
THE CONTRACT OF AGENCY – THE DYNAMICS OF RATIFICATION AND ESTOPPEL

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ABSTRACT

This paper delves into the intricate legal principles of ratification and estoppel in the realm of agency contracts as delineated by the Indian Contract Act, 1872. Through an extensive comparative analysis, the research investigates the distinctive attributes of these concepts, accentuating their respective roles, legal consequences, and applications. The discourse elucidates the deliberate and retrospective nature of ratification, juxtaposing it against the simultaneous features of estoppel. Furthermore, the paper closely examines the legal prerequisites, considerations involving third parties, and practical implications connected with each principle. This comprehensive scrutiny aims to enhance comprehension of the intricate dynamics in agency relationships, offering valuable insights for legal professionals, scholars, and stakeholders grappling with the complexities of agency contracts in India.

Keywords: Agency, Estoppel in Agency, Agency by Ratification, Indian Contract Act

INTRODUCTION TO THE CONTRACT OF AGENCY

Chapter X of the Indian Contract Act, 1872, defines the relationship of agency. Agency refers to the contractual relationship in which a principal designates an agent, or another individual, to act on the principal's behalf. In interactions with third parties, the agent is permitted to act on behalf of the principal. Fundamentally, an individual can be regarded as an agent only when granted the authority to act as a representative of another in the establishment, alteration, or termination of a contract.¹ The duties of an agent include consistently acting in the best interests of the principal, executing tasks with utmost care and diligence, and ensuring that the principal has immediate access to all funds acquired on their behalf.²

There are several ways in which a contract of agency can arise between the principal and the agent. The conventional approach is direct appointment, where an individual is explicitly designated as an agent. However, an agency by implication³ can also arise wherein circumstances suggest an agency relationship, even without direct appointment. In situations of necessity, one person may act on behalf of another to avert potential loss or harm, regardless of formal appointment. Agency by estoppel is formed when an individual's conduct leads a third party to believe they are an authorized agent. Additionally, agency by ratification occurs when an individual approves an act performed by someone who acted as their agent without initial knowledge.

CONCEPT OF RATIFICATION BY PRINCIPAL

The essential idea of ratification is crucial to understanding Section 196 of the Indian Contract Act of 1872. Nestled into the larger context of agency, Section 196 describes the circumstances in which one person—referred to as the agent—has the power to act on behalf of another—referred to as the principal—as long as the principal gives permission. This legal clause outlines the complex connection between agency, authorization, and the following approval of the agent's conduct on behalf of the principal. Section 196 says, “*Where acts are done by one person on behalf of another, but without his knowledge or authority, he may elect to ratify or*

¹ Abhimath Snehil, Testing the Validity of the Agency as a "Contract" instead of an Agreement, 4 INDIAN J.L. & LEGAL RSCH. 1 (2022).

² Josna Mathews, Contract of Agency in IPL, 3 JUS CORPUS L.J. 18 (2023).

³ The Indian Contract Act, 1872, § 186, No. 9, Acts of Parliament, 1872 (India).

to disown such acts. If he ratify them, the same effects will follow as if they had been performed by his authority."⁴

The terminology used in law for ratification is the endorsement of an act that has already been carried out. "*Omnis ratihabita retrorahitur emando priori aequiparatur*" is a legal maxim that emphasizes how every ratification is linked to and regarded as equal to previous authority, implying a retrospective alignment between the act and its prior authorization. When a person acts on behalf of another without that person's knowledge, the doctrine of ratification provides a clear choice between rejecting and accepting the act in question. As per section 197 of the Indian Contract Act, 1872, ratification might be implied as well as express. In more detail, B's actions imply ratification of the subletting of the property when A sublets B's property to C without B's knowledge and B later takes the rent from C. The acts that can be ratified include lawful acts, acts done on behalf of the government and acts that if ratified, do not become injurious to others.

The necessity of precise case facts information for legitimate ratification is emphasized in Section 198. Acts done with full knowledge under the principal's name are required to prevent unapproved adoption. Ratification pertains to the entire transaction, not just certain portions of it, as stated in Section 199. Both sections, notably, stress the importance of prompt ratification, which is essential for efficacy, particularly in situations when there is a set completion time. Informed, thorough, and prompt ratification is crucial under the legal framework established by these clauses taken together.

DEFINITION OF ESTOPPEL IN AGENCY

The theory of agency by estoppel describes a circumstance in which one person's acts lead another to believe that a third party is authorized to act on their behalf. When a third party relies on this view, it may have legal ramifications that bind the individual whose acts gave rise to the belief. The legal concept known as "estoppel" states that a party cannot assert a right if their previous actions or representations caused another party to reasonably rely on those actions to their detriment.

