

CHAPTER 4

Business Services

CBSE Class 11 · Business Studies · Chapter 4

CBSE · Business Studies · Class 11

WHAT THIS CHAPTER DOES

A Distinguish a service from a good on five features.

B Explain the functions of a commercial bank and the types of accounts.

Boards prep that builds confidence, not anxiety.

TODAY'S MISSION

Today's mission

1

Distinguish a service from a good on five features.

2

Explain the functions of a commercial bank and the types of accounts.

3

Master e-banking — RTGS, NEFT, ECS and cards.

4

State the principles and types of insurance.

5

Score 9/10 marks on this chapter's slice.

WHY THIS MATTERS

Why this chapter matters

- 1 8-10 marks in every Class 11 term/annual paper.
- 2 Banking and insurance are the two biggest scoring areas of the whole subject.
- 3 Builds directly on the 'auxiliaries to trade' you met in Chapter 1.

TOPIC

A

Nature of services

THEOREM · LOAD-BEARING RESULT

What is a Service?

“ A service is an identifiable but **INTANGIBLE** activity that is the object of a transaction designed to satisfy a want; it is essentially produced and consumed at the same time and does **NOT** result in the ownership of anything.

STATEMENT

Services are classified into **BUSINESS services** (banking, insurance, transport, warehousing, communication — supporting trade and industry), **SOCIAL services** (health, education — for

WHY THIS MATTERS

- Goods are useless unless services move, finance, protect, store, and inform about them
- Business services are the invisible machinery that lets modern trade and industry function — which is why they are studied as a chapter in their own right.

WATCH OUT FOR

NOTE A service is not the same as a good. You can return a faulty good; you cannot return a poor haircut or a missed flight — services are intangible and perishable.

TOPIC

The five features that set services apart

INTANGIBILITY

Services are **INTANGIBLE** — they cannot be touched, seen, tasted, or stored before they are bought, unlike a physical good that you can hold and inspect. You experience a doctor's consultation, an airline flight, or a banking transaction, but you cannot pick any of them up or keep them on a

INCONSISTENCY (HETEROGENEITY)

Services suffer from **INCONSISTENCY** — they cannot be standardised the way goods can, because their quality varies with **WHO** delivers them, **WHEN**, and **HOW**. Two haircuts from two barbers, or even from the same barber on two days, differ; a teacher's lesson varies class to

INSEPARABILITY

Services show **INSEPARABILITY** — their production and consumption happen **SIMULTANEOUSLY** and cannot be separated from the provider. A doctor's diagnosis is consumed at the very moment it is produced; a singer's performance is delivered and enjoyed together. This is unlike a

PERISHABILITY

Services are **PERISHABLE** — they cannot be stored, stocked, or carried forward for sale at a later time. An empty airline seat, an unoccupied hotel room for the night, or an idle hour of a consultant's time is lost forever and can never be sold again. Goods, by contrast, can

TOPIC

B

Banking — types of banks

TOPIC

What a bank is & the kinds of banks

MEANING OF A BANK

A BANK is an institution that deals in money and credit — it accepts deposits of money from the public for the purpose of lending or investment, and repays those deposits on demand or after a fixed period, while providing a range of other financial services. The bank

COMMERCIAL & CENTRAL BANKS

A COMMERCIAL BANK is the everyday bank that accepts public deposits and advances loans for profit (e.g. SBI, HDFC); it serves individuals and businesses and is the focus of this chapter. The CENTRAL BANK (the Reserve Bank of India) is the apex

COOPERATIVE, SPECIALISED & RURAL BANKS

Beyond commercial and central banks, the system includes several other types. COOPERATIVE banks are set up under cooperative societies law to give cheap credit to farmers, small traders and weaker sections. SPECIALISED /

