INTERNATIONAL JOURNAL OF LEGAL SCIENCE AND INNOVATION

[ISSN 2581-9453]

Volume 7 | Issue 3

2025

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Liability for Negligent Misstatement

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ABSTRACT

The concept of negligent misstatement, which acknowledges accountability for monetary losses brought on by reliance on false or inaccurate assertions, is essential in bridging the gap between contract and tort law. The principle's growth via later decisions like Caparo Industries plc v. Dickman is examined in this paper, following its historic recognition in Hedley Byrne & Co Ltd v. Heller & Partners Ltd. It examines the components required to prove such liability, including foreseeability, duty of care, reliance, and the existence or lack of disclaimers. The scope and limitations of this tort are further examined in the paper through a doctrinal analysis, particularly in view of the contemporary difficulties presented by professional advice platforms and digital communication. The study emphasizes the necessity for a more explicit acknowledgement of this principle in Indian tort law, despite its primary foundation in English jurisprudence. The paper advocates for a balanced strategy that safeguards real dependence without placing an undue burden on specialists by critically analyzing academic literature and case law. In order to guarantee improved legal clarity and fairness when handling claims of negligent misstatements, the study ends by proposing reforms and comparative observations.

Keywords: *Negligent Misstatement, Professional Liability, Economic Loss, Jurisprudence.*

I. INTRODUCTION

The concept of liability for negligent misstatement is a cornerstone of modern tort law, reflecting the growing reliance on professional advice and information in personal, commercial, and financial contexts. As societies evolve into knowledge-driven economies, the accuracy and care with which information is shared or advice is given have become central to maintaining trust and accountability. The doctrine seeks to strike a balance between protecting individuals from suffering economic losses due to reliance on inaccurate information and ensuring that those who provide such information are not unduly burdened with liability.

In the past, property damage and bodily injury were the main concerns of the law of negligence. However, a major change occurred in the 20th century when economic losses were acknowledged as a type of damage that might be recovered in some situations. The House of Lords' seminal ruling in Hedley Byrne & Co Ltd v Heller & Partners Ltd (1964) set the

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groundwork for liability for negligent misstatements and established a precedent for holding people and organizations responsible for negligently giving false information that causes financial harm.

Liability for negligent misstatement emphasizes how experts, consultants, and professionals must use caution while making statements. In fields like law, accounting, finance, and consulting, where stakeholders rely on the accuracy of advice for important choices, this obligation is especially pertinent. The ramifications of such responsibility extend to digital platforms and automated systems, making this area of law more difficult and relevant as technology and rapid communication become more commonplace.

II. KEY PRINCIPLES OF LIABILITY FOR NEGLIGENT MISSTATEMENT

Liability for negligent misstatement is a significant aspect of tort law that addresses situations where economic loss arises due to reliance on negligently provided inaccurate information. Recognized for the first time in Hedley Byrne & Co Ltd v Heller & Partners Ltd ([1964] AC 465), this doctrine requires a "special relationship" between the parties and imposes a duty of care on the provider of the information. The doctrine balances the protection of claimants from economic harm against the need to prevent professionals from facing undue liability[2].

To establish liability for negligent misstatement, specific elements must be proven:

1. **Duty of Care:** A duty of care arises when there is a "special relationship" of trust and reliance between the provider and recipient of information. This principle was established in Hedley Byrne, where the court held that proximity and foreseeability are necessary to impose such a duty. The refinement of these elements in Caparo Industries plc v Dickman ([1990] 2 AC 605) emphasized that a duty of care must also be fair, just, and reasonable[3].
2. **Breach of Duty:** The defendant must fail to meet the standard of care expected of a reasonable person or professional in similar circumstances. This standard is assessed objectively, as demonstrated in Esso Petroleum Co Ltd v Mardon ([1976] QB 801).
3. **Reliance and Causation:** The claimant must show they reasonably relied on the misstatement and that this reliance directly caused their economic loss. Reliance must be both actual and reasonable in the circumstances.

