Case Law Note: Insurer is not Liable for Prejudgment Interest

Description

Summit Insurance Company v. Strickland, et al., C.A. No. PC2012-5368 (Rhode Island Superior Court, January 19, 2017).

Summit Insurance Company (Summit) brought this action seeking a declaration as to whether it has an obligation to pay prejudgment interest on a claim in excess of the policy limits. The question arose in connection with a separate action for personal injury stemming from an automobile accident in 2002 in which Eric Strickland (Strickland) struck and injured pedestrian Scott Alves (Alves). At the time, Strickland was insured by Summit with bodily injury coverage of $25,000 per person. After investigating the accident, Summit determined that Strickland was not at fault for the injuries sustained by Alves and, in 2003, informed Alves it would not extend any offers of settlement. Alves' claim remained inactive for the next eight years. The next contact from Alves was in 2011, when he sent a demand to Summit for $300,000, claiming that Summit was responsible for $25,000 in insurance coverage, plus $275,000 in prejudgment interest on Alves' claim. One week later, Summit offered the full policy limit of $25,000 to Alves. Alves rejected the offer and proceeding to sue Strickland for personal injury. Summit then filed this separate action to determine whether Summit had a duty to pay beyond the policy limits.

Following a bench trial, the Rhode Island Superior Court determined that Summit is not responsible for any interest or expenses over and above the policy limits of Strickland's policy. In coming to this conclusion, the Court examined insurance policy language governing prejudgment interest awards, which made clear that the insurer would be responsible for interest only if it rejected a written settlement offer that is equal to or less than the policy limits. Since Summit had received only one offer for $300,000, substantially above the policy limits, the Court found that Summit is not liable for prejudgment interest in accordance with the plain meaning of the insurance contract. The Court additionally considered Alves' claims that the "rejected settlement offer" statute (R.I. Gen. Laws § 27-7-2.2) makes Summit liable for the prejudgment interest. This too was rejected by the Court on grounds that the statute assigns liability above a policy's coverage limits only when the insurer rejects an offer of settlement that is equal to or less than the coverage limits in the policy, an event that did not occur in this case.

Finally, the Court addressed Alves' claim that there is an affirmative duty on insurers to timely engage in settlement negotiations with third party claimants such as Alves and to make reasonable settlement offers. Following a detailed analysis of Rhode Island insurance case law speaking to the duties owed by insurers, the Court concluded that the duties owed by insurers to its insureds do not run to an uninsured, third party claimant. Alves therefore could not premise any claims against Summit under theories of breach of duty that belong uniquely to an insured.

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