COLLAS CRILL

Agent's authority: Going too far?

JULY 2019

A recent decision of the UK High Court involving a banking transaction highlights the importance of a proper understanding of an agent's authority.

The case of Stavrinides and others v Bank of Cyprus [2019] EWHC 1328 (Ch) concerned a dispute between the Bank of Cyprus (as successor to Laiki Bank (**Laiki**) in its bailout during the Cypriot financial crisis of 2013) and its borrower over the authority of an over-zealous relationship manager at Laiki (**RM**) to write-off debts.

A key piece of evidence in the dispute was a letter on the headed paper of Laiki dated 15 March 2013 signed by the RM, agreeing to forgive €3 million in exchange for the payment of around €1.8 million. The issue for the Court was the RM's actual or ostensible authority to bind his principal, in this case, his employer.

The Judge ruled that the RM did not have ostensible authority -

- Laiki had not made any representation that the RM had authority to write off debts of any scale. On the contrary, Laiki's practices during the course of dealings with the borrower over 10 years concerning the limits on the authority of its staff, were well known.
- Even if Laiki had made the requisite representation, it was unreasonable for the borrower to rely on it, given the size of the debt and the relatively modest status of the RM. That in itself was sufficient to put the borrower on notice of the RM's lack of authority.

The lesson here is simple and clear: If there is any concern about an agent's authority to bind its principal one should seek further evidence of the authority. This would apply also to large organisations where the chain of command and hierarchy may not be obvious, or where some restructure may have recently taken place.

Or, to put it another way, when faced with what appears to be a staggering act of generosity or good fortune, if it looks too good to be true, it probably is.

This note is a summary of the subject and is provided for information only. It does not purport to give specific legal advice, and before acting, further advice should always be sought. Whilst every care has been taken in producing this note neither the author nor Collas Crill shall be liable for any errors, misprint or misinterpretation of any of the matters set out in it. All copyright in this material belongs to Collas Crill.