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LEE H. SHIDLOFSKY
SHIDLOFSKY LAW FIRM
PLLC
7200 N. MoPac Expy.
Suite 430
Austin, Texas 78731
512.685.1400
866.232.8709
LEE@SHIDLOFSKYLAW.COM

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THE *STOWERS* DOCTRINE: NEW GUIDANCE FROM THE COURTS

Two new cases highlight that *Stowers* litigation is alive and well in Texas. The first case provides plaintiffs guidance on how to make a valid *Stowers* claim when a hospital lien exists. The second discusses the *Stowers* duty in litigation involving multiple claims and multiple insureds under a primary and excess policy, and concludes, among other things, that insurers' *Stowers* duties are triggered even though a settlement demand asks for the entire policy limits while only offering to extinguish the claims against a single insured.

A. *McDonald v. Home State County Mutual Insurance Company*

In a memorandum opinion, the First District Court of Appeals in Houston recently decided an accident plaintiff's demand letter, as written, did not impose a *Stowers* duty when a hospital lien existed that was not specifically mentioned in the demand. See *McDonald v. Home State County Mut. Ins. Co.*, 2011 WL 1103116, at *1, *6 (Tex. App.—Houston [1st Dist.] Mar. 24, 2011, no pet. h.).

1. The Background Facts

On August 4, 2001, Francisco Rangel struck Edward McDonald with his vehicle while McDonald walked on the grass along a service road. As a result of the accident, McDonald suffered serious injuries and was treated at Memorial Hermann Hospital, which subsequently filed a "Notice of Hospital Lien," stating that the accident occurred on August 5, 2001 and that the Hospital admitted McDonald within 72 hours after the accident. The Lien also contained the following passage: "The name of the person alleged to be liable for damages arising from the injury is any and all responsible parties. The lien is for the amount of the hospital charges for services provided to the injured individual during the first 100 days of the injured individual's hospitalization." *Id.* at *1.

At the time of the accident, Rangel was insured by Home State County Mutual Insurance Company, who utilized the Paragon Insurance Company and the Paragon Insurance Group (collectively, the "Insurers") to manage the claim's adjustment. The Insurers all agreed at oral argument that they were similarly situated in terms of the appeal. *Id.*

After the Hospital filed the Lien, McDonald's lawyer informed Paragon in writing that McDonald was represented by counsel. On June 5, 2002,

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McDonald's lawyer sent Paragon a settlement demand with a deadline for acceptance of June 14, 2002. The front page of the demand contained the following notice:

NOTICE

THIS CORRESPONDENCE CONTAINS A SETTLEMENT OFFER WITH RESPECT TO THE ABOVE-REFERENCED CLAIM. PLEASE BE ADVISED, PURSUANT TO THE TERMS HEREIN, THERE IS A TIME LIMIT WITHIN WHICH PARAGON INSURANCE GROUP MAY ACCEPT THIS SETTLEMENT OFFER. THE SETTLEMENT OFFER EXTENDED HEREIN IS THE TYPE WHICH IS COMMONLY KNOWN AS A "STOWERS " OFFER. See, *G.A. Stowers Furniture Co. v. American Indemnity Co.*, 15 S.W.2d 544 (Tex. Comm. App. 1929, holding approved); *American Physicians Ins. Exch. v. Garcia*, 876 S.W.2d 842 (Tex. 1994). PLEASE TAKE NOTICE, IN THE EVENT THAT PARAGON INSURANCE GROUP FAILS TO ACCEPT THIS SETTLEMENT OFFER BY 5:00 P.M. ON FRIDAY JUNE 14, 2002, THIS SETTLEMENT OFFER WILL BE DEEMED TO HAVE BEEN REJECTED BY PARAGON INSURANCE GROUP. FURTHERMORE, ANY COUNTER-OFFER SUBMITTED ON BEHALF OF PARAGON INSURANCE GROUP'S INSURED WILL BE DEEMED AS A REJECTION OF THIS SETTLEMENT OFFER.

Id. The demand letter included an explanation supporting the demand, and stated that a full and final settlement of the claim could be made "in exchange for payment to Edward McDonald" of the "total amount of liability insurance available to cover your insured in this matter." The demand letter then specified that the payment be made to McDonald, care of his attorney. *Id.* at *2.

