


NOTES ON

Law of Contract Part 2

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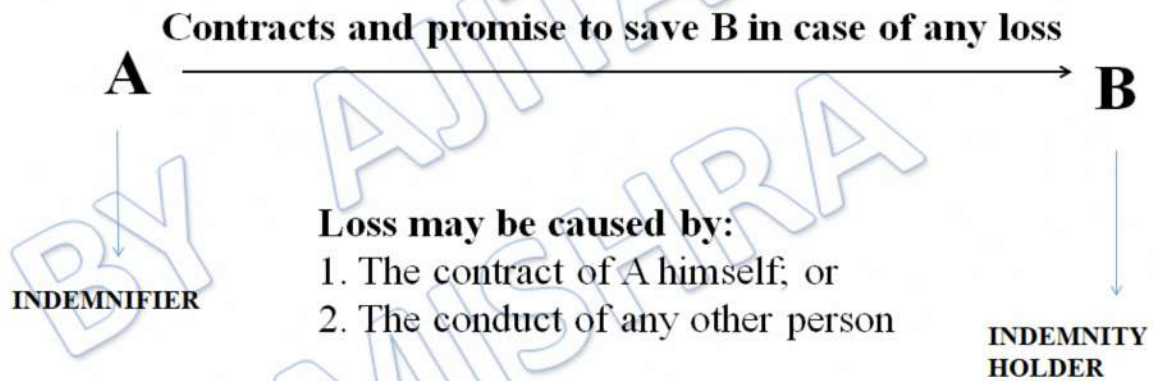
S. No.	TOPIC	LINK
1.	Indemnity and Guarantee	VIEW
2.	Bailment	VIEW
3.	Pledge	VIEW
4.	Agency	VIEW 

INDEMNITY AND GUARANTEE

INDEMNITY

Under Section 124 of the Indian Contract Act, a contract of indemnity involves one party promising to protect the other from loss caused by the promisor's own actions or by another person's conduct. For instance, if A promises to indemnify B against any legal actions taken by C regarding a sum of 200 rupees, this constitutes a contract of indemnity.

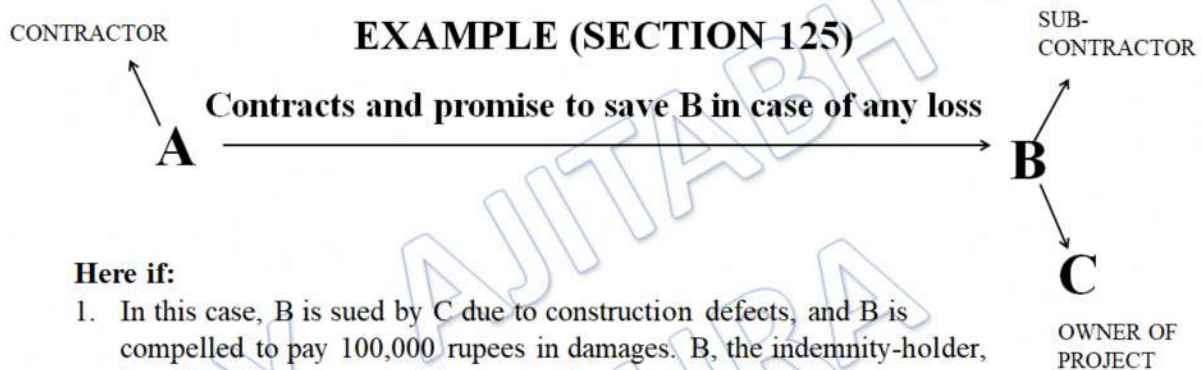
EXAMPLE (CONTRACT OF INDEMNITY)



Section 125 outlines the rights of the indemnity-holder (the promisee) in a contract of indemnity when sued:

- **Damages in a Lawsuit:**
 - The indemnity-holder is entitled to recover all damages they're compelled to pay in any lawsuit related to the matter covered by the promise to indemnify.
- **Costs in a Lawsuit:**
 - They can recover all costs they're compelled to pay in such a lawsuit if:
 - They acted within their authorized scope without contravening the promisor's orders.
 - They acted prudently in initiating or defending the suit.

- Or, if the promisor specifically authorized them to incur these costs.
- **Sums Paid in Compromise:**
 - If the indemnity-holder makes payments under the terms of a compromise in the lawsuit:
 - They can recover these sums if the compromise was not against the promisor's orders.
 - If the decision to compromise was prudent or if the promisor specifically authorized them to settle the suit.



Here if:

1. In this case, B is sued by C due to construction defects, and B is compelled to pay 100,000 rupees in damages. B, the indemnity-holder, has the right to recover this amount from A, **(Damages)**
2. if A authorized B to hire an attorney and defend the case, B can recover those legal expenses from A if B acted prudently in defending the suit and didn't contravene A's orders (if any). **(COST)**
3. If B decides to reach a settlement with C to resolve the legal matter and the settlement is not against A's orders or is a prudent decision, B can recover the amount paid in the compromise from A. **(COMPROMISE)**

These provisions ensure that the indemnity-holder, acting within their authority and prudently, can seek reimbursement for damages, costs, or sums paid under a compromise in legal proceedings covered by the contract of indemnity.

GUARANTEE

Section 126 of the Indian Contract Act defines a contract of guarantee. Here are the key elements:

1. Contract of Guarantee:

- It's an agreement where one party (the surety) promises to perform or discharge the liability of a third person (the principal debtor) in case the debtor defaults.

2. Surety:

- The person providing the guarantee is termed the "surety." They assure the creditor that they'll fulfil the debtor's obligations if the debtor fails to do so.

3. Principal Debtor:

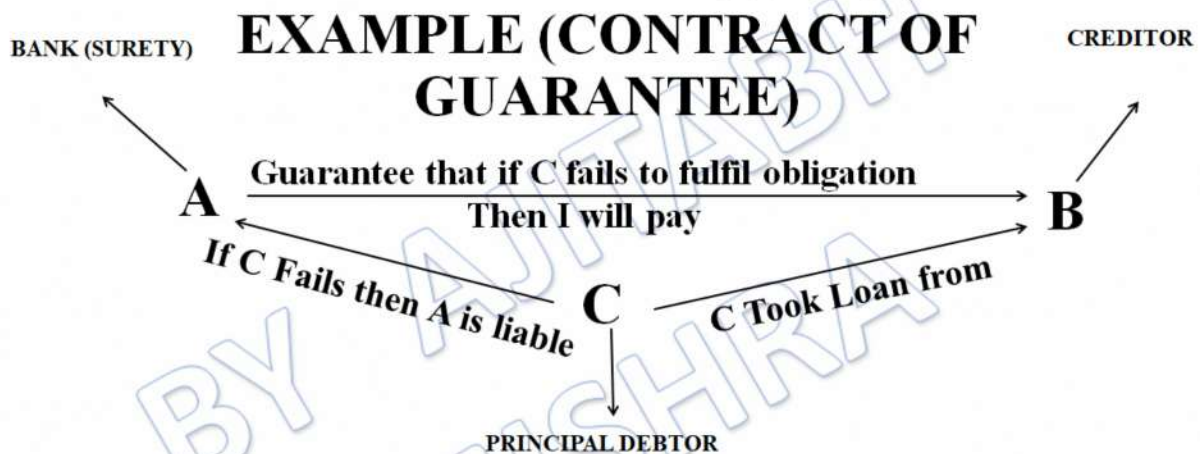
- The individual in whose respect the guarantee is provided is the "principal debtor." Their performance or liability is backed by the surety's guarantee.

