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Mental Incapacity and its Implications in Contract Law

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A legally binding agreement is called a contract. 'Capacity' is a phrase that is used a lot while talking about contract law. To engage in business transactions in the globalised world of today, it is imperative that a party has the ability to contract. Like in many other legal systems, contract law in India is intended to safeguard the rights and interests of parties to agreements made by businesses and individuals. The law acknowledges that certain people may not have the mental capacity to make legally binding contracts, hence the power to contract is not absolute. This essay will examine the meaning and consequences of the idea of mental disability in Indian contract law. The inability of a person to comprehend the nature and implications of a contract they are engaging in is referred to as mental incapacity. This incapacity may be due to a variety of conditions, including mental illness, intoxication, or cognitive impairment, and it may be temporary or permanent. This study explores the complex relationship between contract law and mental disability. Mental impairment in contract law casts doubt on the legality and enforceability of agreements entered by people who might not have possessed the necessary mental capacity. This article will address the question of whether someone can or cannot enter into a legitimate contract with another party, with particular reference to the Indian Contract Act, 1872 relevant case law, and an analysis of the subject in light of Indian culture. Every Indian detail will also be explained in terms of the English law that gave rise to it'. If an individual satisfies the three qualifications listed in the Act, they are

¹ Jaanvi Singh, 'Law of Contract: Capacity to Contract' (LexLife, 06 June 2020)

<<https://lexlife.in/2020/06/06/law-of-contract-capacity-to-contract/>> accessed 20 February 2024

considered capable of entering² into a valid contract: they must be of legal age, they must not be mentally incompetent, and they must not be prohibited from doing so by any other legislation. It is crucial to remember that the contents of the contract shouldn't be unlawful or even null and void due to public policy considerations. The significance of safeguarding susceptible individuals is emphasized as the differences between void and voidable contracts in situations of mental incapacity are described. It is a doctrinal research paper that aims to use changing legal perspectives and precedents to support disputes involving people who are mentally incapacitated. The essay emphasizes the difficult balancing act that contract law must accomplish to protect the rights of people with mental health issues while also promoting autonomy and justice.

Keywords: *minor, unsound mind, incapacity to contract, voidable contract.*

INTRODUCTION

The term 'Mental Capacity' describes a person's cognitive capability for comprehension, assessment, and reasoned decision-making. Regarding contract law, it is necessary for parties to be able to think clearly enough to voluntarily and intentionally enter into an agreement. Many legal and ethical issues arise when one of the parties lacks this competence, whether as a result of mental illness, cognitive disabilities, or other circumstances. These are important topics that have implications not only for the legal profession but also for a wider range of social and ethical issues. This investigation examines the complex field of mental disability, examining its several manifestations and the difficulties they provide in contractual negotiations. The inability of a person to comprehend the nature and implications of a contract they are engaging in is referred to as mental incapacity. This incapacity may be due to a variety of conditions, including mental illness, intoxication, or cognitive impairment, and it may be temporary or permanent. According to Section 11, 'Every person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of sound mind and is not disqualified from contracting by any law to which he is subject.'³ From the above definition from The Indian Contract Act, 1872 includes three main aspects – The Age of Majority, The Sound Mind and Not to be disqualified by the law.

² Mohd Aqib Aslam, 'Contract And E-Contract under English And Indian Laws' (Legal Service India) <<https://www.legalserviceindia.com/legal/article-2268-contract-and-e-contract-under-english-and-indian-laws.html>> accessed 20 February 2024

³ Indian Contract Act 1872, s 3

Cognitive Functioning: Understanding, memory, reasoning, and communication are all parts of cognitive functioning, which is intimately related to mental ability. A person needs to be cognitively capable of comprehending pertinent data and assessing the possible effects of their choices.

Context-Specific: The intricacy of the decision being made can affect mental capacity, which is not a fixed attribute. It is possible for someone to be capable of making basic daily decisions but not more complex financial or medical judgments.

Making Informed Decisions: Possessing mental capacity entails the ability to comprehend and remember pertinent information, process it logically, and apply it to the creation of a decision that is consistent with one's own preferences and values.