TOPIC

C

Functions of a commercial bank

WORKED EXAMPLE

Primary & secondary functions, step by step

- 1** PRIMARY FUNCTION 1 — ACCEPTING DEPOSITS: the bank mobilises public savings into SAVINGS deposits (thrift, interest, limited withdrawals), CURRENT deposits (business use, frequent withdrawals, overdraft, little interest), RECURRING deposits (a fixed sum every month), and FIXED/TERM deposits (a lump sum locked for a fixed period at higher interest).
- 2** PRIMARY FUNCTION 2 — ADVANCING LOANS: the bank lends the pooled deposits through CASH CREDIT, OVERDRAFT (drawing beyond the current-account balance up to a limit), TERM LOANS, and DISCOUNTING OF BILLS of exchange. Interest on these advances is the bank's main income.
- 3** SECONDARY FUNCTION — AGENCY SERVICES (performed as the customer's agent): collecting cheques, bills and dividends; paying rent, insurance premiums and bills on standing instructions; transferring funds; and buying/selling securities for clients.
- 4** SECONDARY FUNCTION — GENERAL UTILITY SERVICES: providing safe-deposit lockers, issuing demand drafts and letters of credit, dealing in foreign exchange, underwriting securities, and giving trade information.

TOPIC

The four types of deposit accounts

SAVINGS ACCOUNT

A SAVINGS deposit account is meant for individuals and households to encourage the habit of THRIFT and saving small amounts. It pays a modest rate of INTEREST and usually places a LIMIT on the number or value of withdrawals over a period, so that the funds are not treated like a

CURRENT ACCOUNT

A CURRENT (or demand) deposit account is designed for BUSINESSMEN and firms who make a large number of transactions every day. It allows UNLIMITED deposits and withdrawals, pays LITTLE OR NO interest (because the money is constantly moving), and uniquely offers the OVERDRAFT

RECURRING DEPOSIT ACCOUNT

A RECURRING deposit account lets a depositor pay in a FIXED sum of money every MONTH for an agreed period, after which the total plus interest is repaid. It is aimed at people with a regular income who want to build a lump sum gradually through disciplined monthly

FIXED / TERM DEPOSIT ACCOUNT

A FIXED or TERM deposit account holds a LUMP SUM of money locked in for a FIXED period (from a few months to several years), during which it cannot normally be withdrawn without penalty. In return for surrendering liquidity, the depositor earns the HIGHEST rate of interest

TOPIC

D

E-banking & electronic funds transfer

TOPIC

Banking goes electronic

MEANING & BENEFITS OF E-BANKING

E-BANKING (electronic or internet banking) means conducting banking transactions through electronic channels — the internet, mobile apps, ATMs, and cards — without visiting a branch. Its BENEFITS are substantial: it offers round-

RTGS, NEFT AND ECS

Electronic Funds Transfer (EFT) moves money between accounts electronically. RTGS (Real Time Gross Settlement) settles each transaction INDIVIDUALLY and in REAL TIME, transaction by transaction, and is meant for LARGE-VALUE transfers (it carries a minimum amount).

CARDS & DIGITAL CHANNELS

Modern banking relies on payment CARDS and digital channels. A DEBIT card draws directly on the customer's own bank balance, while a CREDIT card lets the holder spend on the bank's credit up to a limit and pay later. ATMs (Automated Teller Machines) allow cash

TOPIC

E

Insurance — principles

THEOREM · LOAD-BEARING RESULT

What is Insurance?

Insurance is a contract (policy) by which the insurer agrees, in exchange for a consideration called the PREMIUM, to compensate the insured for a specified loss caused by a specified risk. It spreads the loss of the few over the many, providing protection and certainty.

STATEMENT

Insurance rests on the principle of **COOPERATION/POOLING** — many people pay small premiums into a common fund, and the few who actually suffer a loss are compensated from that fund.

WHY THIS MATTERS

- Business risk cannot be eliminated, only transferred
- Insurance lets a trader convert an uncertain large loss (a fire, a wreck) into a certain small cost (the premium), giving the confidence to invest and operate on a large scale.

WATCH OUT FOR

NOTE Insurance is NOT gambling. The insured must have an insurable interest and can recover only the actual loss (indemnity) — you cannot profit from insuring something.