4. Creditor:

- The recipient of the guarantee is the "creditor." They receive assurance from the surety that they will be compensated if the principal debtor defaults.

5. Nature of Guarantee:

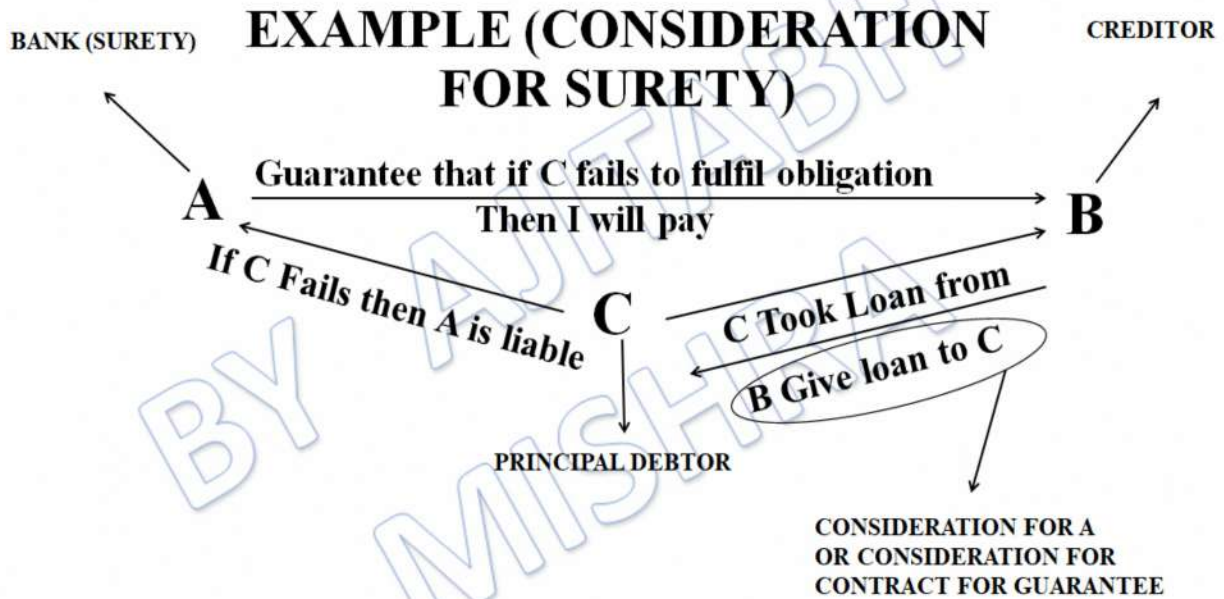
- A guarantee can be oral or written, meaning it can be an express agreement in spoken or written form.



The contract of guarantee in this case is the agreement made between A and B, where A promises to fulfill C's obligation (repay the loan) if C fails to do so.

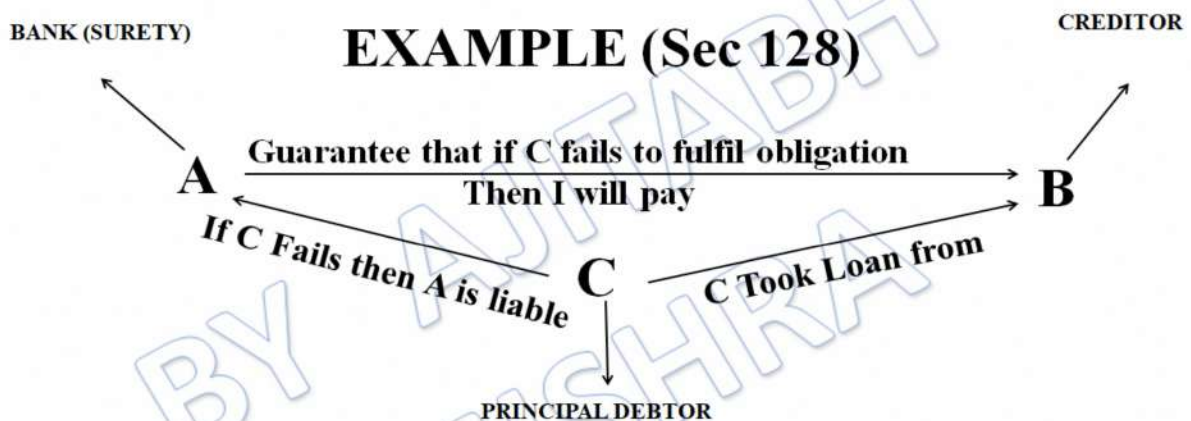
Regarding consideration for a contract of guarantee (Section 127):

- Consideration: Anything done or any promise made for the benefit of the principal debtor can serve as sufficient consideration for the surety to provide the guarantee. This consideration supports the enforceability of the contract of guarantee.



Section 128: Surety's liability

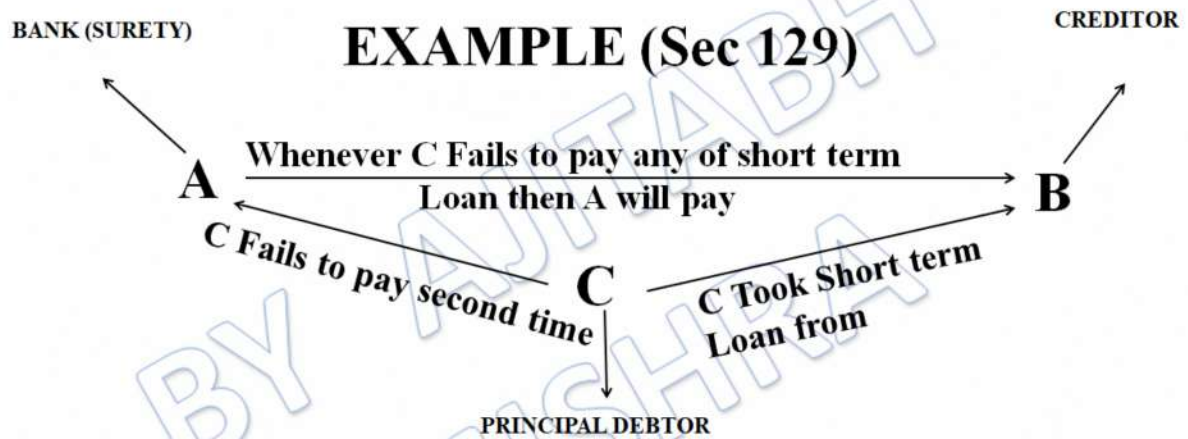
- **Explanation:** The surety's responsibility aligns with that of the principal debtor, unless explicitly stated otherwise in the contract.
- **Illustration:** A guarantees payment of a bill of exchange by C. If the bill is dishonored by C, A is liable not only for the bill amount but also for any interest and charges accrued.



