

## HOUSEHOLD FIRE AND INSURANCE CO. V. GRANT, 1874 - A CASE STUDY

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### INTRODUCTION

In this modern digitalized era deals and transactions that are specially related to online platforms and where even contracts and the transactions related to it come into the picture play an evolving role in this rapidly growing contemporary world. Where even nominal-to-nominal agreements are made legally binding.

The Contractual laws in various contract Laws irrespective of the region it may belong to, English Contract Law or Indian Contract Act lay down the legal framework for forming, executing, and enforcing the laws of contracts, which are essential for commercial as well as personal transactions and this signifies shaping the legal landscape of contractual agreements and even to the obligations faced across the globe.

The various Contract Laws have general as well as special kinds of principles in contracts. The general principles cover topics like the essentials of a valid contract, capacity to contract, free consent, consideration, lawful object, and agreement as opposed to public policy. These provisions set out the fundamental requirements for a contract to be legally enforceable.

Offer and acceptance are two basic elements that are necessary to understand the nature of a contract and whether it's legally permissible or not. Acceptance has various rules and one among all is the 'postal rule' i.e., when an offer is accepted by post, the parties enter into a legally binding contract, hence completing the Contract and making it a valid contract.

It was said in the case of the Household Fire and Insurance Co. Grant [1874]<sup>1</sup> "When an offer has been made to a person who is expressly or by implication authorized to accept such offer by post, then, as soon as a letter containing an acceptance is posted<sup>2</sup>, correctly addressed to the offer, the contract is complete, even though such letter never reaches the offer."

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<sup>1</sup> Household Fire and Insurance Co. Grant [1874]

<sup>2</sup> Adams v Lindsell (1818) 1 B & Ald 681

## ABOUT THE CASE

The case Household Fire And Insurance Co. V Grant was an appeal by Mr. Grant who is the Defendant and the company is the Plaintiff, under the judgment of Lopes, J. concluded that the Defendant was liable as a shareholder of the company and had to pay the consideration of the said amount to the plaintiff company as it was considered as a binding contract. But Defendant appealed further in the high court and was heard by the Court of Appeal's three bench judges ( Thesiger, L. J.; Baggallay, L. J.; Bramwell, L. J. ) where the court heard the arguments of both the parties and concluded in favor of the company by dismissing the appeal and considered it as a valid contract.

## THE FACTS

- Mr Grant the defendant applied by letter for a hundred shares of the company on the 30<sup>th</sup> September 1874.
- The shares were allotted to Mr grant the defendant by the plaintiff company.
- The letter of allotment was sent to Mr Grant via post by the plaintiff company on 20<sup>th</sup> October 1874.
- The letter was directed to the address that was provided by the defendant.
- The defendant sticks to the fact that the allotment had never reached him and he didn't receive the acceptance letter and had no clue regarding the shares until March 1877 unless he received a letter from the plaintiff company regarding a sum of 90 lakhs of a call to one hundred shares.
- The defendant refused to pay, denying that he was a shareholder at the plaintiff company. Due to this, a case was filed against Mr Grant by the plaintiff company appealing the demand of 90 lakhs that was supposed to be given by the defendant.<sup>3</sup>
- Defendant appealed in court and the appeal was dismissed by the court stating that the contract between the parties was a valid contract and the amount to be paid was acceptable by using "Postal rule".

## THE ISSUES

- The contract is considered complete, the moment the acceptor posts the letter of acceptance.

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<sup>3</sup> The American Law Register (1852-1891), Mar., 1880, V ol. 28, No. 3, New Series Volume 19 (Mar., 1880)

- Posting the acceptance is enough for the defendant to be held liable for paying the said amount as consideration to the plaintiff company.
- Even in that generation was the post office the best communication medium? Or do we have some alternate ways to communicate faster?
- The period it takes to be delivered to the acceptor, until then the acceptor stays in confusion or on the dark side of whether the offeror accepted his/her offer or not.

## ROLE OF POSTAL RULE IN THE LAW OF CONTRACT

The presence of this rule might not seem useful these days because of the fast communication. Ways and methods that are being used by people, i.e. instant mailing, fax, telegrams<sup>4</sup>, via telephonic communications<sup>5</sup>, and this provides a modern way to handle the alternative path of postal rule.

Lately, in history, this rule has become quite obvious as it all began during the period when there was a huge usage of post offices, and in context to the contract being valid, the post communications were considered the quickest form in actualizing the acceptance of any offer made by people. This 'Postal Rule' not only talks about the post but also applies to non-instantaneous<sup>6</sup> means of communication and this rule states that the acceptance takes place once we put the letter in the post<sup>7</sup>, not when it is received by the acceptor.<sup>8</sup> Secondly, acceptance is not made by having face-to-face interactions. In *Brinkibon Ltd v Stahag Stahl* (1983)<sup>9</sup> it was held that acceptance is effective when it is placed in the control of the Post Office, i.e. placed in a post box or handed to an officer.<sup>10</sup>

The postal rule has its exceptions where the post is such a form of communication where the contract is completed between the two parties once the post is posted as a form of acceptance of a contract by the offeror and even Telegraph falls under the postal rule.