Legal Implications: Mental capacity is frequently a crucial aspect in legal circumstances. For example, a patient's ability to consent to medical treatment is crucial in the healthcare industry. In order to enter into a contract, parties must be able to grasp the terms and implications of that agreement⁴.

Evaluation Procedure: Mental ability evaluations are frequently carried out by professionals in the fields of medicine, psychology, and law. These evaluations may include a look at the subject's capacity to comprehend the option, recognize its consequences, consider other options, and explain their decision.

Presumption of Capacity: Unless demonstrated differently, it is assumed in many legal systems that adults are capable of making their own decisions. This assumption supports the idea of personal autonomy.

Vulnerability: A number of circumstances, such as mental diseases, intellectual disabilities, aging-related cognitive impairments, or transient states like delirium, can limit mental capacity. Such vulnerabilities necessitate giving serious thought to when making decisions.

⁴ FCS Deepak P. Singh, 'Compilation of Articles on Some Important Aspects of Insurance' (*Tax Guru*, 17 April 2022) <<https://taxguru.in/corporate-law/compilation-articles-important-aspects-insurance.html>> accessed 20 February 2024

Ethical Considerations: It can be difficult to strike a balance between the need to protect those who are vulnerable and respect for an individual's autonomy. Finding this balance is especially crucial when it comes to medical interventions since there is a conflict between the need to protect a patient's well-being and their right to respect.

Building Ability: There are situations in which it is possible to try to improve a person's mental ability. This could include breaking down complex material into simpler terms, giving decision-makers more time, or treating underlying cognitive deficiencies.

Age of Majority: The Indian Majority Act 1875⁵ governs the age of majority in India. Section 3 declares that individuals who are residents of India will be considered to have reached adulthood when they turn eighteen. As per this, an individual becomes a major at reaching the age of eighteen. A person is considered a minor if they are younger than 18 years old, and a guardian appointed by the court must be at least 21 years old. Under the legal framework of *Mohori Bibee v Dharmodas Ghose* in 1903⁶.

CASE LAWS

1. *Mohori Bibee v Dharmodas Ghose* (1903):⁷

Facts: In this instance, the plaintiff, Dharmodas Ghose, mortgaged his assets while still a minor, taking advantage of Brahma Dutt's favour. The lender that obtained the loan is Brahma Dutt. The defendant knew that the plaintiff was a minor during the transaction. The minor bought the suit against the money lender representing that he was a minor at the time of the contract and the same should be held void as the mortgage should stand cancelled.

Issues Raised:

1. Whether the mortgage was voidable under the Indian Contract Act, 1872.
2. Whether the petition is void under sections 2, 10(5) and 11(6).

⁵ Indian Majority Act 1875

⁶ 'Case Brief | *Mohori Bibee v Dharmodas Ghose*' (*The Legal Lock*, 06 April 2022) <<https://thelegallock.com/case-brief-mohori-bibee-v-dharmodas-ghose/?amp=1>> accessed 25 February 2024

⁷ *Mohori Bibee v Dharmodas Ghose* (1903) 30 IA 114

3. Whether the defendant is liable to pay back the loan.

Appellants Arguments:

Unaware of True Age: The appellant contends that the respondent was of legal age at the time he executed the mortgage, despite the respondent's representations to the contrary in this case⁸. It was unknown to the appellant and their attorney that the respondent was a minor. They contend that since the respondent misrepresented his age, he shouldn't be eligible for any type of redress.

Application of Section 115⁹: According to this section, no party or their representatives may subsequently deny the truth of that matter in any lawsuit or proceeding if one person knowingly leads another person to believe something to be true through their actions, declarations, or omissions and that person acts on that belief.

Repayment of Loan: Under Sections 64¹⁰ and 38¹¹ and Section 41¹², the appellant in *Mohori Bibee v Dharmodas Ghose* contends that the respondent is obligated to reimburse the sum advanced to him. A promisor does not lose their rights under the contract or be held liable for non-performance if they offer to fulfil their portion of the agreement to the promisee and their offer is rejected, according to Section 38¹³.