Here If C Fails then A is liable just as same as the liability of C i.e for all principle and interest amount of loan

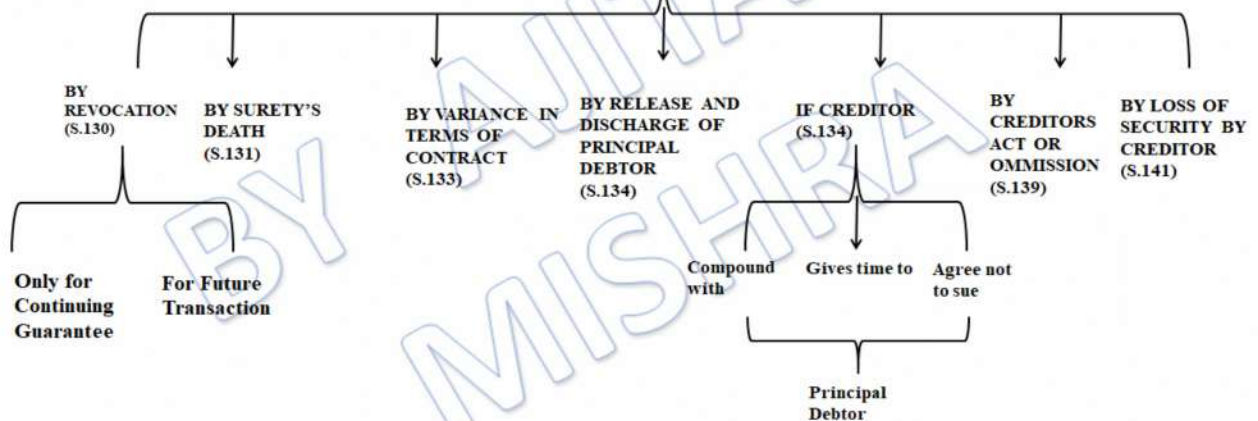
Section 129: “Continuing guarantee”

- **Explanation:** A continuing guarantee encompasses multiple transactions over time.
- **Illustration:** A promises to be responsible for the due collection and payment of rents by C, up to 5,000 rupees. This arrangement covers a series of transactions involving C's handling of rents.



Here A promises that he will pay if C Fails to pay any of short term loan. So if C pay back loan in first transaction and fails to pay back in second one then also for second one A is liable. This is called Continuing guarantee.

DISCHARGE OF SURETY FROM LIABILITY



Section 130: Revocation of continuing guarantee

- **Explanation:** The surety can revoke a continuing guarantee for future transactions by notifying the creditor.
- **Illustration:** A guarantees due payment of bills of exchange for C up to 5,000 rupees for twelve months. After three months, A revokes the guarantee. This action exempts A from future liabilities but doesn't discharge A's responsibility for the 2,000 rupees already guaranteed.

Section 131: Revocation of continuing guarantee by surety's death

- **Explanation:** In the absence of a contrary agreement, the death of the surety cancels a continuing guarantee for future transactions.
- **Implication:** If the surety dies, future liabilities under the continuing guarantee are automatically revoked.

Section 132: Liability of two persons, primarily liable, not affected by arrangement between them that one shall be surety on the other's default

- **Explanation:** If two parties agree that one will be a surety for the other without the third party's involvement, the liability of both parties to the third party under the original contract remains unaffected.
- **Illustration:** A and B make a promissory note to C. A acts as surety for B, and C knows this at the time. C cannot exempt A from liability on the note, despite knowing A's role as surety.

Section 133: Discharge of surety by variance in terms of contract

- **Explanation:** Any alteration in the contract terms between the principal debtor and the creditor without the surety's agreement discharges the surety from liabilities arising after the variation.
- **Illustration:** A acts as surety for B's conduct as a manager in C's bank. B and C later change the contract terms without A's consent. This variance releases A from suretyship, absolving A from being responsible for subsequent losses caused by the change in terms.

Section 134: Discharge of surety by release or discharge of principal debtor

- **Explanation:** Any action by the creditor or a contract between the creditor and the principal debtor that discharges the principal debtor legally also releases the surety from their obligations.
- **Illustration:** A guarantees C for goods supplied to B. Subsequently, B settles debts with creditors by assigning property. B's release from the debt discharges A from their suretyship for the guaranteed debt.

Section 135: Discharge of surety when creditor compounds with or gives time to principal debtor

- **Explanation:** An agreement between the creditor and the principal debtor, such as settlement, granting time, or refraining from legal action against the principal debtor, discharges the surety, unless the surety consents to such an agreement.
- **Implication:** If the creditor makes an arrangement directly with the principal debtor that alters the terms or offers relief, the surety may be released from obligations if they didn't agree to these changes.

Section 136: Surety not discharged when agreement made with third person to give time to principal debtor

- **Explanation:** If the creditor agrees with a third party, not the principal debtor, to provide time to the debtor, the surety remains obligated.
- **Illustration:** C, holding an overdue bill accepted by B and guaranteed by A, arranges with M to give time to B. In this case, A as the surety remains liable because the agreement is not directly made with the principal debtor.

Section 137: Creditor's forbearance to sue does not discharge surety

- **Explanation:** The mere decision of the creditor not to sue the principal debtor or to delay enforcement of remedies doesn't discharge the surety, unless otherwise stated in the guarantee.
- **Illustration:** A debt owed by B to C, guaranteed by A, becomes due. However, C refrains from suing B for a year. A, the surety, remains obligated unless there's a provision in the guarantee releasing A in such cases.

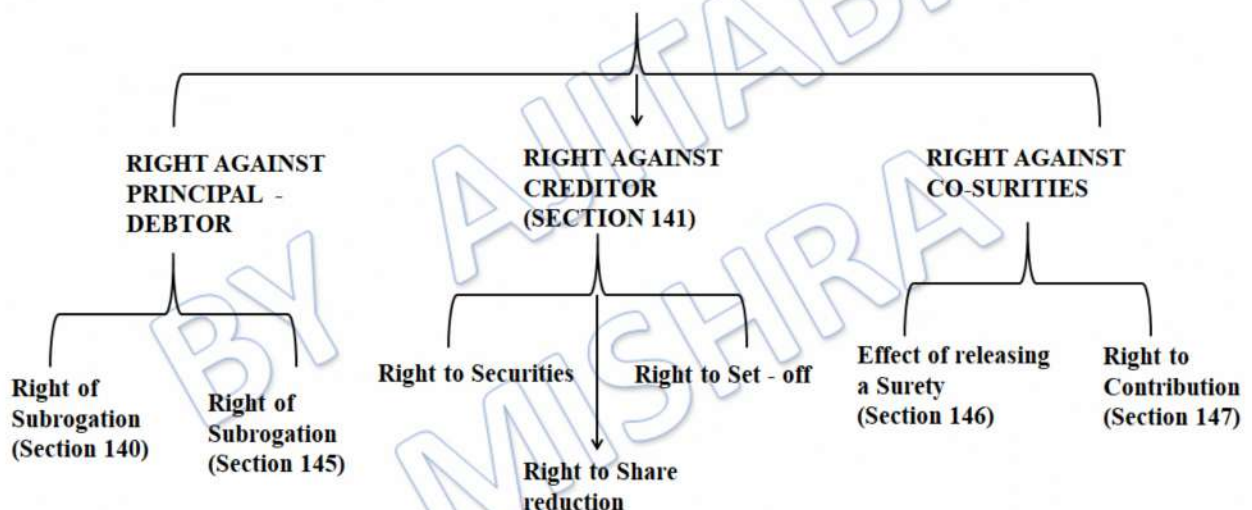
Section 138: Release of one co-surety does not discharge others

- **Explanation:** If there are multiple co-sureties (people providing a guarantee together) and the creditor releases one of them, it doesn't automatically free the other co-sureties from their obligations. Additionally, the released surety remains responsible to the other sureties.
- **Implication:** The release of one co-surety by the creditor doesn't affect the liability of the remaining co-sureties, nor does it absolve the released surety from their responsibility to the other sureties.

