As per CBSE Revised Syllabus for 2021 Exam

# Unit 4

## Business Services

# Revised CBSE Syllabus for 2021 Examination

- Business services–meaning and types. Banking: Types of bank accounts - savings, current, recurring, fixed deposit and multiple option deposit account
- Banking services with particular reference to Bank Draft, Bank Overdraft, Cash credit. E-Banking meaning, Types of digital payments
- Insurance – Principles. Types – life, health, fire and marine insurance – concept

# Business Services: Meaning and Types

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.

# Types of Business Services

## 1. Banking

Business needs funds for acquiring assets, purchasing raw materials and meeting day-to-day expenses. Necessary funds *(in the form of overdraft and cash credit facilities, loan and advances, etc.)* can be obtained by business-men from commercial banks. Thus, banking helps business activities overcome the problem of finance.

## 2. Insurance

Business involves various types of risks, e.g., theft, fire, accidents, etc. Insurance makes provision against such risks. By getting their goods insured, producers can avoid the risk of loss of goods.

## 3. Transportation

Transport (road, rail or coastal shipping) facilitates movement of raw materials to the place of production, and the finished goods from factories to the place of consumption.

Transportation makes for speed and efficiency in exchange. It is because of transportation that a producer can sell his goods in different parts of the world. It creates place utility.

## 4. Warehousing

Warehousing refers to the holding and preservation of goods until they are finally consumed. It helps business firms to overcome the problem of storage of goods and facilitates the availability of goods when needed.

Warehousing creates time utility.

# 5. Communication

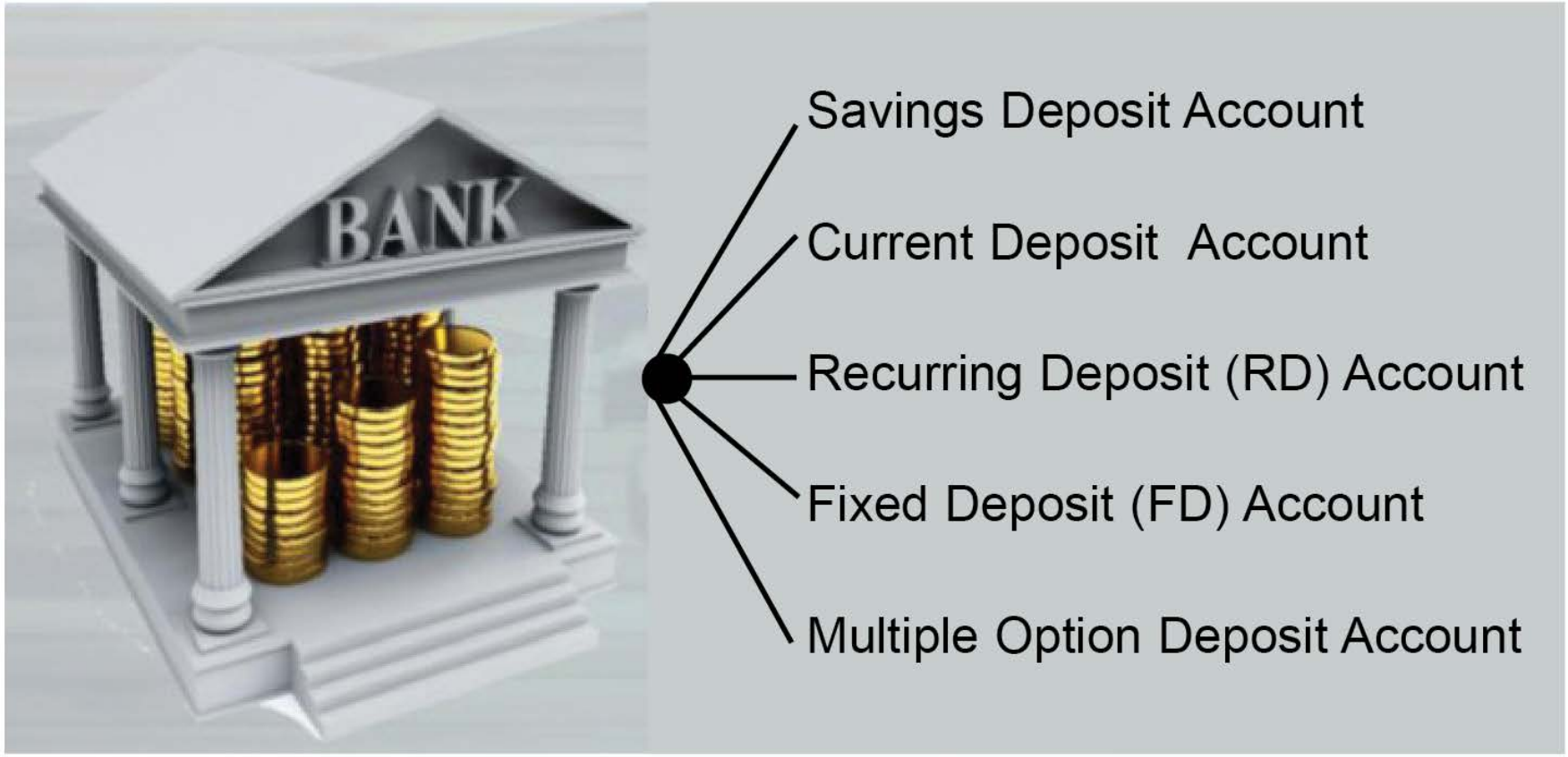
Communication services like postal services and telephone facilities are helpful to the business for establishing links with the outside world, viz., suppliers, customers, competitors, etc. and for quick exchange of information.

