

California Appeals Court Ruling Eliminates Insurance Coverage for Settlements

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The decision runs counter to the established law in most other jurisdictions, which holds that when an insurance company denies coverage for a third-party claim, the policyholder is entitled to settle the claim for a reasonable amount without jeopardizing its rights to coverage. According to the California court, however, insurance companies are only obligated to indemnify policyholders for amounts the policyholders are ordered to pay by a court, not amounts they incur as a result of a settlement agreement. Thus, a policyholder who decides to settle litigation against it, instead of allowing the suit to proceed to judgment, in effect forfeits its rights to coverage for the claim.

This client advisory discusses the potential implications of this significant decision.