



# Artificial Intelligence, Consumer Transactions, and Contractual Liability: Reassessing Indian Contract Law in the Modern Era

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## ABSTRACT

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*The rapid adoption of Artificial Intelligence (AI) into consumer markets has reshaped consumer contracting, consumer transactions, and consumer liability mechanisms in almost every country of the world. The penetration of AI-powered technologies, including algorithm-based pricing, AI chatbots, recommendation engines, autonomous digital interfaces and smart contracting, is increasingly becoming a dominant element in service delivery and e-commerce transactions within India. Such technologies pose a considerable challenge to traditional Indian Contract Law, whose principles have traditionally been founded on human-centric contracts in accordance with the offer-acceptance doctrine, free consent, capacity and lawful consideration, as encapsulated in the Indian Contract Act, 1872 (ICA). Automated decision-making by AI raises issues of contractual intent, valid consent, misrepresentation, unfair trade practices, data appropriation, and accountability where AI independent entities play an increasing role in driving consumers' decisions. This paper seeks to analyze the application of these new consumer-technologies in the context of Indian Contract Law by investigating their doctrinal shortcomings, evolving judicial responses, consumer protection concerns, and trends in other legal jurisdictions of the world. It determines how Indian law, in its various forms of the ICA, 1872, Consumer Protection Act, 2019 (CPA),*

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*Information Technology Act, 2000 (IT Act) and data management framework, regulates such contract-transactions. It examines AI-based discrimination, consumer contracts of digital adhesion, opaque systems of automated consent, contractual breaches in the age of AI and other pertinent aspects of the new contractual arrangements. This article will adopt a comparative legal analysis of AI-governed contract law, drawing lessons from the European Union and the United States, to advocate for new ways of addressing consumer-tech contracts that promote fairness while fostering innovation. It will argue that Indian contract law must advance beyond the conventional theory of human agency toward a mixed liability framework that acknowledges AI's growing role in contract-transactions, while protecting the consumer's rights, promoting fairness and ensuring legal certainty.*

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## **Introduction**

The advent of Artificial Intelligence (AI) has changed the nature and structure of commercial transactions in the world. AI currently impacts consumers in various forms: predictive analytics, targeted advertisements, automated negotiation, dynamically priced goods, virtual assistants, and AI based transactional relationships. In India the rampant rise of digital transactions and corresponding increase in e-commerce platforms, fintech services, online insurance portals, and AI supported customer service interfaces has transformed the creation, performance, and enforcement of contracts. Traditional contract law, however, has been based on transactions created out of direct human interaction. The application of AI in consumer transactions thus results in numerous doctrinal and practical challenges.

The Indian Contract Act, 1872, the primary piece of legislation governing contractual relationships in India, presupposes human agency, consent and the existence of an intention to create legal relations. Basic contractual requirements like proposals, acceptance, genuine consent and the intention to enter into legal relations are challenged where contractual outcomes arise out of artificial processes. Algorithmic systems can dynamically price goods based on profiling, automatically renew subscriptions without the consumer even being aware, recommend financial services on the basis of predictive analysis and many such other processes which make concepts like genuine consent difficult to establish and create disputes regarding liability between consumer, service provider, developer or AI itself.



Transactions under AI are now governed by click wrap agreements, browse wrap contracts, automated negotiation and execution of contracts through chatbots and automated dispute resolution. Such mechanisms focus on speed over transparency, creating imbalances of information and bargaining power where consumers are bound by terms of service through hidden or complex interfaces. They can also result in inherent biases and unfair business practices which are not addressed under existing doctrines.

While the Consumer Protection Act, 2019 did introduce sections relating to e-commerce and unfair business practices it still failed to address AI-related consumer harms like algorithmic manipulation, autonomous contracts and prediction-based consumer exploitation. Similarly the Information Technology Act, 2000 allows for electronic contracts but does not cover the consequences or liability that arises from the execution of contractual obligations by AI systems. The law of contracts in India thus requires a review based on modern advancements in technology.