The electronic media is mainly responsible for this transformation.

# Banking: Types of Bank Accounts

A banking company in India is one which transacts the business of banking which means accepting deposits of money from the public *(for the purpose of lending and investment)*, repayable on demand and withdrawable by cheques or otherwise.

# Types of Bank Accounts




**Types of Bank Accounts**

## 1. Savings Deposit Account

This type of bank account encourages the small savings of households. The deposits in this account are made by the persons who wish to save a little out of their incomes.

Interest is paid at nominal rate, say 4 percent per annum. The rate of interest is less than that of fixed deposit account.

## 2. Current Deposit Account

These deposit accounts are most suitable for business organisation. In this account, a depositor can deposit money any number of time and can withdraw it as and when he/she requires it.

No interest is paid on these accounts, Rather, the bank may charge some service charges.

Money can be withdrawn from this account by cheque.

## 3. Recurring Deposit (RD) Account

In this type of account a depositor deposits a fixed amount of money on an annuity basis (say on monthly basis) for a fixed period.

This money cannot be withdrawn before the expiry of that fixed term except in special circumstances.

Rate of interest on RD account is generally higher than that of Savings Account deposits.

## 4. Fixed Deposit (FD) Account

Money is deposited in fixed deposit account for a fixed period, say 1 year, 2 years, 3 years or 5 years.

The rate of interest is higher than that of saving deposits account.

The longer is the period of deposit, the higher will be the rate of interest. This is so because banks can use the money for a longer period.

The amount of deposits is repayable by the bank after the expiry of the fixed term.

If the depositor needs this money before the specified fixed period, then banks can refund the money deposited after charging some discount.

# 5. Multiple Option Deposit Account

Multiple Option Deposit account is a combination of savings account and fixed deposit account which provide specific options to the depositors. It is a type of Saving Deposits Account in which amount of deposit in excess of a particular limit gets automatically transferred to Fixed Deposit Account. And, in case sufficient funds are not available in Saving Deposits Account to honour a cheque issued, the required amount gets automatically transferred from Fixed Deposit Account to the Saving Deposits Account.

The account holder has two benefits from this account — he/she can earn more interest and it lowers the risk of dishonouring a cheque. It is also called Multiple Option Deposit Scheme (MODS).

# Banking Services

# 1. Bank Draft

A bank draft (also known as Demand Draft) is an instrument which is used for the transfer of funds.

Anybody can obtain a bank draft after depositing the amount in the bank.

A bank draft is drawn by a bank branch on another branch or some other bank at the place of destination.

The bank charges some commission in lieu of issuing.

A bank may issue bank draft free of cost depending on the customer's relation with the bank.

## 2. Bank Overdraft

The bank allows a customer to overdraw his current account balance up to an agreed limit.

The customer has to pay interest on the amount overdrawn by him.

The security for overdrafts is usually financial assets of the account-holder such as shares, debentures, etc.

It is a temporary facility.

The rate of interest changed by banks is lower than that on cash credit because the risk involved and service cost is less.

## 3. Cash Credits

A cash credit is a short-term cash loan to a company. The borrower is sanctioned a credit limit upto which it may draw amounts from the bank. This credit limit is determined by the bank's estimation of the borrower's credit-worthiness.

The bank provides this type of funding, but only after the required security is given to secure the loan.

Once a security for repayment has been given, the borrower company can continuously draw from the bank up to the specified amount.

# e-Banking – Meaning, Types of Digital Payments

# e-Banking – Meaning

The growth of Internet and e-commerce is dramatically changing everyday life, with the world wide web and e-commerce transforming the world into a digital global village. The latest wave in information technology is **internet banking.**

e-Banking or Internet Banking is a part of virtual banking and another delivery channel for customers.


**e-Banking**

*In simple terms,* **internet banking means any user with a PC and a browser can get connected to the banks website to perform any of the virtual banking functions and avail of any of the bank's services.**

There is no human operator to respond to the needs of the customer. The bank has a centralised data base that is web-enabled. All the services that the bank has permitted on the internet are displayed on a menu. Any service can be selected and further interaction is dictated by the nature of service.

In this new digital market place, banks and financial institutions have started providing services over the internet. These types of services provided by the banks on the internet, called e-banking, lowers the transaction

cost, adds value to the banking relationship and empowers customers.

**e-banking is electronic banking or banking using electronic media.** Thus, 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).

# e-Banking Services

The range of services offered by e-banking are:

- Automated Teller Machines (ATM)
- Point of Sales (PoS)
- Electronic Data Interchange (EDI)
- Credit Cards
- Electronic or Digital cash
- Electronic funds transfer (EFT)


**e-Banking Services**

## Extra Shots

1. **Electronic Data Interchange (EDI)** is the transfer of data from one computer system to another by standardized message formatting, without the need for human intervention. EDI permits multiple companies, possibly in different countries, to exchange documents electronically.
2. **Point of Sales (PoS)** is the 'point' where a transaction is finalized or the moment where a customer tenders payment in exchange for goods and services. Any form of payment can be used, such as cash, debit cards, credit cards, mobile payments, etc.
3. **Automated Teller Machines (ATM)** is an electronic banking outlet that allows customers to complete basic transactions without the aid of a branch representative or teller. Anyone with a credit card or debit card can access most ATMs.