A promisee cannot later enforce a promise against the original promisor after accepting the execution of the promise from a third party, according to Section 41¹⁴. According to Section 64¹⁵, if one party elects to nullify a contract and rescinds it, the other party, who is the promisor, is released from any obligation to carry out any of the promises made in the contract.

⁸ Shivprasad Swaminathan and Ragini Surana, 'Minors' Contracts: A Major Problem with the Indian Contract Act, 1872' (2021) 42(1) Statute Law Review 101-115 <<https://doi.org/10.1093/slr/hmy034>> accessed 25 February 2024

⁹ Indian Evidence Act 1872, s 155

¹⁰ Indian Contract Act 1872, s 64

¹¹ Indian Contract Act 1872, s 38

¹² Specific Relief Act 1877, s 41

¹³ Indian Contract Act 1872, s 38

¹⁴ Indian Contract Act 1872, s 41

¹⁵ Indian Contract Act 1872, s 64

Respondents Arguments:

Aware of the True Age: The money lender was aware of the true age and had an intention to get back his money through the laws made against the minor. As the true age was known by the money lender the compensation should not be allotted to him.

Contract made with a Minor is void ab initio: Contract made with a minor is void ab initio which means the agreement stands void from the very start. This contract cannot be enforced by law and depending on the situation the minor is not bound to pay anything to the other party.

Judgement: The Privy Council ruled that the agreement with the minor was void ab initio, or that it was void from the beginning, after carefully reviewing the case file. The defendant's arguments were also heard by the court. First off, because Brahmoo Dutta's lawyer was aware of Dharmodas's minority status, the court in *Mohori Bibee v Dharmodas Ghose* decided that the doctrine of estoppel would not apply in this particular instance. Secondly, the court made it clear that provisions 64 and 65 of the Indian Contract Act would not be relevant since there was never a legitimate agreement and that a contract must be between competent parties in order for these provisions to be applicable.

2. Suraj Narain v Sukhu Aheer:

Facts: A person borrowed some money during his minority and then made a fresh promise after attaining the majority to pay the sum plus the interest thereon.

Issues Raised:

1. Whether consideration received in the minority is a good consideration for a fresh promise made in the majority.

Judgement: A 2:1 majority decided that the consideration given by the individual while still in his minority could not be considered a consideration in the sense of Section 2(d)¹⁶. Therefore, the promisor cannot be held accountable for this promise. **A minor may receive benefits from**

¹⁶ Indian Contract Act 1872, s 2(d)

the agreement. Even though they are not permitted to engage in contracts, minors might nonetheless gain from them. A minor is entitled to the partnership firm's benefits even though he is not allowed to become a partner, as per Section 30¹⁷.

3. Sri Kakulam Subrahmanyam v Kurra Subba Rao:¹⁸

Facts: The respondent shared a Hindu family with his father. October 4, 1935 was the day of the respondent's father's death. The respondent continued to live with her widowed mother as a minor. Prior to his passing, the respondent's father had a few obligations, including one of Rs. 1,200 that was secured by a mortgage and another of Rs. 16,000 that was owed to the appellants and secured by two promissory notes. The mother of the minor respondent, who also serves as their guardian, entered into a written agreement to sell the land to the appellant for Rs. 17,200. In order to pay off the promissory note and the remaining Rs. 1,200 in mortgage debt owed to Ramayya, the purchase price of Rs. 16,000 must be used. The agreement specified that at the appellant's request and at their expense, the sale deed was to be completed, registered, and delivered. The appellants were granted possession of the sold land after they paid off the Rs. 1,200 debts, but no sale deed was ever completed or recorded. The defendant and his mother filed this lawsuit on September 10, 1938, seeking ownership of the land.

Issues Raised:

1. Is the contract made by the guardian valid?
2. Whoever ought to be the landowner.

Judgement: First, the subordinate judge rejected the lawsuit after ruling that the appellants were covered by Section 53A¹⁹. The respondent was granted possession of the land by the District Court, which overturned the subordinate's decision. The appeal filed by the present appellant was denied by the Madras High Court. The respondent's mother entered the contract, according to the Privy Council. Because it was made for the benefit of a minor, the respondent's claim for

¹⁷ Indian Partnership Act 1932, s 30

¹⁸ Swaminathan (n 8)

¹⁹ Transfer of Property Act 1882, s 53A

relief was rejected and the Subordinate Judge's order was reinstated. Respondent is required to reimburse the appellant for the costs of appeal and procedures in India.