Internationally, jurisdictions like the EU have initiated efforts to formulate AI accountability standards under frameworks like the AI Act while discourse on AI and algorithmic accountability as well as platform liability continues in the USA. In India, the exponential growth of the digital economy demands that such reforms are enacted taking into account context specificity, innovation and constitutional values of dignity and certainty.

This paper examines the implications of AI on consumer transactions and contracts and liability by surveying the doctrinal framework, existing legislation, liability paradigms and proposing reform pathways. I will argue that Indian contract law requires the adoption of AI responsive principles such as algorithmic transparency, digital fairness, automated informed consent and hybrid liability systems in order to ensure justice within modern commercial spheres.

## **Evolution of Consumer Transactions in the Age of Artificial Intelligence**

Consumer transactions have drastically changed from face to face bargaining to technologically mediated virtual dealings. The advent of digital economy has ushered in unprecedented convenience, speed and market accessibility. It is the technology of AI which has accelerated the change, has transformed commercial interface and the nature of consumer transactions. Traditional consumer contracts used to be made after a face-to-face communication which allowed the consumer and the provider to scrutinize the terms, negotiate obligations, and assess liability. In modern digital contract formation AI uses learning machines which predict consumer choices, purchase history, location, preferences, and then formulate commercial outcomes on the basis of those predictions. Marketplaces are now using AI to recommend



products, set dynamically prices, answer queries of consumers, detect fraud and tailor individual legal contracts for each consumer.

An important consequence of the integration of AI is the practice of algorithmic pricing. AI systems are able to predict and alter prices on real-time based on market demands, consumer profile and usage data. This practice, though commercially efficient, creates serious concerns about digital price discrimination since identical products can be offered to different customers at different prices, only based on the data generated assumptions on how the consumers will react to it. Under Indian law, this has serious repercussions with respect to principle of fair dealings and consumers' right to fairness.

AI powered chatbots also now act as contractual intermediaries in many transactions, including purchase of insurance policy, obtaining loans, subscriptions to services, enrolment in various programs. Such systems might lead to incomplete information disclosure, standardized contracts, misleading information, all resulting in the failure of the informed consent process. The conventional legal doctrines such as misrepresentation or undue influence might be applicable but establishing the actual liability will be a complex task in such scenarios when the consumer's reliance is dependent on a machine generated response. Smart contracts or self-executing contracts coded on blockchain or other digital platform pose another serious challenge for conventional enforcement mechanisms of contracts; where such contracts can automatically enforce the terms upon execution without requiring human intervention. While Indian law provides legal validity to e-contracts through Information Technology Act, the legal position of AI facilitated or self learning contracts is yet to be developed. Post contractual performance, the dispute resolution mechanism of consumers is also impacted by AI, with customer support bots possibly denying legitimate claims and thereby favouring commercial efficiency over consumer interest creating a technological procedural injustice.

The Indian market presents peculiar challenges due to digital divide. Many consumers lack awareness about how they are being influenced by AI and technology in their buying choices. The chances of exploitation due to dark patterns, manipulative interfaces and coercive digital consent, thereby impacting the genuineness of consent become high. The Consumer Protection (E-Commerce) Rules 2020 also address the unfair trade practices in the digital marketplace, although the enforcement mechanisms are often inadequate and inconsistent. AI has undoubtedly transformed not just digital contracts but the whole structure of relationships between consumers and businesses. The law must also evolve to accommodate and address issues of contract fairness, consent and accountability in this algorithmic era.



## **Indian Contract Law and the Challenge of AI-Mediated Agreements**

The Indian Contract Act, 1872, is based on classical liberal notions of party autonomy and consensus ad idem (meeting of minds). Sections 10, 13, and 14 emphasize lawful agreement, consent, and free consent as essential components of valid contracts. However, AI-mediated transactions complicate these foundational assumptions.