Section 139: Discharge of surety by creditor's act or omission impairing surety's eventual remedy

- **Explanation:** If the creditor takes actions or fails to fulfill duties that obstruct the eventual remedy of the surety against the principal debtor, the surety is discharged from their obligations.
- **Illustration:** B contracts to construct a ship for C in installments, and A acts as surety for B's contract performance. Without A's knowledge, C prepays the last two installments to B. This prepayment impairs A's eventual remedy against B and thus discharges A from suretyship.

RIGHTS OF SURETY



Section 140: Rights of surety on payment or performance

- **Explanation:** When a guaranteed debt becomes due or the principal debtor defaults in performing a guaranteed duty, upon the surety's payment or performance, the surety inherits all the rights that the creditor had against the principal debtor.
- **Implication:** After fulfilling their obligations, the surety can exercise the same rights against the principal debtor as the original creditor had, allowing them to recover the amount paid or enforce the performance of the guaranteed duty.

Section 141: Surety's right to benefit of creditor's securities

- **Explanation:** A surety has the entitlement to any security held by the creditor against the principal debtor at the time the suretyship contract was made, whether or not the surety was aware of such security. If the creditor loses or disposes of the security without the surety's consent, the surety is discharged to the extent of the value of the lost security.
- **Illustration:** C advances 2,000 rupees to B, his tenant, with A providing the guarantee. C holds a mortgage on B's furniture as additional security. If C cancels the mortgage and B becomes insolvent, C's claim against A (the surety) is discharged to the value of the furniture.

Section 142: Guarantee obtained by misrepresentation invalid

- **Explanation:** Any guarantee obtained through misrepresentation by the creditor, or with their knowledge and consent, regarding a significant part of the transaction is deemed invalid.
- **Implication:** If the creditor knowingly misrepresents facts or intentionally conceals material information while obtaining the guarantee, that guarantee becomes void.

Section 143: Guarantee obtained by concealment invalid

- **Explanation:** Any guarantee acquired by the creditor by withholding vital information about the transaction is invalid.
- **Illustration:** A employs B as a clerk to collect money. B fails to account for some receipts. A demands security for B's accounting from C without informing C about B's

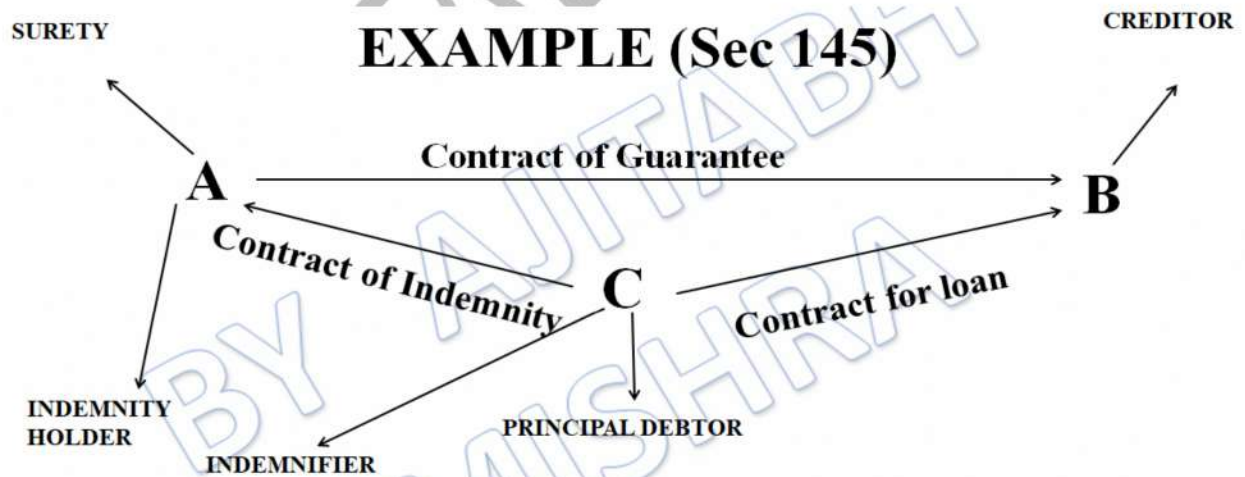
previous conduct. The guarantee obtained from C is invalid because A concealed B's misconduct.

Section 144: Guarantee dependent on co-surety joining

- **Explanation:** When a guarantee is given on the condition that another person joins in as a co-surety, and that person does not join, the guarantee is invalid.
- **Implication:** If a guarantee is contingent upon the participation of another as a co-surety and that person doesn't join as agreed, the initial guarantee becomes invalid.

Section 145: Implied promise to indemnify surety

- **Explanation:** In every contract of guarantee, there exists an implicit promise by the principal debtor to compensate the surety. The surety, upon rightfully paying under the guarantee, has the right to recover from the principal debtor the sum paid rightfully but not the sum paid wrongfully.
- **Illustration:** If B is indebted to C, and A acts as surety for the debt. If C demands payment from A and sues him when A refuses, A defends the suit with valid reasons but is compelled to pay the debt along with costs. A can rightfully recover the costs paid from B, along with the principal debt.



Section 146: Co-sureties liable to contribute equally

- **Explanation:** When multiple individuals act as co-sureties for the same debt or duty, whether under the same or different contracts, and regardless of their awareness of each other, they are equally liable to pay among themselves. In the absence of any

contrary agreement, each co-surety is responsible for an equal share of the debt or the outstanding portion unpaid by the principal debtor.

- **Illustration:** A, B, and C act as sureties to D for a loan of 3,000 rupees lent to E. If E defaults in payment, A, B, and C are individually liable to pay 1,000 rupees each as their share among themselves.

Section 147: Liability of co-sureties bound in different sums

- **Explanation:** Co-sureties bound in different amounts are still obligated to pay equally as far as the limits of their respective obligations allow.
- **Illustration:** If A, B, and C act as sureties for D in different bond amounts (A for 10,000 rupees, B for 20,000 rupees, and C for 40,000 rupees) for D's accounting to E, and D defaults to the extent of 30,000 rupees, each of A, B, and C will be liable to pay 10,000 rupees despite their varied bond amounts.

BY AJITABH MISHRA

BAILMENT

Section 148: Definitions of bailment, bailor, and bailee

- **Bailment:** The delivery of goods by one person to another for a specific purpose under a contract to return them or dispose of them as directed after the purpose is fulfilled.
- **Bailor:** The person delivering the goods.
- **Bailee:** The person receiving the goods.
- **Explanation:** Even if someone is already in possession of another person's goods and contracts to hold them as a bailee, they become the bailee, and the owner becomes the bailor.

