

Contingent contracts

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INTRODUCTION

Learning outcomes

The overall objective of the syllabus is to give students an understanding of the legal system and commercial laws; and build a knowledge base of corporate laws.

Contingent contracts

LO **On the successful completion of this paper, candidates will be able to demonstrate knowledge of laws relating to contingent contracts.**

LO 2.8.1 Define contingent contract

LO 2.8.2 Identify characteristics of contingent contract

LO 2.8.3 Understand the difference between contingent contract and wagering agreement.

References to Legal Acts

Section number references embedded in the learning materials refer to the following legal acts unless otherwise stated:

Act	Chapters
Contract Act 1872	3-16
Partnership Act 1932	17
Negotiable Instrument Act 1881	18
Companies Act, 2017	19-27
Securities Act 2015	22

1 CONTINGENT CONTRACT

Section overview

- Definition of contingent contract
- Characteristics of contingent contracts
- Difference between contingent contract and wagering agreement

1.1 Definition of contingent contract



Definition: Contingent contract [Section 31]

A 'contingent contract' is a contract.

- to do or
 - not to do something
- if some event, collateral to such contract
- does or
 - does not happen.

Insurance contracts and contracts of indemnity and guarantee provide the best example of contingent contracts.



Example: Definition of contingent contract

A contracts to pay B Rs.10,000 if B's house is burnt. This is a contingent contract.

1.2 Characteristics of contingent contracts

The following are the characteristics of contingent contracts:

- the performance of a contingent contract depends upon the happening or non-happening of some future event.
- the event must be collateral to the contract
- the event must be uncertain

1.3 Difference between contingent contract and wagering agreement

Following are the few differences between contingent and wagering agreement:

Contingent contract	Wagering agreement
Validity It is a valid contract.	It is void and illegal.
Interest of parties In a contingent contract parties have real interest in the occurrence or non-occurrence of the event e.g. insurable interest in the property insured.	Parties are not interested in the occurrence or non-occurrence of the event except for the winning or losing the amount.
Uncertain event The future uncertain event is merely collateral.	The uncertain event is the sole determining factor of the agreement.
Reciprocal promises It consists of reciprocal promises.	It may or may not consist of reciprocal promises.

2 CHAPTER REVIEW

Chapter review

Before moving on to the next chapter check that you now know how to:

- Define the term contingent contracts
- Differentiate between contingent contract and wagering agreement

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