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Chapter 4

Business Services

INRTODUCTION

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

A good is a physical product capable of being delivered to a purchaser and involves the transfer of ownership from seller to customer.

NATURE OF SERVICES

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

(i) Intangibility: Services are intangible, i.e., they cannot be touched.

(ii) Inconsistency: Since there is no standard tangible product, services have to be performed exclusively each time. Different customers have different demands and expectations.

(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.

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

DIFFERENCE BETWEEN SERVICES AND GOODS

BASIS	SERVICES	GOODS
1. Nature	An activity or process.	A physical object.
2. Intangibility	Intangible	Tangible
3. Inseparability	Simultaneous production and consumption.	Separation of production and consumption.
4. Inventory	Cannot be kept in stock.	Can be kept in stock.
5. Type	Heterogeneous	Homogenous

TYPES OF SERVICES

When speaking of the service sector, services can be classified into three broad categories, viz., business services, social services and personal services.

(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. For example, health care and education services provided by certain Non-government organisations (NGOs) and government agencies.**

(iii) Personal Services: Personal services are those services which are experienced differently by different customers. They will differ depending upon the service provider. They will also depend upon customer's preferences and demands. For example, tourism, recreational services, restaurants.

BUSINESS SERVICES

Business enterprises look towards banks for availability of funds; insurance companies for getting their plant, machinery, goods, etc., insured; transport companies for transporting raw material; and finished goods, and telecom and postal services for being in touch with their vendors, suppliers and customers.

BANKING

Commercial banks are an important institution of the economy for providing institutional credit to its customers. A banking company in India is the one which transacts the business of banking which means accepting, for the purpose of lending and investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise. It mobilises the savings of people and makes funds available to business financing their capital and revenue expenditure.

Type of Banks

1. Commercial banks

2. Cooperative banks

3. Specialised banks

4. Central bank

(i) Commercial Banks: **Commercial banks are governed by Indian Banking Regulation Act 1949 and according to it banking means accepting deposits of money from the public for the purpose of lending or investment. There are two types of commercial banks, public sector and private sector banks.**

Public sectors banks are those in which the government has a major stake and they usually need to emphasise on social objectives than on profitability.

There are a number of public sector banks like SBI, PNB, IOB etc., and other private sector banks represented by HDFC Bank, ICICI Bank, Kotak Mahindra Bank and Jammu and Kashmir Bank.

(ii) Cooperative Banks: **Cooperative Banks are governed by the provisions of State Cooperative Societies Act and meant essentially for providing cheap credit to their members.**

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

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

FUNCTIONS OF COMMERCIAL BANKS

Banks perform a variety of functions. Some of them are the basic or primary functions of a bank while others are agency or general utility services in nature.

(i) Acceptance of deposits: Deposits are the basis of the loan operations since banks are both borrowers and lenders of money. These deposits are generally taken through current account, savings account and fixed deposits.

Current account deposits can be withdrawn to the extent of the balance at any time without any prior notice.

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

Fixed accounts are time deposits with higher rate of interest as compared to the savings accounts. A premature withdrawal is permissible with a percentage of interest being forfeited.

(ii) Lending of funds: Second major activity of commercial banks is to provide loans and advances out of the money received through deposits. These advances can be made in the form of overdrafts, cash credits, discounting trade bills, term loans, consumer credits and other miscellaneous advances.

(iii) Cheque facility: The cheque is the most developed credit instrument, a unique feature and function of banks for the withdrawal of deposits. There are two types of cheques mainly (a) bearer cheques, which are encashable immediately at bank counters and (b) crossed cheques which are to be deposited only in the payees account.

(iv) Remittance of funds: Another salient function of commercial banks is of providing the facility of fund transfer from one place to another, on account of the interconnectivity of branches. The transfer

of funds is administered by using bank drafts, pay orders or mail transfers, on nominal commission charges.

(v) Allied services: **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

E-banking is a service provided by many banks, that allows, a customer to conduct banking transactions, such as managing savings, checking accounts, applying for loans or paying bills over the internet using a personal computer, mobile telephone or handheld computer (personal digital assistant)

The range of services offered by e-banking are: Automated Teller Machines (ATM) and Point of Sales (PoS), Electronic Data Interchange (EDI) and Credit Cards Electronic or Digital cash and Electronic bank transfer (EFT). The two ways in which EFT can be done are: NEFT (National Electronic Fund Transfer) and RTGS (Real Time Gross Settlement).