# Types of Digital Payments

## 1. Electronic funds transfer (EFT)

EFT are electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff. The two ways in which EFT can be done are: NEFT (National Electronic Fund Transfer) and RTGS (Real Time Gross Settlement).

NEFT refers to a nationwide system that facilitates individuals and firms to electronically transfer funds from any bank branch to any other individual having an account with any other bank branch in the country.

RTGS is the fastest possible money transfer system through banks.

Funds may be transferred through the RTGS using the internet facility provided by banks. The minimum transaction value for RTGS is ₹ 2 lakh. However, there is no maximum limit for RTGS transactions.

## 2. Credit or Debit Cards, i.e. ‘plastic money’

The customer can make digital payments for online transaction through credit or debit cards. In fact, about 95 per cent of online transactions are executed with a credit card.

## 3. Digital Cash

Digital cash *(also known as e-currency, e-money, electronic cash, electronic currency, digital money, digital currency, cyber currency)* refers to a system in which a person can securely pay for goods or services electronically without necessarily involving a bank to mediate the transaction.

## 4. Aadhaar Enabled Payment System (AEPS)

It can be used for payment transactions. This service can only be availed if your Aadhaar number is registered with the bank where you hold an account.

## 5. Mobile Wallets

A mobile wallet is a type of virtual wallet service that can be used by downloading an app (e.g. Paytm, Mobikwik etc.). The digital or mobile wallet stores bank account or debit / credit card information or bank account information in an encoded format to allow secure payments. One can also add money to a mobile wallet and use the same to make payments and purchase goods and services. This eliminated the need to use credit/debit cards or remember the CVV or 4-digit pin.

## 6. Point of Sales (PoS) Terminals

It is usually a hand held device that reads banking cards. With digitization the scope of PoS is expanding and this service is also available on mobile platforms and through internet browsers. There are different types of PoS terminals such as Physical PoS, Mobile PoS and Virtual PoS. Physical terminals are kept a shops and stores, mobile PoS terminals work through a tablet or smartphone. Virtual PoS systems use web-based applications to process payments.

# Objective Type Questions 4.1

## Question 1

Overdraft facility is available only on

*(Choose the correct alternative)*

(a) Current account deposits

(b) Saving account deposits

(c) Recurring deposits

(d) Fixed deposits

# Answer 1

(a) Current account deposits

# Question 2

It is a type of saving bank account in which excess of a particular limit gets automatically transferred to fixed deposit account. *(Choose the correct alternative)*

(a) Current deposits account

(b) Recurring deposits

(c) Multiple option deposit account

(d) None of these

# Answer 2

(c) Multiple option deposit account

# Question 3

Current account is most suitable for the mobilisation of savings of the public. *True/False? Give reasons.*

# Answer 3

**False:** 'Savings Account' is the most suitable for mobilisation of savings of the public.

# Question 4

The bank does not pay any interest on saving account deposit. *True/False? Give reasons.*

# Answer 4

**False:** The bank pays interest on savings account deposits at a nominal rate, say 4% p.a. The bank does not pay interest on current account deposits.

# Question 5

Overdrafts are only allowed in current accounts.

*True/False? Give reasons.*

# Answer 5

**True**: The bank allows a customer to overdraw his current account. The customer has to pay interest on the amount overdrawn by him.

# Question 6

Money can be withdrawn from fixed deposit accounts by cheques. *True/False? Give reasons.*

# Answer 6

**False:** Fixed deposits are repayable by the bank only after the expiry of a specified period, say 1 year, 2 years, 3 years or 5 years.

# Question 7

Who can get an overdraft from a bank?

# Answer 7

A holder of Current Account (i.e., a business-man).

# Question 8

Which type of deposit account is suitable for business organisations? Why?

# Answer 8

Current account; because there are no restrictions on amount of deposits and withdrawals from this account.

# Question 9

Which type of deposit account offers maximum interest on the deposits?

# Answer 9

Fixed deposit account

# Question 10

Mention any two methods of advancing loans by the commercial banks.

# Answer 10

(i) Bank Overdraft (ii) Term Loans

# Question 11

Name the banking service in which the customer can conduct banking activities like managing savings, checking accounts, applying for loans, etc. over the internet.

# Answer 11

The banking service is e-Banking.

# Question 12

The bank issues a financial instrument, with the help of which money can be sent from one place to another. Identify this instrument.

# Answer 12

Bank Draft

# Case Studies 4.1

## Question 1

Zeenat has recently completed her course in Fashion Designing from NIFT. Now her father wants her to do something creative. He has no consideration for earning money. He wants that Zeenat should teach fashion designing to those girls who have great interest in it but have failed to get admission to the Fashion Designing Course because of their poor financial position. His aim is to help the girls from poor families. So he gave ₹ 10 lakh to Zeenat to establish a Fashion Designing Centre. 50 girls could take admission in this centre. Zeenat announced

nominal fees to be charged for admission. Within one week of the opening of the centre, all the seats were filled. After getting training in this centre, it became easy for the girls to get jobs in the market. Within a few months, Zeenat's centre became popular. She spent ₹ 5 lakh out of the total ₹ 10 lakh on infrastructure and other things, and the remaining ₹ 5 lakh she deposited in the Savings Account of a bank. One of her friends was a bank employee. She advised Zeenat that instead of keeping ` 5 lakh in the Savings Account, She should keep them in a Fixed Deposit Account. But Zeenat replied that she would need money any time and so she could not keep her money in a Fixed Deposit Account. Then her friend told her

that she should deposit her money in such a bank account which would serve the purpose of both, the Savings Account and the Fixed Deposit Account. From this account she could withdraw money as and when needed and a definite amount would continue to get automatically transferred to the Fixed Deposit. Zeenat opened the account with her bank.

