

### Chapter 10 RBI

#### 1. What are the services included in Service businesses?

Education	Medical
Insurance	Warehousing
Banking	Advertising
Salesmanship	Transport

#### 2. Write the meaning of 'Bank.'

According to Banking Regulation Act 1949, "Banking means the accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, pay order or otherwise".

#### 3. Briefly explain about Central Bank.

- The central bank has been described as "the lender of last resort," which means it is responsible for providing its nation's economy with funds when commercial banks cannot cover a supply shortage. In other words, the central bank prevents the country's banking system from failing.

#### 1. Mention the importance of banking services.

- Banking service is the nerve center of industry and commerce in a country.
- It plays a vital role by providing the money required for their regular functioning and development.
- The word Bank, normally refers to commercial bank.
- There are many types of banks rendering different types of services.
- Central Bank is the most important one among them.

#### 2. Explain the origin of RBI.

- In 1926 the Hilton-Young Commission or the Royal Commission on Indian Currency and Finance (J. M. Keynes and Sir Ernest Cable were its members) made recommendation to create a central bank.
- As a result, the RBI Act 1934 was passed and RBI launched in operations from April 1, 1935.
- RBI was established with a share capital of ₹5 crores divided into shares of ₹100 each fully paid up.
- The entire share capital was owned by private shareholders.
- Its head office was in Calcutta and moved to Mumbai in 1937.
- 1949: The Government of India nationalized the Reserve Bank under the Reserve Bank (Transfer of Public Ownership) Act, 1948.

#### 3. Who are the persons involved in RBI administration?

- The RBI is governed by a Central Board of Directors
- The 21 member board is appointed by the Government of India.
- It consists of;
  - a. one governor and four deputy governor appointed for a period of four years,
  - b. ten directors from various fields

- c. two Government officials
- d. four directors - one each from local boards.

### 1. Classify the various functions of Reserve Bank of India.

#### **Leadership and Supervisory Functions**

##### **a. India's Representative in World Financial Institutions**

- RBI represents Government of India in International Bank for Reconstruction and Development (IBRD i.e. World Bank) and International Monetary Fund (IMF) in which India is a member since December 27, 1945.

##### **b. Regulator and Supervisor of Indian Banking System**

- The RBI has power to issue licenses, control and supervise commercial banks under the RBI Act, 1934 and
- the Banking Regulation Act, 1949.
- It conducts inspection of the commercial banks and calls for returns and other necessary information from them.

##### **c. Monetary Authority**

- The RBI formulates, implements and monitors the monetary policy of the country in order to maintain price stability, controlling inflationary trends and economic growth.

##### **d. Closely Monitoring Economic Parameters**

- Broad economic parameters such as employment level, price levels and production levels, trade cycles, foreign investment flows, balance of payments, financial markets, etc., are closely monitored by the RBI in order to achieve economic stability and growth.

##### **e. Promptly Responding to New Challenges**

- Whenever challenges arose before Indian Banking System,
- RBI promptly attend them by issuing Master Circulars and
- by organising committees to analyse, review and strengthen Indian Banking

#### **Traditional Functions**

##### **A. Banker and Financial Advisor to the Government**

- The RBI accepts money into the Central and State Governments' accounts and make payments on their behalf.
- It manages Government debt and is responsible for issue of new loans.
- It advises the government on the quantum, timing and terms of new loans.

##### **B. Monopoly of Note Issue**

- The RBI is the sole authority for the printing and issue of all currency notes in India except one rupee note.
- It is the duty of the RBI to ensure that sufficient number of good quality currency notes is available to the public.

##### **C. Banker's Bank**

- The RBI maintains the current accounts of all commercial banks in the country.
- All scheduled banks should deposit a percentage of cash reserve with RBI.
- All banks can receive loans from RBI by rediscounting of bills and against approved securities.

### **D. Controller of Credit and Liquidity**

- Controlling the credit money in circulation and the interest rate in the country is a major function of RBI.
- For this purpose, the RBI uses quantitative and qualitative methods of credit control.

### **E. Lender of the Last Resort**

- In times of emergency any bank in India can approach RBI for financial assistance.
- RBI provides them credit. When other sources of getting credit are exhausted,
- all banks can obtain loan from RBI and hence it is called lender of last resort.

### **F. Clearing House Services**

- RBI acts as clearing house and maintains a clearing system for all commercial banks in India.

### **G. Custodian of Foreign Exchange Reserves**

- The RBI maintains a reserve of gold and foreign currencies.
- When foreign exchange reserves are inadequate for meeting balance of payments problem,
- it borrows from the International Monetary Fund (IMF).

### **H. Maintenance of Foreign Exchange Rate**

- The RBI manages the exchange value of the rupee in order to facilitate India's foreign trade and payments.
- It ensures that normal short-term fluctuations in trade do not affect the exchange rate.

