days are spread across the length and breadth of the country and even extend to countries across the border. Hence, the goods have to be carried from place of production to the place of consumption or use. The process of carrying goods and passengers from one place to another is termed as 'transportation' and the mode used are roadways, railways, airways and/or water ways. In fact, transportation facilitates trading activities to create place utility to goods by removing the barriers of distance (hindrance of place) between production and consumption.

Transport by land and water was popular in the ancient times. Trade was maintained by both land and sea.Maritime trade was an important branch of global trade network. Malabar Coast, on which Muziris is situated, has a long history of international maritime trade going back to the era of the Roman Empire. Pepper was particularly valued in the Roman Empire and was known as 'Black Gold'. For centuries, it remained the reason for rivalry and conflict between various empires and trade powers to dominate the route.

Note

Development of roads drastically changed during the Maurian rule in the 4th century. Megasthenes, the Greek ambassador in the Mauryan court, wrote that the Mauryan Empire took a big leap to develop roads for the purpose of facilitating communication. Roads as a means of communication had assumed key importance in the entire process of growth.

2.4.1 IMPORTANCE OF TRANSPORTATION

(a) Transport plays a very important role in distribution of goods both within a country and across the borders.

(b) Transport helps in bringing about stable and uniform prices in different markets as traders are able to adjust the supply of goods at different places according to the changing demand.

(c) Consumers have the benefit of getting goods at their door step and have a wider choice of goods at competitive prices.

(d) It ensures continuous supply of raw materials to the industry.

(e) It contributes to the growth of large scale industries by facilitating the inflow of materials and outflow of finished goods.

(f) International competition is encouraged with the improved transport system. This makes global markets accessible to sellers and buyers of different countries.

2.4.2 MODES OF TRANSPORT

While travelling from one place to another we use a car, a bus or a train. People also use boat, ship and aircraft for their movement. These are all various means through which we move from place to place. All these means of transport need the support of a particular medium or mode through which it can travel. For example, a truck needs the support of road, an aeroplane needs the support of air and a ship needs water to travel.

So the modes of transport can be classified as (a) road transport, (b) rail transport, (c) water transport, and (d) air transport.

2.5 COMMUNICATION

Communication is the process of transmission of ideas, opinions, thoughts and information through speech, writing, gestures or symbols between two or more persons. Communication always contains a message which is transmitted between two or more parties. There are minimum of two parties involved in communication - one is 'Sender',

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and the other is 'Receiver'. The process of communication is said to be complete when the receiver receives the message and responds to it or acts according to it.

Communication has evolved since ancient times. The ancient primitives communicated their expressions through symbols found in the form of cave paintings and rock art. Spoken language too was developed for ease and convenience and writing was in the form of inscriptions done on metal, stone, wood or pottery. One of the oldest forms of long distance communication in the earlier times is smoke signals that were typically used to communicate danger signals or to get people together. Pigeons served as important messengers for delivering messages to far off destinations. Later of course, telegraphs, telephones and printing developed. Today internet communication which has completely revolutionized our communication patterns and our lives.

2.5.1 TYPES OF COMMUNICATION

Based on the method used, communication may be oral, written or non-verbal. These are explained in brief below.

(a) **Oral Communication:** When a message is transmitted orally i.e., through spoken words it is called oral communication. It may be in the form of lectures, meetings, group discussions, conferences, telephonic conversations, radio message and so on. It is considered to be quite an effective and economical method of communication (both in terms of money and time), and is most commonly used for internal as well as external communication. The major drawback with verbal communication is that it cannot be verified as normally it is not put on record.

(b) **Written Communication:** When a message is transmitted through written words (i.e. in the form of letters, telegram, memos, circulars, notices, reports etc.) it is called written communication. It provides a record of the message and feedback which is available for verification as and when required. Normally, one is very careful to the point and precise while sending a written communication. However, it is formal, lacks personal touch and difficult to maintain secrecy.

(c) **Non-verbal Communication:** Communication without any use of words is called non-verbal communication. Sometimes when you look at some pictures, graphs, symbols, diagrams etc. some message is conveyed to you. All these are different forms of visual communication. Bells, whistles, buzzers, horns etc. are also the instruments through which we can communicate our message. Communication with the help of these types of sounds is called 'aural' communication. Similarly, communication is also made through some physical gestures through the use of various parts of the human body through body language. This is termed as 'gestural' communication. Saluting our national flag, motionless position during the singing of national anthem, waving of hands, nodding of head, showing anger on face, etc. are all examples of gestural communication. When a teacher pats his student on his back, it is considered as an appreciation of his work and it encourages the student to do still better.