Identify and explain the type of Bank Account which Zeenat's friend advised her to open in the bank. **(3 marks)**

# Answer 1

**Multiple Option Deposit Account**

It is a combination of savings account and fixed deposit account which provide specific options to the depositors. It is a type of Saving Deposits Account in which amount of deposit in excess of a particular limit gets automatically transferred to Fixed Deposit Account. And, in case sufficient funds are not available in Saving Deposits Account to honour a cheque issued, the required amount gets automatically transferred from Fixed Deposit Account to the Saving Deposits Account. The account holder has two benefits from this

account— he/she can earn more interest and it lowers the risk of dishonouring a cheque.

# Question 2

Mr. Rajesh is employed in a branch of Punjab National Bank in Delhi. His friend, Mr. Vijay goes to the bank very often. One day, Vijay goes to the bank to get a Bank Draft issued. There he noticed that a customer of the bank told Rajesh that he wanted to transfer ₹ 40,000 to ChandigaRajesh expla-ined to him that it was not possible to transfer the money immediately; it would be done after some time. When some such cases of transfer would come, all of them would be transferred in a batch. On another day, Vijay noticed that one of the bank customers came and asked Rajesh if he could get

₹3 lakh transferred to Mumbai immediately. Rajesh replied in affirmative.rh immediately. Vijay asked Rajesh why he refused to transfer ₹40,000 to Chandigarh immediately that day, and how ₹3 lakh got transferred to Mumbai immediately now. Rajesh explained this to Vijay, and he was satisfied.

What explanation must have been given by Rajesh to Vijay? **(3 marks)**

# Answer 2

Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) are the fastest possible money transfer system through banks using the internet facility provided by banks. In RTGS system, the transactions are settled immediately as soon as they are processed on one to one basis without bunching or netting with any other transaction, i.e., no waiting period. However, the minimum transaction value for RTGS is ₹ 2 lakh.

On the other hand, in NEFT takes place in batches at regular time intervals, not immediately.

# Question 3

The owner of 'Govinda Fertilisers', Rehan opened a current account in 'The Punjab National Bank'. The customer can often withdraw money from the current account only up to the amount deposited in it. One day he needed money more than the balance in the account. He was worried about how to arrange the money. He needed this amount for about a day or so. One of his friends told him that the customers having a current account in the bank can get the permission to withdraw money more than the balance in the account after making an agreement with the bank.

Identify the facility provided by the bank referred to in the above case. **(1 mark)**

# Answer 3

Bank Overdraft

# 4.2

# Insurance – Principles and Types (Life, Health, Fire and Marine Insurance

Life is full of uncertainties and risks. Buildings may get wholly or partially destroyed due to fire, storms, cyclones, etc. Goods and other property may be lost or destroyed due to theft, robbery, fire, flood and such other happenings beyond human control. Both life and property are exposed to risk of accidents, e.g., death or serious injury caused by an accident.

**Insurance is a means of providing against loss caused by natural or man-made factors.**

It is a device by which the loss likely to be caused by an uncertain event (e.g., fire/theft of goods) is spread over a number of persons who are exposed to it and who are prepared to insure themselves against such an event.

It is a contract or agreement under which one party

agrees in return for a consideration *(called 'premium', which may be monthly, quarterly, half-yearly or annually)* to pay an agreed amount of money to another party to make good a loss, damage or injury to something of value.

Under the contract of insurance, the person whose risk is insured is called insured and the firm which insures the risk of loss is known as insurer.


**Life Insurance Corporation of India**

# Fundamental Principle of Insurance

The fundamental principle of insurance is that an individual or a business concern chooses to spend a definite amount of money in place of a possible huge amount involved in an indefinite future loss. Thus, insurance, in essence, is the substitution of a small periodic payment (premium) for a risk of large possible loss. The loss of risk still remains, but the loss, when it occurs, is spread over a large number of policyholders exposed to the same risk. The premium paid by them is pooled, out of which the loss sustained by any policyholder is compensated. Thus, in effect, risks are shared with others.

The amount of premium payable by each policyholder is so

from all the policyholders should be enough to pay for the losses actually suffered by the policyholder(s) and to cover the expenses of the insurance company and leave a reasonable margin of profit.

# Principles of Insurance

## 1. Utmost good faith

A contract of insurance is a contract of uberrimae fidei i.e., a contract found on utmost good faith. Both the insurer and the insured should display good faith towards each other in regard to the contract.

- The insured must voluntarily make full, accurate disclosure of all facts, material to the risk being proposed.
- The insurer must make clear all the terms and conditions in the insurance contract.

**Example:** Mr X is a heart patient. But he hides this fact to the LIC while taking a life policy. On

his death due to a heart attack, LIC can refuse to pay compensation to his legal representative because a material fact was not disclosed by the insured.

**Note**

**Fire insurance:** Construction of building, fire detection and fire fighting equipment; nature of its use.
**Motor insurance:** Type of vehicle, driver details.
**Personal accident insurance:** Age, height, weight, occupation, previous medical history.
**Life insurance:** Age, previous medical history, smoking/drinking habits.

## 2. Insurable interest

The insured must have an insurable interest in the subject matter of insurance. Insurable interest means some pecuniary interest in the subject matter of the insurance contract. The insured must have an interest in the preservation of the thing or life insured, so that he/she will suffer financially on the happening of the event against which he/she is insured. For example, a businessman has insurable interest in his stock of goods.