### **I. Collection and Publication of Authentic Data**

- It has also been entrusted with the task of collection and compilation of statistical information relating to banking and other financial sectors of the economy

### **Promotional Functions**

#### **A. Nurturing Banking Habits among the Public**

- It is the responsibility of RBI to maintain the public confidence in the banking system.
- It protects the depositors' interest and aim at providing cost-effective banking services in order to include more people to avail banking services

#### **B. Grievance Settlement Measures**

- Banking Ombudsman Scheme is a speedy and inexpensive forum for resolution of customer complaints relating to certain services rendered by banks in India

#### **C. Agricultural Development**

- Agriculture industry is specified as priority sector by the RBI.
- The loans of all scheduled banks should consist of a percentage of loans to priority sector.
- It works in close association with NABARD to develop agriculture in India.

#### **D. Promotion of Small Scale Industries**

- Micro Small and Medium Enterprises are included in the priority sector.
- All scheduled banks are required to open separate branches to specialise the financing of these industries

#### **E. Facilitates Foreign Trade**

- The RBI has simplified the rules for credit to exporters, through which they can now get long term advance from banks

#### **F. Supports Cooperative Sector**

- It helps cooperative banks by relaxing rules and providing indirect financing

**2. Explain the organizational structure of RBI.**

- The head office of the RBI is situated in Mumbai.
- This central office has 33 departments in 2017.
- It has four zonal offices in Mumbai, Delhi, Calcutta and Chennai functioning under local boards with deputy governors as their heads.
- It also has 19 regional offices and 11 sub-offices (2017).
- The RBI is governed by a Central Board of Directors
- The 21 member board is appointed by the Government of India.
- It consists of;
  - a. one governor and four deputy governor appointed for a period of four years,
  - b. ten directors from various fields
  - c. two Government officials
  - d. four directors - one each from local boards.

### 11 Types of Banks

1. Give the meaning of Commercial Banks
  - A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit.
2. What do you mean by Industrial Banks?
  - Huge finance required for investment, expansion and modernisation of big industries and others are granted by a separate type of banks called development Banks.
  - They are also called industrial banks.
  - The objective of development banks is not profit.
  - Their aim is to develop the country and create employment opportunities.
  - Finance is provided by them for medium and long terms ranging from five to twenty years.
3. Briefly explain about Correspondent Banks?
  - A correspondent bank is a bank that provides services on behalf of another, equal or unequal, financial institution.
  - It can facilitate wire transfers, conduct business transactions, accept deposits, and gather documents on behalf of another financial institution.
  - Correspondent banks are most likely to be used by domestic banks to service transactions that either originate or are completed in foreign countries, acting as a domestic bank's agent abroad.
4. What are Foreign Banks?
  - Banks which have registered office in a foreign country and branches in India are called foreign banks.
  - These banks open their offices in big cities and port towns only.

1. Write a short note on Local Area Banks, Give two examples.
  - LABs are small private sector banks established in rural and semi-urban areas.
  - Each bank serves two or three adjoining districts only.
  - Their main objective is to mobilise rural savings (accept deposits) and invest them in the same areas.
  - They have to follow the priority sector lending targets, including the targets on loans to weaker sections

**Exmaples:**

- i. Coastal Local Area Bank, Vijayawada, Andhra Pradesh.
- ii. Krishna Bhima Smruddhi Local Area Bank, Mahabubnagar, Telangana.

2. What are the objectives involved in Regional Rural Banks?
  - They are established as low cost institutions in rural areas.
  - Their objective is to develop rural economy and play supplementary role to cooperative societies.
  - They mobilise deposits from the rural public and provide finance to rural artisans, small entrepreneurs and farmers and try to avoid their dependency on money lenders.
  
3. Mention the purposes of Agricultural and Co-operative banks
  - The Land development banks are organized in 3 tiers namely; state, central, and primary level and
  - they meet the long term credit requirements of the farmers for developmental purposes.
  - The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state.
  - They are governed both by the state government and Reserve Bank of India.
  - Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD).
  - The sources of funds for these banks are the debentures subscribed by both central and state government.
  - These banks do not accept deposits from the general public.

1. Explain the various types of banks based on organization with examples

S.No	Bank Name	Examples
1	Central bank	RBI 1935
2	Development Bank	IFCI, SIDBI
3	Commercial Bank	SBI, KARUR VYSYSA BANK
4	CO OPERATIVE BANK	Madurai District Central Cooperative Bank Ltd. SALEM District Central Cooperative Bank Ltd
5	<b>Foreign Banks</b>	Bank of America - The USA

		Barclays Bank - The UK
6	<b>Regional Rural Banks - RRBs</b>	Pallavan Grama Bank, Salem, Pandian Grama Bank, Thirumangalam
7	<b>Specialised Banks</b>	Export - Import Bank of India National Housing Bank (NHB)
8	<b>Local Area Banks</b>	Coastal Local Area Bank, Vijayawada, Andhra Pradesh. Subhadra Local Area Bank Limited Kolhapur, Maharashtra
9	<b>Small Finance Banks</b>	ESAF SFB, Thiruvananthapuram, Kerala Fincare SFB, Ahmedabad, Gujarat
10	<b>Payment Bank</b>	Airtel Payment Bank Limited Paytm Payment Bank Limited

2. Explain the types of banks based on ownership pattern

**Public Sector Banks:**

These are owned and controlled by the government. In India, the nationalized banks and the regional rural banks come under these categories,

**Private Sector Banks:**

These banks are owned by the private individuals or corporations and not by the government or co-operative societies,

**Cooperative Banks:**

Cooperative banks are operated on the cooperative lines. In India, cooperative credit institutions are organised under the cooperative societies law and play an important role in meeting financial needs in the rural areas.