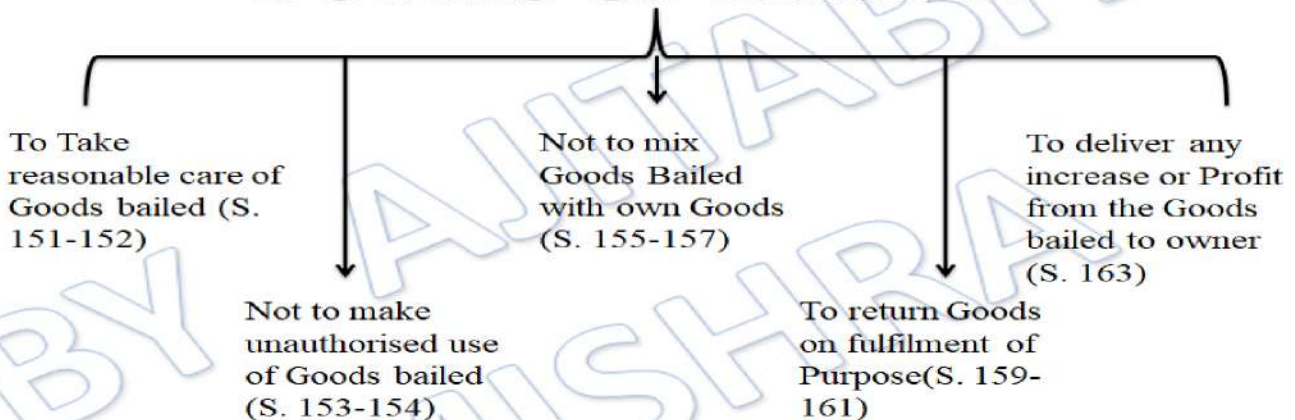
Section 149: Delivery to bailee how made

- The delivery to the bailee can be accomplished by any action that puts the goods in the possession of the intended bailee or any person authorized to hold them on the bailee's behalf.

Section 150: Bailor's duty to disclose faults in goods bailed

- The bailor must disclose any faults in the goods bailed that they are aware of and which significantly interfere with their use or pose extraordinary risks to the bailee.
- If the goods are bailed for hire, the bailor is responsible for such damage, whether or not they were aware of the faults.

DUTIES OF BAILEE



Section 151: Care to be taken by bailee

- The bailee must take as much care of the bailed goods as an ordinary prudent person would take of their own goods of similar bulk, quality, and value.

Section 152: Bailee not liable for loss without special contract

- In the absence of a specific contract, the bailee is not responsible for the loss, destruction, or deterioration of the bailed item if they've taken the care described in Section 151.

Section 153: Termination of bailment by bailee's inconsistent act

- The bailor has the option to terminate the bailment if the bailee performs any act regarding the bailed goods that contradicts the conditions of the bailment.

Section 154: Liability of bailee for unauthorized use of goods

- If the bailee uses the bailed goods in a way that doesn't align with the conditions of the bailment, they're liable to compensate the bailor for any damage caused during that use.

Section 155: Effect of mixing goods with consent

- If the bailee mixes the bailor's goods with their own with the bailor's consent, both parties have an interest in the resulting mixture based on their respective shares.

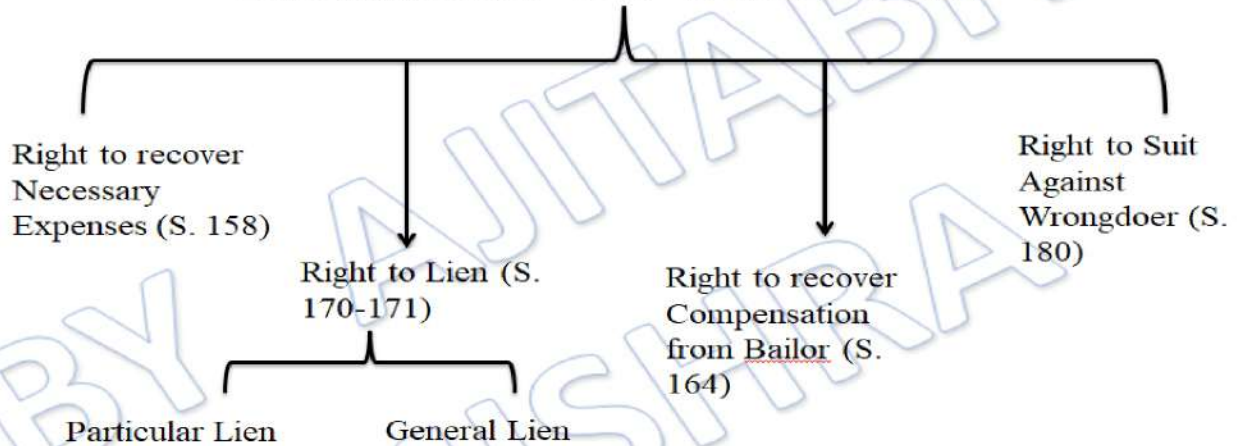
Section 156: Effect of mixing without consent when separation is possible

- If the bailee mixes the bailor's goods without consent, and the goods can be separated, the property in the goods remains with their respective owners.
- The bailee must bear the cost of separation and any damage caused by the mixing.

Section 157: Effect of mixing without consent when separation is impossible

- If the bailee mixes the bailor's goods without consent in a way that separation is impossible, and the goods cannot be returned, the bailor is entitled to compensation for the loss of the goods.

RIGHTS OF BAILEE



Section 158: Repayment of necessary expenses

- If the bailee is to keep, carry, or work on the goods for the bailor without receiving payment, the bailor must reimburse the bailee for the necessary expenses incurred for the bailment.

Section 159: Restoration of goods lent gratuitously

- A lender of a thing for use can demand its return at any time if the loan was gratuitous, even if it was lent for a specified time or purpose.
- If the return causes the borrower a loss greater than the benefit derived from the loan due to their actions relying on the loan, the lender must indemnify the borrower for the excess loss.

Section 160: Return of goods on expiration of time or purpose

- The bailee must return or deliver the goods according to the bailor's instructions without the need for a demand as soon as the time for which they were bailed expires or the purpose for which they were bailed is achieved.

Section 161: Bailee's responsibility for not returning goods

- If the bailee fails to return, deliver, or tender the goods at the proper time due to their default, they are liable to the bailor for any loss, destruction, or deterioration of the goods from that time onward.

Section 162: Termination of gratuitous bailment by death

- A gratuitous bailment ends upon the death of either the bailor or the bailee.

Section 163: Bailor entitled to increase or profit from goods bailed

- The bailee is obligated, in the absence of any agreement stating otherwise, to deliver any increase or profit from the bailed goods to the bailor.

Section 164: Bailor's responsibility to bailee

- The bailor is accountable to the bailee for any loss resulting from the bailor's lack of entitlement to make the bailment, reclaim the goods, or give directions regarding them.

Section 165: Bailment by several joint owners

- If multiple joint owners bail goods, the bailee can return the goods to or as per the directions of one joint owner without needing the consent of all, unless there's an agreement stating otherwise.