2.5.2 COMMUNICATION SERVICES

For sending the message or getting the response, you require a medium. Such medium is termed as 'means of communication'. It carries the message to the receiver and a feedback or response from him. The commonly used means of communication are: postal mail services, courier services, telephone, cellular phone, telegraph, internet, fax, e-mail and voice mail. These means are also termed as 'communication services'. Of these, the main services which help business in its effective communication, are classified as (1) Postal Services, and (2) Telecommunication Services.

1. **Postal Services:** The postal system, in India that established in 1766 for sending official mails, was made available to the public in 1837. The Indian postal service has the largest network of 1,56,721 post offices throughout the country, out of these 1,41,055 are in rural areas. These are mainly concerned with collection, sorting, and distribution of letters, parcels, packets, etc. Besides, a number of other services are also provided to the general public as well as business enterprises. Let us classify the various postal services as:

(a) **Mail Services:** The postal mail service deals with both inland and international mails. An inland mail is one where the sender and receiver of the mail reside within the same country. On the other hand, where the sender and receiver of the mail reside in different countries it is called an international mail. While sending a written message, the sender can make use of a post card, an inland letter, or an envelope. For sending some item in a packet, parcel post facility is provided. Articles in the form of printed materials, printed books, periodicals, greeting cards can also be mailed by book post. Besides these general mail services, some specialised mail services are also provided by the post office for convenience of the public. Let us learn about these services in brief.

(i) **Certificate of Posting:** For ordinary letters, the post office does not give any receipt. But, if the sender wants a proof that he or she has actually posted the letter, then a certificate can be obtained from the post office on

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payment of prescribed fee which is called 'certificate of posting'. These letters are marked as 'Under Postal Certificate' (UPC).

(ii) **Registered Post:** If the sender wants that the mail should definitely be delivered to the addressee otherwise it must return to him, then the post office offers 'registered post' facility. For this service, the post office charges additional amount and issues a receipt for the registered post.

(iii) **Insured Post:** To compensate for the loss - in case the letters or parcels get damaged or lost in transit - the post office provides insured post facility. For this the post office acts as an insurer. The insurance premium is paid by the sender.

(iv) **Speed Post:** This facility provides quick, time bound as well as guaranteed mail delivery in some selected destinations on payment of additional charges. This facility is available in more than 1000 post offices in India and links with 97 countries.

(v) **Post Restante:** When the exact postal address of the receiver is not known, the sender can avail of post restante facility. The letter can be sent to the postmaster of the locality where the receiver resides. The receiver can collect the letter from the post office on showing his identity. This facility is suitable for tourists and travelling salesmen who are not sure about their address in a particular place, or for any other person looking for a fixed address at a new place.

(b) **Financial Services:** Various financial services are provided by the post office through Saving Schemes, Remittance Services, and Distribution of Mutual Funds and Securities.

(i) **Saving Schemes:** There are eight different schemes offered by the post offices to mobilise the savings from the public. These are- Post Office Savings Bank Account, 5-Year Post Office Recurring Deposit Scheme, Post Office Time Deposit Account, Post Office Monthly Income Scheme, 6-Year National Savings Certificates (VIII Issue) Scheme, 15-Year Public Provident Fund Account (PPF Account), Kissan Vikas Patra Scheme and Senior Citizens Saving Scheme 2004.

(ii) **Remittance Service:** Money can be conveniently transferred from one place to other through the remittance service offered by the post office. It is in the form of Money Order and Postal Order facility with the help of

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which people can transfer money from one place to another within as well as outside the country.

(iii) **Distribution of Mutual Funds and Securities:** This facility enables the investors to purchase mutual funds and government securities through the designated post offices. The mutual funds of State Bank of India, prudential ICICI, RBI/Govt. Relief Bonds and ICICI Safety Bonds are available from 42 post offices at Bangalore, Chennai, Chandigarh, Delhi and Mumbai.

(c) **Insurance Services:** In addition to dealing with mail and remittance of money, post offices also provide life insurance coverage to individuals. There are two different schemes of insurance offered by post office. These are (i) Postal Life Insurance (PLI), and (ii) Rural Postal Life Insurance (RPLI).