In order to have insurable interest, it is not necessary that one should be the owner of the property. For example, a trustee holding property on behalf of others has an insurable interest in the property.

Similarly, a person who had advanced money on the

security of a factory (mortgage) can take fire insurance policy of that factory though he is not the owner of the factory because he has financial interest in the factory premises.

## 3. Indemnity

All insurance contracts of fire or marine insurance are contracts of indemnity. The insurer undertakes to compensate (in terms of money) the insured for the loss caused to him/her due to damage or destruction of property insured.

**Example:** A businessman gets his stock of goods insured for ₹ 4,00,000. If the goods are destroyed by the fire, the insurance company will be liable to pay compensation for the loss caused to the insured. However, maximum compensation shall be ₹ 4,00,000 even if loss is more than this.

The principle of indemnity is not applicable to life insurance because one cannot estimate the loss due to the death of a person.

## 4. Doctrine of ‘causa proxima’

According to this principle, when the loss is the result of two or more causes, the proximate cause, i.e., the direct, the most dominant and most effective cause of loss should be taken into consideration. The insurance company is not liable for the remote cause.

**Example:** In the above example, ‘fire’ is accepted as the proximate cause of loss. If there had been no fire and goods would have destroyed due to excessive heat, the insurance company would not be liable to pay compensation.

## 5. Doctrine of subrogation

After the insured is compensated for the loss or damage of the property insured by him/her, the right of ownership of such property passes on to the insurer. This is because the insured cannot make any profit by selling the damaged property.

**Example:** Mr. Y gets his motor car insured. Some of its parts got damaged in a road accident. He gets the insurance claim and gets the damaged parts replaced with new ones. But the damaged parts will be taken by the insurance company. The insured has no right over the damaged parts since he has already got compensation for the loss.

## 6. Contribution

When more than one insurance policy is taken to cover the same risk, then it is known as 'Double Insurance'. According to the principle of contribution, if a person has taken more than one insurance policy for the same risk, then all the insurers will contribute the amount of loss in proportion to the amount assured by each of them and compensate him for the actual amount of loss. Separately, the insured cannot claim total loss from each insurer because he has no right to recover more than the full amount of his actual loss.

If the full amount is recovered from one insurer, the right to obtain further payment from other insurers ceases; and the insurer who has paid claim has the

right to call upon other liable insurers to contribute for the loss of payment.

**Example:** A businessman gets his factory insured against fire for ₹5,00,000 with insurer A and ₹ 3,00,000 with insurer B. Due to fire, a loss of ₹ ` 1,60,000 occurred. Then, insurers A and B will contribute the loss in the ratio 5 : 3 and will be liable to pay ₹ 1,00,000(3/8 × 1,60,000) and ₹ 60,000(5/8 × 1,60,000) respectively to the businessman.

# Life Insurance

A life insurance policy is basically a protection against the uncertainty of life, that is death.

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

# Importance of Life Insurance

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

# Main Elements of a Life Insurance Contract

1. The contract of life insurance is a contract of *utmost good faith*. The assured should be honest and must disclose all material facts about his health to the insurer.
2. In case of life insurance policy, a person has insurable interest in his / her own life, in the life of his/her spouse, or in the lives of his/her children. The assured must have *insurable interest* at the time when the insurance is affected. Insurable interest at the time of maturity is not necessary.

   ***Example:*** A husband took the life insurance policy of his wife. After one year the couple got divorced and later on after two years the wife

died. If the husband is making regular payment of premium even after divorce, then he will get the compensation for the death of his wife even after divorce because the insurable interest must be present at the time of taking policy.

It is to be noted that an employer has insurable interest in the life of the employees. Similarly, a creditor has insurable interest in the life of the debtor upto the amount of debt.

3. Life insurance contract is not a contract of indemnity. The life of a human being cannot be compensated and only a specified sum of money is paid. That is why the amount payable in life insurance on the death of the assured is fixed in advance.

# Fire Insurance

Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by a fire during a specified period upto the amount specified in the policy.

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

1. There must be actual loss; and
2. Fire must be accidental and non-intentional.

# Main elements of a fire insurance contract

1. In fire insurance, the insured must have insurable interest in the subject matter of the insurance. Insurable interest must be present both at the time of insurance and at the time of loss.
2. The contract of fire insurance is a contract of utmost good faith. The insured should be honest and disclose all facts regarding the nature of property and risks attached to it. The insurance company should also disclose the facts of the policy to the insured.
3. The contract of fire insurance is a contract of strict indemnity. In the event of loss, the insured can recover the actual amount of loss or maximum amount of policy, whichever is lower, but not more than that. For

example, if a businessman has insured goods for₹ 2,00,000, the insurer is not liable to pay more than ₹2,00,000 if goods worth ₹ 5,00,000 are destroyed by fire.

4. The insurer is liable to compensate only when fire is the proximate cause of damage or loss. For example, if overheating without ignition causes damage to goods, it will not be regarded as a fire loss and hence insurance claim cannot be recoverable.

# Marine Insurance

A marine insurance contract is an agreement wherein the insurer (called underwriter) undertakes to compensate the insured (generally the owner of a ship or cargo) for complete or partial loss at sea. A certain sum of money is paid by the insured in consideration for the guarantee/protection he gets.

Marine insurance provides protection against loss by marine perils or perils of the sea, e.g., collision of ship with the rock, or ship attacked by the enemies, risk of theft of goods, etc.

