Gujarat Board Textbook Solutions Class 11 Organization of Commerce and Management Chapter 2 Business Services-1

1. Select the correct alternative and write answers to the following questions :

Question 1. Which of the following principle is not an insurance principle?
(A) Principle of utmost good faith
(B) Principle of indemnity
(C) Principle of insurable interest
(D) Principle of profit
Answer:
(D) Principle of profit

Question 2. Which type of insurance is ancient and widely prevalent?
(A) Goods transit insurance
(B) Marine insurance
(C) Air insurance
(D) Rail/road insurance
Answer:
(B) Marine insurance

Question 3. How much can foreign insurance companies invest in Indian insurance companies?
(A) 25%
(B) 49%
(C) 74%
(D) 100%
Answer:
(B) 49%

Question 4. How much amount is paid for Kisan Vikas Patra on maturity?
(A) Double
(B) Triple
(C) Four times
(D) Five times
Answer:
(A) Double

Question 5. Which type of insurance involves highest risk out of the following?
(A) Goods transit insurance
(B) Marine insurance
(C) Air insurance
(D) Rail/road insurance

Answer:
(C) Air insurance

Question 6. In which types of money order service money does not reach the doorstep of the receiver?
(A) Ordinary money order
(B) Instant money order
(C) e-money order
(D) Special money order
Answer:
(B) Instant money order

2. Answer the following questions in one sentence each :

Question 1. What is insurance?
Answer:
Insurance is a written contract or agreement between two parties. The party that provides insurance is called insurer' and the party that receives the insurance is called insuree'.

Question 2. What is insurance policy?
Answer:
A contract signed between the insuree and the insurance company where in the company assures reimbursement of financial loss to the insuree is called insurance policy.

Question 3. What is life insurance?
Answer:
A contract signed between an individual i.e. insuree and the insurance company where in the company promises to pay a specific amount in exchange for a premium upon death of the insuree is called life insurance.

Question 4. Give the meaning of general insurance.
Answer:
Any insurance other than life insurance is called general insurance.

Question 5. State the fastest mode of transportation.
Answer:
Airways.

Question 6. Give the meaning of warehouse.
Answer:
A godown is a place for storing large amount of products before sending them the market for selling. The service of storing the products is called godown service or warehouse service.

Question 7. What is multiple unit train?
Answer:
A multiple unit (MU) train is a train where in there are multiple units that drive the train rather than one engine for the entire train.

3. Answer the following questions in short :

Question 1. State the principles of insurance.
Answer:
Principles of insurance are as follows:

1. Principle of utmost good faith
2. Principle of indemnity
3. Principle of insurable interest
4. Principle of subrogation

Question 2. Give a list of types of General Insurance
Answer:
General insurance:

- Any insurance other than life insurance is known as general insurance.

General insurance can be classified into three main types. They are:
(a) Goods transportation insurance:
This includes:
- Marine insurance
- Air insurance
- Rail/road insurance

(b) Fire insurance
(c) Other general insurance

Question 3. Life insurance does not apply to the loss-compensation principle – why?
Answer:
Since life is considered precious and there cannot be a fixed value assigned to one's life, a pre-decided amount is fixed by the insuree based on his capacity to pay the premium. Because of this reason, life insurance does not apply to the loss-compensation principle.

Question 4. Write a note on Health Insurance.
Answer:
Health insurance:

- Health insurance is a type of general insurance that covers the cost of a person's medical and surgical expenses.
- It is quite useful in case of illness, accidents, etc.

- A person needs to take the health policy for a year and needs to renew it every year before the policy expires.

Question 5. Write a note on Public Provident Fund scheme.
Answer:
Under PPF a depositor can open a PPF account in post office with a minimum amount of rupees 500. He needs to maintain this account for 15 years by depositing a minimum amount of ₹ 500 per annum.

Question 6. For what kind of products Pipeline transit is most suitable?
Answer:
For transporting liquid and gaseous products such as oil, petrol, PNG, CNG, water, etc.

4. Answer the following questions in brief :

Question 1. What is the principle of Utmost Good Faith?
Answer:
Principle of utmost good faith:

- The main objective of selling insurance is not profit but to fulfill specific social objectives of providing financial compensation in cases of pre-defined risks.
- This principle says that both the parties i.e. the insurer and insuree should have mutual and complete faith on each other. This means that the insuree will claim for financial losses only for genuine and pre-defined losses as mentioned in the insurance policy and the insuree will pay the full compensation in case of genuine claims raised by the insuree.
- While entering into an insurance contract both the parties i.e. the insurer and insuree should provide all the necessary information even if it is not asked by either party but if it is felt that the information may have an impact on the contract during claims.
- Any information that one hides and if it affects the claims made for financial loss can be termed as fraud and a breach of the principle of utmost good faith.
- In case the insuree provides wrong information or does not provide some important information during signing the contract and if he faces a financial loss, the insurance company i.e. the insurer will reject the claim and will not refund the paid premium. The insuree then loses all the rights of compensation for the risk.