**12 FUNCTIONS OF COMMERCIAL BANK**

1. What is Mobile Banking?

Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or tablet

2. Briefly explain the need for Debit card.

- A debit card is a payment card that deducts money directly from a consumer's checking account to pay for a purchase. Debit cards eliminate the need to carry cash or physical checks to make purchases.
- In addition, debit cards, also called check cards, offer the convenience of credit cards and many of the same consumer protections when issued by major payment processors like Visa or MasterCard.

3. Briefly explain the term - Credit card.

- Credit cards allow a consumer to purchase goods and services by borrowing against an approved line of credit.
  - It is a loan.
  - Purchases made during the month are billed to the consumer and the consumer pays the bill at a later date.
  - Should the consumer be unable to pay the entire balance due, then the credit card issuer charges the consumer interest.
4. What do you mean by ATM?
- Computerized machine that permits bank customers to gain access to their accounts with a magnetically encoded plastic card and a code number.
  - It enables the customers to perform several banking operations without the help of a teller, such as to withdraw cash, make deposits, pay bills, obtain bank statements, effect cash transfers.
  - Also called automated Banking machine, automatic tell machine, or remote service unit.
5. Write a note on - ECS.
- ECS is an electronic mode of funds transfer from one bank account to another.
  - It can be used by institutions for making payments such as distribution of dividend interest, salary, pension, among others.
  - It can also be used to pay bills and other charges such as telephone, electricity, water or for making equated monthly installments payments on loans as well as SIP investments.
  - ECS can be used for both credit and debit purposes.
1. What is E-Banking?
- a method of banking in which the customer conducts transactions electronically via the Internet.
  - Online banking, also known as internet banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.
  - The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.
2. Write a short note on - RTGS.
- The full form of RTGS is "Real Time Gross Settlement".
  - RTGS can be defined as "the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting)"
  - Minimum Amount : ₹ 2 lakhs
  - Maximum Amount No upper ceiling
3. Briefly explain the Diversified banking services of commercial banks.(any three)
- Bank Assurance**
- It refers to the offering of insurance policies or products by a bank in association with another insurance company
- Merchant Banking**

- A commercial bank or its subsidiary merchant bank may offer services like project counselling, underwriting, etc. required for starting a company. It is called merchant banking.

### **Retail Banking (Personal Banking)**

- It refers to mass market banking which reaches out to large number of individual end customers.

#### 4. Explain - NEFT.

- The full form of NEFT is "National Electronic Funds Transfer (NEFT).
- The NEFT is a nationwide payment system facilitating one-to-one funds transfer.
- Under this system, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the system.

#### 6. What do you mean by Core Banking Solutions?

- Core stands for "Centralized On-line Real-time Exchange".
- Core Banking Solution (CBS) is networking of branches, which enables
- Customers to operate their accounts, and avail banking services from any branch of the Bank on CBS network, regardless of where he maintains his account. The customer is no more the customer of a Branch.
- He becomes the Bank's Customer.
- all CBS branches are inter-connected with each other.

#### 1. Discuss the various primary functions performed by the commercial banks.

### **Accepting Deposits:**

- It is the most important function of commercial banks.
- They accept deposits in several forms according to requirements of different sections of the society

### **The main kinds of deposits are**

#### **(i) Current Account Deposits or Demand Deposits:**

1. Such deposits are generally maintained by businessmen with the intention of making transactions with such deposits.
2. They can be drawn upon by a cheque without any restriction.
3. Banks do not pay any interest on these accounts. Rather, banks impose service charges for running these accounts.

#### **(ii) Fixed Deposits or Time Deposits**

Fixed deposits refer to those deposits, in which the amount is deposited with the bank for a fixed period of time.

- Such deposits do not enjoy cheque-able facility.
- These deposits carry a high rate of interest.

#### **(iii) Saving Deposits**

**These deposits combine features of both current account deposits and fixed deposits**



- The depositors are given cheque facility to withdraw money from their account
- They carry a rate of interest which is less than interest rate on fixed deposits

### **Advancing of Loans**

- The deposits received by banks are not allowed to remain idle.
- So, after keeping certain cash reserves, the balance is given to needy borrowers and interest is charged from them, which is the main source of income for these banks.