Benefits

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

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

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

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

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

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

(ii) e-banking provides unlimited network to the bank and is not limited to the number of branches;

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

INSURANCE

Insurance is a device by which the loss likely to be caused by an uncertain event is spread over a number of persons who are exposed to it and who prepare to insure themselves against such an event. It is a contract or agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make a loss, damage or injury to something of value in which the insured has a pecuniary interest as a result of some uncertain event.

The agreement/ contract is put in writing and is known as 'policy'.

The person whose risk is insured is called 'insured' and the firm which insures the risk of loss is known as insurer/assurance underwriter.

FUNCTIONS OF INSURANCE

The various functions of insurance are as follows:

(i) Providing certainty: Insurance removes these uncertainties and the assured receives payment of loss. The insurer charges premium for providing the certainity.

(ii) Protection: 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.

(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.

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. 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. 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. The compensation payable and the loss suffered are to be measured in terms of money. The principle of indemnity is not applicable to life insurance.

<u>(iv) Proximate Cause:</u> **According to this principle, an insurance policy is designed to provide compensation only for such losses as are caused by the perils which are stated in the policy.**

<u>(v) Subrogation:</u> **After the insured is compensated for the loss or damage to the property insured by him/her the right of ownership of such property passes on to the insurer. This is because the insured should not be allowed to make any profit, by selling the damaged property or in the case of lost property being recovered.**

<u>(vi) Contribution:</u> **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.**

<u>(vii) Mitigation:</u> **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. The insured must behave with great prudence and not be careless just because there is an insurance cover. If reasonable care is not taken like any prudent person then the claim from the insurance company may be lost.**

TYPES OF INSURANCE

LIFE INSURANCE

Life insurance may be defined as a contract in which the insurer in consideration of a certain premium, either in a lump sum or by other periodical payments, agrees to pay to the assured, or to the person for whose benefit the policy is taken, the assured sum of money, on the happening of a specified event contingent on the human life or at the expiry of certain period.

Thus, the person is sure that a specified amount will be given to him when he attains a certain age or that his dependents will get that sum in the event of his death.

This agreement or contract which contains all the terms and conditions is put in writing and such document is called the policy. The person whose life is insured is called the assured. The insurance company is the insurer and the consideration paid by the assured is the premium. The premium can be paid periodically in instalments.

The main elements of a life insurance contract are:

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

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

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

(iv) Life insurance contract is not a contract of indemnity. The life of a human being cannot be compensated and only a specified sum of money is paid.

Types of life insurance policies

(i) Whole Life Policy: **In this kind of policy, the amount payable to the insured will not be paid before the death of the assured. The sum then becomes payable only to the beneficiaries or heir of the deceased. The premium will be payable for a fixed period (20 or 30 years) or for the whole life of the assured.**

(ii) Endowment Life Assurance Policy: The insurer (Insurance Company) undertakes to pay a specified sum when the insured attains a particular age or on his death whichever is earlier. The sum is payable to his legal heir/s or nominee named therein in case of death of the assured. Otherwise, the sum will be paid to the assured after a fixed period.

(iii) Joint Life Policy: This policy is taken up by two or more persons. The premium is paid jointly or by either of them in instalments or lump sum. The assured sum or policy money is payable upon the death of any one person to the other survivor or survivors.

(iv) Annuity Policy: Under this policy, the assured sum or policy money is payable after the assured attains a certain age in monthly, quarterly, and half yearly or annual instalments. This is useful to those who prefer a regular income after a certain age.

(v) Children's Endowment Policy: This policy is taken by a person for his/her children to meet the expenses of their education or marriage. The agreement states that a certain sum will be paid by the insurer when the children attain a particular age.

FIRE INSURANCE

Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by fire during a specified period upto the amount specified in the policy. Normally, the fire insurance policy is for a period of one year after which it is to be renewed from time to time. The premium may be paid either in lump sum or instalments. A claim for loss by fire must satisfy the two following conditions:

(i) There must be actual loss; and

(ii) Fire must be accidental and non-intentional.

The main elements of a fire insurance contract are:

(i) In fire insurance, the insured must have insurable interest in the subject matter of the insurance. Without insurable interest the contract of insurance is void.

(ii) Similar to the life insurance contract, the contract of fire insurance is a contract of utmost good faith i.e., uberrimae fidei. The insured should be truthful and honest in giving information to the insurance company regarding the subject matter of the insurance.