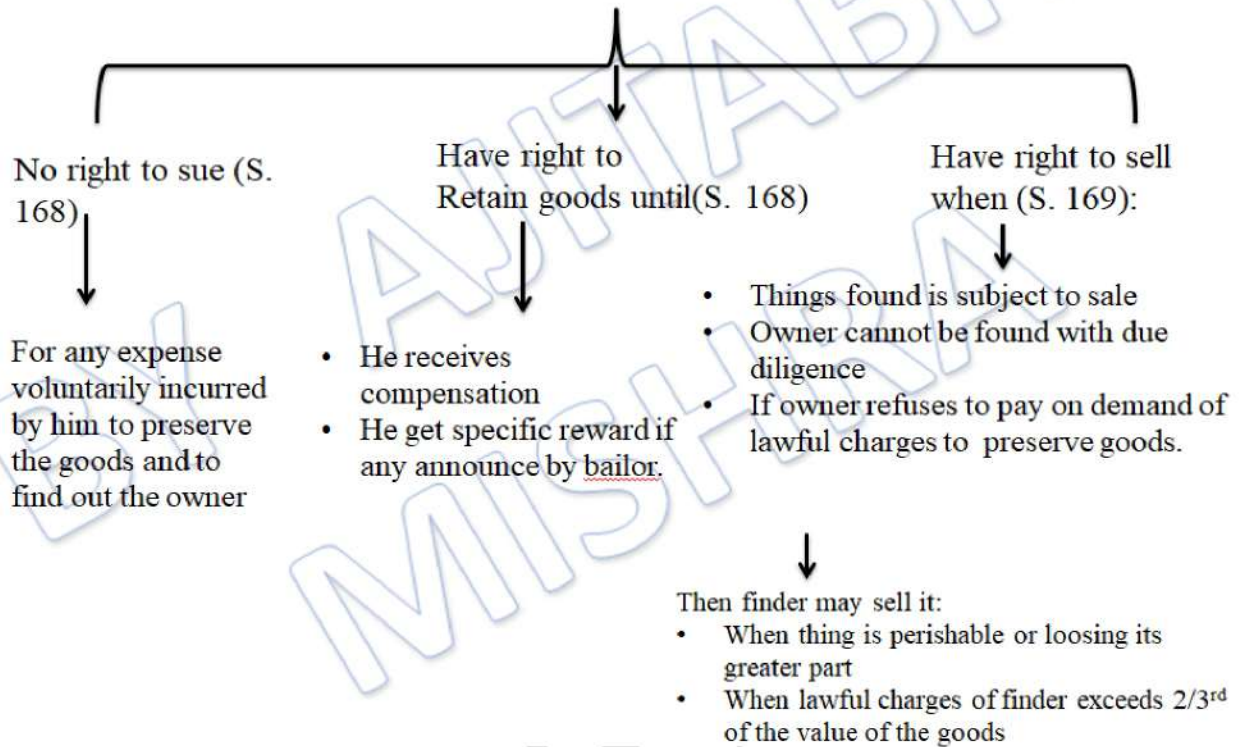
Section 166: Bailee not responsible on re-delivery to bailor without title

- If the bailee, in good faith, returns the goods to or as directed by the bailor who lacks proper title to the goods, the bailee isn't liable to the owner concerning that delivery.

Section 167: Right of third person claiming goods bailed

- If a person other than the bailor claims the bailed goods, they can apply to the Court to halt the delivery of the goods to the bailor and determine the rightful ownership.

RIGHT OF FINDER OF GOODS



Section 168: Right of finder of goods, may sue for specific reward offered

- A finder of lost goods isn't entitled to sue the owner for incurred expenses but can retain the goods until compensated. If the owner has offered a specific reward for the return of lost goods, the finder may sue for it and retain the goods until receiving the reward.

Section 169: When finder of thing commonly on sale may sell it

- If the owner cannot be found or refuses to pay the finder's lawful charges, the finder can sell the goods under specific conditions: when the item is at risk of perishing or losing substantial value, or when the finder's charges amount to two-thirds of its value.

Section 170: Bailee's particular lien

- When the bailee performs services involving labor or skill on the bailed goods as intended by the bailment, they have the right to retain the goods until receiving due remuneration for their services.

Section 171: General lien of bankers, factors, wharfingers, attorneys, and policy-brokers

- **Who can exercise a general lien:** Bankers, factors, wharfingers, attorneys of a High Court, and policy-brokers have the right, in the absence of a contrary agreement, to retain goods bailed to them as security for a general balance of account.
- **No general lien for others:** Other individuals or entities do not have the right to retain goods bailed to them as security for a balance unless there is an explicit contract granting them such a right.

BY AJITABH MISHRA

Section 174: Limitation on Retention

- The Pawnee cannot retain the goods for a debt or promise other than the one for which they are pledged, unless there is a specific contract permitting it. There's a presumption of such a contract for subsequent advances made by the Pawnee.



Here, If A Pledge his Gold and take another loan from B so In case of default in second loan A cannot retain Car from first loan but only gold from second loan.

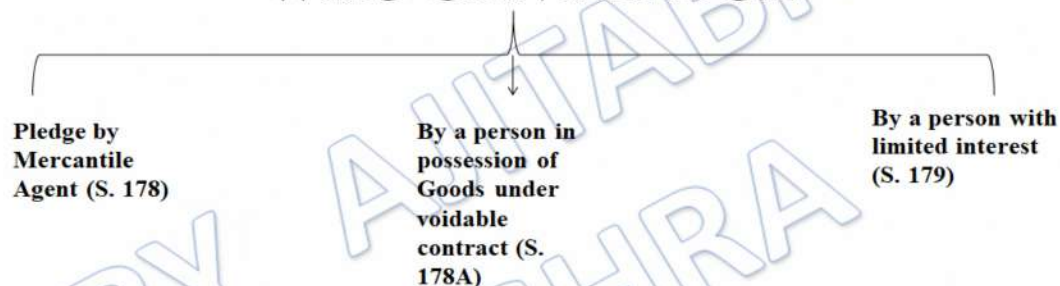
Section 176: Default by Pawnor

- In the event of default by the pawnor in payment or performance, the pawnee can either sue the pawnor or sell the pledged goods after providing reasonable notice. If the sale proceeds are insufficient to cover the debt, the pawnor remains liable for the balance. Any surplus from the sale goes to the pawnor.

Section 177: Defaulting Pawnor's Right to Redeem

- Before the sale, the pawnor has the right to redeem the goods by paying the debt and any expenses arising from the default.

WHO CAN PLEDGE



Section 178: Pledge by Mercantile Agent

- A pledge made by a mercantile agent in possession of goods, with the owner's consent and in the ordinary course of business, is considered valid. However, it must be made in good faith and without knowledge that the pawnor lacks authority to pledge.

Section 178A: Pledge under Voidable Contract

- If the pawnor possesses goods under a voidable contract (not rescinded), the pawnee obtains a good title if acting in good faith and without notice of defects in the title.

Section 179: Limited Interest

- If the pawnor holds only a limited interest in the goods, the pledge is valid only to that extent.

Sections 180-181: Suits by Bailees or Bailors Against Wrong-Doers

- **Section 180: Suit against Wrong-Doer**
 - If a third party wrongfully deprives the bailee of goods or causes injury, the bailee can take legal action similar to what the owner could. Both the bailor and bailee have the right to sue the wrong-doer for deprivation or injury.
- **Section 181: Apportionment of Relief**
 - Any compensation or relief obtained in such suits is divided between the bailor and bailee based on their respective interests.

- **Case: Syndicate Bank vs. Official Liquidator of M/s Prasant Engineering Company Ltd. (1985)**

- **Facts:**

- 1) **Pledge Agreement:** M/s Prasant Engineering Company Ltd. had pledged assets to Syndicate Bank as collateral against a loan.
- 2) **Default on Loan:** The company defaulted on repayment, leading to liquidation proceedings against M/s Prasant Engineering Company Ltd.