Different types of loans and advances made by Commercial banks are:

(i) **Cash Credit:**

- Cash credit refers to a loan given to the borrower against his current assets like shares, stocks, bonds, etc.
- A credit limit is sanctioned and the amount is credited in his account.
- The borrower may withdraw any amount within his credit limit and interest is charged on the amount actually withdrawn.

(ii) **Demand Loans**

- Demand loans refer to those loans which can be recalled on demand by the bank at any time.
- The entire sum of demand loan is credited to the account and interest is payable on the entire sum.

(iii) **Short-term Loans:**

- They are given as personal loans against some collateral security.
- The money is credited to the account of borrower and the borrower can withdraw money from his account and interest is payable on the entire sum of loan granted.

2. Explain the various secondary functions of commercial banks.

## **Secondary Functions**

### **1. Overdraft Facility**

- It refers to a facility in which a customer is allowed to overdraw his current account upto an agreed limit.
- This facility is generally given to respectable and reliable customers for a short period.
- Customers have to pay interest to the bank on the amount overdrawn by them.

### **2. Discounting Bills of Exchange**

- It refers to a facility in which holder of a bill of exchange can get the bill discounted with bank before the maturity.
- After deducting the commission, bank pays the balance to the holder.
- On maturity, bank gets its payment from the party which had accepted the bill.

### **3. Agency Functions:**

- Commercial banks also perform certain agency functions for their customers.
- For these services, banks charge some commission from their clients.

#### **Some of the agency functions are:**

Transfer of Funds

Collection and Payment of Various Items:

Purchase and Sale of Foreign Exchange

Purchase and Sale of Securities

Income Tax Consultancy

Trustee and Executor

Letters of Reference

### **4. General Utility Functions:**

Commercial banks render some general utility services like:

Locker Facility:

Traveller's Cheques:

Letter of Credit:

Underwriting Securities:

Collection of Statistics

## **13. Warehousing**

### **1. What is Warehouse?**

According to J. Stephenson, "a warehouse is an establishment for the storage or accumulation of goods".

### **2. List the various types of Warehouses.**

#### **A. On the Basis of Ownership**

- (a) Private Warehouses
- (b) Government Warehouses
- (c) Public Warehouses
- (d) Co-operative Warehouses
- (e) Bonded Warehouses
- (f) Institutional Warehouses

(g) Distribution Centre Warehouses

### **B. On the Basis of Commodities Stored**

(a) General Warehouses

(b) Special Commodity Warehouses

(c) Cold Storages or Refrigerated Warehouses

(d) Climate Controlled Warehouses

3. Give any three functions of Warehouses.

#### 1. Storage:

- This is the basic function of warehousing. Surplus commodities which are not needed immediately can be stored in warehouses. They can be supplied as and when needed by the customers.

#### 2. Price Stabilization:

- Warehouses play an important role in the process of price stabilization. It is achieved by the creation of time utility by warehousing. Fall in the prices of goods when their supply is in abundance and rise in their prices during the slack season are avoided.

#### 3. Risk bearing:

- When the goods are stored in warehouses they are exposed to many risks in the form of theft, deterioration, exploration, fire etc. Warehouses are constructed in such a way as to minimise these risks. Contract of bailment operates when the goods are stored in wave-houses.

#### 4. Financing:

- Loans can be raised from the warehouse keeper against the goods stored by the owner. Goods act as security for the warehouse keeper. Similarly, banks and other financial institutions also advance loans against warehouse receipts. In this manner, warehousing acts as a source of finance for the businessmen for meeting business operations.

#### 5. Grading and Packing:

- Warehouses nowadays provide the facilities of packing, processing and grading of goods. Goods can be packed in convenient sizes as per the instructions of the owner.

3. Tabulate the three differences between warehouse warrant and warehouse receipt.

	warehouse warrant	warehouse receipt
1	It is a document of title of goods	It is not a document of title of goods
2	It can be negotiated or transferred to others	It cannot be transferred to others
3	It can be given a collateral security for getting financial assistance	It cannot be given as collateral security

### 5. Give a note on FCI

- It provides storage facilities for food grains.
- Food Corporation of India also hires storage capacity from other sources such as Central Warehousing Corporation, State Warehousing Corporation and private parties.

### 1. Differentiate the warehouse warrant from the warehouse receipt.

	warehouse warrant	warehouse receipt
1	It is a document of title of goods	It is not a document of title of goods
2	It can be negotiated or transferred to others	It cannot be transferred to others
3	It can be given a collateral security for getting financial assistance	It cannot be given as collateral security
4	Delivery of goods effected by surrendering this warrant with endorsement	Delivery is effected by surrendering this receipt with letter from depositor.
5	It is not only an acknowledgement for the receipt of goods but also gives an authority to get delivery of goods by the owner or by third party	It is only an acknowledgement for the receipt of goods.