### **Offer and Acceptance in Automated Systems**

AI systems frequently generate offers through targeted advertising, dynamic pricing, or automated negotiations. Whether such algorithmic communications constitute legal offers or invitations to offer remains contested. If an AI chatbot autonomously negotiates terms with a consumer, determining legal intention becomes complex.

Acceptance is similarly problematic in click-wrap and browse-wrap environments. Consumers often click “I Agree” without understanding contractual implications. Courts have traditionally upheld such agreements if reasonable notice exists, but AI-personalized interfaces may manipulate consumer behavior beyond ordinary contractual assumptions.

### **Free Consent and Algorithmic Manipulation**

Section 14 recognizes coercion, undue influence, fraud, misrepresentation, and mistake as vitiating factors. AI introduces subtler threats through behavioral nudging, psychological targeting, and dark patterns. If AI systems exploit consumer vulnerabilities to secure consent, can such consent truly be “free”? Indian law currently lacks explicit recognition of algorithmic coercion.

### **Competency and Legal Personality**

AI itself lacks legal personality under Indian law. Therefore, contracts executed by AI systems are legally attributed to developers, deployers, or platform operators. However, autonomous machine learning systems may evolve beyond direct human predictability, complicating attribution.

### **Mistake and Automated Errors**

AI-generated pricing glitches, erroneous recommendations, or automated false assurances can lead to mistaken agreements. Indian courts may apply doctrines of unilateral or mutual mistake, but the allocation of risk in machine-generated errors requires clearer jurisprudence.



## **Standard Form Contracts and Consumer Vulnerability**

Most AI-enabled consumer contracts are standard form agreements where consumers lack bargaining power. Indian jurisprudence increasingly scrutinizes unconscionable terms, but AI's role in personalizing exploitative clauses presents new concerns.

In essence, Indian Contract Law remains anchored in human-centric assumptions that inadequately address machine-mediated contractual realities. Without reform, consumers may face expanding vulnerabilities while businesses operate in regulatory ambiguity.

## **Consumer Protection and AI-Based Commercial Practices in India**

The Consumer Protection Act, 2019, broadened the legal framework for digital transactions by recognizing e-commerce entities and introducing protections against unfair trade practices. Yet AI presents emerging challenges beyond conventional e-commerce.

AI can manipulate consumer choice through recommendation bias, hidden advertising, fake scarcity cues, and algorithmic persuasion. Such practices may amount to unfair trade practices, but proving causation is difficult due to opaque AI systems.

The Central Consumer Protection Authority (CCPA) has authority to regulate misleading advertisements and unfair practices, but AI governance requires technical expertise and proactive regulation. Dark patterns in digital commerce—such as forced continuity, disguised ads, or confirm-shaming—illustrate the inadequacy of purely traditional consumer doctrines.

Data is another critical issue. AI systems rely on extensive consumer profiling, raising privacy and autonomy concerns. Contractual agreements based on data extraction may involve structural inequality where consumers exchange privacy for access without meaningful choice.

Therefore, consumer protection in AI transactions must expand beyond disclosure-based regulation toward substantive fairness, transparency mandates, and accountability audits.

## **Comparative Perspectives: Global Approaches to AI and Contractual Liability**

The European Union emphasizes transparency, accountability, and risk-based AI regulation. The proposed AI Act imposes obligations on high-risk systems, while GDPR reinforces informed consent and data rights.

The United States adopts a sectoral approach, relying on consumer protection agencies, tort law, and evolving platform liability doctrines.



India can draw from these models while integrating constitutional commitments to equality, dignity, and social justice. A uniquely Indian framework should address digital literacy, economic vulnerability, and platform dominance.

