SUPREME COURT OF ALABAMA

Aetna Casualty & Surety Co. v. Mitchell Brothers, Inc.

814 So. 2d 191 (Ala. 2001) · No. 1980950 · Decided September 7, 2001

SUMMARY

The Alabama Supreme Court reviewed an insurance coverage dispute arising from racial-discrimination lawsuits against Mitchell Brothers, Inc. and Abraham Mitchell. The court held that Aetna did not owe an enhanced obligation of good faith in defending the Lowman action because the insureds retained control of the defense, and that although the enhanced obligation arose in the Craft action, Aetna did not breach it. The court reversed the trial court's damages award and rendered judgment for Aetna.

CASE DETAILS

COURT	Supreme Court of Alabama
WRITING FOR THE COURT	Woodall, Justice; Woodall; Houston; Brown; Harwood; Stuart; Moore; Lyons; Johnstone
JURISDICTION	Alabama
DECIDED	September 7, 2001
DOCKET	1980950
DISPOSITION	reversed
PROCEDURAL POSTURE	Aetna appealed from a judgment entered after a bench trial in an Alabama declaratory-judgment action involving insurance coverage and an alleged enhanced obligation of good faith in the defense of two underlying racial-discrimination lawsuits.
STANDARD OF REVIEW	Findings of fact following disputed oral testimony are reviewed under the ore tenus standard and will not be disturbed unless plainly and palpably wrong and unsupported by the evidence. Conclusions of law and applications of law to facts are reviewed without the ore tenus presumption of correctness. The existence of a duty is a question of law.
PRECEDENTIAL VALUE	Published Alabama Supreme Court opinion; precedential.
PARTIES	Aetna Casualty & Surety Company, Aetna Casualty & Surety Company of Illinois, Aetna Casualty & Surety of America v. Mitchell Brothers, Inc., d/b/a MBI, Abraham Mitchell

TOPICS

insurance bad faith · insurance coverage · duty to defend · declaratory relief insurance · civil procedure

PRACTICE AREAS

insurance law · insurance coverage · insurance bad faith · civil procedure

QUESTIONS PRESENTED

1. Whether an insurer that undertakes a defense under a reservation of rights owes an enhanced obligation of good faith when the insured retains control of the investigation, defense, and settlement negotiations.
2. Whether Aetna breached an enhanced obligation of good faith in its handling of the Craft defense by consulting a conflicted attorney for coverage opinions.
3. Whether Aetna breached an enhanced obligation of good faith by including Lowman settlement information in its federal declaratory-judgment action.
4. Whether the trial court's compensatory and punitive damages awards could stand.

HOLDINGS

1. An enhanced obligation of good faith does not arise under the specific circumstances where the insured accepts the insurer's reservation-of-rights defense but retains control of the investigation, litigation, and settlement negotiations and prevents the insurer and its appointed counsel from participating.
2. Aetna did not breach its enhanced obligation of good faith by obtaining coverage advice from Harry Cole and then, after reconsideration, resolving doubts in favor of defending the insureds under a reservation of rights.
3. Aetna's inclusion of Lowman settlement negotiations and commitments in its federal declaratory-judgment action did not constitute a breach of the enhanced obligation of good faith because the information was relevant to the consent-to-settle and coverage issues being litigated.
4. The trial court incorrectly applied the law to the facts, and the judgment awarding compensatory and punitive damages against Aetna must be reversed and judgment rendered for Aetna.

KEY QUOTATIONS

> *"Therefore, Aetna had no duty to act under an "enhanced obligation of good faith.""* (814 So. 2d at 197)

> *"The consent-to-settle issues with regard to the Lowman case (where Aetna had no enhanced duty) were among the issues addressed in the petition."* (814 So. 2d at 198)

> *"For the reasons stated above, the judgment of the trial court is reversed and judgment is rendered for Aetna."* (814 So. 2d at 199)

FACTUAL BACKGROUND

MBI and Abraham Mitchell faced two underlying discrimination suits: the Lowman housing-discrimination class action and the Craft wrongful-termination action. In Lowman, MBI retained and controlled its own defense team and conducted settlement negotiations before notifying Aetna; after Aetna offered a reservation-of-rights defense, MBI kept control and prevented Aetna's appointed counsel from participating. In Craft, Aetna and another insurer supplied defense counsel, and the case settled for $900,000. The trial court found that Aetna breached an enhanced duty of good faith by obtaining and relying on adverse coverage advice from conflicted counsel and by disclosing Lowman settlement information in a federal declaratory-judgment pleading.

PROCEDURAL HISTORY

Aetna filed a federal declaratory-judgment action concerning coverage and the effect of MBI's settlement of the Lowman suit. MBI, Abraham Mitchell, and James Spafford then filed a declaratory-judgment action in Mobile Circuit Court. After a bench trial, the circuit court found that Aetna breached an enhanced obligation of good faith and awarded compensatory and punitive damages. The court denied Aetna's post-judgment motions after a Hammond hearing, and Aetna appealed. The Alabama Supreme Court reversed and rendered judgment for Aetna; the application for rehearing was later overruled.

DISPOSITION

reversed

CASES CITED

- L & S Roofing Supply Co. v. St. Paul Fire & Marine Insurance Co., 521 So. 2d 1298 (Ala. 1987)
- Tank v. State Farm Fire & Casualty Co., 105 Wash. 2d 381, 715 P.2d 1133 (1986)
- Shelby Steel Fabricators, Inc. v. United States Fidelity & Guaranty Insurance Co., 569 So. 2d 309 (Ala. 1990)
- Hammond v. City of Gadsden, 493 So. 2d 1374 (Ala. 1986)
- BMW of North America, Inc. v. Gore, 701 So. 2d 507 (Ala. 1997)
- Williams v. Lide, 628 So. 2d 531 (Ala. 1993)
- Eubanks v. Hale, 752 So. 2d 1113 (Ala. 1999)
- State Farm Fire & Casualty Co. v. Owen, 729 So. 2d 834 (Ala. 1998)
- Morton v. Allstate Ins. Co., 486 So. 2d 1263 (Ala. 1986)
- Federated Guaranty Life Ins. Co. v. Bragg, 393 So. 2d 1386 (Ala. 1981)
- Thompson v. Hartford Accident & Indemnity Co., 460 So. 2d 1264 (Ala. 1984)
- Walker v. Majors, 496 So. 2d 726 (Ala. 1986)
- Johnson v. Allstate Ins. Co., 505 So. 2d 362 (Ala. 1987)
- Safeco Insurance Co. of America v. Butler, 118 Wash. 2d 383, 823 P.2d 499 (1992)
- City of Dothan v. Gulledge, 276 Ala. 433, 163 So. 2d 217 (1964)
- Belt Automotive Indemnity Ass'n v. Ensley Transfer & Supply Co., 211 Ala. 84, 99 So. 787 (1924)
- Siedle v. Putnam Investments, Inc., 147 F.3d 7 (1st Cir. 1998)
- Phillips Colleges of Alabama, Inc. v. Lester, 622 So. 2d 308 (Ala. 1993)
- General Motors Acceptance Corp. v. Covington, 586 So. 2d 178 (Ala. 1991)
- State Farm Fire & Casualty Co. v. Slade, 747 So. 2d 293 (Ala. 1999)

- Ex parte Certain Underwriters at Lloyd's of London v. Defleron, 815 So. 2d 558 (Ala. 2001)
- Blackburn v. Fidelity & Deposit Co. of Maryland, 667 So. 2d 661 (Ala. 1995)
- State Farm Mutual Automobile Insurance Co. v. Hollis, 554 So. 2d 387 (Ala. 1989)

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