As part of investigating McDonald's claim, Paragon's adjuster contacted the known healthcare providers, learning that at least one purported lien existed. On the day before the settlement demand expired, the adjuster received a letter from the Hospital's counsel notifying him that the Hospital had filed a lien and that, to date, McDonald had incurred \$26,150.25 in expenses. Based on his review of the medical records and billing statements, the adjuster testified at a deposition that he thought McDonald's medical expenses exceeded \$54,000 at that time. According to the record, no indication existed that the adjuster or the adjuster's supervisor actually saw the lien. On June 14, 2002, the deadline day set by McDonald in the demand letter, the adjuster called McDonald's attorney's office. Unable to speak with McDonald's attorney, the adjuster left a message with the receptionist, offering to settle the claim for Rangel's full policy limits. The adjuster's call never was returned. *Id.*

Three days later, McDonald's lawyer sent a letter to Paragon in which McDonald asserted that Paragon breached its *Stowers* duty and that settlement negotiations were terminated. In late June and early July,

Paragon offered the full policy limits to settle McDonald's claim. Paragon's July settlement offer mandated that McDonald sign a document, which would expressly release the lien. McDonald rejected both settlement offers. *Id.*

The case was tried in 2004, and McDonald ultimately was awarded \$828,453.71 in actual damages, accompanied by \$500,000 in exemplary damages. In 2008, McDonald procured an order granting him Rangel's right to sue his insurers for their failing to settle McDonald's claims, including any *Stowers* claims. McDonald filed suit against the Insurers less than a month after obtaining Rangel's rights. *Id.*

McDonald and the Insurer filed cross-motions for summary judgment. In his motion, McDonald contended the Insurers breached common-law and statutory duties owed to Rangel regarding settlement. McDonald argued the Insurers owed this duty because the settlement demand letter implied a release of the Hospital's Lien and because, regardless, the lien facially was invalid. In essence, McDonald argued a reasonably prudent insurer would have accepted his demand that was within policy limits. The Insurer countered by saying it had no duty to establish the lien's validity and that the demand letter did not address the lien, thus precluding a reasonably prudent insurer from accepting the settlement offer. The trial court ruled in the Insurer's favor, and McDonald appealed. *Id.*

2. The Primary Issue and Arguments on Appeal

The primary issue argued on appeal was whether the demand letter proposed a full and final settlement adequate to impose a *Stowers* duty on the Insurer when the letter omitted any reference to the Hospital's Lien. The Insurer claimed McDonald's settlement demand did not impose a *Stowers* duty because the letter did not address the lien. In opposition, McDonald argued the demand letter implied the lien's release and that the lien was legally invalid because it incorrectly reflected the accident date, it did not name Rangel as the responsible party, and it had an incorrect address for McDonald. He also contended that the Insurer understood the lien's release was implied because the insurer knew it existed and failed to mention it before the settlement demand letter expired and also continued to ignore its necessity in future correspondence. In addition, McDonald argued that the Insurer had violated a statutory duty to attempt settlement. *Id.*

a. The *Stowers* Doctrine

Before analyzing the parties' arguments, the court of appeals addressed the basics of the *Stowers* doctrine, explaining that insurers have a duty to exercise ordinary care in settling claims to protect their insureds against judgments exceeding their policy limits. *See Philips v. Bramlett*, 288 S.W.3d 876, 879 (Tex. 2009); *G.A. Stowers Furniture Co. v. American Indemnity Co.*, 15 S.W.2d 544 (Tex. Comm. App. 1929,

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holding approved). A settlement demand made to an insurer triggers this *Stowers* duty if: (1) the claim against the insured is covered under the policy; (2) the demand is within policy limits; and (3) an ordinarily prudent insurer would accept the terms of the demand, considering how likely and to what degree the insured had a potential exposure to a judgment in excess of policy limits. See *Philips*, 288 S.W.3d at 879. The settlement demand must offer to release the insured fully in exchange for a stated sum of money. See *Trinity Universal Ins. Co. v. Bleeker*, 966 S.W.2d 489, 491 (Tex. 1998).