### 2. Comment on cold storage warehouse

- Goods are transported in refrigerated containers and stored in refrigerated warehouses.
- These warehouses are used for storing perishable goods like fruits, vegetables, eggs, butter, fish, meat, etc.
- Goods stored in cold storages without deterioration in quality, can be made available throughout the year.

### 1. Explain the different types of warehouses

#### **A. On the Basis of Ownership**

##### **(a) Private Warehouses**

- Private warehouses are built and owned by private business enterprises in order to store the products produced by them
  - (b) Government Warehouses
  - They are created and operated by the Government to implement the programmes of the Government.
  - Their services mostly available to government only.
  - (c) Public Warehouses
  - It is open for public at large. Most of the business organisations, especially small and medium scale units cannot afford to have their own warehouses
  - (d) Co-operative Warehouses
  - There are warehouses owned and managed by the marketing co-operative societies or agricultural co-operative societies.
  - They are set up to provide warehousing facilities to their members.
  - (e) Bonded Warehouses
  - Bonded warehouses are those warehouses, which are licensed by the government to accept storage of imported goods which are not cleared due to non-payment of customs duty by the importer.
  - (f) Institutional Warehouses
  - Different institutions and bodies have their own warehouses on account of the nature of their operations
  - (g) Distribution Centre Warehouses
  - Goods which need to be temporarily stored for one or two days so that they can be distributed to other offices or customers are stored in Distribution Centers.
  - They are owned by the manufacturer or wholesalers.
- B. On the Basis of Commodities Stored**
- (a) General Warehouses
  - They are ordinary warehouses which are useful for storing most of the dry food grains, fertilisers, etc.
  - Protective measures against rat, insects, etc. are undertaken by them.
  - (b) Special Commodity Warehouses
  - These warehouses are specially constructed for storing specific type of commodities like tobacco, cotton, wool etc.
  - These warehouses reduce loss of quality and quantity to a great extent.
  - (c) Cold Storages or Refrigerated Warehouses
    - Goods are transported in refrigerated containers and stored in refrigerated warehouses.
    - These warehouses are used for storing perishable goods like fruits, vegetables, eggs, butter, fish, meat, etc.
    - Goods stored in cold storages without deterioration in quality, can be made available throughout the year.

(d) Climate Controlled Warehouses

- The controlled climate environment can reduce the rate of metabolism in fruits and vegetables.
- Humidity controlled environments for delicate products such as flowers in dirt-free facilities in these warehouses.

2. Explain the advantages of warehousing functions.

1. It safeguards the stock of the merchants who do not have storing place.
2. Warehouses reduce distribution cost of the traders by storing the goods in bulk and allow the trader to take the goods in small lots to his shop.
3. It helps in selection of channel of distribution. The producer will prefer whether to appoint a wholesaler or retailer.
4. It assists in maintaining the continuous sales and avoids the possibilities of “out of stock” position.
5. It creates employment opportunities for both skilled and unskilled workers, to improve their standard of living.

### 14 TRANSPORTATION

1. Define transport.
  - According to K.K. Sexena, “the transport system acts with reference to the area it serves in the same way as a candle does in a dark room”
2. State any two services rendered by transport.
  - Transport service facilitates the smooth carriage of goods from the place of producer to the place of consumer.
  - Transport also facilitates travelling of people from one place to another place.
3. Write any two advantages of water transport.
  - It is most suitable for heavy loads.
  - There is lesser pollution in water transport.

1. What is bill of lading?
  - Bill of Lading is a document containing the terms and conditions of the contract of carriage.
  - It is issued by the shipping company and signed by the captain of the ship.
  - It acknowledges the receipt of the goods described in it on board the ship.
2. What is charter party?
  - When goods are to be consigned in large quantity, it is advantageous to hire the whole or substantial part of the ship.
  - The document through which this contract is made is known as ‘Charter Party’ may also be known as ‘Voyage Charter’ or ‘Time Charter’

1. Explain different types of transport.

### A. Surface Transport

- Transport of people and goods by land vehicles is known as Surface transport.
- It is also called as 'Land Transport
- TYPES
  - ❖ **Pack Animals**
  - ❖ **Bullock Carts**
  - ❖ **Road Transport**
  - ❖ **Motor Lorries and Buses**
  - ❖ **Tramways**
  - ❖ **Railway Transport**

### B. Water Transport

- ❖ Water transport is the process of moving people, goods etc. by barge, boat, ship or sailboat over a sea, ocean, lake, canal, river, etc.
- ❖ This category does not include articles on the transport of water for the purpose of consuming the water.
- ❖ Water Transports are of two types
  - (i) **Inland Waterways**
- ❖ Inland Waterways comprise of rivers, canals and lakes.
- ❖ It is also known as internal water transport.
- ❖ Rivers that are naturally navigable are called natural waterways.
- ❖ Canals and canalized rivers belong to the category of 'Artificial Waterways'.
- (ii) **Ocean or Sea Transport**
- ❖ International trade owes its growth to ocean transport.
- ❖ Ocean transport enjoys a pride of place in aiding international trade.
- ❖ Cheapness is its great virtue. In the transportation of low-grade, bulky goods among the countries,
- ❖ the role of ocean transport is commendable.