The Postal Life Insurance was introduced as a welfare measure for the employees of Posts and Telegraphs Department, Central and State governments, public sector undertakings, universities, government aided institutions, nationalised banks and financial institutions, local bodies like Municipalities and Zilla Parishads. The employees of these organisations who are below 50 years of age, can insure their life on payment of a fixed premium for a particular period.

Just like PLI, the post office also provides life insurance coverage to the people living in rural areas at low premiums under the scheme of Rural Postal Life Insurance (RPLI).

(d) **Business Development Services:** Besides carrying mail through various means as discussed earlier, post office offers some special services to the business firms. Let us learn in brief about these services.

(i) **Business Post:** Post office undertakes pre-mailing activities of the bulk senders such as collection from sender's doorstep, insertion of goods in packet etc.

(ii) **Media Post:** Under this facility, (a) advertisements are allowed on post cards, inland letters and on other postal stationeries, and (b) space sponsorship options on letter boxes.

(iii) **Express Parcel Post:** Post office offers a reliable, speedy and economical parcel service to the corporate and business customers.

(iv) **Direct Post:** It allows the business houses to send the pamphlets, brochures and other advertising materials like CDs, floppies, cassettes, samples, etc. to the prospective customers at very low rates.

(v) **Retail Post:** The post office offers the facility to collect public utility bills, sale of application forms for government and other private organisations etc.

(vi) **Business Reply Post:** Under this facility post offices allow the customers to send their reply through business reply post, which does not require any postage.

(vii) **Post Shoppe:** Post shoppes are the small retail shops established for sale of postal stationery within the premises of some post offices.

(viii) **Value Payable Post (VPP):** This facility is offered to meet the requirement of the traders who wish to sell their articles and collect the price of articles supplied by them through the post offices. Under this service, post office receives the properly packed goods from the seller and carries those to the customers. After receiving the total amount (the price of the goods plus the VPP charges) from the customer, it delivers the goods to him/her. Later on, the post office sends the amount due to the seller.

(ix) **Corporate Money Order:** Like individuals, business organisations can also transfer money through money order. For them, the post office offers Corporate Money Order Service. It enables business organisation to transfer upto Rs.1 crore to any part of the country.

(x) **Post-box and Post-bag Facility:** Under this facility, a particular number and a box or a bag is allotted to the receiver at the post office to receive all unregistered mails. Post office keeps all mails addressed to that number in those boxes or bags. The addressee makes necessary arrangement to collect the mails as per his convenience. This facility is mostly suitable for business firms which want to receive their mail promptly.

(xi) **Bill Mail Service:** It provides cost effective solution for mailing of periodic communication with annual report, bills, monthly account bills or other items of similar nature.

(xii) **E-post:** E-post service was launched on 30th January, 2004. This has enabled people to send and receive messages through e-mail in all post offices of the country.

INTEXT QUESTIONS 2.3

1. Suggest suitable mode of transportation in the following cases.
   - (a) Transport of perishable goods within the country.
   - (b) Transport of goods of high value and low volume.
   - (c) Quickest mode for carrying passengers.
   - (d) Convenient mode for short distance travel.
   - (e) Economical mode of transport for long distance within the country.
2. Give a phrase as a substitute of the following communication.
   - (a) Conversation with the help of telephone.
   - (b) Communication through symbols and diagram.
   - (c) Traffic signal showing red light.
   - (d) Sending SMS to friends through mobile phone.
   - (e) Saluting our nation flag on different occasions.
3. Match the following:

Column A	Column B
(a) Retail post	(i) Collection of letters from the customers' doorstep
(b) Media post	(ii) Compensation for loss or damage of the parcels
(c) Direct post	(iii) advertisement on post card
(d) Business post	(iv) Collection of telephone bill
(e) Insured post	(v) Sending pamphlets to prospective customers.

2. Telecommunication Services

India is the 10th largest telecom network in the world in terms of number of phones. The various telecommunication services available in India are as follows:

(a) Fixed Line Phone: The fixed line phone or telephone is a very popular means of verbal communication. It facilitates both oral conversation as well as sending written text messages. Both government and private telecom companies provide this service in our country.

(b) **Cellular Services:** Now-a-days, cellular phones or mobile phones are very popular as they give access to the receiver at all times and everywhere. This is an improvement over the fixed line telephone. It possesses many modern features like Short Messaging Services (SMS), Multi Media Messaging Services (MMS) etc. BSNL, Airtel, Idea, Reliance and Tata are some of the leading mobile phone service providers in our country

(c) **Telegram:** It is a form of written communication by which messages can be sent quickly to distant places. Now- a- days this facility is not available in any of the telegraph offices.