- **Held:**

- 1) **Asset Pledge:** The bank claimed rights over the pledged assets to recover its dues from M/s Prasant Engineering Company Ltd.
- 2) **Liquidation Sale:** The Official Liquidator aimed to liquidate the company's assets to repay creditors, including Syndicate Bank.

- 3) **Pledge Priority:** The court examined the priority of the bank's claim over the pledged assets in relation to other creditors.
- 4) **Court Decision:** It determined the bank's rights over the pledged assets in the liquidation proceedings, considering the legal precedence of pledge in recovering dues.

DIFFERENCE BETWEEN BAILMENT AND PLEDGE

BAILMENT	PLEDGE
1. BAILMENT OF GOODS FOR OTHER PURPOSE (EXCEPT THESE TWO)	BAILMENT OF GOODS FOR A SPECIFIC PURPOSE (EX: SECURITY OF A LOAN OR PERFORMANCE OF A PROMISE)
2. NO RIGHT OF SALE TO THE BAILEE	PAWNEE HAS THE RIGHT TO SALE THE GOODS PLEDGED
3. BAILEE CAN USE THE GOODS IF PERMITTED BY THE BAILOR	PAWNEE CAN NOT USE THE GOODS

AGENCY

1) MEANING OF AGENCY, AGENT AND PRINCIPAL

Introduction to Agency Laws

Maxim: "Qui facit alium facit per se"

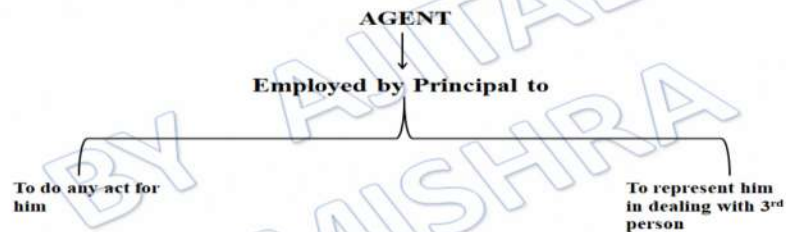
Meaning: The act of the agent is deemed the act of the principal; in essence, whoever acts through another is considered to have done the act themselves.

- **Sections 182-185: Defining Agent and Principal, and Rules Regarding Agency**

- **Section 182: Definition of "Agent" and "Principal"**

- An "agent" is an individual employed to perform an action for another or to represent another in dealings with third parties. The person for whom such an act is done or who is represented is known as the "principal."

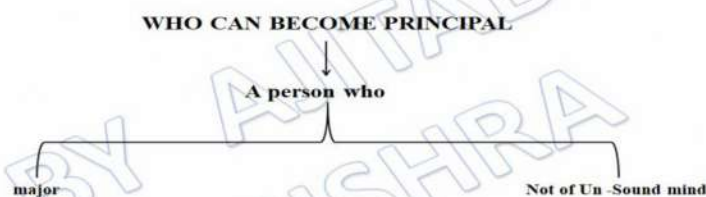
DEFINITION OF AGENT (182)



- **Section 183: Who Can Employ an Agent**

- Any individual of legal age and sound mind according to their applicable law can employ an agent.

COMPETENCY OF PRINCIPAL(S.183)



- **Section 184: Who Can Be an Agent**

- While any person can become an agent concerning the principal and third parties, individuals who are not of legal age or of sound mind cannot become agents in a manner that holds them responsible to their principal, as detailed in the provided provisions.

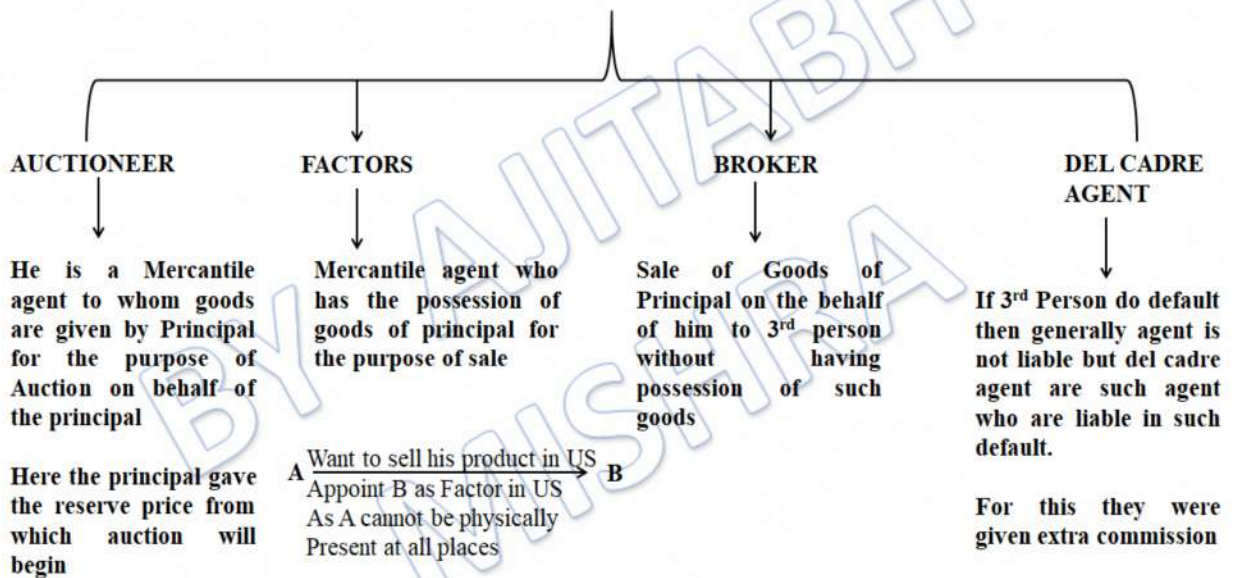
COMPETENCY OF AGENT (S.184)



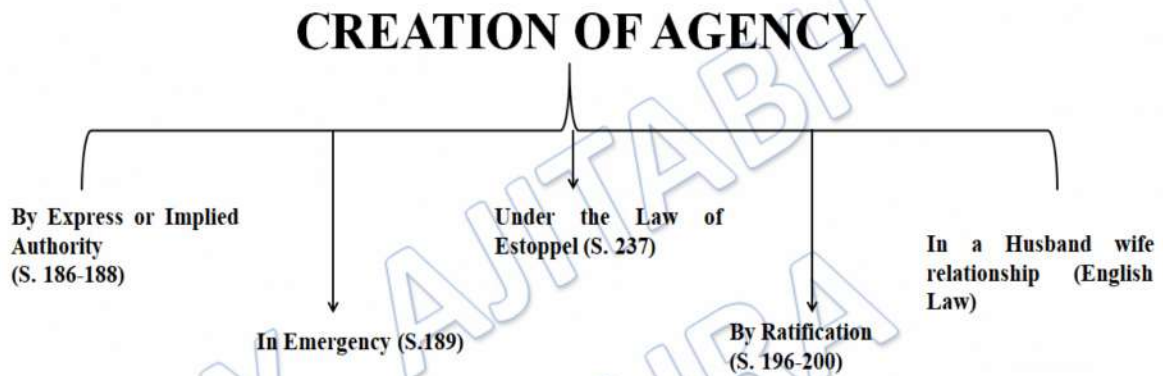
Section 185: Consideration Not Required

- No consideration (something of value exchanged) is necessary to establish an agency.