Marine insurance is slightly different from other types of insurance. There are three things involved—ship or hull, cargo or goods, and freight.

1. **Ship or hull insurance:** This is an insurance policy for indemnifying the insured for losses caused by damage to the ship.
2. **Cargo insurance:** The cargo while being transported by ship is subject to many risks, e.g., risk of theft, loss of goods. These may be at the port or on voyage. Thus, an insurance policy can be issued to cover against such risks to cargo.
3. **Freight insurance:** Freight insurance is for reimbursing the loss of freight to the insured (shipping company), if the cargo does not reach the destination due to damage or loss in transit because in such a case freight charges are not paid to the insurance company.

# Main elements of a marine insurance contract

1. The contract of marine insurance is a contract of indemnity. In the event of loss, the insured can recover only the actual amount of loss from the insurance company. However, in case of 'Hull Policy', the amount insured is fixed at a level above the current market value.
2. 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.
3. Insurable interest must exist at the time of loss but not necessary at the time when the policy was taken. Following persons have insurable interest in marine

adventure:

- Owner of the goods
- Buyer of the goods
- Insurer
- Lender of money on mortgage of ship/cargo in respect of the loan
- Master and crew of a ship in respect of their wages.

4. The principle of causa proxima will also apply to a marine insurance contract. If a loss is caused by several reasons, then the nearest cause of loss will be considered.

# Difference between Life, Fire and Marine Insurance

| Basis | Life Insurance | Fire Insurance | Marine Insurance |
|---|---|---|---|
| **1. Subject matter** | The subject matter of insurance is human life. | The subject matter is any physical property or assets. | The subject matter is a ship, cargo or freight. |
| **2. Element** | Life insurance has the elements of protection and investment or both. | Fire insurance has only the element of protection and not the element of investment. | Marine insurance has only the element of protection. |
| **3. Insurable Interest** | Insurable interest must be present at the time of effecting the policy, but need not be necessary at the time when the claim falls due. | Insurable interest on the subject matter must be present both at the time of effecting the policy as well as when the claim falls due. | Insurable interest must be present at the time when claim falls due or at the time of loss only. |

| | | | |
|---|---|---|---|
| **4. Duration** | Life insurance policy usually exceeds 1 year and is taken for longer periods ranging from 5 to 30 years or whole life. | Fire insurance policy usually does not exceed one year. | Marine insurance policy is for one year or period of voyage or mixed. |
| **5. Loss measurement** | Loss is not measurable. | Loss is measurable. | Loss is measurable. |
| **6. Indemnity** | Life insurance is not based on the principle of indemnity. The sum assured is paid either on the happening of certain event or on maturity of the policy. | Fire insurance is a contract of indemnity. The insured can claim only the actual amount of loss from the insurer. The loss due to the fire is indemnified subject to the maximum limit of the policy amount. | Marine insurance is a contract of indemnity. The insured can claim the market value of the ship and cost of goods destroyed at sea and the loss will be indemnified. |

| | | | |
|---|---|---|---|
| **7. Surrender Value or paid up value** | Life insurance policy has a surrender value or paid up value. | Fire insurance does not have any surrender value or paid up value. | Marine insurance does not have any surrender value or paid up value. |
| **8. Policy Amount** | One can insure for any amount in life insurance. | In fire insurance, the amount of the policy cannot be more than the value of the subject matter. | In marine insurance, the amount of the policy cannot exceed the market value of the ship or cargo. |
| **9. Contingency of Risk** | There is an element of certainity. The event i.e., death of maturity or policy is bound to happen. Therefore a claim will be present. | The event i.e., destruction by fire may not happen. There is an element of uncertainity and there may be no claim. | The event i.e., loss at sea may not occur and there may be no claim. There is an element of uncertainty. |

# Health Insurance

Disability resulting from illness or accident may be peril to family because it not only cuts off income but also creates large medical expenses. Health insurance is a safeguard against such medical costs. In India, presently the health insurance exists primarily in the form of Mediclaim policy.

Health insurance provides following types of coverage:

- **Medical expenses:** It covers the expenses of hospitalisation/nursing home bills and doctors' services.
- **Disability income:** It replaces the income lost while the insured is unable to work.

RECAP

## Types of Bank Accounts

1. **Savings Deposit Account:** This type of bank account encourages the small savings of households.
2. **Current Deposit Account:** In this type of accounts, funds are deposited by business organisations, withdrawable through cheque.
3. **Recurring Deposit Account:** In this type of account, a depositor deposits a fixed amount of money on an annuity basis (say on monthly basis) for a fixed period. This money cannot be withdrawn before maturity.
4. **Fixed Deposit Account:** Money deposited in fixed deposit account carry higher rate of interest than saving deposits account. The amount of deposits is repayable by the bank after the expiry of the fixed term.

5. **Multiple Option Deposit Account:** Multiple Option Deposit account is a combination of saving account and fixed deposit account in which amount of deposit in excess of a particular limit gets automatically transferr-ed into fixed Deposit.

## Banking Services

1. **Bank Draft:** A bank draft (also known as Demand Draft) is an instrument which is used for the transfer of funds. Anybody can obtain a bank draft after depositing the amount in the bank.
2. **Cash Credits:** A cash credit is a short-term cash loan to a company against security.
3. **Bank Overdraft:** The bank allows a customer to overdraw his current account balance up to a limit.

## e-Banking

It means banking using the electronic media.