### C. Air Transport

- ❖ Air transport is the fastest and the costliest mode of transport. Commercial air transport is now one of the most prominent modes of overseas transport
- ❖ Air transport is a form of travel in vehicles such as helicopters, hot air balloons, blimps, gliders, hang gliding, parachuting, airplanes, jets or anything else that can sustain flight

#### 2. Discuss the advantages of transport.

##### A. Better Production in both Agriculture and Industrial Sectors:

- ❖ Transport system has helped in the growth in industrial and agricultural production.
- ❖ It has been transporting raw materials and labour to the places of production and by carrying the products produced by these sectors to different parts of the country and other countries of the world.

##### B. Reduction in Cost of Production:

- ❖ The transportation network reduces the cost of manufactured goods and lowers the price in the markets.

##### C. Reduction in Scarcity:

- ❖ It helps in solving the problem of scarcity of goods and factors in different regions of the country.
- D. Growth in Foreign Trade
  - ❖ It helps in promoting foreign trade of the country. A country's exports/imports cannot develop without good ports, shipping and cargo facilities.
  - ❖ Thus, transportation system makes a network for transactions among different regions as well as with other countries.
- E. Specialization of Labour and Mobilization of Resources:
  - ❖ By the efficient and effective transportation system, the benefits of specialization of labour and proper mobilization can be achieved.
  - ❖ Thus, an economic system makes the best use of resources through good transport system.
- F. Promotion of Tourism
  - ❖ An ideal transportation promotes tourism system or services all over the country.
- G. Expands the Market:
  - ❖ Markets for both industrial and agricultural produce expand both on the domestic and international front with the expansion of transport network.

## 15 INSURANCE

1. List any five important type of life insurance policies.

**Whole Life Policy**

**Endowment Life Assurance Policy**

**Joint Life Policy (JLP)**

**Annuity Policy**

**Children's Endowment Policy**

2. What is health insurance?

- Health insurance is a type of insurance coverage that covers the cost of an insured individual's medical and surgical expenses.

1. Define Insurance.

"Insurance is a plan by themselves which large number of people associate and transfer to the shoulders of all, risk that attacks to individuals" - **John Mergo**

2. Give the meaning of crop insurance

- Crop insurance is purchased by agricultural producers, and subsidized by the federal government, to protect against either the loss of their crops due to natural disasters, such as hail, drought, and floods, or the loss of revenue due to declines in the prices of agricultural commodities.
- The two general categories of crop insurance are called crop-yield insurance and crop-revenue insurance

3. Write a note on IRDAI



- IRDAI – Insurance Regulatory Development and Authority of India is the statutory, independent and apex body that governs, regulates and supervises the Insurance Industry in India.
- It was constituted in the year 2000 by Parliament of India Act called IRDAI Act, 1999.
- Presently IRDAI headquarters is in Hyderabad.

### 1. Explain the various types of Insurance

#### 1. Life Insurance (or) Life Assurance

- Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is life of human being.
- The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period.
- This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced. Under personal insurance a payment is made at the accident.

#### 2. Non-life Insurance (or) General Insurance

- The general insurance includes property insurance, liability insurance and other forms of insurance.
- Fire and marine insurances are strictly called property insurance. Motor, theft, fidelity and machine insurances include the extent of liability insurance to a certain extent.
- The strictest form of liability insurance is fidelity insurance, whereby the insurer compensates the loss to the insured when he is under the liability of payment to the third party.

It can be further classified into:

#### (i) Fire Insurance;

- Fire insurance covers risks of fire. In the absence of fire insurance, the fire waste will increase not only to the individual but to the society as well.
- With the help of fire insurance, the losses, arising due to fire are compensated and the society is not losing much.

#### (ii) Marine Insurance;

- Marine insurance provides protection against loss of marine perils. The marine perils are collision with rock, or ship attacks by enemies, fire and capture by pirates, etc.
- These perils cause damage, destruction or disappearance of the ship and cargo and non-payment of freight.

#### (iii) Health Insurance

- Health insurance is a type of insurance coverage that covers the cost of an insured individual's medical and surgical expenses

2. Explain the principles of insurance.

**1. Utmost Good Faith**

- According to this principle, both insurer and insured should enter into contract in good faith.
- Insured should provide all the information that impacts the subject matter.
- Insurer should provide all the details regarding insurance contract

**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.

**3. Indemnity**

- Indemnity means security or compensation against loss or damages. In insurance, the insured would be compensated with the amount equivalent to the actual loss and not the amount exceeding the loss.

**4. Causa Proxima**

- The word 'Causa proxima' means 'nearest cause'.
- According to this principle, when the loss is the result of two or more cause, the proximate cause, i.e. the direct.
- 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.