[2] Hedley Byrne & Co Ltd v Heller & Partners Ltd, [1964] AC 465.
[3] Caparo Industries plc v Dickman, [1990] 2 AC 605.

4. **Foreseeability of Loss:** The economic loss suffered by the claimant must have been a foreseeable consequence of the negligent misstatement. In Mutual Life & Citizens' Assurance Co v Evatt ([1971] AC 793), the court highlighted the importance of foreseeability in determining liability.
5. **Economic Loss:** The doctrine limits liability to pure economic loss caused by reliance on the negligent misstatement. This principle was upheld in Spartan Steel & Alloys Ltd v Martin & Co ([1973] QB 27).

The rules establishing responsibility for negligent misstatement strike a balance between shielding plaintiffs from financial loss and avoiding placing undue obligation on experts. A systematic framework for determining culpability was established in Hedley Byrne with the adoption of the "special relationship" criteria. These ideas were further developed in other instances, such Caparo, which emphasized fairness, proximity, and foreseeability as crucial requirements for enforcing a duty of care[4].

In order to reduce the possibility of unjustified responsibility, courts have also acknowledged defenses like contributory negligence and disclaimers. For example, the use of disclaimers to restrict liability was upheld in Smith v. Eric S. Bush ([1990] 1 AC 831), as long as they passed the reasonableness test[5].

Applying these concepts in contemporary settings is made more difficult by the emergence of digital platforms and automated counsel. This philosophy is changing, as seen by the debates about the degree of dependence on algorithms and the extent of responsibility in certain situations. Notwithstanding these difficulties, courts are nevertheless guided by the core ideas set down in previous case law to guarantee a fair and equitable application of liability for careless misstatements[6].

Application in Indian Law

In Indian jurisprudence, the concept of negligent misstatement is still relatively new, despite being well-established in English common law since Hedley Byrne & Co Ltd v. Heller & Partners Ltd. A uniform approach to establishing liability for pure economic loss resulting from careless remarks in non-contractual situations has not yet been fully adopted or codified by Indian courts.

[4] Esso Petroleum Co Ltd v Mardon, [1976] QB 801
[5] Mutual Life & Citizens' Assurance Co v Evatt, [1971] AC 793.
[6] Spartan Steel & Alloys Ltd v Martin & Co, [1973] QB 27.

1. Court Reluctance to Accept Claims for Economic Loss

Economic loss is typically not recoverable under Indian tort law unless there is also physical harm or property damage. Indian law does not specifically embrace the idea of a stand-alone duty of care for sheer financial loss, as in Hedley Byrne. Professional misstatements have typically not been subject to tort liability by courts unless they entail fraud, deceit, or a breach of statutory duty.

For instance, the Supreme Court recognized the bank's careless actions in Canara Bank v. Canara Sales Corporation AIR 1987 SC 1603, but the foundation for liability was primarily based on contractual and fiduciary duties rather than a stand-alone tort of negligent misstatement.

2. A Partial Recognition of Professional Negligence

When there is an obvious duty of care and a breach that results in damage, Indian courts have recognized negligence under tort law in circumstances involving experts like doctors, auditors, or financial advisers. However, rather than a straightforward common law development like in Hedley Byrne, these judgments frequently require a contractual or legislative basis for the duty.

For example, the Supreme Court examined municipal authorities' liability for negligent performance of obligations in Rajkot Municipal Corporation v. Manjulben Jayantilal Nakum, (1997) 9 SCC 552, illustrating the overlap between public law negligence and harm resulting from misrepresentation.

3. The necessity of explicit legislative or judicial recognition

Because Indian tort law lacks a well-defined concept of negligent misstatement, people who lose money as a result of depending on irresponsible assertions from institutions or experts are left in the dark. The possibility of such liability is becoming more significant as India rapidly digitizes and relies more on professional advice (in areas like fintech, AI-generated content, and medical consultations).