The range of services offered by e-banking are:

- Automated Teller Machines (ATM)
- Point of Sales (PoS)
- Electronic Data Interchange (EDI)
- Credit Cards
- Electronic or Digital cash
- Electronic funds transfer (EFT)

## Types of Digital Payments

1. **Electronic funds transfer (EFT):** EFT are electronic transfer of money from one bank account to another via computer-based systems. The two ways in which EFT can be done are: NEFT (National Electronic Fund Transfer) and RTGS (Real Time Gross Settlement). The minimum transaction value for RTGS is ₹ 2 lakh.
2. **Credit or Debit Cards, i.e. 'plastic money':** The customer

can make digital payments for online transaction through credit or debit cards.

3. **Digital Cash:** Digital cash (also known as electronic cash) refers to a system in which a person can securely pay for goods or services electronically.
4. **Aadhaar Enabled Payment System (AEPS):** It can be used for payment transactions.
5. **Mobile Wallets:** A mobile wallet is a type of virtual wallet service that can be used by downloading an app (e.g. Paytm, Mobikwik etc.).
6. **Point of Sales (PoS) Terminals:** It is usually a hand held device that reads banking cards.

## Insurance

Insurance is a means of providing against loss caused by natural or man-made factors.

## Principles of Insurance

1. Utmost good faith
2. Insurable interest
3. Indemnity
4. Proximate cause
5. Subrogation
6. Contribution

## Types of Insurance

1. **Life Insurance:** A life insurance policy is basically a protection against the uncertainty of life, that is death.
2. **Fire Insurance:** It is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by a fire during a specified period upto the amount specified in the policy.

3. **Marine Insurance:** It is a contract or an agreement wherein the insurer (called underwriter) undertakes to compensate the insured (generally the owner of a ship or cargo) for complete or partial loss at sea.
4. **Health Insurance:** Health insurance is a safeguard against such medical costs. In India, presently the health insurance exists primarily in the form of Mediclaim policy.

# Objective Type Questions 4.2

## Question 1

Match the columns:

| | |
|---|---|
| (i) Insured must have some economic interest in the subject matter of insurance contract. | (a) The principle of Subrogation |
| (ii) After compensating the loss, insurer gets all the rights with respect to the subject-matter insured. | (b) The principle of Indemnity |
| (iii) Insured is entitled to recover the loss suffered by him, up to the limit of policy amount. | (c) The principle of Insurable Interest |

# Answer 1

(i) - (c), (ii) - (a), (iii) - (b)

# Question 2

A contract of insurance is a contract of indemnity in every case. *True/False? Give reason.*

# Answer 2

**False:** Life insurance contract is not a contract of indemnity because one cannot estimate the loss due to the death of person.

# Question 3

In fire and marine insurance, the insured event may or may not happen. *True/False? Give reason.*

# Answer 3

**True:** The events like destruction by fire or loss at sea may not happen and there may be no claim. There is an element of uncertainty.

# Question 4

In a life insurance contract, insurable interest must exist both at the time of making the contract and at the time of payment under the policy. *True/False? Give reason.*

# Answer 4

**<u>False:</u>** In life insurance, insurable interest must be present only at the time of effecting the policy, but need not be necessary at the time when the claim falls due.

# Question 5

In fire insurance, the policy-holder need to have insurable interest in the goods only at the time of taking the policy. *True/False? Give reason.*

# Answer 5

**False:** In fire insurance, the insured must have insurable interest in the subject matter of the insurance—both at the time of insurance and at the time of loss.

# Question 6

Principle of indemnity is not applicable to which insurance?

# Answer 6

Life insurance

# Question 7

A company has undertaken a fire insurance policy for ₹ 8 lakh. After two months due to fire it incurred a loss of ₹ 5 lakh. How much amount will the company get as compensation?

# Answer 7

₹ 5 lakh

# Question 8

At what time the insurable interest must be present in case of life insurance?

# Answer 8

At the time of taking the policy.

# Question 9

Name the principle of insurance under which the insurer stands in place of the insured after settlement of claim, in relation to the insured property.

# Answer 9

Principle of Subrogation

# Question 10

Name the type of insurance wherein insurable interest need not exist when the policy in taken.

# Answer 10

Marine insurance

# Question 11

When should insurable interest be present in fire insurance?

# Answer 11

At the time of taking policy as well as at the time of loss of subject matter.

# Question 12

When should insurable interest be present in marine insurance?

# Answer 12

At the time of loss of subject matter.

# Question 13

Name the principle of insurance which states that it is the duty of the insured to take reasonable steps to minimise the loss or damage to the insured property.

# Answer 13

Principle of Mitigation.

# Question 14

Ragini has insured her house for ₹ 5,00,000 against the fire. There is a fire and Ragini suffers a loss of ₹ 1,00,000. How much amount she can recover from the insurer?

# Answer 14

₹ 1,00,000.

# Question 15

Mention any two persons who have insurable interest in case of a marine insurance policy.

# Answer 15

(i) Buyer of goods (ii) Lender of money.

# Question 16

In which type of insurance, insurable interest must exist both at the time of insurance and at the time of loss?

# Answer 16

Fire insurance.

# Question 17

"The insured must have an interest in the subject matter of insurance." Which principle of insurance is referred to in this statement?

# Answer 17

Principle of insurable interest.