**5. Contribution**

- The same subject matter may be insured with more than one insurer then it is known as 'Double Insurance'.
- In such a case, the insurance claim to be paid to the insured must be shared on contributed by all insurers in proportion to the sum assured by each one of them.

**6. Subrogation**

- Subrogation means 'stepping the shoes on others'.
- 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.

**7. Mitigation**

- In case of a mishap, the insured must take off all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance.

3. Discuss the causes of risk

**I. Business Risks Arise Due to Uncertainties**

- Uncertainty refers to the lack of knowledge about what is going to happen in the future.
- Natural calamities, change in demand and prices, changes in government policy, improvement in technology, are some of the examples of uncertainty which create risks for business because the outcome of these future events is not known in advance.

**II. Risk is an Essential Part of Business**

- Every business has some risk.
- No business can avoid risk, although the amount of risk may vary from business to business.

- Risk can be minimized, but cannot be eliminated
- III. **Degree of Risk Depends Mainly Upon the Nature and Size of Business**
  - Nature of business (i.e. type of goods and services produced and sold) and size of business (i.e., volume of production and sale) are the main factors which determine the amount of risk in a business
- IV. **Profit is the Reward for Risk Taking:**
  - 'No risk, no gain' is an age-old principle which applies to all types of business.
  - Greater the risk involved in a business, higher is the chance of profit.
  - An entrepreneur undertakes risks under the expectation of higher profit.
  - Profit is thus the reward for risk taking.

## 16 emerging service business in India

1. Who is a franchisee?
  - The individual who acquires the right to operate the business or use the trademark of the seller is known as the franchisee
2. State two disadvantages of franchising?
  - Fixed royalty payment:**
    - The franchisee has to make payment of royalty to the franchiser on a regular basis. This considerably reduces the income of the franchisee
  - Franchising fees:**
    - The initial franchising fee and the subsequent renewal fees can be very high in case of successful businesses.
    - From the franchisee's point of view, this may be a deterrent.
3. Who is a factor?
  - A factor is a type of trader who receives and sells goods on commission (called factorage).
  - A factor is a mercantile fiduciary transacting business in his own name and not disclosing his principal.
  - A factor differs from a commission merchant in that the former takes possession of goods (or documents of title representing goods, e.g. a bill of lading) on consignment, whereas the latter sells goods not in his possession on the basis of samples
4. Define outsourcing
  - Mr.C.S.Kalyanasundaram defines factoring as "*a continuing arrangement under which a financing institution assumes the credit and collection functions for its clients, purchases receivables as they arise (with or without recourse for credit losses, i.e., the customer's financial inability to pay), maintains the sales ledgers, attends to other book-keeping duties relating to such accounts, and performs other auxiliary duties*".
5. What is need for outsourcing?
  - outside help to take care of their business tasks and functions,
  - to help a business operate smoothly.
  - Business owners and corporations do this as a part of efficient management.

- All business owners and corporations know that a sign of efficient management is delegation
- 6. State the importance of BPO
  - To focus on key function
  - benefit of specialization / efficiency
  - cost cutting
  - Economic growth and development
  - Increasing profit
  - Catering to the dynamic demand
- 7. What are the benefits of KPO?
  - Usage of best skills
  - Ultimate use of knowledge
  - Finding solution to complex problem
  - Reduction of expenditure
  - Special focus on principal functions
  - Outsourcing reduces risk
- 8. Define Logistics.
  - Logistics Management is defined as 'Design and operation of the physical, managerial, and informational systems needed to allow goods to overcome time and space (from the producer to the consumer)'.
- 9. What is the need for Logistics?

Or

- 10. Write about the importance of Logistics.
  - Meeting customer demand and providing superior service is one of the most important benefits of good logistics management
  - Logistics management is also important for creating visibility into a company's supply chain
- 11. What are the types of Logistics Applications?
  - i. Forecasting Models
  - ii. Mathematical Programming Models
    - Location Models, Allocation Models, Distribution Network Design Models
  - iii. Inventory Models
  - iv. Routing Models
  - v. Scheduling Models
  - vi. Alternatives Analysis
- 12. What do you mean by e-commerce?
  - E - Commerce or Electronic Commerce is the buying and selling of goods and services through electronic networks like internet

- 1. What are the types of franchising?

### **Product Franchising**

Under this, dealers were given the right to distribute goods for a manufacturer. For this right, the dealer pays a fee for the right to sell the trademarked goods of the producer.

## Manufacturing Franchising

Under this arrangement, the franchisor (manufacturer) gives the dealer (bottler) the exclusive right to produce and distribute the product in a particular area.

### Business-format Franchising:

Business-format franchising is an arrangement under which the franchisor offers a wide range of services to the franchisee, including marketing, advertising, strategic planning, training, production of operations manuals and standards and quality – control guidance.

#### 2. List the steps in factoring process.

Step I. The customer places an order with the seller (the client).

Step II. The factor and the seller enter into a factoring agreement about the various terms of factoring.