b. Statutory Duty to Attempt Settlement

The court also delineated the relevant statutory duty, explaining that when an insurer's liability becomes reasonably clear, the insurer has a statutory duty to make a good faith attempt to effectuate a "prompt, fair, and equitable settlement." See Tex. Ins. Code § 541.060(a)(2)(A). Similar to the common-law duty, the statutory duty is triggered when an insurer is presented a settlement offer within policy limits that an ordinarily prudent insurer would accept. See *Rocor Int'l, Inc. v. Nat'l Union Fire Ins. Co.*, 77 S.W.3d 253, 262 (Tex. 2002). To be a proper settlement demand and trigger this duty, it generally must offer to release the insured fully in exchange for a stated sum. *Id.*

c. The Court of Appeals' Analysis

The court of appeals disagreed with McDonald's positing, finding the settlement demand insufficient to trigger a *Stowers* duty because it did not include a release of the lien, and, therefore, an ordinarily prudent insurer would not accept the settlement demand. Specifically, the court found that the demand did not explicitly offer any release of potential claims against Rangel. See *McDonald*, 2011 WL 1103116, at *6. Further, the court found the settlement demand did not imply that the Hospital's Lien would be released as part of the settlement offer. *Id.* The court observed that the demand instructed the Insurer to pay McDonald directly, and, therefore, no provision existed for the Hospital to be a payee on a settlement and any counteroffer remedying this deficiency would have constituted a rejection under the language of the demand letter. The court also noted that if the Insurer had complied with the demand's terms, which contained no provision for the lien's release, the insurer risked making an incomplete settlement. *Id.* (citing *Trinity Universal Ins. Co. v. Bleeker*, 966 S.W.2d 489, 491 (Tex. 1998)). In addition, the court rejected McDonald's contention that the Insurer impliedly accepted a *Stowers* duty here by not discussing the lien's release with McDonald in its settlement discussions. Instead, the court reasoned that the Insurer still could have required the release as part of any later formal settlement. *Id.* In rejecting McDonald's belief that the Insurer's actions purportedly showed the release was implied in the settlement demand, the court noted the Insurer's actions are "necessarily subsidiary to the ultimate issue" of whether an ordinarily prudent insurer would accept McDonald's demand. *Id.* (citing *Garcia*, 876



S.W.2d at 849). Lastly, with little discussion, the court found that the lien's validity was irrelevant to whether the demand letter triggered a *Stowers* duty. *Id.* Accordingly, the court concluded:

As discussed above, the terms of McDonald's settlement demand included neither express nor implied protections against hospital liens. To the extent the demand was intended to invoke the *Stowers* doctrine, its terms should have either made express reference to the liens or at least should not have instructed express terms for acceptance which left the insurer exposed to the risk of liability to the hospital. *See Bleeker*, 966 S.W.2d at 491. McDonald's demand letter therefore failed to propose reasonable terms such that an ordinarily prudent insurer would have accepted them and assumed for itself the risk that the liens would be enforced. *See Phillips*, 288 S.W.3d at 879.

Id. Finally, the court rejected McDonald's contention that by merely entering into settlement negotiations, the insurer should be held liable for failing to exercise reasonable care in those discussions. *Id.* at *7. The court found such an argument to imply an additional common-law duty separate from the *Stowers* doctrine—a duty that does not exist in Texas law. *Id.* (citing *Mid-Continent Ins. Co. v. Liberty Mut. Ins. Co.*, 236 S.W.3d 765, 776 (Tex. 2007) (confirming "*Stowers* is the only common-law tort duty in the context of third-party insurers responding to settlement demands")).

For similar reasons, the court found that the Insurer did not violate its statutory duty to attempt to settle in good faith. The court reasoned that had the Insurer accepted McDonald's demand, it and Rangel still could have been liable to the Hospital because of the existing lien. Thus, the demand letter's terms were not such that an ordinarily prudent insurer would have accepted them. *Id.*

B. *Pride Transportation v. Continental Casualty Company*

A federal district court in Fort Worth recently granted two insurers' summary judgment motions in a case where a primary and excess carrier settled for the policy limits for one insured, leaving the other insured without coverage. *See Pride Transp. v. Cont'l Cas. Co.*, 2011 WL 1197306 (N.D. Tex. Mar. 31, 2011).

1. Background Facts

On October 11, 2006, Krystal Harbin drove a truck, owned by Pride Transportation, into the rear end of a pickup truck driven by Wayne Hatley on U.S. Highway 287 near Decatur, Texas. As a result, Hatley suffered significant injuries, rendering him a paraplegic. Hatley and his wife, Linda, subsequently filed suit against Pride and Harbin in the 271st Judicial District Court in Wise County, Texas. Pride, a Utah corporation and a large fleet interstate motor carrier, employed Harbin when the accident occurred. *Id.* at *1.