## **Judicial Trends, Emerging Liability Models, and AI-Driven Consumer Disputes in India**

Traditionally, Indian jurisprudence has proven adept at evolving traditional contract doctrines to encompass social and technological changes. The swift advent of AI in the consumer space has given rise to new legal issues which have so far only been addressed piecemeal within the existing frameworks of Indian law. Although Indian courts have recognized the enforceability of electronic contracts and digital signatures, and are cognizant of online consumer rights, contractual dispute over AI recommendation engines, automated deception, and machine-mediated consent remain underdeveloped in terms of judicial pronouncements.

For instance, in the context of online contracts, courts in India have hitherto upheld click-wrap agreements on grounds of reasonable notice of the terms of the agreement and voluntary user consent through the clicking action. The role of AI however, adds a complex dimension to this where the assent to contract could be achieved through technologically mediated pathways instead of pure human cognitive thought process. Recommendation algorithms, nudging engines and behavioral design techniques used to manipulate the decision-making process of consumers may influence their choice to a significant extent. Thus, where an insurance policy is taken out based on a systematic omission or preference towards commission generating products on the basis of AI algorithmic suggestions and not on suitability, doctrines such as fraud or misrepresentation would fail to encompass the technological causation.

Consumer jurisprudence, increasingly influenced by unfair trade practices within the digital sphere, shows judicial sensitivity towards these emerging issues. The Constitution of India, by virtue of Justice K.S. Puttaswamy v. Union of India (2017), has expanded the fundamental right to life and personal liberty to cover dignity and autonomy, and subsequently privacy, thus laying the groundwork for establishing the right to have one's choice free from algorithmic coercion. The relevance of this for online consumer contracts is significant: information privacy and freedom of choice are essential where algorithms employ consumer data to manipulate behavior. While Puttaswamy may not be a case concerned with contracts it, provides immense value in a legal framework concerned with data driven consumer contracts, because a true assent to a contract is based on control over the information used to enter into the agreement.



Indian consumer forums have also taken note of inadequacies in the online marketplace regarding misleading advertisements, defective goods and service deficient offerings. In contrast, specific harms relating to AI-induced discriminatory pricing, arbitrary refusal of refund claims or manipulative algorithmic recommendations have remained unlitigated. This can largely be attributed to lack of clarity and evidence, as the working of an AI algorithm is often proprietary.

Global jurisprudence has witnessed an increasing trend toward the use of algorithmic accountability. The European regulatory framework increasingly mandates an explanation of automated decisions that affect people's rights, and it is foreseeable that Indian courts may eventually adopt similar approach to AI driven consumer contracts. Principles of natural justice, fairness and transparency can potentially be used to mold a framework within which to regulate disputes concerning AI based consumer contract law.

A vital question that arises relates to attribution of liability: The traditional notion of liability attached to identified human or corporate individuals is difficult to apply where harm is caused due to interaction of multiple factors namely, the programmer, the operator, the data provider and the interface. For instance, if a consumer is misinformed about the warranty by a chatbot the responsibility may lie on any or all of the platform owner, the software provider, or the seller, traditional principles of agency may be applied where AI could be seen as merely an extension of the operating entity. However, the emergent role of machine learning continues to blur the lines of liability.

### **Three major liability models are emerging:**

#### **Fault-Based Liability**

This model imposes responsibility where negligence, inadequate testing, foreseeable harm, or deceptive deployment can be demonstrated. If a platform knowingly deploys biased AI systems causing consumer exploitation, negligence principles may apply.

#### **Strict Liability**

Given the complexity of proving algorithmic fault, certain AI applications may justify strict liability where operators bear responsibility regardless of fault. This may be particularly appropriate for high-risk financial, medical, or insurance transactions involving vulnerable consumers.

#### **Hybrid Accountability Model**

A more balanced approach may combine contractual liability, consumer protection standards, data governance obligations, and product liability principles. India's future legal reforms may benefit most from this model, ensuring innovation while preserving consumer justice.