Step III. Sale contract is entered into with the buyer and the goods are delivered. The invoice with the notice to pay the factor is sent along with.

Step IV. The copy of invoice covering the above sale is sent to the factors, who maintain the sales ledger.

Step V. The factor prepays 80% of the invoice value

Step VI. Monthly Statements are sent by the factor to the buyer.

Step VII. If there are any unpaid invoices follow up action is initiated.

Step VIII. The buyer settles the invoices on expiry of credit period allowed.

Step IX. The balance 20% less the cost of factoring is paid by the factor to the client.

#### 3. Explain the points of differences between Logistics and Supply Chain Management.

	Logistics	Supply Chain Management
<i>Goals and Aims</i>	Customer Satisfaction	Competitive advantage
<i>Organizations Involved</i>	Single Organization Involved	Multiple Organizations Involved
<i>Evolution and Development</i>	Traditional	Modern
<i>Relationship with One Another</i>	Within Supply Chain Management	Incorporates Logistics
<i>Relationship With Other Departments</i>	Minimal Relationship with other Departments	Significant Interactions with other Departments

4. What is the impact of e-commerce on buyers?

- Buyers could have a global access to information about variety of products and services available in the market
- They could buy the products/services round the clock from anywhere in world
- Electronic and software products could be downloaded immediately after purchase through e – commerce mode
- Individuals could sell their used products through e – commerce mode with relative ease.

1. Enumerate the characteristics of franchising.

- It is an agreement to sell the products or services of some owner paying him / her specified fee or commission.
- It does not give franchisee the ownership of the product or service
- It is an agreement for a fixed period of time ranging from five years to thirty five years.
- It is a replication of some successful business format.
- It takes place in case of businesses with a good track record of profitability
- It applies to business which are easily duplicated and replicated.
- It can be terminated before the expiry of franchising period
- In franchising, one is in business/or oneself not by oneself.
- It is a turnkey (complete) operation in which franchiser dictates most of the operation, from store hours to the colour of the carpet,

2. Elucidate the features of factoring.

**(i) Credit Cover:**

The factor takes over the risk burden of the client and thereby the client's credit is covered through advances.

**(ii) Case advances**

The factor makes cash advances to the client within 24 hours of receiving the documents.

**(iii) Sales ledgering**

As many documents are exchanged, all details pertaining to the transaction are automatically computerized and stored.

**(iv) Collection Service**

The factor, buys the receivables from the client, they become the factor's debts and the collection of cheques and other follow-up procedures are done by the factor in its own interest.

**(v) Provide Valuable advice**

The factors also provide valuable advice on country-wise and customer-wise risks. This is because the factor is in a position to know the companies of its country better than the exporter clients.

3. Describe the benefits of Outsourcing.

**1. Focusing on Core Activities**

- Companies can focus on their core competence, a few areas where the company has distinct capability.
- The rest of the activities (non core ) can be outsource to outside agencies.

**2. To Fill up Economic Development**

- Outsourcing stimulates entrepreneurship, encourages employment opportunities, expands exports, enables tremendous growth of the economy.

**3. Encourages Employment Opportunities**

- Companies that are outsourcing their non core activities provide chances for other small business units to take up the activities.
- This paves way for more job opportunities and new employment avenues

**4. Reduction in Investment**

- Companies through outsourcing avails the services of outsiders which in turn reduces the investment requirements.
- The amount so available can be utilized productively and this increases the profits

**5. Quest for Excellence**

- Outsourcing enables the firms to pursue excellence in two ways namely excelling themselves in the activities they do and excel outsiders by extending their capabilities through contracting out

4. Explain the points of differences between BPO and KPO

BASIS	BPO	KPO
Acronym	Business Process Outsourcing	Knowledge Process Outsourcing
Meaning	BPO refers to the outsourcing of non-primary activities of the organization to an external organization to minimize cost and increase efficiency.	KPO is another kind of outsourcing whereby, functions related to knowledge and information are outsourced to third party service providers.
Based on	Rules	Judgement
Degree of complexity	Less complex	High complex
Requirement	Process Expertise	Knowledge Expertise
Relies on	Cost arbitrage	Knowledge arbitrage
Driving force	Volume driven	Insights driven

5. Write a note on e-commerce models.

**1. Business to Customers (B 2 C)**

- This is fastest growing segment in e –commerce spare.
- Under this model, business concern sells directly to consumers

**2. Business to Business (B 2 B)**

- Under the model, business concerns transact with one another through internet.
- For instance, Snapdeal, Filipkart, Alibaba, Indamart, Trade India. Com etc.

**3. Consumer to Consumer (C 2 C)**

- Under this model, customers sell directly to other customers through online classified advertisement or through auction or through mobile or through market places.

**4. Customer to Business (C 2 B)**

- This model is reverse to auction model.
- Products like automobile, electronic items furniture and smilar product are traded by customer through websites

**5. Business to Government (B 2 G)**

- This model envisages selling products and services by business consumer to Government organization