SUPREME COURT OF IOWA

Kelly v. Iowa Mutual Insurance Co.

620 N.W.2d 637 (Iowa 2000) · No. No. 99-319 · Decided January 22, 2001

SUMMARY

The Iowa Supreme Court considered whether an insured defended under a reservation of rights breached policy duties by entering into a stipulated judgment and settlement over the insurer's objection. The court held that if the insurer wrongfully rejects a fair and reasonable settlement demand within policy limits, the insured may settle on terms protecting against personal exposure without forfeiting coverage. The court reversed summary judgment for Iowa Mutual and remanded because the record was insufficient to determine whether the insurer had breached its contractual settlement obligations.

CASE DETAILS

COURT	Supreme Court of Iowa
WRITING FOR THE COURT	Ternus, Justice; McGiverin, Senior Judge; Neuman, Justice
JURISDICTION	Iowa
DECIDED	January 22, 2001
DOCKET	No. 99-319
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	The estate appealed from the district court's grant of summary judgment in favor of Iowa Mutual in an action seeking payment of a stipulated wrongful-death judgment under an insurance policy.
STANDARD OF REVIEW	Summary judgment is reviewed for correction of errors at law. Summary judgment is appropriate when there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law; the record is viewed in the light most favorable to the nonmoving party.
PRECEDENTIAL VALUE	Published opinion; binding Iowa Supreme Court precedent.
PARTIES	Donna Rae Kelly, individually, as administrator of the Estate of Leo J. Kelly, deceased, and as parent and next friend of Amy Kelly, a minor v. Iowa Mutual Insurance Co.

TOPICS

insurance coverage · duty to defend · breach of contract · summary judgment · declaratory judgment

PRACTICE AREAS

Insurance law · Contract law · Civil procedure

QUESTIONS PRESENTED

1. Whether an insured defended under a reservation of rights breaches policy duties and forfeits coverage by entering into a stipulated judgment with the claimant over the insurer's objection.
2. Whether the insurer's defense under a reservation of rights constituted a breach of the insurance contract.
3. Whether the insurer's commencement of a declaratory judgment action concerning coverage constituted a breach that released the insured from policy conditions.
4. Whether the insurer breached its contractual obligations by refusing to accept a fair and reasonable settlement demand within policy limits.
5. Whether summary judgment for the insurer was proper on the record before the district court.

HOLDINGS

1. An insurer does not breach the policy merely by defending an insured under a reservation of rights. An insured may not enter an unauthorized settlement solely because the defense is provided under a reservation of rights when the insurer has not otherwise breached the contract.
2. An insurer's initiation of a declaratory judgment action to determine coverage does not, by itself, breach the insurance contract or release the insured from policy conditions, even when the coverage issue may overlap with an issue in the underlying tort action.
3. When an insurer provides a defense under a reservation of rights and rejects a fair and reasonable settlement demand within policy limits that a reasonable and prudent insurer would pay, the insured may consummate the settlement on terms protecting the insured from personal exposure without forfeiting coverage.
4. Summary judgment for Iowa Mutual was premature because the record did not establish the course of settlement negotiations or the insurer's involvement sufficiently to determine whether it wrongfully rejected a fair and reasonable settlement demand.

KEY QUOTATIONS

> *"At the point in time that the insurer is faced with a fair and reasonable settlement demand that a reasonable and prudent insurer would pay, the insurer must either abandon its coverage defense and pay the demand or lose its right to control the conditions of settlement."* (at 644)

> *"We hold, therefore, that when an insurer provides a defense under a reservation of rights and rejects a fair and reasonable settlement demand that a reasonable and prudent insurer would pay, the insured is free to consummate the settlement on terms that protect the insured from any personal exposure."* (at 645)

FACTUAL BACKGROUND

Leo Kelly was killed while repairing a farm implement owned by Philip McCarthy, who was insured by Iowa Mutual under a farm liability policy. Iowa Mutual disputed coverage under an employee exclusion and defended McCarthy under a reservation of rights. While the coverage appeal was pending, McCarthy and the estate entered into a stipulated judgment for $507,500, with the estate accepting $7,500 and agreeing to collect the remaining $500,000 only from the insurance proceeds. Iowa Mutual objected to the settlement, and the estate later sought payment of the remaining judgment from Iowa Mutual.