Thus, judicial and policy frameworks must move beyond traditional breach analysis toward technologically responsive accountability structures.

## **Smart Contracts, Automated Transactions, and the Future of Contractual Enforcement**

Smart contracts represent one of the most transformative intersections of AI, blockchain, and contractual law. These digital agreements are self-executing systems where predefined code automatically performs obligations upon specified conditions. For example, an online lending system may automatically deduct installments, impose penalties, or terminate services based on coded parameters.

### **While smart contracts increase efficiency, they also raise fundamental legal concerns under Indian law.**

First, contractual flexibility is reduced. Traditional contracts allow interpretation, equitable relief, and contextual justice. Smart contracts, by contrast, often operate rigidly through code execution, potentially disregarding hardship, fraud, or unforeseen circumstances. This rigidity may undermine equitable doctrines such as frustration, unconscionability, or relief against penalties.

Second, coding errors may create significant liabilities. A poorly designed smart contract may execute unintended obligations, and legal recourse can be difficult if blockchain systems are immutable.

Third, consumer comprehension is often minimal. Most consumers cannot understand coding architecture, thereby intensifying informational asymmetry.

Under the Information Technology Act, 2000, electronic agreements are generally recognized, but statutory clarity regarding blockchain and AI-assisted autonomous execution remains limited. India currently lacks a dedicated smart contract statute. Consequently, enforceability often depends on applying traditional contract doctrines to technologically novel arrangements.

For smart contracts to function fairly in India, legal reforms should mandate: Human-readable parallel contractual disclosures, Consumer override or emergency relief mechanisms, Mandatory auditability standards, Jurisdictional clarity, Data protection safeguards. Without these protections, AI-enabled smart contracts may disproportionately benefit technologically dominant corporations while weakening consumer autonomy.



## **AI, Consumer Rights, and the Constitutionalization of Contract Law**

The evolution of AI-mediated commerce requires rethinking contract law not merely as private ordering but as a constitutionalized field influenced by public values. In India, consumer transactions increasingly implicate dignity, privacy, equality, and informational justice.

### **Right to Privacy**

AI systems depend heavily on consumer profiling. Data extraction may compromise autonomy where consent is buried in opaque digital contracts. The constitutional right to privacy demands meaningful control over personal information.

### **Equality and Non-Discrimination**

Algorithmic systems may perpetuate discriminatory pricing or exclusion based on geography, socio-economic status, or behavioral assumptions. Such practices may indirectly offend equality principles.

### **Access to Justice**

Automated grievance redressal systems may obstruct meaningful dispute resolution by replacing human adjudication with procedural automation.

Thus, Indian Contract Law must increasingly integrate constitutional morality into commercial regulation. Consumer contracts cannot remain insulated from broader public law values when AI substantially shapes rights and vulnerabilities.

## **Legislative and Policy Reform Proposals for India**

To update India's contract law for the era of AI, comprehensive legislative and policy reforms will be required, and existing legal principles must be effectively adapted for an increasingly automated commercial environment. As the first key change, Indian contract law must be substantially amended so that it explicitly recognizes agreements executed through AI, automated contractual systems, architectures of digitally expressed consent, and technologically dependent contractual arrangements. The current contract law regime was primarily created for human agreements, and its application to AI-involved contract formation and performance will require amendment. The modified law should define the legal status of AI-enabled contracts, standards of consent free and informed at the time of the contract, and assign accountability in cases of harm from machine-driven contracts.

As a second key reform, algorithmic transparency rules must be enacted for all business-to-consumer contract-making platforms that use AI. Businesses operating in this area will be legally responsible to



disclose when the decision-making involved in making decisions affecting consumer rights or obligations is materially influenced by AI systems, clearly and understandable manner. Such disclosure should cover algorithmic tools of automated decision making, dynamic pricing, recommender systems, algorithmic profiling practices, and automated dispute resolution mechanisms. The consumer must be made aware not only that AI is involved but also how it affects pricing, offers, and product or service choices, since hidden algorithmic control would undermine any meaningful assertion of consent and may lead to exploitative disparities.

