# ***CH-4***

## ***BUSINESS SERVICES***

**Q. Explain the various functions of Commercial Bank.**

A. **Functions of Commercial Banks are:**

1. **Collection of Deposits**: One of the basic functions of commercial banks is that they accept deposits from their customers. Depositors can withdraw their money from their accounts in the form cash or through cheques and drafts. The banks pay interest to their customers on the deposits etc.

   These deposits are generally taken through:

   a) Opening saving account.
   b) Opening current account.
   c) Accepting recurring Deposits.

2. **Granting Loan**: The second basic primary function of commercial bank is granting loan. The banks grant loans. The banks lend the money which they get in the form of deposits from their customers. The funds help in the development of Trade, industry.

3. **Collection of Cheques and Bills**: The banks collect the cheques for their customers drawn on other banks. To collect cheques banks have clearing houses. The banks also accept bills of exchange and encash them by charging commission called discount before the maturity date.

4. **Agency Functions :** Banks pay insurance premimum on behalf of their clients. Banks also collect dividend, premium, interest, pension etc. on behalf of customers and put the same in their accounts. Banks also buy shares, debentures and bonds of different companies on behalf of the customers.

5. **Remittance Facility :** A person can send money to another person at distant place with the help of demand draft , pay orders etc . can be enchased by the receiver by presenting the draft in the bank branch of his city. The bank charges some commission for issue of draft.

**Q. What is e-banking ?**

**A. E-banking is electronic banking , with the help of internet ,mobile phones,etc.**

**E-banking services :**

**a) Electronic Fund Transfer (EFT) :** Under EFTthe fund is directly transferred from one account to the other. Generally employer transfers the wages and salary of employees from company's account to the individual accounts of employees.

**b) Automated Teller Machine (ATM) :** ATM is an electronic machine which is operated by the customer himself to make deposits , withdraw money etc. To use an ATM insert a plastic card in the machine and enter your identification code. It code matches, the machine responds by giving cash, taking deposits etc.

**c) Debit Card:** These cards are issued to the customers if they have sufficient amount in their accounts. Instead of paying cash, these plastic cards can be used to make the payments at the time of purchase. When the banks receive the bills from showrooms , they debit the account of the customer with particular amount .

**d) Credit Card :** Credit card is like a bank account without having balance in it. Bank issues the credit card upto a certain limit . Credit card is a substitute of cash. It is a plastic card with the signature identity of the own. It also includes the name of issuing and validity period of the card.

**Q. What are the advantages of e-banking?**

**Or**

**"E-banking has added value to banking relationship." Comment.**

**A.**E-banking is electronic banking, with the help of internet ,mobile phones,etc.

**<u>ADVANTAGES OF E-BANKING</u>**

1. E-banking provides 24 hours , 365 days a year services to the customer of the bank
2. It helps in taking the banking facilities from home , office , travelling .
3. Loads on branches is reduced .
4. Transactions are done very fast and chances of error is also less as everything is managed by computers

E-banking provides competitive advantage to the banks .

# ***INSURANCE***

***The important terms used in insurance contract are :***

1. **Insurance:** Is the individual or firm known as insurance company which agrees to compensate to the loss of insured.
2. **Insurer**: A person or company offering insurance policies in return for premiums
3. I**nsured**: Is the individual who gets compensation of loss. The person who pays premium.
4. **Happening of the event**: It refers to the subject matter of policy or the kinds of losses covered under the policy, for example in fire insurance, the loss is compensated only if it is due to fire.
5. **Premium:** It refers to an amount paid quarterly, half-yearly or annually by the insured to insurer for getting compensation at the time of loss.

## MEANING OF INSURANCE

Insurance provides financial protection against a loss arising out of happening of an uncertain event like fire, theft etc. A person can avail this protection by paying premium to an insurance company.
Any loss to the insured in case of happening of an uncertain event is paid by the insurance company. So, Insurance is a contract between the insurer and insured and this agreement or contract is in writing and is known as insurance policy.

## Functions of Insurance

**1.Protection:** Insurance provides protection against risk of loss .Insurance gives a sense of security to the insured. With the sense of security the insured can perform the business with more peace of mind and confidence.

2.**Distribution of Risk:** Loss is not actually paid by the insurer himself. He only distributes the loss suffered by an insured person among other persons who suffered to a similar risk and have insurance against such risk. So actually insurance is an arrangement of pooling of risk. All the people pay premium amount to insurance company and out of the premium fund the insured who suffered loss is compensated.

3.**Competitiveness:** Insurance provides peace of mind to the insured. As a result the insured can fully concentrate on his business and can face the competition more strongly.