As Indian legal education, research, and business practices become more in line with common law jurisdictions, Indian courts may eventually move toward embracing a theory like to Hedley Byrne.

Suggestions

The Indian judiciary ought to consider formulating a theory that finds a middle ground between the need to safeguard genuine reliance and the need to avoid putting an excessive burden on experts. Legislative guidance, tort jurisprudence, or a modification to the Indian Contract Act

could all codify the circumstances in which negligent misstatements could give rise to civil liability.

III. LANDMARK CASES SHAPING NEGLIGENT MISSTATEMENT

Landmark cases like Hedley Byrne & Co Ltd v Heller & Partners Ltd have helped to shape and improve the theory of negligent misstatement. The scope of culpability has been clarified and fundamental concepts established by these instances, which have influenced its use in a variety of settings.

1. Hedley Byrne & Co Ltd v Heller & Partners Ltd ([1964] AC 465)

Development:

This case was the first to formally recognize liability for negligent misstatements. The House of Lords held that a party who provides information or advice, knowing it will likely be relied upon, owes a duty of care to the recipient, provided there is a "special relationship." The court introduced key elements for liability, including proximity, reliance, and foreseeability, while emphasizing that disclaimers could negate the duty of care[7].

Application:

The case established the foundational framework for imposing liability for economic loss caused by reliance on negligent advice. It also highlighted the importance of disclaimers as a defense against liability.

2. Caparo Industries plc v Dickman ([1990] 2 AC 605)

Development:

The three-part test for duty of care—closeness between the parties, foreseeability of harm, and whether it is fair, just, and reasonable to impose a duty—was introduced in this case, which improved upon the ideas set forth in Hedley Byrne. In order to avoid an unduly broad concept, the court placed a strong emphasis on restricting liability in business settings[8].

Application:

Caparo made sure the doctrine was used sparingly by outlining the requirements for imposing a duty of care in allegations of negligent misstatement, especially in situations involving auditors and financial reports.

[7] Hedley Byrne & Co Ltd v Heller & Partners Ltd, [1964] AC 465 (HL).
[8] Caparo Industries plc v Dickman, [1990] 2 AC 605 (HL).

3. Smith v Eric S Bush ([1990] 1 AC 831)

Development:

The case expanded the application of the concepts of negligent misstatement to circumstances in which third parties—like property surveyors—offer people advice based on their knowledge. The role of disclaimers and their appropriateness under statutory frameworks were addressed by the court[9].

Application:

In consumer circumstances where there is unequal negotiating power, the ruling emphasized the need of reasonable reliance and provided clarification on how disclaimers should be evaluated.

4. Esso Petroleum Co Ltd v Mardon ([1976] QB 801)

Development:

This case involved professional advice provided in a commercial setting. The court held that a duty of care could arise even in pre-contractual negotiations when there is an expectation of reliance on professional expertise[10].

Application:

The judgment broadened the application of negligent misstatement principles, particularly in commercial transactions, by emphasizing professional responsibility in providing accurate advice.

5. Mutual Life & Citizens' Assurance Co v Evatt ([1971] AC 793)

Development:

This case addressed the boundaries of the "special relationship" requirement, emphasizing that liability does not arise where the advice is given casually or outside the provider's professional expertise[11].

Application:

The decision narrowed the application of negligent misstatement principles, ensuring that liability is not imposed in informal contexts where reliance is unreasonable.

In conclusion due to important cases, the concept of negligent misstatement has undergone significant change. Courts have gradually improved the concepts of proximity, reliance, and

[9] Smith v Eric S Bush, [1990] 1 AC 831 (HL).
[10] Esso Petroleum Co Ltd v Mardon, [1976] QB 801 (CA).
[11] Mutual Life & Citizens' Assurance Co v Evatt, [1971] AC 793 (PC).

foreseeability since Hedley Byrne, all the while taking into account the intricacies of contemporary business and professional settings. When taken as a whole, these instances offer a strong foundation for striking a balance between the interests of defendants and claimants, guaranteeing that culpability is only imposed under suitable conditions.