Broadly, the principle of estoppel in agency law states that a party cannot deny an agent's status after establishing an appearance of agency on which a third party relied. This fair notion avoids

⁴ The Indian Contract Act, 1872, § 196, No. 9, Acts of Parliament, 1872 (India).

unjust behavior and requires accountability for one's statements. When a person nurtures conviction in another's agency and induces dependence, they are barred from disputing the agent's authority, protecting the third party from negative repercussions. This principle promotes justice and prevents dishonest behavior by making parties responsible for the expectations and dependence they create in the context of agency relationships.⁵

The estoppel principle in agency law is critical because it plays an important role in upholding ethical norms and avoiding exploitation within agency relationships. When a party creates the impression of agency only to later deny it, the principle of estoppel steps in to safeguard the third party who relied on this representation. This is critical for maintaining justice and accountability because it discourages misleading activity that may cause harm to innocent people. By diving into the importance of this principle, this study explains how it serves as a critical deterrent, fostering trust and integrity in the area of agency transactions and relationships.

Estoppel in agency law is notable for its use in a variety of legal circumstances, proving its versatility. Estoppel can take several forms, including promissory estoppel, proprietary estoppel, and agency estoppel. In the context of agency, it acts as a dynamic concept that precludes parties from failing to uphold agency representations when others have properly depended on them. Estoppel's versatility gives it a useful and important instrument in dealing with a variety of contexts, reflecting its nuanced function in protecting the interests of parties involved in complicated agency relationships.⁶

COMPARATIVE ANALYSIS – RATIFICATION VS ESTOPPEL

Under the Indian Contract Act, ratification and estoppel are essential elements of agency contracts; yet they function differently with regard to temporality, voluntariness, reliance on third parties, legal ramifications, revocability, and legal requirements.

In cases where an agent signs a contract on behalf of the principal without the necessary

⁵ (No date) *Agency by Estoppel Legal Meaning & law definition: Free law ...* Available at: <https://www.quimbee.com/keyterms/agency-by-estoppel> (Accessed: 16 February 2024).

⁶ (Singh, M. (2022) *Doctrine of promissory estoppel and its application against government – an explainer - government contracts, Procurement & PPP - India, Doctrine Of Promissory Estoppel And Its Application Against Government – An Explainer - Government Contracts, Procurement & PPP - India.* Available at: <https://www.mondaq.com/india/government-contracts-procurement--ppp/1226798/doctrine-of-promissory-estoppel-and-its-application-against-government--an-explainer-> (Accessed: 16 February 2024).

authorization, the principal, upon discovering this unauthorized action, may choose to endorse it subsequently. At this juncture, the contract becomes legally valid, and the principal assumes all associated rights and responsibilities. This scenario illustrates the ratification of the agency by the principal. Conversely, an estoppel situation in agency may emerge when a principal consistently grants an agent authority in a specific capacity, leading a third party to rely on this consistent behavior to their detriment.

The timing of the legal implications is where the important distinction lies. The principal can confirm the agent's actions in retrospect as ratification takes place after they are completed. Conversely, estoppel functions instantaneously and serves as a current barrier to a disputing party's claims. When the agent's previous actions caused other parties to reasonably assume that they had power, it stops the principal from disputing that authority. The fact that the principal's actions were voluntary is another noteworthy difference. The principal has the option to accept or reject the agent's unlawful acts, as ratification is a voluntary act. Even if the principal's actions have an impact, estoppel frequently develops unintentionally and is enforced to stop injustice.

Although third parties are taken into account in both ratification and estoppel, the type of third-party reliance varies. Third-party reliance is not a requirement for the principal's decision to ratify in terms of ratification. Whether or not the third party relied on the agent's acts, the principal still has the option to ratify. However, a crucial component of estoppel is the third party's reliance on the principal's actions. The goal of the theory is to safeguard third parties' reasonable expectations in the event that they have relied on the principal's statements.

Additional legal consequences come into play as well. Upon ratification, the principal assumes all the rights and responsibilities stemming from the agent's actions, thereby validating the entire transaction. In the case of estoppel, the principal is barred from denying the agent's authority until the agent's actions result in the deception of a third party. Estoppel prevents a party from changing its position after another party has legitimately relied on the initial party's actions, and once triggered, it is generally considered irrevocable. Although ratification is commonly perceived as irrevocable, specific conditions exist under which the principal can revoke it.

The Indian Contract Act specifies certain legal conditions that must be met for ratification, including the principal's awareness of relevant facts etc. Estoppel is an equitable principle

whose application varies according to the particulars of each case. Through the official process of ratification, the principal expresses explicit approval of the agent's conduct. Estoppel, on the other hand, results from the principal's actions that give the agent a false sense of power.

CONCLUSION

To conclude, the exploration of ratification and estoppel within agency contracts governed by the Indian Contract Act, 1872, underscores their multifaceted nature and critical importance in legal contexts. Ratification, known for its retrospective nature and the voluntary acceptance of an agent's actions, serves a crucial function in legitimizing unauthorized acts and assigning corresponding rights and responsibilities to the principal. In contrast, estoppel operates swiftly, acting as a barrier to a principal's attempt to disavow an agent's authority once third parties have relied on it.

By examining aspects such as timing, voluntariness, reliance, and legal requirements, this analysis offers nuanced insights valuable to legal professionals and stakeholders. As integral facets of agency contracts, these principles uphold integrity, fairness, and efficiency in commercial dealings. A comprehensive grasp of ratification and estoppel is indispensable for fostering trust, transparency, and accountability in contemporary contractual relationships in India. Thus, this study deepens our understanding of agency dynamics and underscores the enduring relevance of these principles within the country's legal framework.