Question 2. Explain principle of indemnity.
Answer:

- Indemnity means protection against future loss. The main objective of an insurance contract is to compensate a future loss.
- This principle is used to decide how much amount an insurance company needs to pay to the insuree in case he faces a loss.

- The insuree can only get the actual compensation for his loss and cannot earn profit i.e. cannot get additional amount other than pre-decide in his insurance policy.
- In case the insuree takes the insurance for a lesser amount then he will get only that much amount for which he has taken the insurance. The remaining loss will have to be borne by him.

Example:

- Assume that the price of a product is ₹ 5 lakh but a person takes insurance of only ₹ 2 lakh. If the product gets damaged completely, or if car is stolen, etc. he can claim an insurance of maximum ₹ 3 lakh only i.e. the insured value and not ₹ 5 lakh.
- In case the product is insured for ₹ 3 lakh and it gets damaged and estimate to repair the product is of ₹ 2 lakh, the insuree may get maximum ₹ 1,20,000 as compensation. This amount is proportioniate of the insured amount i.e. ₹ 3 lakh .
- In case the insuree has taken a full insurance i.e. of ₹ 5 lakh then in event of complete damage he will get the compensation of entire amount i.e. ₹ 5 lakh.

Question 3. Explain the principle of insurable interest.
Answer:
Principle of insurable interest:
The person seeking insurance should have insurable interest for which he ' seeks insurance. In other words, the insuree should have interest in recovering the financial loss he suffers. For example, if your house gets damaged/destroyed you will be interested in having a financial recovery for it but if your neighbour's house gets destroyed you may have sympathy but no insurable interest in his house.

Question 4. "Insurance does not remove risk, but it compensates for the loss resulting from the risk" Justify this statement.
Answer:

- As the civilization grows and world develops risks associated with the growth and development also rises.
  Risk of life, health, property, machinery, raw material, finished good, etc. are several types of risks that insurance covers.
- The risks that we face may be either man-made or natural. It is not in the hands of insurance companies to stop these risks. Their sole objective is to safeguard a person in case he faces any such risks.
- So, by taking insurance one cannot say he can stop the risks but he can surely say he can safeguard himself against the financial loss that might occur due to such risks.

Question 5. “Godown creates time utillity” – Discuss.
Answer:

- A godown is a place for storing large amount of products before sending them to the market for selling. The service of storing the products is called godown service or ware house service.
- Generally, after production a product is not immediately sold or consumed. On many occasions raw material or partly produced products also need to be stored for further processes.
- Some food items may be produced only during a specific season of the year but would require its storage.
- Some goods may be produced and stored in godowns but would be sold when the demand arises.
- Perishable goods like fruits, ice-cream, etc. need proper storage so that they can be distributed and sold as and when needed. Thus, godowns create time utility.

Question 6. What are special godowns? Explain with examples.
Answer:
Special (specific) godowns:

- Godowns used for storing goods that require special care, treatment and maintenance are called special or specific godowns.
- For example, goods such as explosive items, crackers, chemicals, cooking gas, petrol, etc. require special godowns. Perishable goods such as fruits, vegetables, milk and milk products, etc. also need to be stored in such godowns.
- These godowns are costlier to build and maintain. They need to adhere to several laws, rules and regulations too. For example, underground tanks needed to store petrol are prepared with special types of bricks and building materials.

5. Answer the following questions in detail :

Question 1. How does insurance contract differ from general contract?
Answer:
An insurance contract is the contract of utmost good faith where as a general contract is the agreement between two parties and enforceable by law.

Question 2. State and explain the types of life insurance.
Answer:
Life insurance:
The term life insurance means that it is a contract between an insurance policy holder i.e. the insuree and the insurance company, where in the company promises to pay a specific amount in exchange for a premium upon the death of the insuree. On death the amount is received by the heir i.e. the nominee of the policy.

Life insurance can be classified in two parts.
They are:
(a) Whole life insurance and
(b) Endowment insurance.

Heir or nominee is the person whose name is mentioned by the insuree in the policy agreement.

(a) Whole life insurance:

- A life insurance policy in which the insuree pays a periodic premium for the policy whole life is called whole life insurance. After the insuree dies his heir gets the pre-decided sum mentioned in the insurance agreement as compensation from the insurance company.
- Life is priceless and no amount can ever compensation its loss but to save the heirs or say family members from financial loss and burden one takes life insurance.
- The insurance company decides how much insurance can a person buy based on his income and premium paying capacity and then decides the premium the insuree needs to pay.
- Unlike other insurances, the principle of indemnity cannot be applied in life insurance in the event of death of the insuree.
- When the insurance company gets satisfied that the death of insure took place naturally i.e. he did not commit suicide or something, the insurance company pays the full amount as per the contract to the heir.