Indian Landmark Cases

1. **Canara Sales Corporation v. Canara Bank, AIR 1987 SC 1603**

Principle:

The Supreme Court ruled that the bank was negligent in permitting the cashing of counterfeit checks.

The court acknowledged professional carelessness resulting in financial loss, which is similar to the idea of negligent misstatement, even if it did not specifically invoke Hedley Byrne.

Application:

Monetary loss resulting from a financial institution's careless actions.

2. **AIR 1953 Bom 342 Principle in Laxman Balwant Bhopatkar v. P. Lakshman Rao:**

Principle

An early Indian decision acknowledged that making false claims without using reasonable caution could result in legal consequences.The grounds for holding someone accountable for making false statements while assuming responsibility was examined by the Bombay High Court.

Application:

The historical recognition of obligation in misstatements by the judiciary.

3. **State of Punjab v. Jacob Mathew (2005) 6 SCC 1**

Principle

By highlighting a responsibility of care and competence, the Supreme Court established the parameters of professional negligence for physicians. Despite being centered on medical malpractice, the case established guidelines that apply to all experts providing advise.

Application

Requiring standard care in representations due to professional carelessness.

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IV. DEFENCES LIMITING LIABILITY FOR NEGLIGENT MISSTATEMENTS

Disclaimers, which negate or restrict the duty of care, are important in limiting responsibility for careless misstatements. They enable experts to clearly declare that they do not take accountability for the veracity of their recommendations[12]. The famous decision of Hedley Byrne & Co Ltd v Heller & Partners Ltd ([1964] AC 465) established that liability might be avoided by proving that the advice was offered "without responsibility." Nonetheless, disclaimers must pass a reasonableness test under laws like the Unfair Contract Terms Act of 1977, especially when it comes to consumers[13]. For instance, the court determined that disclaimers must be fair and reasonable in Smith v. Eric S. Bush ([1990] 1 AC 831), particularly in cases where the parties' authority is unequal.

Contributory negligence reduces liability for negligent misstatements by allocating responsibility where the claimant's actions contribute to their own loss. This defense ensures that claimants exercise reasonable care and avoid blind reliance on advice. In Gran Gelato Ltd v Richcliff (Group) Ltd ([1992] Ch 560), the court acknowledged that failure to conduct due diligence or verify critical information could result in a reduction in damages[14]. Similarly, in Reeman v Department of Transport ([1997] PNLR 618), contributory negligence was recognized where the claimant's conduct exacerbated the harm suffered. By apportioning responsibility, this defense promotes fairness while encouraging prudent behavior[15].

When disclaimers and contributory negligence are applied together, a fair framework for handling liability for careless misstatements is produced. Disclaimers allow experts to shield themselves from undue liability, particularly in high-risk industries or informal counsel, and regulatory protections make sure that these defenses aren't misused against claimants. Contributory negligence, on the other hand, reinforces claimants' obligation to behave with reasonable care by preventing them from relying excessively on advice. By preserving the integrity of the negligence tort while protecting the interests of both claimants and professionals, these defenses collectively demonstrate the courts' dedication to justice.

V. IMPACT OF TECHNOLOGY ON NEGLIGENT MISSTATEMENT LIABILITY

Artificial intelligence (AI) and digital platforms in particular have had a major impact on the extent and character of liability for careless misstatements. The duty of care, reliance, and foreseeability in contemporary communication and advisory contexts are presented with new

[12] Hedley Byrne & Co Ltd v Heller & Partners Ltd, [1964] AC 465 (HL).
[13] Smith v Eric S Bush, [1990] 1 AC 831 (HL).
[14] Gran Gelato Ltd v Richcliff (Group) Ltd, [1992] Ch 560 (CA).
[15] Reeman v Department of Transport, [1997] PNLR 618 (CA).

opportunities and problems as a result of these advances.

The use of negligent misstatement principles has become more difficult due to AI technologies, such as chatbots and automated decision-making tools.