TOPIC

The six principles of insurance

UTMOST GOOD FAITH & INSURABLE INTEREST

UTMOST GOOD FAITH (uberrimae fidei) requires BOTH parties to disclose every material fact truthfully and completely; the insured must reveal the true condition of the subject (health, the state of the property), and any

INDEMNITY & CONTRIBUTION

INDEMNITY means the insured is placed in the same financial position as before the loss and is compensated only for the ACTUAL loss suffered — never more, so no profit is allowed. It applies to FIRE and MARINE insurance but NOT to LIFE insurance, because human life cannot

SUBROGATION & CAUSA PROXIMA

SUBROGATION means that once the insurer has fully compensated the insured for a loss, the insurer 'steps into the shoes' of the insured and acquires all RIGHTS and remedies over the damaged property or against any third party responsible — so the

TOPIC

Life, fire & marine insurance

LIFE INSURANCE

LIFE INSURANCE is a contract in which the insurer agrees to pay a fixed sum either on the death of the insured or on the maturity of the policy after a set term, in return for regular premiums. Because human life cannot be valued in money, it is a 'contract of ASSURANCE'

FIRE INSURANCE

FIRE INSURANCE is a contract to indemnify the insured against loss or damage to property caused by FIRE during an agreed period, up to the insured amount, in exchange for a premium. It is a contract of INDEMNITY — the insured recovers only the actual loss.

MARINE INSURANCE

MARINE INSURANCE covers the risks connected with sea voyages — loss of or damage to the SHIP (hull insurance), the CARGO carried (cargo insurance), and the FREIGHT (freight insurance) due to perils of the sea such as storms, collisions, sinking, or piracy. It is one of the oldest

TOPIC

F

Transport, warehousing & communication

TOPIC

Moving, storing & connecting trade

TRANSPORT SERVICES

TRANSPORT is the business service that carries raw materials to factories and finished goods to markets, removing the hindrance of PLACE and creating place utility. Its main modes are ROADWAYS (flexible, door-to-door, suited to short distances and perishables).

WAREHOUSING SERVICES

WAREHOUSING is the business service of STORING goods safely from the time they are produced until they are demanded, removing the hindrance of TIME and creating time utility — vital for goods produced seasonally but consumed all year (wheat, woollens). Its

COMMUNICATION SERVICES

COMMUNICATION services link buyers and sellers and carry information, removing the information hindrance and tying the other business services together. They fall into two broad groups: POSTAL services — letters, parcels, registered and speed post, money orders, and

TOPIC

Goods vs services

TRAP → TRUTH

× **MISTAKE** Services are just like goods — both are products you buy, so there is no real difference.

✓ **CORRECT** Services differ from goods on FIVE features. **INTANGIBILITY** — services cannot be touched, seen, or stored (you feel a haircut, you don't hold it). **INCONSISTENCY** (heterogeneity) — services cannot be standardised; each delivery varies with who provides it. **INSEPARABILITY** — production and consumption happen simultaneously and cannot be separated (a doctor's consultation is consumed as it is produced). **PERISHABILITY** — services cannot be stored for later sale (an empty airline seat is lost forever). **INVOLVEMENT** — the customer participates in the creation of the service. Goods have none of these to the same degree.

TOPIC

RTGS vs NEFT

TRAP → TRUTH

- × **MISTAKE** RTGS and NEFT are the same thing — both just transfer money online.
- ✓ **CORRECT** Both are electronic funds transfer systems but they work differently. RTGS (Real Time Gross Settlement) settles transactions INDIVIDUALLY and in REAL TIME, transaction by transaction, and has a MINIMUM amount (large-value transfers). NEFT (National Electronic Funds Transfer) settles in BATCHES at fixed intervals (now near-continuous) and has NO minimum amount, suiting smaller transfers. Confusing 'real-time individual' (RTGS) with 'batch' (NEFT) costs marks.

TOPIC

Insurable interest

TRAP → TRUTH

× **MISTAKE** You can insure anything you like, even your neighbour's house or a stranger's life.

✓ **CORRECT** INSURABLE INTEREST means the insured must stand to gain from the existence of the subject and lose from its destruction — i.e. have a financial/pecuniary interest in it. You CAN insure your own house, your own life, or your spouse's life; you CANNOT insure a stranger's car or your neighbour's house, because you suffer no financial loss if it is destroyed. Without insurable interest the contract is void — this is what separates insurance from gambling.