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The Hatleys' suit alleged negligence against both Harbin and Pride, claiming Pride was vicariously liable for Harbin's negligence and further liable under various federal and state motor-carrier safety regulations. The Hatleys sought damages for past and future medical expenses, lost earnings and future loss of earning capacity, past and future physical impairment, past and future disfigurement, past and future pain and mental anguish, past and future loss of household services, past and future loss of consortium, and property damage to the Hatleys' vehicle. *Id.*

When the accident occurred, Pride was covered under a primary policy issued by Continental Casualty Company with a \$1,000,000 policy limit. Pride also was insured by Lexington Insurance Company for \$4,000,000 in excess coverage. Harbin was an additional insured on both policies, and each policy stated that the respective insurer's duty to defend or settle terminated when the policy limits were exhausted by judgments or settlements. *Id.*

On June 6, 2007, the Hatleys made a \$5,000,000 (combined policy limits) settlement demand to Harbin alone. The demand did not contain an offer to release any claims against Pride, but did purport to release all the Hatleys' claims against Harbin. A week after the Hatleys' demand, Pride insisted that Continental tender its policy limits to Lexington. Although Continental initially undertook Pride's and Harbin's defense, it complied with Pride's demand about a month later, tendering its policy limits to Lexington and letting Lexington take over the settlement negotiations. *Id.*

During the negotiations, Lexington sought permission to make a counteroffer that would settle the Hatleys' claims against both Pride and Harbin. The Hatleys refused to include Pride in the settlement. Meanwhile, Harbin demanded Lexington accept the Hatleys' existing offer. On July 20, 2007, Lexington acceded, agreeing to the Hatleys' offer to release all claims against Harbin in exchange for Continental's and Lexington's (the "Insurers") combined policy limits. Having exhausted its policy limits, Lexington withdrew from Pride's defense after the Hatleys signed a formal settlement agreement releasing all claims against Harbin. *Id.* at *2.

Shortly after the settlement, Pride filed a cross-claim for common law indemnity against Harbin in the Hatleys' lawsuit. Pride eventually settled with the Hatleys for \$2,000,000, plus notes payable to the Hatleys contingent on any recovery from a products-liability suit or any recovery from the Insurers. Pride subsequently sued the Insurers in a Utah state court, alleging they breached the insurance contracts by failing to provide a full, complete, and adequate defense. Pride additionally alleged the Insurers breached the covenant of good faith and fair dealing and violated the Texas Insurance Code. The suit was removed to federal court, and Continental then successfully had the case transferred, for the convenience of parties and witnesses, to the Northern District of Texas.

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After the transfer, the Insurers moved for summary judgment on Pride's claims, arguing they had a *Stowers* duty to accept the Hatleys' reasonable settlement demand under Texas law. *Id.*

2. The *Stowers* Duty

In evaluating the Insurers' summary judgment motions, the trial court first recognized that an insurer has liability in Texas for negligently failing to settle a claim within policy limits. *Id.* at *3 (citing *Stowers*, 15 S.W.2d at 547). Thus, the court noted, Texas law requires the insurer to exercise a similar degree of care as an ordinarily prudent person. *Id.* The court continued by stating that a settlement demand activates this *Stowers* duty when "three prerequisites are met: (1) the claim against the insured is within the scope of coverage, (2) the demand is within the policy limits, and (3) the terms of the demand are such that an ordinarily prudent insurer would accept it, considering the likelihood and degree of the insured's potential exposure to an excess judgment." *Id.* (quoting *Am. Physicians Ins. Exch. v. Garcia*, 876 S.W.2d 842, 849 (Tex. 1994)). The court also noted that the settlement demand must offer to fully release the insured from any claims. *Id.* (citing *Garcia*, 876 S.W.2d at 848–49).