(d) **Telex:** Telex provides a means of printed communication using teleprinter. The teleprinter is a tele-typewriter having a standard keyboard and connected through a telephone.

(e) **Fax:** Fax or facsimile is an electronic device that enables instant transmission of handwritten or printed matters to distant places.

(f) **Voice Mail:** It is a computer based system for receiving and responding to incoming telephone calls. It records and stores telephone messages through computer memory. The caller can get the required information by dialing the voice mail number and then following the instructions of the computer. The individuals can also record their messages through voice mail.

(g) **E-mail:** Electronic mail, popularly known as e-mail is a modern means of communication that transmits the written message, pictures or sounds etc. from one computer to the others connected through internet.

(h) **Unified Message Service:**It is a system by which fax, voice mails and e-mails (all three) can be received from one mail box using telephone instrument, fax machine, mobile phones, internet browsers, etc.

(i) **Teleconferencing:** Teleconferencing is a system through which people can interact without physically sitting in front of each other. It makes the use of modern electronic devices like telephone, computers, television etc.

2.5.4 IMPORTANCE OF COMMUNICATION

Communication plays an important role in our lives and in the society. It not only helps to facilitate the process of sharing information and knowledge with others, but also helps people to develop relationships with others. Some of the key aspects are:

(a) **Promotion of Business:** Because of modern means of communication, businessmen sitting at different places can finalise their business deals without much difficulty. They can make enquiries, settle terms and conditions, place

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orders and send confirmation. It has helped in the growth of national as well as international trade.

(b) **Mobility of Labour:** People who have gone for employment to places away from their homes and families are able to keep in touch with their friends and relatives through the various means of communication. So they willingly go to far off places for employment.

(c) **Socialisation:** Through communication facilities like telephone, fax and e-mail etc. people are able to exchange messages, information etc. with their friends and relatives on a regular basis. This helps in maintaining and developing social relations among people.

(d) **Coordination and Control:** Offices of big business houses and government departments may be situated at different places. There may be many departments in the same building. Effective communication between them helps in coordinating their activities and exercising control over them.

(e) **Efficiency in Job Performance:** Effective communication contributes a great deal in good job performance as regular communication within a business unit ensures a willing cooperation of others due to the close understanding of ideas and instructions.

(f) **Helpful to Professionals:** Lawyers are to attend courts situated at different places, doctors are to visit different nursing homes, chartered accountants have to go to different offices of companies. Mobile phones help these professionals in changing and adjusting their schedule as required without any difficulty.

(g) **Meeting Emergencies:** In the event of accidents or incidents of fire, immediate help can be asked for and made available through modern means of communication.

(h) **Sea and Air Navigation:** Means of communication are extremely important for the navigation of ships and aircrafts which need to be guided from control rooms at particular locations.

(i) **Spread of Education:** Broadcasting of educational programmes on radio and telecasting on televisions are popular means of educating students without the necessity of personal coaching.

(j) **Advertisement:** Radio and television as means of mass communication have increasingly become important as media of advertisement for business firms as it is possible to reach the masses easily by such means.

INTEXT QUESTIONS 2.4

1. Complete the following incomplete words by taking clues from the statement given for each. Every blank represents one letter only. The first one has been done for you.

   (a) T __ L __ X (TELEX)

   (b) V __ __ C __ MAIL

   (c) __ __ X

   (d) T __ L __ __ R __ M

   (e) E __ M __ __ __

   Clues

   (a) Communication using tele-printer

   (b) Computer based system for receiving and responding the incoming telephone calls.

   (c) Machine that transmits hand written massage instantly.

   (d) A form of written communication.

   (e) Communication of written message through internet.

2.5 WAREHOUSING

The words 'warehouse' and 'godown' are synonymous and so warehouse refers to a place used for storing goods, and warehousing refers to the activities involving storage of goods on a large-scale in a systematic and orderly manner and making them available conveniently when needed. In other words, warehousing means holding or preserving goods in huge quantities from the time of their purchase or production till their actual use or sale. Thus, it creates time utility by bridging the time gap between production and consumption of goods.

