

VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

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BUSINESS SERVICES

Question 4:

Explain briefly the principles of insurance with suitable examples?

ANSWER:

The following are the principles of insurance on which insurance contracts are based.

(i) Utmost good faith: Both the insurer and the insured should have faith in each other and in the contract signed by them.

Example: Rahul, if he is a heart patient, should inform his insurance company about his health issues while buying a life insurance policy.

(ii) Insurable interest: It implies that the insured must have some interest vested in the object which is being insured by him.

Example: A businessperson has an insurable interest in his or her land, house and other properties.

(iii) Indemnity: According to the principle of indemnity, the purpose of an insurance contract is to bring back the insured to the same financial position as he or she was before the loss occurred to him or her (because of a mishap).

Example: If an individual suffers a loss of Rs. 1 lakh in a fire accident, then the insurance company will accept a claim up to Rs. 1 lakh and not more.

(iv) Proximate cause: The proximate cause principle states that the reason for a loss or damage to the insured object should be related to the subject matter of the contract.

Example: If an individual suffers a loss in a fire accident, then this should already be a part of the contract in order for this person to claim the insurance amount.

(v) Subrogation: Once the compensation is paid, the right of ownership of the damaged property passes on to the insurer, so that the insured cannot sell the damaged property to make profits.

Example: If a person receives Rs. 1 lakh for his or her damaged stock, then the ownership of the stock will be transferred to the insurance company and the person will hold no control over the stock.

(vi) Contribution: If an individual buys more than one insurance policy for the same object, then the insurers will contribute in order to compensate insured for the actual amount of loss.

Example: If a person A insures his or her house for Rs. 2 lakh with insurer B and for Rs. 1 lakh with another insurer, say, C, then, in case of a loss of Rs. 90,000, insurer B and insurer C will together pay A Rs. 90,000 and not more.

(vii) Mitigation: The insured should take care of the insured object in the same way as he or she would have in the absence of the insurance.

Example: If a person has insured his house against fire, then, in case of fire, he or she should take all possible measures to minimise the damage to the property exactly in the manner he or she would have done in absence of the insurance.

Question 5:

Explain warehousing and its functions?

ANSWER:

Warehousing involves storing goods in a scientific and organised manner to maintain their value and quality. Warehouses not only provide storage services but also logistical services by providing the right place for the right quantity at the right time and at the right cost.

The following are some of the functions performed by warehouses.

(i) Storage: Warehouses facilitate the storage of goods and raw materials that are not required immediately for sale or for manufacturing, and protect them from spoilage or damage.

(ii) Value-added services: They perform value-added services, such as grading the quality of products, packaging and labelling, for producers.

(iii) Financing: The owner of the goods or raw materials stored in a warehouse can use the warehouse receipt as a security for borrowing money from banks or other financial institutions.