KINDS OF AGENT



2) CREATION OF AGENCY



Section 186 - Agent's authority may be expressed or implied

- **Express Authority:** This is granted explicitly through specific words, either written or spoken, where the principal empowers the agent to act on their behalf.
- **Implied Authority:** This authority arises from circumstances or the nature of the relationship between the principal and the agent, even if not explicitly stated.

Section 187 - Definitions of express and implied authority

- **Express Authority:** Granted through specific words, either written or spoken, explicitly given by the principal to the agent.
- **Implied Authority:** Inferred from the context or the relationship between the principal and the agent, not explicitly stated but deduced from circumstances.

Section 188 - Extent of agent's authority

- **General Rule:** An agent, when authorized to perform an act, has the authority to perform every lawful action necessary to accomplish that act.
- **Business Authority:** An agent conducting business for the principal has the authority to perform all lawful actions necessary or customary in conducting that business.

Section 189 - Agent's authority in an emergency

- An agent has the authority to take necessary actions in situations of urgency to protect the principal from potential loss. These actions should align with what a reasonably prudent person would do for their own benefit in similar circumstances.

Section 237 - Liability of principal inducing belief in authorized acts

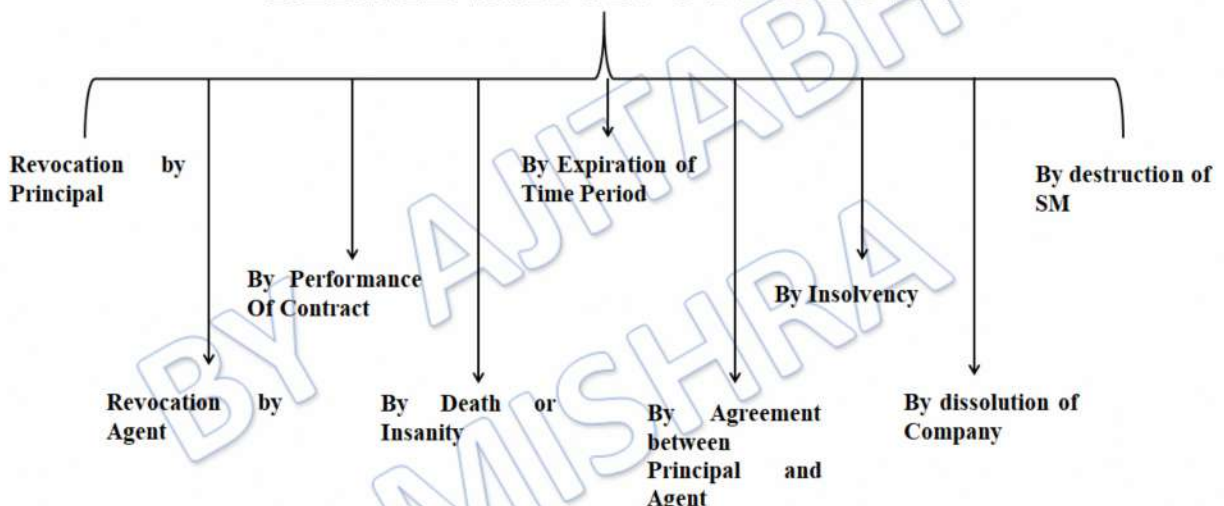
- If the principal's words or conduct mislead third parties into believing that the agent had the authority to perform certain acts, the principal can be held accountable for those acts or obligations, even if the agent lacked proper authorization.

Sections 196 to 200 - Ratification

- **Section 196:** It discusses acts performed on behalf of another without their knowledge or authority, and the affected person's right to either accept or disown these actions.
- **Sections 197 and 198:** Deal with express or implied ratification, emphasizing that ratification cannot be valid if the person ratifying has materially defective knowledge of the facts.
- **Sections 199 and 200:** Discuss the effect of ratification on entire transactions and protect third parties from harm beyond what the authorized act would have done.

3) TERMINATION OF AGENCY

TERMINATION OF AGENCY



- **Revocation by Principal:**

- The principal possesses the unilateral right to revoke the authority bestowed upon the agent at any juncture during the agency relationship. This revocation, however, hinges entirely upon its direct communication to the agent for its legal efficacy to ensue. Without explicit communication, the revocation remains void and ineffective, allowing the agent to continue to act on behalf of the principal.

- **Renunciation by Agent:**

- In a parallel vein, the agent retains the prerogative to voluntarily renounce the authority previously granted by the principal. This voluntary surrender necessitates clear communication to the principal for it to be acknowledged and legally validated. Without such communication, the agent may continue to be perceived as acting on behalf of the principal despite their personal decision to terminate the agency relationship.

- **Termination via Contract Performance:**

- Termination through fulfillment of the designated task or completion of contractual obligations marks a natural conclusion to the agency relationship. Once the purpose for which the agent was appointed is accomplished or the contractual terms are met, the agency stands terminated by default.

- **Death or Insanity:**

- The automatic termination clause activates in the event of the demise or mental incapacitation of either the principal or the agent. Death or insanity of either party halts the agency relationship.

- **Expiration of Time Period:**

- Termination is triggered upon the lapse of the specified duration outlined in the agency contract. Once this predetermined timeframe reaches its conclusion, the agency relationship naturally draws to a close unless renewed or extended by mutual consent.

- **Mutual Agreement:**
 - The agency relationship can be dissolved through mutual agreement between the principal and the agent. Both parties have the authority to mutually terminate the relationship, thereby liberating themselves from their agency commitments.

- **Insolvency:**
 - Under specific circumstances, termination may occur due to the insolvency of either the principal or the agent. Financial insolvency or bankruptcy can result in the cessation of the agency relationship.

- **Incorporated Company Dissolution:**
 - In the context of an agency involving an incorporated company, dissolution of the company automatically terminates the agency relationship. The dissolution of the incorporated entity marks the end of the association between the principal and the agent.

- **Destruction of Subject Matter:**
 - Termination arises if the subject matter essential for the continuation of the agency ceases to exist or is destroyed. When the core subject matter required for the agency's purpose is no longer available, the agency relationship terminates.

- **Additional Points:**
 - **Presumption of Continuation:** In the absence of evidence of termination, an agency is presumed to continue unless a time period has elapsed to destroy this presumption.
 - **Termination Based on Agreement Duration:** If no reasonable deadline is set, the contract is assumed terminated after a reasonable period.

Effect of Termination:

- **Actual vs. Apparent Authority:** After termination, the agent might still retain apparent authority, binding the former principal.
- **Notice to Third Parties:** Termination notice varies based on the relationship and interaction with third parties.

Claim for Damages:

- **Principal's Right to Damages:** Principals can seek damages for losses caused by the agent's acts/non-acts.
- **Compensation on Termination:**
- **Compensation for Agents:** Agents may receive compensation upon termination as per agreement terms.
- **Case Laws:**
 - **R. Sayani v. Bright Bros (P) Ltd:** This case emphasized that the compensation should be given for premature termination without proper warning.
 - **Carter v. White:** In this case it was held that principal's death doesn't terminate agent's power to complete an act already authorized.
 - **Sukhdev v. Commr of Endowments:** In this the court held that Agency ends upon expiration of the stipulated time.
 - **Trueman v. Loder:** The court orders in this case that the Principal must notify the world to terminate the agent's authority.