

NEW YORK COURT OF APPEALS

In re the Arbitration between Falzone & New York Mutual Fire Insurance

15 N.Y.3d 530, 939 N.E.2d 1197 (N.Y. 2010) · Decided October 21, 2010

SUMMARY

The New York Court of Appeals considered whether an arbitrator deciding a supplementary uninsured/underinsured motorist benefits claim was required to give preclusive effect to an earlier no-fault arbitration award involving the same parties, accident, injuries, and causation issue. The Court held that any error in the SUM arbitrator's application of collateral estoppel was generally unreviewable because the award was not patently irrational, contrary to strong public policy, or beyond a specifically enumerated limitation on the arbitrator's power. The Court affirmed the Appellate Division's confirmation of the SUM arbitration award.

OPINION

JONES, J.

OPINION OF THE COURT Jones, J. In this CPLR article 75 proceeding arising from respondent's determination denying petitioner's claim for supplementary uninsured/underinsured motorist (SUM) benefits, the primary issue before this Court is whether the SUM arbitrator exceeded the scope of his authority by not giving preclusive effect to a prior arbitration award involving the same parties and accident.

On May 15, 2004, petitioner was involved in a two-car collision. Subsequently, she filed a claim for no-fault benefits with respondent insurer, alleging she had injured her shoulder. When respondent denied petitioner's no-fault claim on the ground that her shoulder injury was not related to the accident, petitioner challenged the denial in arbitration. Disagreeing with respondent's denial, the no-fault arbitrator, in May 2008, ruled *533that respondent's denial based on lack of relatedness was inappropriate and awarded petitioner \$4,354.56 in no-fault benefits.

After petitioner settled her lawsuit against the driver of the other vehicle for that driver's \$25,000 policy limit, she sought SUM benefits in the amount of \$75,000 from respondent insurer. Citing the prior denial of no-fault benefits as being unrelated to the accident, respondent denied the claim for SUM benefits.

On February 28, 2008, during the pendency of the no-fault arbitration, petitioner sought to challenge the denial of SUM benefits in a separate arbitration proceeding. At the hearing in the SUM arbitration, held about two months after the decision in the no-fault arbitration, respondent

again argued that the injury was unrelated to the accident, while petitioner countered that the SUM arbitrator was bound by the prior determination of the no-fault arbitrator under the doctrine of collateral estoppel.

After the hearing, in August 2008, the SUM arbitrator issued an award in favor of respondent denying SUM benefits. In a finding directly opposite that of the no-fault arbitrator, the SUM arbitrator concluded that petitioner's injury was not caused by the accident, and also found that her recovery from the other driver was more than adequate compensation for any injuries sustained in the accident.

Thereafter, petitioner commenced this CPLR article 75 proceeding to set aside the SUM arbitration award in respondent's favor. Petitioner argued that respondent was collaterally estopped from relitigating the causation issue. Respondent sought confirmation of the award. Supreme Court vacated the SUM arbitration award and ordered that a new arbitration be scheduled before a different arbitrator.

The court concluded that although it is within an arbitrator's discretion to determine the preclusive effect of a prior arbitration award, here, there was nothing in the SUM arbitrator's decision to indicate whether petitioner's collateral estoppel argument was even considered. By a 3-2 vote, the Appellate Division reversed Supreme Court's order and confirmed the SUM arbitration award (64 AD3d 1149 [4th Dept 2009]).

The majority concluded that (1) "[t]he fact that a prior arbitration award is inconsistent with a subsequent award" is not a ground, pursuant to CPLR 7511, for vacating an arbitration award, (2) it is within the arbitrator's sole discretion to determine the preclusive effect of a prior award, and (3) "the SUM arbitrator was not required to state *534that he had considered" the collateral estoppel argument raised before him.