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<sup>4</sup> *Cowan v O'Connor* [1888]

<sup>5</sup> *Entores Ltd V. Miles Far East Corporation* (1955)

<sup>6</sup> *Entores Ltd v. Miles Far East Corporation* (1955)

<sup>7</sup> *Holwell Securities Ltd v. Hughes* (1974)

<sup>8</sup> *Adams v Lindsell* (1818)

<sup>9</sup> All Answers ltd, 'Brinkibon v Stahag Stahl - 1983' (Lawteacher.net, June 2024)

<<https://www.lawteacher.net/cases/brinkibon-v-stahag-stahl.php?vref=1>> accessed 12 June 2024

<sup>10</sup> *Brinkibon Ltd v Stahag Stahl* (1983)

## **ARGUMENTS**

### **Defendant**

It was argued that Defendant Mr Grant had no knowledge about the acceptance of the offer made by the company and the communication of acceptance wasn't completed from the acceptor's end. This isn't considered legally binding and the terms and conditions become invalid as the acceptance doesn't hold any validation.

Secondly, It was even argued that the communication medium was adopted via Post, and being a medium, the post office was responsible for handing over the allotment letter to Mr Grant which never arrived at the said address. It was a legit irresponsible activity of the Post office, despite the rule saying 'the communication being completed once the letter is posted', and the existence of the letter of acceptance was never known to the Defendant.

### **Respondent**

It was argued that the Plaintiff Company has provided Mr. Grant with the allotment letter and it doesn't hold any liability in the company when the letter never reached Mr. Grant. A principal says 'It's a legally binding contract once the letter is posted, irrespective of whether the post ever reached its said destination or not'. Here, as the plaintiff had posted the acceptance letter, their job of responsibility ended, and now the company shouldn't have bothered about whether the letter reached or not.

Secondly, the Company had posted the acceptance letter within a reasonable period and it was the Defendant's duty to look upon it.

## **OBSERVATIONS BY JUDGES**

According to Lord Justice Theziger, by using the postal rule the acceptance of the offer was completed by the company. Irrespective of whether the letter ever reached Mr Grant or not. The company did post the allotment letter at the said address of the Defendant.

Mr Grant (The Defendant) was liable and the company was in the right position as they had the full authority to collect the consideration amount from Mr Grant. He even stated that a "meeting of minds" in both parties must be brought together through proper communication,

or else there is no binding acceptance<sup>11</sup>. Lastly, he stuck to the Judgment of Justice LOPES and dismissed the appeal.

Secondly, Lord Justice Baggallay's opinion was the same as Lord Theisiger's.

On the other hand, the opinion of Lord Justice Bramwell contradicted other Judges when he questioned whether the post office was a proper method to communicate or not. He mentioned that whether the acceptance is in oral or written form if there is no knowledge via communication, no acceptance of the offer would be considered but finally, came to a conclusion stating the rule that "the contract is considered complete as soon as the letter of acceptance has been posted".

## **ANALYSIS**

I think in this case Household Fire and Insurance Co v Grant, observed the case from both England and Indian Laws of contract where it typically described 'postal rule' and according to my opinion once the post had been posted by the plaintiff company the legally binding responsibility of the company was completed and as the post was posted within a given frame of Justifiable time it held valid as a contract<sup>12</sup>. The Defendant was supposed to look after updates from the company as he applied for the same. Here, solely blaming the Defendant doesn't hold any justifications as the Post Office even neglected its part, as both the parties agreed upon the Post as a method of communication, the Post, as well as Defendant, should have checked upon the Post being delivered to the said address. And the judgment which the Three Bench Judges delivered was justified.

## **FINAL JUDGMENT**

The three bench Judges of the High Court of Justice held that the contract between Mr Grant and the plaintiff company, The Household Fire Insurance was a valid contract by using the postal rule of English Contract Law and dismissed the appeal case made by Mr Grant.

## **CONCLUSION**

The law of contract has a wide range of branches to its trunk where cases like Household Fire And Insurance Co v Grant portray very other stems of the law of contract i.e. postal rule. It

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<sup>11</sup> Household fire insurance v grant

<sup>12</sup> Taylor v Rennie [2020] JMSC Civ 190, 2006/HCV 03917

may seem one of the finest, quickest, official ways to communicate in the post office era. Still, in this evolving twenty-first century the priorities of the Post are compromised in front of lightning-fast communication methods like emails, etc are into existence.