After acknowledging the difficulty applying the *Stowers* doctrine when multiple claimants or insureds are involved, the court cited *Travelers Indemnity Co. v. Citgo Petroleum Corp.*, 166 F.3d 761, 764 (5th Cir. 1999), for the proposition that Texas law allows an insurer to favor a claim by one claimant over another. *See Pride*, 2011 WL 1197306, at *3. The court further found that an insurer may enter into a reasonable settlement with one of several claimants even though it would exhaust or diminish the money available to satisfy the other claims, as doing so "promotes settlement of lawsuits and encourages claimants to make their claims promptly." *Id.* (quoting *Tex. Farmers Ins. Co. v. Soriano*, 881 S.W.2d 312, 315 (Tex. 1994)). And, similarly, a valid *Stowers* demand mandates that an insurer settle on behalf of a single insured even if it exhausts the policy limits and thereby exposing the remaining insureds. *Id.* (citing *Travelers*, 166 F.3d at 768). The court concluded that this result prevents an insurer from settling on behalf of one insured and having to choose between continuing to defend a non-settling insured beyond policy limits or facing liability for treating the non-settling insureds unequally. *Id.* at *3–*4 (citing *Millers Mut. Ins. Ass'n of Ill. v. Shell Oil*, 959 S.W.3d 864, 870 (Mo. Ct. App. 1997)). The court also noted that it should view the reasonableness of the settlement by reviewing the initial settlement demand in isolation, *id.* at *4 (citing *Travelers*, 166 F.3d at 765), considering only the merits of the settled claim and the potential liability of the insured on that claim. *Id.* (citing *Soriano*, 881 S.W.2d at 316).



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3. Choice of Law

Pride contended that the court should apply Utah state law because Texas law clearly was unfavorable to it. The court noted, however, that while the choice of law rules would be dictated by Utah law because the transferor court was in Utah, both Texas and Utah apply the same choice of law test. *Id.* This test examines the “most significant relationship” when determining which state law should apply. *Id.* (citing *Salt Lake Tribune Publ'g Co. v. Mgmt. Planning, Inc.*, 390 F.3d 684, 693 (10th Cir. 2004)). The court then demonstrated that the test applies differently in contract disputes and in tort cases. In a contract dispute, courts generally consider “(1) the place of contracting, (2) the place of negotiation of the contract, (3) the place of performance, (4) the location of the subject matter of the contract, and (5) the domicile, residence, nationality, place of incorporation and place of business of the parties.” *Id.* (quoting *Salt Lake Tribune*, 390 F.3d at 693). In tort cases, on the other hand, courts consider “(a) the place where the injury occurred, (b) the place where the conduct causing the injury occurred, (c) the domicile, residence, nationality, place of incorporation and place of business of the parties, and (d) the place where the relationship, if any, between the parties is centered.” *Id.* (quoting Restatement (Second) of Conflicts of Law § 145). According to the court, whether it is a contract dispute or a tort case, a court has to determine which state law is most significantly related to the substantive issue being resolved. *Id.*

With those principals in mind, Pride made the following arguments that Utah law should control: (1) Pride is located in Utah; (2) it has no place of business in Texas; and (3) that it negotiated its policy and paid the premiums in Utah. The court would have agreed with Pride if the issues arose from negotiating the policy, paying the premiums, or interpreting the policy. Instead, the court noted that Pride’s claims concern the Insurers action in defending and resolving claims in a Texas lawsuit, in which Texas residents sued in a Texas state court over an accident occurring in Texas. Thus, the court concluded Texas had the most significant relationship to the issues. *Id.* at *5.

4. Breach of Contract

The Insurers sought summary judgment on the following claims Pride alleged in an amended complaint: “(1) hiring the same counsel to defend both Pride and Harbin; (2) discontinuing their defense of Pride after settling the Hatleys’ claims against Harbin alone; (3) failing to allow Pride’s self-retained defense counsel to hire and pay experts; (4) failing to provide Harbin a defense in the indemnity action Pride filed against her after the settlement with the Hatleys; and (5) using the policies’ limits to settle the Hatleys’ claims against Harbin without obtaining a settlement of the claims against Pride when no valid *Stowers* demand had been made.” *Id.*



In its analysis, the court reasoned the lion's share of Pride's contractual claims could be resolved by determining whether the Insurers lawfully withdrew their defense after settling Harbin's claims—i.e., whether the Insurers had a *Stowers* duty and fulfilled it. The Insurers contended Texas law imposed a *Stowers* duty on them when the Hatleys' made their settlement demand, and the duty was fulfilled by settling for policy limits. *Id.* at *6.