TOPIC

Indemnity in life insurance

TRAP → TRUTH

- × **MISTAKE** The principle of indemnity applies to every kind of insurance, including life insurance.
- ✓ **CORRECT** INDEMNITY means the insured is compensated only for the ACTUAL loss suffered — no profit is allowed. It applies to FIRE and MARINE insurance (you get back only your real loss). It does NOT apply to LIFE insurance, because human life cannot be valued in money; life insurance is a 'contract of assurance' that pays a fixed agreed sum. Saying indemnity covers life insurance is a classic CBSE error.

TOPIC

Current vs savings account

TRAP → TRUTH

- × **MISTAKE** Savings and current accounts are the same — both just hold your money.
- ✓ **CORRECT** They serve different users. A SAVINGS account is for individuals/households to encourage thrift; it pays INTEREST and limits the number of withdrawals. A CURRENT account is for businessmen/firms with frequent transactions; it pays LITTLE OR NO interest, allows UNLIMITED withdrawals, and offers the overdraft facility. Mixing up the interest and withdrawal rules loses marks.

TOPIC

Subrogation vs contribution

TRAP → TRUTH

× **MISTAKE** Subrogation and contribution mean the same thing in insurance.

✓ **CORRECT** They are different. SUBROGATION — once the insurer has compensated the insured for a loss, the insurer 'steps into the shoes' of the insured and acquires the RIGHTS over the damaged property/claim (so the insured cannot profit from selling the salvage too). CONTRIBUTION — when the SAME subject is insured with MORE THAN ONE insurer, each insurer shares the loss in proportion, so the insured cannot recover more than the actual loss from multiple policies. Both prevent profit, but by different mechanisms.

TOPIC

Banks only keep money

TRAP → TRUTH

× **MISTAKE** A commercial bank's only job is to keep people's money safe.

✓ **CORRECT** Accepting deposits is only ONE of a bank's PRIMARY functions; the other is ADVANCING LOANS (cash credit, overdraft, term loans, discounting bills). On top of these, banks perform SECONDARY functions — AGENCY services (collecting cheques, paying bills, transferring funds, buying/selling securities) and GENERAL UTILITY services (lockers, letters of credit, foreign exchange, issuing drafts). A bank is a financial intermediary, not a safe-deposit box.

TOPPER TEMPLATE · MARK-BY-MARK

5-6 mark: 'Explain the functions of a commercial bank.'

- | | |
|---|--|
| <p>1 TWO HEADS OF FUNCTIONS
1 m</p> | <p>A commercial bank performs two broad sets of functions: PRIMARY functions (accepting deposits and advancing loans — its core banking business) and SECONDARY functions (agency services and general utility services).</p> |
| <p>2 PRIMARY — ACCEPTING DEPOSITS
2 m</p> | <p>ACCEPTING DEPOSITS: the bank mobilises public savings through four account types — SAVINGS (for thrift, limited withdrawals, interest), CURRENT (for businessmen, frequent withdrawals, overdraft, little interest), RECURRING (a fixed sum deposited monthly), and FIXED/TERM (a lump sum locked for a period at higher interest).</p> |
| <p>3 PRIMARY — ADVANCING LOANS
1 m</p> | <p>ADVANCING LOANS: the bank lends the deposited funds through CASH CREDIT, OVERDRAFT (withdrawal beyond balance on a current account), TERM LOANS, and DISCOUNTING OF BILLS of exchange — earning interest, which is its main income.</p> |
| <p>4 SECONDARY — AGENCY SERVICES
1 m</p> | <p>AGENCY functions performed for customers: collecting cheques and bills, collecting dividends/interest, paying rent/insurance premiums/bills on standing instructions, transferring funds, and buying/selling securities.</p> |
| <p>5 SECONDARY — GENERAL UTILITY SERVICES
1 m</p> | <p>GENERAL UTILITY services: providing lockers for safe custody of valuables, issuing demand drafts and letters of credit, dealing in foreign exchange, and underwriting securities.</p> |

TOPPER TEMPLATE · MARK-BY-MARK

5-6 mark: 'Explain the principles of insurance.'