MINOR POSITION IN NEGOTIABLE INSTRUMENTS

One of the two things that a minor cannot do is make a promissory note or receive a bill of exchange. It is permissible for a minor to negotiate, deliver, and draw on negotiable instruments. When a minor transfers a negotiable instrument, the transferee has the right to recoup the money from everyone who is accountable for paying it – apart from the minor.

POSITION OF MINOR IN AN AGENCY

A minor cannot enter into a contract since a contract made with a minor is null and invalid. However, there is no prohibition on the minor acting as an agent under the terms of the agreement. An agent may not be competent to contract. An agent can be a minor. They won't be accountable to their principal for their actions, though. Negotiable instruments may be drawn, delivered, and endorsed by minors without exposing them to personal risk. According to Section 183 of the Indian Contract Act, a person must be of legal age and sound mind in order to become a principal. Since a juvenile lacks the legal capacity to enter into contracts, they are also ineligible to hire agents. As a result, a minor can never hold the position of principal. but, under section 184, a minor may become an agent; but, in such a scenario, the principal will be bound by the minor's actions and will not be held personally accountable.

POSITION OF A MINOR IN PARTNERSHIP

A contract establishes a partnership between the parties, and it is necessary for both of them to be of legal age. Section 30²⁰ does, however, provide an exception wherein a juvenile may be temporarily admitted to the benefits of a partnership with the full permission of each partner. However, none of his actions will make him accountable.²¹

²⁰ Partnership Act 1932, 30

²¹ Hashmeen Fatma and Syed Maswood, 'A study of the laws relating to rights of child: A human rights perspective' (2009) Shodhganga <<http://hdl.handle.net/10603/60043>> accessed 25 February 2024

Insolvency: Since he is incapable of taking on debt, a minor cannot be deemed insolvent. Additionally, if the youngster has unpaid debts from his properties for which he is not personally responsible.

Joint Contract by the Minor and the Adult: In the event that a guardian executes a joint contract on behalf of a minor and an adult, the adult is liable for the terms of the agreement²².

No Estoppel against Minor: It was decided that estoppel cannot occur in the context of a minor in the *Jagar Nath Singh v Lalta Prasad* case. Minors can, however, adopt infantile defences. Minors are prohibited from entering into contracts, and contracts made for them cannot employ the doctrine of estoppel. According to the statement, a minor who enters into a contract cannot be stopped from utilising the defence of infancy in the event that a lawsuit is filed, even if the minor falsely claims to be older than he is. *Pearl's Dream*. According to the court in *Palaces Construction (P) Ltd. v Vikas16*, the sale contract should not be regarded as a valid and lawful document and must be reserved to the extent of the plaintiff's share if it is proven that the plaintiff was a minor at the time the sale deed was executed. The law forbids estoppel from applying to statutes. A contract signed by a minor is not enforceable under the law of estoppel.

COMPENSATION UNDER INDIAN LAW

Doctrine of Restitution: In a conventional meaning, restitution refers to giving back benefits received, with the primary goal being to put the victim back in their former position (Plaintiff) in the event of a contract to the pre-contract position he held, and secondly to stop the defendant from being unjustly enriched—that is, to keep him from profiting unlawfully from gains to which he is not legally entitled. The theory of restitution and the obligation of the party that has benefited from a void agreement or contract are the key topics covered under Section 65²³. The premise of this section is that there must be an agreement or contract in order for the theory of restitution to apply; otherwise, it cannot. The foundation of this theory is the widely accepted principle of consideration, according to which one should only give regard in exchange for

²² 'CAPACITY OF PARTIES' (*Slide Serve*, 24 August 2014) <<https://cdn.slideserve.com/cadee/capacity-of-parties>> accessed 27 February 2024

²³ Indian Contract Act 1872, s 65

anything. The concept came under the case of *Leslie v Sheill* where it was applied to other cases. In this instance, a young person fooled a moneylender about their age in order to obtain some money. The minor was sued by the moneylender to recover unpaid money. This idea does not apply to money because the money cannot be tracked. The child was not accountable.