Even in our prehistoric times storage facilities were used for storing varied items. Clay jars were used for storing pickles, vegetables and wine. Since there were no refrigeration facilities, large food containers were used for preserving food either in oil or by sun drying. Buildings known as granaries were used for storing food crops such as wheat, bajra, barley etc. to protect them from mice and insects and were also used for storing animal feed.

2.5.1 IMPORTANCE OF WAREHOUSING

As stated earlier, warehousing bridges the time gap between production of goods and their consumption, and thus, serves a useful purpose particularly for large-scale business operations. Based on its uses, its importance can be briefly described as follows.

(a) **Storage:** Businessman stores goods in warehouses for different purposes:

- To maintain continuity in production, a good quantity of raw materials is to be kept in stock.
- In case the manufacturer anticipates a rise in prices of raw materials in future he/she likes to purchase it in advance and stock it.
- Since goods are generally produced in anticipation of demand, these need to be stored till sales take place.
- Similarly, some goods may be produced during a part of the year but used throughout the year like sugar.
- Wholesalers buy goods in bulk and maintain stock of goods in warehouses for sale in small quantities to retailers from time to time.

(e) **Packaging and Grading:** Goods in warehouses are divided into grades according to size or quality and packaging is done for convenient handling and sales.

(f) **Use for Importers:** Warehouses (known as bonded warehouse) are used for storage of imported goods till the importer is able to pay the customs duty and take delivery. Based on the above uses of warehousing, it can be concluded that it is an important link in the chain of marketing and adds to the time and place value of goods. It also smoothens out fluctuations in their supply and demand. So, wherever there is trade and commerce, there is need for warehousing.

2.5.2 TYPES OF WAREHOUSES

You have learnt that warehousing caters to the storage needs of various types of commodities. In order to meet their storage requirement effectively, various types of warehouses came into existence. These are as follows.

(a) **Private Warehouses:** The warehouses which are owned and operated by the manufacturers or traders to store exclusively their own stock of goods, are known as private warehouses.

(b) **Public Warehouses:** The public warehouse is an independent unit which stores goods of other firms. Anyone can store his goods in these warehouses on payment of rent.

(c) **Government Warehouses:** These warehouses are owned, managed and controlled by the government. Central Warehousing Corporation of India, State Warehousing Corporation and Food Corporation of India are examples of government warehouses. Both government and private enterprises may use these warehouses to store their goods.

(d) **Bonded Warehouses:** Bonded warehouses store imported goods for which import duty is yet to be paid. These warehouses are generally owned by dock authorities and found near the ports.

(e) **Co-operative Warehouses:** These warehouses are set up by the cooperative societies for the benefits of their members. They provide warehousing facilities at the most economical rates.

2.5.3 FUNCTIONS OF WAREHOUSES

The warehouses preserve goods on a large-scale in a systematic and orderly manner. They provide protection to goods against heat, wind, storm, moisture, etc. and also minimize losses due to spoilage, wastage etc. In addition to this, warehouses now- a-days also perform a variety of other functions as stated below:

(a) **Storage of Goods:** The basic functions of warehouses is to store goods properly till they are required for use, consumption or sale.

(b) **Protection of Goods:** A warehouse provides protection to goods from loss or damage due to heat, dust, wind and moisture, etc. It makes special arrangements for different products according to their nature.

(c) **Risk Bearing:** The risk of loss or damage to goods in storage is borne by the warehouse keeper. So, he takes all precautions to ensure their safety.

(d) **Financing:** When goods are deposited in any warehouse, the depositor gets a receipt which acts as a proof of the goods in store. This receipt can be used as a security to obtain loans and advances from the banks and other financial institutions. Some warehouse keepers themselves advance money to the depositors for a short period against the security of their goods in their warehouses.

(e) **Processing:** Certain commodities are not consumed in the form they are produced. Processing is required to make them consumable. For example, paddy is polished, timber is seasoned, and fruits are ripened, etc. Sometimes warehouses also undertake these activities on behalf of the owners.

(f) **Value Added Services:** The warehouse keeper may also undertake to perform the functions of grading and branding of goods on behalf of the manufacturer, wholesaler or the importer of goods. He may provide facilities for mixing, blending and packaging of goods for convenience in handling and sale.

(g) **Transportation:** In some cases, warehouses provide transport arrangement to the bulk depositors. It collects goods from the place of production and also sends goods to the place of delivery on request of the depositors.

INTEXT QUESTIONS 2.5

1. Identify the type of warehouse in the following cases.

   (a) Warehouse to store the goods of public.