- 1** **UTMOST GOOD FAITH**
1 m

UTMOST GOOD FAITH (uberrimae fidei): both parties must disclose ALL material facts truthfully. The insured must reveal the true condition of the subject (health, property); concealment makes the contract voidable.
- 2** **INSURABLE INTEREST**
1 m

INSURABLE INTEREST: the insured must have a financial/pecuniary interest in the subject — must gain from its existence and lose from its loss. You may insure your own house or your own/spouse's life, not a stranger's property. This separates insurance from gambling.
- 3** **INDEMNITY**
1 m

INDEMNITY: the insured is compensated only for the ACTUAL loss suffered, never more — no profit is allowed. It applies to FIRE and MARINE insurance but NOT to LIFE insurance, since human life cannot be valued in money.
- 4** **CONTRIBUTION**
1 m

CONTRIBUTION: where the SAME subject is insured with MORE THAN ONE insurer, all insurers share the loss in proportion, so the insured cannot recover more than the actual loss from multiple policies.
- 5** **SUBROGATION (+ CAUSA PROXIMA)**
1 m

SUBROGATION: after paying the claim, the insurer acquires the insured's rights over the damaged property, so the insured cannot also profit from the salvage. CAUSA PROXIMA — the loss must arise from the nearest (proximate) insured cause.

TOPPER TEMPLATE · MARK-BY-MARK

4-5 mark: 'Distinguish between goods and services / state the features of services.'

- | | |
|---|---|
| <p>1 INTANGIBILITY
1 m</p> | <p>SERVICES are INTANGIBLE — they cannot be touched, seen, tasted, or stored before purchase (you experience a flight, you cannot hold it). GOODS are tangible physical objects you can own and possess.</p> |
| <p>2 INCONSISTENCY / INSEPARABILITY
1 m</p> | <p>INCONSISTENCY (heterogeneity) — services cannot be standardised; quality varies with the provider and occasion. INSEPARABILITY — a service is produced and consumed simultaneously and cannot be separated from its provider. Goods are standardised and can be produced now and consumed later.</p> |
| <p>3 PERISHABILITY
1 m</p> | <p>PERISHABILITY — services cannot be stored for future sale; an unsold airline seat or hotel room for the night is lost forever. Goods can be stored in inventory and sold later.</p> |
| <p>4 INVOLVEMENT
1 m</p> | <p>INVOLVEMENT — the customer participates in the creation/delivery of the service (a patient describing symptoms, a diner specifying an order). In the case of goods, the buyer need not be present during production.</p> |
| <p>5 CONCLUSION
1 m</p> | <p>Thus services are intangible, inconsistent, inseparable, perishable, and involve the customer — five features that clearly mark them off from physical goods.</p> |

PYQ PATTERNS

Top PYQ patterns to drill

#1	Explain the functions of a commercial bank (primary and secondary). (5-6 marks)	Most terms
#2	Explain the principles of insurance. (5-6 marks)	Annual
#3	Distinguish between goods and services / state the features of services. (4-5 marks)	Annual
#4	Explain e-banking and its benefits / distinguish RTGS and NEFT. (3-4 marks)	Most terms
#5	Explain the types of bank deposit accounts OR types of insurance. (3-4 marks)	Most terms

RECAP · MEMORISE THESE

Recap

1 Services vs goods —
Five features:
INTANGIBILITY,
INCONSISTENCY,
INSEPARABILITY,
PERISHABILITY,
INVOLVEMENT — all
distinguishing a
service from a
physical good.

2 Banking —
Commercial-bank
functions = PRIMARY
(deposits — savings/
current/recurring/
fixed — + loans) and
SECONDARY (agency
+ general utility). E-
banking: RTGS (real-
time) vs NEFT (batch),
ECS, cards.

3 Insurance — Six
principles: utmost
good faith, insurable
interest, indemnity
(NOT life),
contribution,
subrogation, causa
proxima. Types: life,
fire, marine.

WHAT'S NEXT

What's next

- Chapter 5 — Emerging Modes of Business (e-business and outsourcing).
- Sit the 15-MCQ Quick Drill.
- Then the full annual-pattern paper — 30 marks.

You've mastered Chapter 4 of Business Studies.

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