(iii) The contract of fire insurance is a contract of strict indemnity. The insured can, in the event of loss, recover the actual amount of loss from the insurer.

(iv) The insurer is liable to compensate only when fire is the proximate cause of damage or loss.

MARINE INSURANCE

A marine insurance contract is an agreement whereby the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed against marine losses. Marine insurance provides protection against loss by marine perils or perils of the sea.

The main elements of a marine insurance contract are:

(i) Unlike life insurance, the contract of marine insurance is a contract of indemnity. The insured can, in the event of loss recover the actual amount of loss from the insurer. Under no circumstances, the insured is allowed to make profit out of the marine insurance contract.

(ii) Similar to life and fire insurance, the contract of marine insurance is a contract of utmost good faith. Both the insured and insurer must disclose everything, which is in their knowledge and can affect the insurance contract.

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

(iv) The principle of causa proxima will apply to it. The insurance company will be liable to pay only if that particular or nearest cause is covered by the policy.

COMMUNICATION SERVICES

Communication services are helpful to the business for establishing links with the outside world viz., suppliers, customers, competitors etc. Business does not exist in isolation, it has to communicate with others for transmission of ideas and information. The main services which help business can be classified into postal and telecom.

POSTAL SERVICES

Indian post and telegraph department provides various postal services across India. For providing these services the whole country has been divided into 22 postal circles. These circles manage the day-to-day functioning of the various head post offices, sub-post offices and branch post offices.

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

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

Postal department also offers allied facilities of the following types:

1. Greeting post — A range of delightful greeting cards for every occasion.

2. Media post — An innovative and effective vehicle for Indian corporates to advertise their brand through postcards, envelopes, aerograms, telegrams, and also through letterboxes.

3. Direct post is for direct advertising. It can be both addressed as well as unaddressed.

4. International Money Transfer through collaboration with Western Union financial services, USA, which enables remittance of money from 185 countries to India.

5. Passport facilities — A unique partnership with the ministry of external affairs for facilitating passport application.

6. Speed Post: It has over 1000 destinations in India and links with 97 major countries across the globe.

7. e-bill post is the latest offering of the department to collect bill payment across the counter for BSNL and Bharti Airtel.

<u>TELECOM SERVICES</u>

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.

The various types of telecom services are:

(i) Cellular mobile services: These are all types of mobile telecom services including voice and non-voice messages, data services and PCO services utilising any type of network equipment within their service area. They can also provide direct inter connectivity with any other type of telecom service provider.

(ii) Fixed line services: These are all types of fixed services including voice and non-voice messages and data services to establish linkages for long distance traffic.

(iii) Cable services: These are linkages and switched services within a licensed area of operation to operate media services, which are essentially one-way entertainment related services.

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

(v) DTH services: DTH (Direct to Home) is again a satellite-based media services provided by cellular companies. One can receive media services directly through a satellite with the help of a small dish antenna and a set top box. The service provider of DTH services provides a bouquet of multiple channels.

TRANSPORTATION

Transportation comprises freight services together with supporting and auxiliary services by all modes of transportation i.e., rail, road, air and sea for the movement of goods and international carriage of passengers. Also transportation removes the hindrance of place, i.e., it makes goods available to the consumer from the place of production.

WAREHOUSING

Storage has always been an important aspect of economic development. The warehouse was initially viewed as a static unit for keeping and storing goods in a scientific and systematic manner so as to maintain their original quality, value and usefulness.
Modern warehouses are automated with automatic conveyors, computer operated cranes and forklifts for moving goods and also usage of logistics automation software's for warehouse management.

Types of Warehouses

(i) Private warehouses: Private warehouses are operated, owned or leased by a company handling their own goods, such as retail chain stores or multi-brand multi-product companies.

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

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

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

Functions of Warehousing

The functions of warehousing are discussed as follows:

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

(b) Break the bulk: The warehouse performs the function of dividing the bulk quantity of goods received from the production plants into smaller quantities. These smaller quantities are then transported according to the requirements of clients to their places of business.

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

(d) Value added services: Certain value added services are also provided by the warehouses, such as in transit mixing, packaging and labelling. Goods sometimes need to be opened and repackaged and labelled again at the time of inspection by prospective buyers. Grading according to quantity and dividing goods in smaller lots is another function.

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

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