(64 AD 3d at 1150.) The dissenting Justices countered that the SUM arbitrator exceeded his power by disregarding the preclusive effect of the prior no-fault arbitration award, which involved the same parties and was based on the same facts. Petitioner appeals as of right pursuant to CPLR 5601 (a); we now affirm. It is well settled that a court may vacate an arbitration award only if it violates a strong public policy, is irrational, or clearly exceeds a specifically enumerated limitation on the arbitrator's power (see *Matter of New York City Tr.*

Auth. v Transport Workers' Union of Am., Local 100, AFL-CIO, 6 NY3d 332, 336 [2005]; *Matter of United Fedn. of Teachers, Local 2, AFT, AFL-CIO v Board of Educ. of City School Dist. of City of N.Y.*, 1 NY3d 72, 79 [2003]; CPLR 7511 [b] [1] [iii]). Even where an arbitrator has made an error of law or fact, courts generally may not disturb the arbitrator's decision (see *Transport Workers' Union of Am., Local 100, AFL-CIO*, 6 NY3d at 336 ["(C)ourts are obligated to give deference to the decision of the arbitrator.

This is true even if the arbitrator misapplied the substantive law in the area of the contract” (citations omitted)). Here, petitioner’s claim—that the arbitrator erred in failing to apply collateral estoppel to preclude litigation of the causation issue in the SUM arbitration—falls squarely within the category of claims of legal error courts generally cannot review.

In this appeal, we are merely applying this State’s well-established rule that an arbitrator’s rulings, unlike a trial court’s, are largely unreviewable (see *Board of Educ. of Patchogue-Medford Union Free School Dist. v PatchogueMedford Congress of Teachers*, 48 NY2d 812, 813 [1979] [this Court, addressing the doctrine of res judicata, held that if a grievance is within the scope of the arbitration agreement and would do no harm to the State’s public policy in favor of arbitration, further judicial inquiry into arbitrability is foreclosed and “any remaining questions, including whether a prior award constitutes a bar to the relief sought, are within the exclusive province of the arbitrator to resolve” (citations omitted)]; *Matter of City School Dist. of City of Tonawanda v Tonawanda Educ.*

Assn., 63 NY2d 846, 848 [1984] [“The effect, if any, to be given to an earlier arbitration award in subsequent arbitration proceedings is a matter for determination in that forum”]; compare with *Clemens v Apple*, 65 NY2d 746 [1985], and *Matter of American Ins. Co. [Messinger—Aetna Cas. & Sur. Co.]*, 43 *535NY2d 184, 191 [1977] [holding that if an issue between identical parties is resolved in an arbitration proceeding, the determination as to that issue may be binding on subsequent court proceedings under the doctrine of collateral estoppel where the parties have had a full and fair opportunity to litigate the issue]).

Thus, if a court makes an error and fails to properly apply collateral estoppel, the issue can be reviewed and corrected on appeal. By contrast, if an arbitrator erred in not applying collateral estoppel, the general limitation on judicial review of arbitral awards precludes a court from disturbing the decision unless the resulting arbitral award violates a strong public policy, is irrational, or clearly exceeds a specifically enumerated limitation on the arbitrator’s power.

Here, the prior (no-fault) arbitration award involved the same parties, the same accident, the same injuries, and resolution of the same issue (causation) as the subsequent (SUM) arbitration award. Respondent insurer, a party to the prior arbitration, lost on the causation issue. Petitioner, the prevailing party on that issue in the prior arbitration, reasonably argued that collateral estoppel should apply to bar relitigation of the causation issue in the subsequent SUM arbitration.

The SUM arbitrator rejected petitioner’s argument, had the parties relitigate the causation issue and, contrary to the no-fault arbitrator’s determination, found in respondent insurer’s favor on the causation issue. It is not for us to decide whether the SUM arbitrator erred in not applying collateral estoppel (i.e., not giving preclusive effect to the no-fault arbitrator’s determination on the issue of causation).

Because the SUM arbitration award was not patently irrational or so egregious as to violate public policy, the instant SUM arbitration award (and whether the SUM arbitrator erred or exceeded his authority) is beyond this Court's review powers. Since the instant claim involves the doctrine of collateral estoppel, not res judicata, petitioner's reliance on Appellate Division decisions barring subsequent arbitrations on res judicata grounds is misplaced.

Accordingly, the order of the Appellate Division should be affirmed, with costs.