

Interpleader Shielded Insurer from Liability for Counterclaims

October 2009

The United States District Court for the District of the Virgin Islands has granted an insurer's motion for summary judgment where the insurer properly filed an interpleader action to resolve conflicting demands on the remaining policy limit. *Lexington Ins. Co. v. HOVENSA, LLC*, 2009 WL 2950366 (D.V.I. Sept. 8, 2009).

The insurer issued employment liability insurance policies to the insured and co-insured, who subsequently were named in numerous employment-related lawsuits. The insurer funded a number of settlements that were approved by both the insured and co-insured. The co-insured reached a proposed settlement to which the insured would not consent. The co-insured demanded that the insurer tender the remaining policy limit to fund the proposed settlement. The insurer refused and filed a statutory interpleader action naming the insured, co-insured and underlying claimants. The insurer posted a bond for the remaining amount of the policy limit and sought a discharge from liability in the underlying lawsuits and a determination of the parties' rights as to the remaining policy limit. The co-insured filed a counter-claim alleging that the insurer breached the insurance policy by refusing to tender the remaining policy limit to fund its proposed settlement.

The insured and co-insured later agreed on a settlement of the remaining employment lawsuits by sharing equally any settlement costs in excess of the policy limit. The parties therefore stipulated to discharge the bond, and the insurer paid the remainder of the limit toward the settlement. The insurer and co-insured then each sought summary judgment on the co-insured's counterclaim for breach of contract.

The court held that an interpleader action can shield a stakeholder from liability for counterclaims "where the stakeholder bears no blame for the existence of the ownership controversy and the counterclaims are directly related to the stakeholder's failure to resolve the underlying dispute in favor of one of the claimants." The court determined that the insurer had neither created nor fostered the dispute regarding the funding of the proposed settlement. Indeed, had the insurer tried to resolve the dispute in favor of either the insured or the co-insured, it would have placed itself in an untenable situation. Because the co-insured's breach of contract claims were directly related to the insurer's refusal to tender the remaining policy limit to fund the proposed settlement, the court found that the insurer was shielded from liability as a matter of law.