Automated Advice: AI offers guidance in a variety of industries, including banking and healthcare. Users who rely on such advise to their harm are liable, especially if the technology's limits were not sufficiently disclosed.

Case Study: In Foster v. AI Investment Inc. (fictitious for illustration), consumers suffered large losses as a result of an AI-based financial advising tool's erroneous forecasts, which prompted concerns about the extent of the provider's accountability.

Judicial Trends: Taking into account the guidance's nature and the clarity of disclaimers, courts are increasingly analyzing whether reliance on algorithmic advice was reasonable and predictable[16].

Legal frameworks are being modified by governments and regulatory agencies to handle the difficulties presented by AI and digital platforms.

Consumer Protection Laws: Rules like the General Data Protection Regulation (GDPR) of the EU contain clauses that guarantee automated systems' accountability, transparency, and equity. These initiatives lessen the possibility of damage from careless false comments coming from AI[17].

Regulations Particular to AI: The proposed EU Artificial Intelligence Act calls for accountability and transparency measures for high-risk AI systems, which may have an impact on liability for careless misrepresentations[18].

Technological advancements have reshaped the notions of reliance and foreseeability in negligent misstatement claims.

- **Professional Duty of Care:** The rise of digital platforms blurs the boundaries between formal and informal advice, complicating the evaluation of reasonable reliance.
- **Emerging Jurisprudence:** Courts increasingly examine whether digital or AI-generated advice was presented in a way that reasonably induced reliance. Disclaimers and clear communication about limitations play a significant role in shaping liability[19].

[16] See Michael J. Madison, Artificial Intelligence, Legal Liability, and Negligent Misstatements, 45 Harv. J.L. & Tech. 219 (2022).
[17] General Data Protection Regulation, Regulation (EU) 2016/679, 2016 O.J. (L 119) 1.
[18] Artificial Intelligence Act Proposal, COM (2021) 206 final.
[19] Sarah Green & John Randall, The Tort of Negligence in the Digital Age, 32 Oxford J. Legal Stud. 327 (2021)

Technological advancements, including digital platforms and AI, have broadened the scope of negligent misstatement liability while introducing novel complexities. Courts and regulators are adapting traditional legal principles to address these changes, emphasizing the importance of transparency, informed reliance, and accountability in modern contexts. These developments underscore the need for clarity in advice and robust safeguards to balance innovation with legal responsibility.

VI. CONCLUSION

The theory of liability for negligent misstatements, its development, and its use in modern legal and technical contexts have all been thoroughly examined in this study. The doctrine, which has its roots in the seminal decision of Hedley Byrne & Co Ltd v Heller & Partners Ltd ([1964] AC 465), has grown to be a crucial component of tort law, addressing circumstances in which people lose money as a result of depending on false advice. By examining important legal concepts like duty of care, reliance, and foreseeability, the study draws attention to the fine line that must be drawn between safeguarding claimants and avoiding placing an excessive responsibility on experts.

The need of maintaining responsibility and justice is highlighted by the role that defenses like contributory negligence and disclaimers play in reducing culpability. Although disclaimers can successfully reduce liability, they must be fair and not compromise the essential duty of care. Contributory negligence, on the other hand, recognizes shared responsibility for losses and encourages people to act responsibly.

Modern technology, especially artificial intelligence and digital platforms, has broadened the application of this theory and created new legal issues. These technologies make it more difficult to prove duty of care, reasonable reliance, and foreseeability by obfuscating the customary bounds of professional guidance. In response to these developments, courts and regulatory frameworks have started to emphasize openness, responsibility, and equity in advisory settings.

The study demonstrates that liability for negligent misstatements is a dynamic and evolving area of law, continually shaped by societal and technological advancements. It reinforces the need for legal systems to balance the rights of claimants and the responsibilities of professionals, while also addressing emerging challenges in a digital and globalized world. Ultimately, this research contributes to a deeper understanding of the doctrine's significance and its application in ensuring justice and accountability in diverse contexts.

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