SUPREME COURT OF RHODE ISLAND

Heritage Healthcare Services, Inc. v. The Beacon Mutual Insurance Co.

109 A.3d 373 (R.I. 2015) · No. 2013-102-Appeal (PB 02-7016) · Decided February 6, 2015

SUMMARY

The Rhode Island Supreme Court held that policyholders’ claims against The Beacon Mutual Insurance Company were derivative rather than direct because Beacon suffered the alleged injury and would benefit from any recovery. The Court affirmed dismissal under Rule 12(c) because the plaintiffs had not satisfied the written-demand and pleading requirements applicable to derivative actions under G.L. 1956 § 7-1.2-711(c) and Superior Court Rule 23.1.

CASE DETAILS

COURT	Supreme Court of Rhode Island
WRITING FOR THE COURT	Justice Francis X. Flaherty; Chief Justice Suttell; Justice Goldberg; Justice Flaherty; Justice Robinson; Justice Indeglia
JURISDICTION	Rhode Island
DECIDED	February 6, 2015
DOCKET	2013-102-Appeal (PB 02-7016)
DISPOSITION	affirmed
PROCEDURAL POSTURE	Plaintiffs appealed from a Superior Court judgment granting Beacon's Rule 12(c) motion for judgment on the pleadings and dismissing their class action complaint for failure to comply with the statutory and procedural prerequisites for a derivative action.
STANDARD OF REVIEW	A Rule 12(c) motion is reviewed under the same test as a Rule 12(b)(6) motion. The court accepts the nonmovant's factual allegations as true, draws all proper inferences in the nonmovant's favor, and asks whether it is clearly apparent that the plaintiff can prove no set of facts entitling the plaintiff to relief. The standard is restrictive, particularly when the legal questions are fact intensive.
PRECEDENTIAL VALUE	Published opinion of the Supreme Court of Rhode Island; precedential.
PARTIES	Heritage Healthcare Services, Inc., Vito’s Express, Inc., Swimming Pool Specialist, Inc., J. Broomfield and Sons, Inc., Sterling

Investigative Services, Inc., Leonelli and Vicario, Ltd., J. Broomfield and Sons, Inc., Beacon policyholders v. The Beacon Mutual Insurance Company

TOPICS

insurance | corporate law | motion for judgment on the pleadings | civil procedure | appellate procedure

PRACTICE AREAS

insurance law | corporate law | civil procedure | appellate procedure | commercial litigation

QUESTIONS PRESENTED

1. Whether the policyholders' claims arising from Beacon's alleged diversion of prospective premiums and unequal treatment of policyholders were direct or derivative.
2. Whether the plaintiffs were required to comply with the pre-suit demand and pleading requirements applicable to derivative actions.
3. Whether the Superior Court properly dismissed the complaint under Rule 12(c) for failure to comply with those requirements.
4. Whether Beacon's alleged lack of authority to provide consent-to-rate discounts transformed the plaintiffs' claims into direct claims.

HOLDINGS

1. The plaintiffs' claims were derivative because Beacon, rather than the individual policyholders, suffered the alleged harm and Beacon would receive the benefit of any recovery or other remedy.
2. The plaintiffs had no direct entitlement to an equitable distribution because Beacon never declared a dividend or distribution and its charter made the declaration of dividends discretionary.
3. Even assuming Beacon lacked authority to provide consent-to-rate discounts, that alleged misconduct did not make the plaintiffs' claims direct.
4. Dismissal was proper because the plaintiffs neither made the required written demand on Beacon before filing suit nor pleaded with particularity the efforts made to obtain the desired action.