4.**Specialization:** Insurance enables the businessman to concentrate on his activities and get specialization in them without wasting his energy and talent by worrying about the losses or risks.

5.**Better utilization of capital**: In the absence of insurance facility businessmen will have to maintain large capital to meet the loss. Insurance avoids the needs to keep the huge fund as reserves because insurer gives compensation at the time of loss. The reserves can be utilized in more productive activities which mean better utilization of capital.

6.**Promotes Foreign Trade**: There are heavy risks involved in sending the goods through air ways or ships to other countries. Insurance provides protection from such risk, so the business can involve themselves in import and export without worrying about risk of loss of goods.

7.**Loan facility :** The Insurance policy is accepted as a security by banks for giving loan or advances.

8.**Capital formation**: By collecting premium from insured the insurance companies collect huge amounts of funds. The insurance companies invest these funds in industries and corporate sector, thus resulting in formation of capital.

9.**Social Welfare:** The insurance provides social security to common man as many policies offer pension at old age, funds for children's education, marriage etc.

***Principles of Insurance:***

The basic Principles of insurance are:

1. **Principle of utmost good faith** :

According to this principle insurance is a contract based on faith. The insured and insurer must disclose all the material facts to each other and both the parties should not hides any fact related to insurance policy from each other. If the insured hides any material fact from the insurance company and later on the insurer comes to know about it, then he can refuse to pay compensation.

**For example** : if ay person has taken a Life Insurance Policy by hiding the fact that he is a heart patient and later on if the insured dies of a heart attack then the insurance company can refuse to pay the compensation because a material fact was hidden by the insured.

2. **Principle of Insurance Interest** :

The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence

will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object.

**For example** :- The owner of a taxicab has insurable interest in the taxicab because he is getting income from it. But, if he sells it, he will not have an insurable interest left in that taxicab.

From above example, we can conclude that, ownership plays a very crucial role in evaluating insurable interest.

3. **Principle of Indemnity :**

Indemnity means security, protection and compensation given against damage, loss or injury.

According to this principle insurance is a contract of making profit. The purpose of insurance is to bring back the insured in the same financial position as he was before the loss.

**For Example** : A person insured his factory for Rs. 2 Lakhs against Due to fire he suffered a loss of Rs. 1 lakh, then the insurance company compensate him Rs. 1 lakh only and not the policy amount that is Rs. 2 Lakh because the purpose of insurance is to compensate for loss and not earning profit. The principle of indemnity is not applicable of Life insurance policy because one cannot estimate the loss due to the death of a person.

4. **Principle of Contribution :**

According to this principle if a person takes more than one insurance policy for the same property then the insurer will contribute the amount of loss and compensate him for the actual amount of loss. Separately he cannot claim total loss from insurer.

**For Example** : Mr. John insures his property worth $ 100,000 with two insurers "AIG Ltd." for $ 90,000 and "MetLife Ltd." for $ 60,000. John's actual property destroyed is worth $ 60,000, then Mr. John can claim the full loss of $ 60,000 either from AIG Ltd. or MetLife Ltd., or he can claim $ 36,000 from AIG Ltd. and $ 24,000 from Metlife Ltd.

The formula used to determined the compensation amount is:

Sum assured with a particular insurer × Actual Loss/ Total sum insured

The principle of contribution is not applicable on life Insurance Policy.

5. **Principle of Subrogation :**

Subrogation means substituting one person for another
According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer.

**For example** : if a person has taken fire insurance policy of his factory, due to fire he suffered a loss of Rs. 1,00,000 and he gets the compensation for the same. Later on half burnt goods were sold for Rs. 10,000 then these 10,000 will be kept by insurance company and not by insured because insured has already got full compensation for the loss.

6. **Principle of Cause promixa :**

Proximate cause means nearest cause

The loss can be caused by more than one cause. But the property can be insured against some causes and not against all causes. So according to this principle, the proximate cause or nearest cause of loss is to be found out. And then it will be decided that whether the company is liable for the loss or not.

**For Example**: If a person has taken marine insurance policy for sending the wheat bags and on the way if a rat spoiled the wheat then no compensation will be given because under Marine Insurance the cause of loss should be sea perils and not the rat. On the other hand if the rat makes a hole in this ship through which water enters and spoils the wheat bags then compensation will be given because the loss of wheat is due to sea water.

7. **Principle of Mitigation of Loss :**

According to this principle the insured must take care of his property in the same way as he would take care without taking the insurance policy. The insured should not be careless of his property after taking insurance policy. It is the duty of the insured to make a reasonable effort and take available precautions to save the insurance property.

**For example**, if a person has taken fire insurance policy for his house and when fire breaks out should take all the measures to stop the fire and minimize the loss rather than watching the fire because he will get compensation from insurance company.