   (b) Warehouses owned and managed by government.

   (c) Warehouses for storage of imported goods on which import duty is yet to be paid.

   (d) Warehouses set up for the benefit of its members.

   (e) Warehouses owned and managed by private traders for stocking their goods.

TERMINAL EXERCISE

Very Short Answer Questions

1. What is meant by the term 'Banking'?
2. Define the term 'Insurance'.
3. Name the hindrance that is removed by transportation.
4. State the benefits of insured post.
5. What is bonded warehouse?
6. Give an example of e-banking.
7. Name any two savings schemes of post office.
8. Give the full form of PPF and MIS.

Short Answer Questions

1. Mention any two general utility services rendered by commercial banks.
2. Distinguish between whole-life policy and endowment policy.
3. State any two points of importance of transportation for business.
4. What is meant by post restante letter.

5. Explain any two functions of warehousing.
6. What is meant by cash credit?
7. What is meant by a Bank overdraft?
8. Give the full form of NSC.
9. What is meant by courier service?

Long Answer Questions

1. Explain the primary functions of a commercial bank.
2. Describe any two principles of a valid insurance contract.
3. What is meant by transportation? State any two different modes of transport.
4. Describe any four special services rendered by the post office for the benefit of business.
5. Explain any four points of importance of warehousing.
6. "Post office provides the various services in addition to mail service." In the light of this statement explain the different services provided by the Post office.
7. Your friend Nitesh feels that warehousing is of no importance. Explain to him about the importance of warehousing.

ANSWERS TO INTEXT QUESTIONS

2.1

1. (a) Transportation, (b) Banking,
   (c) Insurance, (d) Warehousing,
   (e) Communication
2. Central bank/Reserve Bank of India
3. Agency services - (a), (e)
   General utility service - (b), (c), (d)
4. (a) Secondary functions (b) Accepting deposits
   (c) Lending money (d) General utility services
5. (i) b (ii) c (iii) b (v) b

2.2

1. (a) Joint life policy

Note

(b) Money back policy

(c) Crop Insurance

(d) Amartya Siksha Yojana insurance policy

(e) Fidelity guarantee insurance

2. (a) Principle of insurable interest

(b) Principle of utmost good faith

(c) Principle of contribution

(d) Principle of subrogation

(e) Principle of Indemnity

2.3

1. (a) Road transport (b) Air transport

(c) Air transport (d) Road transport

(e) Rail transport

2. (a) Oral Communication (b) Visual Communication

(c) Visual Communication (d) Written Communication

(e) Gestural Communication

3. (a) - (iv) (b) - (iii) (c) - (v) (d) - (i) (e) - (ii)

2.4

1. (b) VOICE MAIL (c) FAX

(d) TELEGRAM (e) E-MAIL

2.5

1. (a) Public warehouse (b) Government warehouse

(c) Bonded warehouse (d) Cooperative warehouse

(e) Private warehouse

DO AND LEARN

Visit the nearest post office of your area and collect information on the various services provided to the public and business community. Also collect pamphlets on the various saving schemes available.

ROLE PLAY

1. Deeksha is working as an agent of life insurance and Sunita is working as an agent of General insurance. Read and complete the following Conversation:

   Deeksha : Sunita, I heard that you are a GIC agent. Could you tell me what is the subject matter of insurance?

   Sunita : Well! Unlike the life insurance our subject matter of insurance is the goods that need risk coverage in business.

   Deeksha : This is very interesting! Could you tell me more about it?

   Sunita : Yes, of course! I do not know anything about life insurance. First you advise me how should I proceed in taking a policy to protect my life?

   In the light of the basic principles, different types of policies, continue the conversation between the two friends. You can take the role of one of the agents and ask your friend to enact the other role.

2. Raksha is working as a Bank Manager and her friend Seema is a housewife. Read and complete the following conversation:

   Raksha : Hello Seema. How are you?

   Seema : I am fine. Raksha, I heard that you are working as a Bank Manager could you tell me something about the banking?

   Raksha : Well! Bank is an institution that deals in money and credit.

   Seema : The work of Bank is very interesting. Could you tell me something more about it?

   Raksha : Yes, of course! Bank accepts deposits from those who have funds to spare and grants loans and advances to those who are in need of funds for various purposes.

In the light of various functions of Bank, continue the conversation between the two friends. You can take the role of any one friend and ask your friend to enact the other role.

WHAT HAVE YOU LEARNT