The following points are important for the Doctrine of Restitution to apply:

- A contract has been made between two parties in exchange for consideration.
- The aforementioned deal included some sort of incentive.
- It was legal for both parties to engage in a contract.
- After that, either side neglected to fulfill their end of the bargain, or some unanticipated circumstance rendered the agreement null and void.
- The other party is not entitled to an unfair advantage over it, and the party that paid any compensation in the form of an advance is now entitled to reclaim it from the other party.

Application of the Doctrine: Exclusively agreements that were enforceable at the time of execution and only later became void are subject to Section 65. The theory of restitution will also not apply if the agreement was made between the plaintiff, a major person, and the minor defendant in this case; this was decided in the *Mohiri Bibi v Dharmodas Ghosh* case. However, if the minor has misrepresented his age, the court may be able to force him to return the benefit.

MINOR'S LIABILITY FOR NECESSITIES

The voidability of a minor's agreement does not apply to contracts for necessities. Anything that is required for the minor's existence and well-being is referred to as a necessity. Food, clothes, and shelter are a few of these. Contracts for necessities are regarded as legitimate, and breaking them could result in legal action against the youngster. The minor's survival and well-being depend on the necessities, which is why there is an exemption. It is, therefore, best to see to it that the minor receives these products or services. Furthermore, necessities are typically not prohibitively expensive or outside the minor's means. Consequently, there is little chance that the youngster will be exploited by dishonest people. The value of the products or services the minor receives is covered by liability under contracts for needs. Any further losses resulting

from the contract breach cannot be attributed to the minor. The contract must also be fair in value and reasonable. The concept can be understood in the case of *Nash v Inman*.

Negotiable Instrument Act: A minor may draw, endorse, and negotiate in accordance with Section 26 of the Act, and he may bind everyone but himself. A promissory note, cheque or bill of exchange may be made, drawn, accepted, delivered and negotiated by any person who is competent to enter into contracts under the laws to which he is subject.

Sound Mind: A person must be of sound mind, meaning they must be able to make judgements that are in their best interests. This is necessary in order to be competent to contract. He should be in a state to understand the problem and defend himself whenever required. The following are the conditions falling under this:

Idiots: A person with a mental impairment who is younger than a three-year-old child is referred to as an idiot in medical terminology. Because of this, the contract will be worthless from the start because fools are unable to comprehend its terms. In the case of *Indar Singh v Parmeshwardhari Singh* the court held that the person should be able to make a rational judgement to execute a deed in favour of anyone. According to the ruling in *Kanhaiyalal v Harsing Laxman Wanjari*, mental instability is not the same as mental infirmity alone. A person suffering from mental incapacity, regardless of the cause, is deprived of both the awareness that he is not understanding the transaction and the ability to fully comprehend it. Thus, an individual with an unsound mind is not always insane. If the individual is unable to assess the repercussions of his actions, that suffices.

Lunatic: A lunatic is someone who is sound mentally for a while and then becomes unsound for the rest of the time. A contract is enforceable when a lunatic signs it while he is still of sound mind, that is when he can comprehend the terms of the agreement. It is void otherwise. In *Inder Singh v Parmeshwardhari Singh*, a person agreed to sell a property for ₹7,000 cheaply, even though its true value was ₹25,000. His mother provided evidence that the property seller was a natural-born fool who was unable to comprehend the implications of the sale. The property sale was declared void by the court. Determining whether he is signing the contract after having made an understanding of the transaction and his interest is therefore critical. It's not a

requirement for a man to be insane in order to prevent him from signing a contract. While exhibiting typical behaviour, an individual may be unable to make their own decisions. The transaction is void in this instance because the individual was unable to use sound judgement.

Influence of Drugs: A deal made under the intoxication of alcohol or drugs might not be enforceable except in certain circumstances. If the person signing a contract was too drunk to understand its terms and consequences, the agreement is void. Nevertheless, if he can understand the contents of the agreement, it will be enforceable.