(b) Endowment insurance:

- An insurance in which the insurance company promises to pay the policy amount to the insuree at the end of policy period i.e. on maturity of policy or to his legal heir is known as endowment insurance.
- In this type of policy, the insuree decides to insure himself not for whole life but only for a specific number of years. The insuree pays the premium decided by the insurance company upto the decided period for example, upto the age of 50 years.
- Once the insuree reaches the age of 50 years the policy matures and the insuree receives the amount of his policy. In case the insuree dies before the set period of policy, his heir receives the policy amount.

Question 3. State the types of General Insurance and explain any two in detail.
Answer:
General insurance:

- Any insurance other than life insurance is known as general insurance.
- General insurance can be classified into three main types as discussed below.

(A) Goods transportation insurance.
This includes:
When goods are transported from one place to another, there is a risk of full or partial loss/damage to the goods. The insurance that covers this risk is called Goods Transportation Insurance.

- Marine insurance
- Air insurance
- Rail/road insurance

1. Marine insurance:

- Transporting goods through ships is one of the most economical form of transport. However, there are several risks in it like damage or destruction of ship, goods carried by ship, etc. Marine insurance covers all these risks and compensates the insuree.
- It is one of the oldest from of transport between countries and was the most common mode till 18th century.
- Due to very slow movement of ship and several associated risks it is a very important form of insurance.The premium of marine insurance is quite less.
- Marine insurance was started by Lloyd's organization of London about 325 years ago.

2. Aviation (Air) insurance:

- Insurance against claims and losses arising from maintenance and use of aircrafts or airports including damage to aircraft, personal injury, etc. is called aviation insurance.
- In 19th century, goods started getting transported through air and so began the air insurance.
- Air freights are very costly and so only those goods that are light weight and highly valuable are transported through air.
- The premium of air insurance is much higher than marine and rail/road transport.

3. Rail/road insurance:
Insurance that provides compensation against risks such as theft, robbery, damage to goods, etc. when they are transported either through trains or through road is known as rail/road transport.

(B) Fire insurance:

- An insurance in which the insurance company agrees to pay compensation against the damage or destruction caused due to fire is known as fire insurance.
- Fire insurance works on the principle of insurable interest which means that the insuree should get a compensation equivalent to the loss of value of property or belongings caused due to fire.

(C) Other general insurance:

- There are several other types of insurance over and above discussed so far.
- These insurances have come up with need of time.

Examples:
Insurance for voice of a singer Insurance for labourers Third party insurance Insurance of employee

- Student insurance to protect general and social damage Medical insurance (Mediclaim)
- Insurance of loss caused due to closure of business units
- Insurance against fraudulent activities that an employee may do and the loss that the employer may suffer
- Insurance against cancellation of match or an entertainment event like concerts either due to man-made or natural reasons

Question 4. Write a note on Insurance Regulatory and Development Authority.
Answer:
Insurance Regulatory and Development Authority (IRDA):

- The Insurance Regulatory and Development Authority (IRDA) was established in 1999 to analyse and develop the insurance industry in India.
- In India, IRDA is a supreme, autonomous and legal institution which looks after the regulatory and development activities in the field of insurance.
- The IRDA under IRDA Act, 1999 opened up the insurance market and invited Indian as well as foreign companies to set-up insurance business in India.
- Thus the IRDA again took insurance from nationalization to privatization. Initially the foreign companies were allowed to undergo joint venture with Indian companies and hold upto 26% ownership in the joint venture. This was then raised upto 49% ownership by the year 2015.

Main objectives of IRDA:

- To give more choices to policy buyers and holders while selecting an insurance company.
- To promote healthy competition among insurance companies so that customers can get better services at lower premium.
- Accelerate the growth of economy by expanding insurance industry.
- To bring self-discipline among the insurance companies.
- To establish mechanism for complaint redressel, etc.

Question 5. Show the classification of warehouses with the help of chart. Explain customs duty paid warehouse

Answer:

Types of godowns on the basis of custom (import) duty:

1. Godowns for those goods on which custom duty is paid:

- As the name suggests these godowns store only those goods which are imported from other countries and on which custom i.e. import duty is already paid.
- The need of these godowns arise because many times after importing the goods the owners do not have immediate facility to transport them to the desired destination.
- Owing to such conditions these godowns are located near the place of import such as sea ports, airports or border area. Generally such godowns are also public godowns.

2. Godowns for those goods on which custom duty is not paid (Bonded godowns) :

- A godown that can store imported goods on which custom duty is not yet paid is called a bonded godown.
- These godowns are situated near the place of import such as sea ports, airports,.or border areas.
- These godowns prove blessing for importers because:
- The importer may not be able to pay heavy custom duties immediately at the time .of import.
- The importer may want to re-export the goods from the godown itself.
- These godowns provide facility to the owner to divide, mix and repack the goods so that he can prepare a variety of lots for export.