

**A bank has a strict duty to comply with the express mandate of its customer. It cannot unilaterally act contrary to clear instructions, and any concerns regarding regulatory compliance or underlying agreements do not justify remitting funds to an unauthorized party. A breach of this duty renders the bank liable for the resulting loss to its customer**

The **Supreme Court** in the case of **Canara Bank Overseas Branch vs Archean Industries [Civil Appeal No. 13861 of 2024] dated March 17, 2026**, has clarified that a contract of guarantee is established by a clear and unequivocal undertaking to discharge the liability of a third person in case of default, and the court will look at the substance of the communications and the conduct of the parties to determine if such an undertaking exists, rather than just the title of a document. Also, a party is estopped by its conduct from relying on a contractual condition to evade liability if it has acted in a manner that indicates a waiver of that condition.

The plaintiff is the dominus litis and generally cannot be compelled to implead a party against whom no relief is sought. On the other hand, a defendant cannot use the non-impleadment of another potentially liable party as a defence, especially when a procedural remedy like a third-party notice is available to the defendant to claim contribution or indemnity, added the Court.

Hence, the Apex Court upheld the liability of Canara Bank (appellant) for erroneously remitting USD 100,000 to a third party and affirmed the Madras High Court ruling which directed the Canara Bank to indemnify Archean Industries Pvt Ltd (respondent) for the mistaken transfer. The Court ruled that a bank has a strict duty to comply with the express mandate of its customer. It cannot unilaterally act contrary to clear instructions, and any concerns regarding regulatory compliance or underlying agreements do not justify remitting funds to an unauthorized party. A breach of this duty renders the bank liable for the resulting loss to its customer.

The Court addressed whether the letter dated 25.04.1998 was a valid contract of guarantee under Section 126 of the Indian Contract Act, 1872, or merely a freight payment arrangement. It observed that a conjoint reading of the letter dated 22.04.1998 and the Corporate Guarantee dated 25.04.1998 clearly established an independent guarantee. The documents contained an unequivocal undertaking by Defendant No. 1 to discharge the liability of the vessel owner.

The Court noted that Defendant No. 1's subsequent conduct, such as issuing remittance instructions to its bank, reflected its intention to honour this undertaking. Further, Defendant No. 1's own witness admitted during cross-examination that the document was a 'conditional guarantee letter', thereby acknowledging its nature as a guarantee. The Court, therefore, rejected the contention that it was merely a freight payment arrangement.

The Court considered the argument that the vessel owner was a necessary party to the suit. It held that the plaintiff, as dominus litis, has the right to choose the parties against whom relief is sought and cannot be compelled to sue a person unless their presence is indispensable for adjudication. In this case, the liability of Defendant No. 1 arose from an independent guarantee, making the vessel owner's presence not necessary for the effective adjudication of the dispute against the guarantor.

Also, the Court pointed out that Defendant No. 1 had the procedural remedy under Order VIII-A of the CPC to issue a third-party notice to the vessel owner to claim contribution but failed to do so. Having failed to invoke this available remedy, Defendant No. 1 could not shift the burden onto the plaintiff.

Further, the Court examined the bank's liability for the erroneous remittance. The bank contended that it could not have remitted the funds to the plaintiff without RBI approval and that it acted based on the underlying Charter Party Agreement. The Court found that the bank, not being a party to the Charter Party Agreement, could not rely on its terms to justify its actions. The bank's primary duty was to act in accordance with the express instructions of its customer, Defendant No. 1, as the instructions in Exhibit P14 and Form A-2 clearly directed payment to the plaintiff.

If the bank had concerns about regulatory approval, it should have sought clarification from its customer or withheld the funds, not unilaterally remitted them to the vessel owner contrary to the mandate. This act constituted a breach of duty, making the bank liable to indemnify its customer, added the Court.