Pride countered by arguing the demand did not impose a *Stowers* duty. At the outset, Pride claimed the demand was insufficient to trigger a *Stowers* duty because the demand did not propose to completely release all claims against Harbin, specifically any potential contribution or indemnity claims—like the one Pride already had filed against Harbin. The court disagreed, however, noting that all of the Hatleys' claims against Harbin arising from the accident would be released and no Texas authority supports the position that an insurer subjects itself to liability by failing to settle every *potential* claim against an insured. *Id.* (finding such position contrary to the holdings in *Soriano* and *Travelers*).

Pride also argued that neither insured agreed to the settlement, precluding the triggering of any *Stowers* duty. *Id.* While the court acknowledged Pride claimed in its brief that Harbin told the insurers not to accept the settlement, Pride cited no evidence to support its contentions. *Id.* Instead, the evidence actually revealed that several times Harbin's counsel specifically demanded that the offer be accepted. *Id.*

Pride then contended the Hatleys' demand was not a valid *Stowers* demand because neither insurer would have been liable for a judgment greater than the policy limits. *Id.* Pride claimed the Insurers accepted the settlement solely to avoid additional defense costs and expenses. *Id.* The court noted, though, that Pride cited no authority suggesting that such motivation breached the insurance policies or otherwise was unlawful, "at least where, as here, all parties agreed that the Hatleys' claims were 'policy-limits' claims." *Id.*

Lastly, Pride complained the settlement demand exceeded each individual policy limit and, therefore, was not a valid *Stowers* demand. *See id.* (citing *AFTCO Enterprises, Inc. v. Acceptance Indem. Ins. Co.*, 321 S.W.3d 65, 67, 71–72 (Tex. App.—Houston [1st Dist.] 2010, pet. denied) (finding a demand did not trigger a *Stowers* duty when the demand did not specify an individual policy, the demand exceeded all the individual policy limits, and the insurers had not tendered their policies at that time)). In distinguishing *AFTCO*, the court noted that in that case the amount sought in settlement was an aggregate of multiple policies that exceeded the insurer at issue's policy limits. *Id.* (citing *AFTCO*, 321 S.W.3d at 71). Thus, no *Stowers* duty was triggered in *AFTCO* because there was not an offer to release the plaintiffs' claims against the insureds under a policy in exchange for the limits available under that policy. *Id.* To the contrary, under the facts before the court in *Pride*,

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Continental had tendered its policy limits to Lexington before the \$5 million demand expired. *Id.* "At that point, with combined policy proceeds equaling the amount of the Hatleys' demand, Lexington's *Stowers* duties came into play." *Id.* (citing *AFTCO*, 321 S.W.3d at 70 (citing *Keck, Mahin & Cate v. Nat'l Union Fire Ins. Co.*, 20 S.W.3d 692 (Tex. 2000), for the proposition that "the *Stowers* duty does not arise for an excess insurer until the primary insurer has tendered its limits").

Moreover, the court found Pride incorrectly focused on whether the Insurers had a *Stowers* duty to settle, instead of the overarching question of whether an ordinarily prudent insurer would have accepted the Hatleys' demand. The court affirmatively answered that question, highlighting that the claim would far exceed the combined policy limits. "Consequently, *Stowers*-duty bound or not, the insurers[] acted reasonably in accepting the Hatleys' demand despite the fact that Pride remained exposed." *Id.*

Finally, Pride failed to demonstrate that its defense was discontinued prematurely—i.e., before the policy limits were paid to settle the Hatleys' claims against Harbin. After that point, the insurers' refusal to hire experts for Pride was consistent with the policies' terms, which terminated the duty to defend on exhaustion of the policy limits paid in settlement. *Id.* Moreover, Pride's contention that a conflict of interest between Harbin and Pride should have been apparent to the Insurers at the outset and entitled Pride to separate counsel fell on deaf ears, as the evidence did not support that suggestion. And, when the conflict was clear, separate counsel was assigned. As such, the court denied Pride's breach-of-contract claims, granting summary judgment in favor of the Insurers. *Id.*

5. Breach of the Covenant of Good Faith and Fair Dealing & Unfair Settlement Practices under Texas Insurance Code § 541.060

At the outset, the court noted that, in the context of third-party insurance claims, Texas does not recognize a claim for breach of the covenant of good faith and fair dealing. *Id.* at *8 (citing *Maryland Ins. Co. v. Head Indus. Coatings*, 938 S.W.2d 27, 28 (Tex. 1996) (noting Texas only recognizes the *Stowers* duty). The court found, however, that Section 541.060 of the Texas Insurance Code permits insureds to file suit against an insurer for unfair claims settlement practices. *Id.* (citing Tex. Ins. Code § 541.060(a)(2)(A)).