To deal with developing technical harms beyond the scope of consumer protection legislation in the existing Consumer Protection Act, India should introduce a specific AI Consumer Protection Framework within it. Such a framework ought to address specifically such emerging practices as AI-driven dark patterns, algorithmic misrepresentation, manipulate interfaces, behavioral targeting, and automated unfair practices and should prohibit business activities, in which AI technologies are utilized to dupe, coerce, or otherwise psychologically manipulate individuals into unfavorable contracts. Technical and supervisory powers should also be granted to appropriate regulatory bodies to ensure that effective and lawful consequences of algorithmic misconduct are taken in the digital market.

To counter a potential division of liability in relation to AI systems, a reform should embrace joint liability rules for all participants in AI-enabled contract formation that are part of the chain of responsibility. Such rules will distribute among all substantively responsible actors, such as software developers, platform providers, contract providers, data controllers, and third parties vendors, those liability shares in instances of harm occurring due to the functioning of AI, in order to avoid companies evading all responsibility while the consumers having the ability to recover damages from the entire chain, including the individual entities involved. Such rules will incentivize safety, fair dealing, and responsible operation across the AI supply chain.

A Regulatory Sandbox Model for AI-enabled contract making with accountability safeguards ought to be implemented to provide balance between innovation and regulation. Instead of permitting open development of AI technologies into consumer marketplaces, India should establish a framework of supervised development through controlled legal environments where new applications can be tested under regulation, while guaranteeing that newly emerging technologies satisfy consumer protection standards and ethical rules before they are widely introduced. Such experiments will foster the rapid growth of technology without risking public confidence and the rights of customers.



Third, AI contract making must be adequately harmonized with India's current data protection regime. Because AI systems are inherently data-driven in nature-their functionality in predictive analysis, personal service, and automated decision-making being based on processing massive amounts of consumer data-contractual regulation cannot and should not be separate from data governance. Contract laws need to align with data privacy regulations and practices such as informed consent, purpose limitation, data minimization, and privacy by design in contractual contexts involving AI. Consumers need to have meaningful control over the collection, processing, and use of their personal data within contract law frameworks, so that unlawful exploitation of data can never be deemed to be voluntary agreement to an unfavorable contract and that consumers are treated with respect, privacy and legal equity.

To summarize, India must not rely on incremental measures but embark on total reform of consumer contracting laws and policy under AI to bring them up to date. Legislative action to amend the Indian Contract Act, mandate transparency of algorithms, strengthen consumer protection, introduce shared liability, facilitate innovation under a regulated framework and harmonize its data governance practices will be necessary to bring forth a technology-conscious legal system that provides both fair competition and commercial growth without sacrificing fairness and responsibility towards the consumer.

## **Conclusion**

AI is completely reshaping consumer transactions, contract formation and liability structures in ways that were scarcely imaginable. If it expands efficiency, customization and market reach, it simultaneously destabilizes fundamental tenets of Indian Contract law: agency, knowledge and accountability. Indian Contract Act, 1872 despite its considerable durability, is inadequate to cope with automated systems, predictive manipulation of choices and digitally-mediated consent structures.

The future for Indian contract law rests not in discarding age-old principles, but in reconceptualizing them through the lens of technological pragmatism. Offer, acceptance, consent, liability and fairness needs recalibration in light of automated commerce. Constitutional principles, consumer protection laws and digital governance structures must jointly devise new contractual rules.

Hybrid legal regime-drawing from contract law, consumer protection law, constitution law and algorithmic accountability-offers the optimum path. The task for India will be to prevent technology from diluting the constitutional integrity of the consumer and rule of law. In our new era of machines, contract law must shift from the simple regulation of agreements between individuals, to the management of fairness in an intelligent marketplace.



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