DISQUALIFIED BY THE LAW

Convicts: While completing their term, convicted felons are prohibited from signing contracts. But after serving out his time, he is once again able to sign a contract.

Insolvents: A person under the burden to repay the loans and other assets and is unable to repay them due to the bankruptcy of the person's possessions.

Alien Adversary: Any person in a country with which India is at war is regarded as an enemy. Any agreements established during combat with an extra-terrestrial opponent are void. An Indian citizen residing in an alien adversary's land is regarded as an alien enemy under contract law. Contracts made before the start of the conflict are either annulled if they go against state policy or remain suspended and can be revived if allowed by law.

Foreign Sovereign: India offers contractual immunity to its ambassadors and diplomats from other countries. To be sued in Indian courts, they have to agree to be subject to Indian jurisdiction. Furthermore, authorization from the central government is required in these kinds of circumstances. However, the foreign sovereign may enforce contracts against other parties in Indian courts.

Body Corporate: A business is a manufactured individual. A company's memorandum and articles of association specify its ability to enter into contracts.

Intoxicated or Drunk: When someone consumes alcohol or drugs, they become temporarily incapable of contracting. For instance, he eventually loses the ability to comprehend the

transaction when he is too inebriated to make any reasonable decisions. When an inebriated individual is not in his state of mind, their stance is null and void, no different from that of a madman. In the case of *Chacko v Mahadevan*, the appellant executed a sale deed of his land in favour of the respondents when he was suffering from alcoholic psychosis. The deed also showed that it was sold for a very partial amount. Thus, the agreement was set aside and the principle of *res ipsa loquitur* was applied.

Burden of Proof: In any event, the burden of proof rests mostly with the individual making the claim of mental illness because it is assumed that an individual is sound. Proof that the individual did not exhibit any signs of insanity at the time the contract was executed does not relieve the substantial burden.

IMPLICATIONS

Void v Voidable Contracts: In India, the legal ramifications of a contract involving a mentally incapacitated party can vary based on the specific circumstances.

- **Void Contracts:** A contract is void from the beginning if one party is mentally incapable of entering into a binding agreement and the other party knows or should have known this. This indicates that neither party is obligated by its provisions, and it is completely void from the start.
- **Voidable Contracts:** Agreements made by people who are mentally incompetent may occasionally be ruled voidable. This implies that until the incapacitated party decides to nullify it, the contract is enforceable. Nonetheless, the person who is disabled must prove that they were unable to comprehend the conditions of the contract when they signed it.

Guardianship: Contracts that a person enters into without the guardian's approval or consent may be voidable if they are under legal guardianship because of mental incapacity. The disabled person's interests are safeguarded by doing this.

The Burden of Proof: The party attempting to break the contract normally bears the burden of demonstrating mental impairment. To prove that they lacked the mental capacity to understand the ramifications of the contract, they must present proof.

Repayment: In the event that mental infirmity renders a contract unenforceable, repayment may be necessary. This implies that any advantages obtained under the terms of the agreement might have to be given back to the other side.

Contracts with Mentally Ill People: Indian contract law acknowledges the voidability of agreements made with mentally ill people. In the event that the other party behaved in good faith and was not aware of the mental condition, they might be eligible for compensation.

Contracts with Drunk People: If someone signs a contract while intoxicated, it may also be voidable if they are unable to comprehend the provisions of the agreement.

CONCLUSION

A person who suffers from mental impairment lacks the capacity to sign contracts. Alcoholism or mental disease may be the cause of this. A contract involving a mentally sick party is frequently declared voidable by the courts, indicating that the party with the incapacity may terminate the agreement. In certain cases, like the lunatic person, the contract is held valid until the conditions are such that the party is not able to understand the facts of the situation. In India, mental infirmity plays a big role in contract law. When parties enter into agreements, they must be cognizant of each other's mental capacity and take reasonable precautions, particularly when interacting with people who might be mentally ill or drunk. The goal of the law is to maintain the ideals of contractual freedom and fairness while simultaneously defending the rights of people who are mentally incapacitated. To guarantee the legality and enforceability of contracts in India, one must be aware of the consequences of mental incapacity under contract law.