KEY QUOTATIONS

> *"A Rule 12(c) motion for judgment on the pleadings provides a trial court with the means of disposing of a case early in the litigation process when the material facts are not in dispute after the pleadings have been closed and only questions of law remain to be decided."* (109 A.3d at 376)

> *"The standard to be applied to a Rule 12(c) motion is "restrictive," particularly when "the questions of law applicable to the controversy are fact intensive.""* (109 A.3d at 376)

> *"Thus, to prevail on a Rule 12(c) judgment on the pleadings, the defendant must "demonstrate to a certainty that the plaintiff will not be entitled to relief under any set of facts that might be proved at trial.""* (109 A.3d

> at 376)

> *“If Beacon suffered the harm and would be entitled to receive the requested relief, the claim is derivative.”* (109 A.3d at 379)

> *“Failure to satisfy these prerequisites mandates the dismissal of a derivative action.”* (109 A.3d at 383)

FACTUAL BACKGROUND

Beacon was created by Rhode Island legislation as a workers' compensation insurance carrier of last resort and operated as a domestic mutual insurance company. The plaintiffs alleged that Beacon diverted more than $101 million to selected large policyholders through consent-to-rate discounts rather than distributing the money equitably to all policyholders through dividends, and also alleged breaches of fiduciary and implied duties. Beacon's charter vested management and control in its board and made the declaration of policyholder dividends discretionary. The plaintiffs sought an accounting, restitution or damages, and injunctive relief, but made no pre-suit demand on Beacon and did not plead efforts to obtain the desired action.

PROCEDURAL HISTORY

Heritage initiated the action in December 2002 seeking relief for alleged improper treatment of Beacon policyholders. After numerous amendments, the Superior Court certified a class and the plaintiffs filed a ninth amended class action complaint. The Superior Court held that the claims were derivative, found that the plaintiffs had not made the required pre-suit demand or pleaded the required efforts under the applicable statute and Rule 23.1, and dismissed the complaint. The Rhode Island Supreme Court affirmed.

DISPOSITION

affirmed

REMAND INSTRUCTIONS

The papers were remanded to the Superior Court; the judgment dismissing the complaint was affirmed.

CASES CITED

- Heritage Healthcare Services, Inc. v. Marques, 14 A.3d 932, 933, 938 (R.I. 2011)
- Hall v. Insurance Co. of North America, 666 A.2d 805, 806 (R.I. 1995)
- Tooley v. Donaldson, Lufkin, & Jenrette, Inc., 845 A.2d 1031, 1033, 1036, 1039 (Del. 2004)
- Halliwell Associates, Inc. v. C.E. Maguire Services, Inc., 586 A.2d 530, 533 (R.I. 1991)
- Penn Mutual Life Insurance Co. v. Lederer, 252 U.S. 523, 525 (1920)
- Kramer v. Western Pacific Industries, Inc., 546 A.2d 348, 352-53 (Del. 1988)
- Gatz v. Ponsoldt, No. Civ.A. 174-N, 2004 WL 3029868 (Del. Ch. Nov. 5, 2004)
- Kimberly-Clark Corp. v. Factory Mutual Insurance Co., 566 F.3d 541, 547-49 (5th Cir. 2009)
- Federal National Mortgage Association v. Malinou, 101 A.3d 860, 865 (R.I. 2014)
- Peloquin v. Haven Health Center of Greenville, LLC, 61 A.3d 419, 430 (R.I. 2013)

- Flanagan v. Blair, 882 A.2d 569, 574 (R.I. 2005)
- Parnes v. Bally Entertainment Corp., 722 A.2d 1243, 1244 (Del. 1999)
- Grimes v. Donald, 673 A.2d 1207, 1213 (Del. 1996)
- Haley v. Town of Lincoln, 611 A.2d 845, 847-48 (R.I. 1992)
- Collins v. Fairways Condominiums Association, 592 A.2d 147, 148 (R.I. 1991)
- Giuliano v. Pastina, 793 A.2d 1035, 1037 (R.I. 2002)
- Hendrick v. Hendrick, 755 A.2d 784, 793-94 (R.I. 2000)
- Bove v. Community Hotel Corp. of Newport, Rhode Island, 105 R.I. 36, 42, 249 A.2d 89, 93 (1969)