# Case Studies 4.2

## Question 1

Aditya gets his house insured against fire of ₹ 10 lakh with insurer A and for ₹ 5 lakh with insurer B. A loss of ₹ 3 lakh occurred. How much compensation can he claim from A and B? Why? **(3 marks)**

# Answer 1

Aditya can claim compensation for loss by fire (₹ 3 lakh) from the insurers A and B in the ratio of 2 : 1 (10 lakh : 5 lakh), i.e., ₹ 2 lakh from insurer A and ₹ 1 lakh from the insurer B. This is because of the principle of contribution. According to the principle of contribution, if a person has taken more than one insurance policy for the same risk, then all the insurers will contribute the amount of loss in proportion to the amount assured by each of them and compensate him for the actual amount of loss. Separately, the insured cannot claim total loss from each insurer because he has no right to recover more than the full amount of his actual loss.

# Question 2

Sukarn has taken fire insurance policy for his factory. Due to fire he suffered a loss of ₹ 2 lakh and he gets the compensation for the same. The half-burnt goods can be sold for ₹ 30,000. Who has the right over it? Why?

**(3 marks)**

# Answer 2

The insurance company has the right over the amount realised by selling the half burnt goods after it has paid compensation for the loss to the insured. Sukarn cannot make any profit by selling the half burnt goods. (Principle of subrogation)

# Question 3

A factory owner gets his stock of goods insured, but he hides the fact that the electricity board has issued him a statutory warning letter to get his factory's wiring changed. Later on, the factory catches fire due to short circuit of wiring. Can he claim compensation?

**(3 marks)**

# Answer 3

No, the factory owner cannot claim compensation from the insurance company since he has hidden the fact of statutory warning from the electricity board. He has violated the principle of 'utmost good faith'. According to this principle, the insured must voluntarily make full, accurate disclosure of all facts, material to the risk being proposed. The insurer must also make clear all the terms and conditions in the insurance contract.

# Question 4

Shubham has taken a loan from Saurabh against the security of his factory. Can Saurabh take a fire insurance policy of that factory? **(1 mark)**

# Answer 4

Yes, Saurabh (the lender) can take a fire insurance policy of the factory though he is not its owner, because he has financial interest in the factory premises. (Principle of insurable interest)

# Question 5

Rishabh insured his factory for ₹ 5 lakh against fire. Due to fire, he suffered a loss of ₹ 2 lakh. How much amount he can recover from the insurance company? Why?

**(1 mark)**

# Answer 5

Rishabh can recover ₹ 2 lakh from the insurance company (not the policy amount, that is, ₹ 5 lakh) since he has suffered a loss of ₹ 2 lakh only. The purpose of insurance is to compensate for loss and not to earn profit. (Principle of indemnity)

# Question 6

Ashish took a marine policy to cover the goods exported by him. Under the policy goods have been insured against damage likely to be caused by sea-water. During the voyage a hole was caused in the bottom of the ship. Through this hole sea water entered into the ship which damaged the goods insured. Can Ashish claim compensation for the loss? **(3 marks)**

# Answer 6

Yes, Ashish can claim compensation for the loss from the insurance company.

Reason: In this case there are two causes of the mishap, which has occurred. First, the hole caused in the bottom of the ship and second, seepage of sea water into the ship. The nearest cause of the damage caused to the goods is the seepage of the water, the hole in the bottom of the ship is the remote cause. Therefore, Ashish must be compensated for the loss caused by the damage to the goods covered by the policy.

# Question 7

Sohan took the life insurance policy of his wife. After one year, the couple got divorced and after two years, his wife met with an accident and died on the spot. Is Sohan entitled to get compensation from the insurance company, if Sohan was regularly paying the premium amount? **(3 marks)**

# Answer 7

Yes, Sohan is entitled to the compensation because in case of life insurance policy, the insurable interest must be present at the time of contract. So, Sohan will get the compensation for the death of his wife even after divorce.

# Question 8

Madhav took a fire insurance policy of ₹ 20 lakh for his factory at the annual premium of ₹ 24, 000. In order to avoid premium more than this amount, he did not disclose that highly explosive chemicals are being manufactured in his factory. Due to a fire, his factory gets severely damaged. The insurance company refused to make the payment tor claim as it became aware about the highly explosive chemicals. Is Madhav entitled to receive the claim? Give reason in support of your answer. **(1 mark)**

# Answer 8

No, Madhav is not entitled to receive the claim as he has violated the principle of 'Utmost Good Faith'.

# Question 9

A transport company took an accident insurance policy for all its vehicles. A truck of that company carrying oranges met with an accident. Due to that accident there was no damage to oranges but oranges were unloaded from that truck and reloaded to another. Due to time wasted in unloading and reloading the oranges got spoiled. Will the company get compensation for loss of oranges from the insurance company or not? Which principle is related with this case? **(1 mark)**

# Answer 9

The company will not get compensation because oranges were not spoiled in accident, but got spoiled due to delay in unloading and loading. This case is related to the principle of 'Proximate Cause'.

# Question 10

Mr. Sugan took an Insurance Policy against his car and after three months he sold it to Mr. Sunil. The car was stolen from outside of Mr. Sunil's house. Mr. Sugan made a claim to the insurance company. His claim was rejected on the ground that Mr. Sugan was no longer owner of the car, so he has no insurable interest and he has no financial loss with the loss of the car.

(a) Was Mr. Sugan right in making claim? Give reason in support of your answer.

(b) Who can claim compensation? **(3 marks)**

# Answer 10

(a) No, Mr. Sugan cannot claim compensation from the insurance company because he has already sold the car. The principle of Insurable Interest states that the insured must have insurable interest at the time of the loss.

(b) Mr. Sunil can claim compensation from the insurance company since he has insurable interest in the car at the time of the loss.