Pride made several arguments utilizing this statutory provision. First, Pride claimed the Insurers violated this code provision by settling the Hatleys' claims against Harbin only, leaving it exposed. Second, Pride contended that Continental unreasonably delayed attempting to settle the Hatleys' suit despite defense counsel's suggestion to Continental that it was worthwhile to settle months before Continental tendered its policy limits to Lexington. Lastly, Pride complained that the insurers failed to

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allow defense counsel to pursue the manufacturer of Wayne Hatley's driver's seat. *Id.*

Weighing Pride's arguments, the court ruled that the Insurers' settlement for Harbin's claims was not an unfair settlement practice because it was lawful and required under Texas law. *Id.* It also dismissed Pride's unreasonable delay argument because an insurer's statutory duty was not triggered until the Hatleys made their demand because no demand was made within Continental's \$1 million limits during the time period about which Pride complained. *Id.* (citing *Rocor*, 77 S.W.3d at 262). Further, Pride omitted defense counsel's statement accompanying its call for an early settlement, which said settling would be premature without additional discovery. *Id.* The court also found Pride's claim that the Insurers violated the statute by failing to allow Pride's defense counsel to pursue the manufacturers of Mr. Hatley's seat to be without merit, noting that defense counsel was free to pursue a claim and that some evidence suggests that it was investigating such a claim. *Id.* at *9.

6. Breach of Fiduciary Duty/Texas Insurance Code 542

In closing, the court noted that Pride had abandoned its claim for breach of fiduciary duty and, in any event, Texas law imposed no such fiduciary duties. *Id.* According to the court, Pride also failed to address its Section 542 claim. *Id.* As such, the court did not address these claims in detail.

Commentary:

These recent decisions are the latest to address the all-important *Stowers* "duty to settle" imposed on insurers in Texas. The *McDonald* decision highlights the importance of offering a complete release and, in doing so, noting specifically that any release includes existing hospital liens. In other words, as has been the case, the failure to provide a complete release remains fatal to any *Stowers* claim, and the courts will not find that a complete release is implied in a demand.

The *Pride Transportation* decision seemingly answers the question as to how to *Stowerize* an excess carrier—although doing so requires the assistance of the primary carrier in the first instance. More specifically, in the event an insured has multiple layers of coverage, a settlement demand within the total limits of insurance does not appear to *Stowerize* a primary carrier, as such a demand would not be within that insurer's policy limits. Similarly, the excess carrier also is not *Stowerized* for the same reason. Nevertheless, if the primary carrier tenders its limits to the excess carrier and the demand is within the sum of the two carriers' limits, then the excess carrier is *Stowerized* (assuming, of course, all the other requirements of a *Stowers* demand are satisfied). Moreover, *Pride Transportation* emphasizes again that an insurer can elevate the interests of one insured over another so long as it acts as an ordinarily prudent insurer would in the same situation. In other words, an insurer will not be liable under *Stowers* merely because one insured is left without insurance following acceptance of a policy limits demand on behalf of another insured (again, so long as all the other requirements of a *Stowers* demand are satisfied).



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Lee H. Shidlofsky is a founding partner of Shidlofsky Law Firm PLLC. His practice is devoted to representing and counseling corporate policyholders in the area of insurance law, risk management, contractual risk transfer, and extra-contractual issues. He is Chair of the Insurance Law Section and a former council member of the Construction Law Section of the State Bar of Texas. He is the author of numerous articles and seminar papers and is a frequent speaker at continuing legal education seminars in Texas and across the country. Lee has been named a "Super Lawyer" by Texas Monthly Magazine each year since 2004, including a ranking as a Top 50 attorney in the Central and West Texas Region since 2007, and is ranked as a top insurance coverage lawyer by Chambers USA and Who's Who Legal. Lee also is a Fellow of the Texas Bar Foundation.

Douglas P. Skelley is a senior associate at Shidlofsky Law Firm PLLC. He represents and counsels corporate policyholders in numerous insurance law matters. He is a member of both the Insurance Law Section and the Construction Law Section of the State Bar of Texas. Doug was named a Texas "Rising Star" by Texas Monthly Magazine in 2010 and 2011.

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