SUPREME COURT OF ILLINOIS

Haddick v. Valor Insurance, 198 Ill. 2d 409

763 N.E.2d 299 (2001) · No. 90226 · Decided November 21, 2001

SUMMARY

The Illinois Supreme Court held that an insurer's duty to settle arises when a third-party claimant demands settlement within policy limits and there is a reasonable probability of both an excess recovery and liability against the insured. The court further held that the plaintiff's withdrawal of the settlement demand did not, at the pleading stage, defeat her bad-faith refusal-to-settle claim. The court affirmed the appellate court's reversal of the dismissal and remanded for further proceedings.

CASE DETAILS

COURT	Supreme Court of Illinois
WRITING FOR THE COURT	Justice Garman
JURISDICTION	Illinois
DECIDED	November 21, 2001
DOCKET	90226
DISPOSITION	affirmed
PROCEDURAL POSTURE	The circuit court dismissed the estate's section 2-615 bad-faith failure-to-settle complaint. The appellate court reversed, and the Illinois Supreme Court granted Valor Insurance's petition for leave to appeal.
STANDARD OF REVIEW	De novo review of a section 2-615 motion to dismiss; well-pleaded facts and facts apparent from the pleadings and attached exhibits are taken as true and construed in the plaintiff's favor.
PRECEDENTIAL VALUE	Published, precedential opinion of the Supreme Court of Illinois
PARTIES	Valor Insurance v. Ella Haddick, Special Administrator of the Estate of James Griffith

TOPICS

insurance bad faith · insurance · motions to dismiss · civil procedure

PRACTICE AREAS

insurance bad faith · insurance coverage · civil procedure · torts · remedies

QUESTIONS PRESENTED

1. When does an insurer's duty to settle a third-party claim in good faith arise under Illinois law?
2. Did the complaint sufficiently allege that Valor's duty to settle arose when the estate demanded settlement within the policy limits?
3. Can an insured or assignee maintain a bad-faith failure-to-settle claim after withdrawing the settlement demand and filing suit?

HOLDINGS

1. An insurer's duty to settle in good faith arises when a third-party claimant demands settlement within the policy limits and, at the time of the demand, there is a reasonable probability of recovery in excess of the policy limits and a reasonable probability of a finding of liability against the insured.
2. The complaint sufficiently alleged that Valor's duty to settle arose on March 7, 1997, when the estate demanded settlement within the policy limits.
3. Withdrawal of the settlement demand did not prevent the estate from maintaining its bad-faith failure-to-settle claim.

KEY QUOTATIONS

> *"The duty of an insurance provider to settle arises when a claim has been made against the insured and there is a reasonable probability of recovery in excess of policy limits and a reasonable probability of a finding of liability against the insured."* (at 419-20)

> *"Since Illinois law generally does not require an insurance provider to initiate settlement negotiations, this duty also does not arise until a third party demands settlement within policy limits."* (at 420)

> *"We conclude that an insurance provider's duty to settle arises once a third-party claimant has made a demand for settlement of a claim within policy limits and, at the time of the demand, there is a reasonable probability of recovery in excess of policy limits and a reasonable probability of a finding of liability against its insured."* (at 422)

FACTUAL BACKGROUND

James Griffith died in a May 6, 1996, single-car accident involving a vehicle owned and insured by Larry Woodley, Jr. Woodley initially told an emergency-room doctor that he was driving, although he later stated that he could not remember who was driving. Griffith's medical bills exceeded $80,000, while Woodley's liability policy limit was $20,000. After the estate demanded settlement within the policy limits, Valor continued investigating and did not settle by the extended deadline; the estate then filed suit, obtained a $150,924.80 judgment against Woodley, and received Woodley's assigned claims against Valor.

PROCEDURAL HISTORY

After James Griffith died in a single-car accident involving an insured vehicle, his estate demanded that Valor Insurance settle the wrongful-death claim within the $20,000 policy limit. Valor did not settle within the deadline, and the estate filed suit against the insured and obtained a judgment exceeding the policy limits. The insured assigned his claims against Valor to the estate, which then filed this bad-faith action. The circuit court dismissed the complaint under section 2-615; the appellate court reversed; the Supreme Court affirmed the appellate judgment and remanded for further proceedings.

DISPOSITION

affirmed

REMAND INSTRUCTIONS

The cause was remanded for further proceedings after affirmance of the appellate court's reversal of the circuit court's dismissal.

CASES CITED

- Weatherman v. Gary-Wheaton Bank of Fox Valley, N.A., 186 Ill. 2d 472, 491-92 (1999)
- Board of Directors of Bloomfield Club Recreation Ass'n v. Hoffman Group, Inc., 186 Ill. 2d 419, 424 (1999)
- Neade v. Portes, 193 Ill. 2d 433, 439 (2000)
- Cramer v. Insurance Exchange Agency, 174 Ill. 2d 513, 525-26 (1996)
- Krutsinger v. Illinois Casualty Co., 10 Ill. 2d 518, 527 (1957)
- Cernocky v. Indemnity Insurance Co. of North America, 69 Ill. App. 2d 196, 206-08 (1966)
- Olympia Fields Country Club v. Bankers Indemnity Insurance Co., 325 Ill. App. 649, 670-71 (1945)
- Hilker v. Western Automobile Insurance Co., 204 Wis. 1, 13-14, 235 N.W. 413, 414 (1931)
- Casualty Insurance Co. v. Town & Country Pre-School Nursery, Inc., 147 Ill. App. 3d 567, 569 (1986)
- Adduci v. Vigilant Insurance Co., 98 Ill. App. 3d 472, 475-78 (1981)
- Kavanaugh v. Interstate Fire & Casualty Co., 35 Ill. App. 3d 350, 356 (1975)
- Oda v. Highway Insurance Co., 44 Ill. App. 2d 235, 253 (1963)
- Robinson v. Workman, 9 Ill. 2d 420, 427 (1956)
- Tolefree v. March, 99 Ill. App. 3d 1011, 1014 (1981)