PROCEDURAL HISTORY

Iowa Mutual initially filed a declaratory judgment action asserting that an employee exclusion precluded coverage. The district court ruled that Leo Kelly was the insured's employee as a matter of law, but the Iowa Supreme Court reversed and reinstated the jury's verdict that coverage existed. While that appeal was pending, the insured and the estate entered into a stipulated settlement over Iowa Mutual's objection. The district court then granted Iowa Mutual summary judgment on the ground that the settlement breached policy conditions and forfeited coverage. The Supreme Court of Iowa reversed and remanded because the record was insufficient to determine whether Iowa Mutual wrongfully rejected a fair and reasonable settlement demand.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

The district court must conduct further proceedings consistent with the opinion, including determining from an adequate record whether Iowa Mutual wrongfully rejected a fair and reasonable settlement demand and whether the stipulated settlement was fair and reasonable. The parties may file properly supported motions for summary judgment on remand.

CASES CITED

- Iowa Mutual Insurance Co. v. McCarthy, 572 N.W.2d 537, 545 (Iowa 1997)
- Continental Insurance Co. v. Bones, 596 N.W.2d 552, 555 (Iowa 1999)
- Met-Coil Systems Corp. v. Columbia Casualty Co., 524 N.W.2d 650, 654 (Iowa 1994)
- Red Giant Oil Co. v. Lawlor, 528 N.W.2d 524, 528, 531, 533 (Iowa 1995)
- American Guaranty & Liability Insurance Co. v. Chandler Manufacturing Co., 467 N.W.2d 226, 228-29 (Iowa 1991)
- Haynes v. Dairyland Mutual Insurance Co., 199 N.W.2d 83, 86 (Iowa 1972)
- Simpson v. United States Fidelity & Guaranty Co., 562 N.W.2d 627, 631-32 (Iowa 1997)
- Van Oort Construction Co. v. Nuckoll's Concrete Service, Inc., 599 N.W.2d 684, 692 (Iowa 1999)
- Red Giant Oil Co. v. Lawlor, 528 N.W.2d 524, 531 (Iowa 1995)
- Fullerton v. United States Casualty Co., 184 Iowa 219, 231-32, 167 N.W. 700, 705 (1918)
- Cay Divers, Inc. v. Raven, 812 F.2d 866, 870-71 (3d Cir. 1987)

- Gates Formed Fibre Products, Inc. v. Imperial Casualty & Indemnity Co., 702 F. Supp. 343, 346 (D. Me. 1988)
- United Services Automobile Association v. Morris, 154 Ariz. 113, 741 P.2d 246, 252 (1987)
- Miller v. Shugart, 316 N.W.2d 729, 733 (Minn. 1982)
- McAndrews v. Farm Bureau Mutual Insurance Co., 349 N.W.2d 117, 119 (Iowa 1984)
- Constitution Associates v. New Hampshire Insurance Co., 930 P.2d 556, 562 (Colo. 1996)
- Maryland Casualty Co. v. Peppers, 64 Ill. 2d 187, 355 N.E.2d 24, 30 (1976)
- United States Fidelity & Guaranty Co. v. Continental Insurance Co., 216 Kan. 5, 531 P.2d 9, 15 (1975)
- Roussos v. Allstate Insurance Co., 104 Md. App. 80, 655 A.2d 40, 42 (Ct. Spec. App. 1995)
- Reisen v. Aetna Life & Casualty Co., 225 Va. 327, 302 S.E.2d 529, 532 (1983)
- State Farm Fire & Casualty Co. v. Shelton, 176 Ill. App. 3d 858, 126 Ill. Dec. 286, 531 N.E.2d 913, 916, 920 (1988)
- Kooyman v. Farm Bureau Mutual Insurance Co., 315 N.W.2d 30, 32-34 (Iowa 1982)
- Dolan v. Aid Insurance Co., 431 N.W.2d 790, 792 (Iowa 1988)
- Koppie v. Allied Mutual Insurance Co., 210 N.W.2d 844, 846 (Iowa 1973)
- Henke v. Iowa Home Mutual Casualty Co., 250 Iowa 1123, 1127, 97 N.W.2d 168, 171 (1959)
- Ferris v. Employers Mutual Casualty Co., 255 Iowa 511, 516, 122 N.W.2d 263, 266 (1963)
- Associated Wholesale Grocers, Inc. v. Americold Corp., 261 Kan. 806, 934 P.2d 65, 90 (1997)
- Hollingsworth v. Schminkey, 553 N.W.2d 591, 596 (Iowa 1996)