

The Duty To Settle In Texas – An Update On *Stowers* and How To Deal With Multiple Claims and Insureds With Inadequate Limits

Presented by:

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TABLE OF CONTENTS

I.	Introduction.....	1
II.	Sources of the Common Law Duty.....	1
	A. Control of Defense and Settlement	1
	B. Excess Carriers	1
	C. Appeals	3
III.	The Legal Basics—Activation of the <i>Stowers</i> Duty	3
	D. The Garcia Test	3
	E. Element One—Coverage	4
	1. Common Law—Debatable Coverage—A Defense?.....	4
	2. Insurance Code—“Reasonably Clear “ Distinguished	14
	3. No Duty to Settle As To Uncovered Claims.....	15
	F. Within Limits	19
	1. Policy Controls Limits	19
	2. Outside Factors Altering the Amount Available.....	20
	3. Working With Multiple Policies And Still Hitting the Target.....	20
	4. Declining Limits Demands	21
	G. Reasonable Offer and Assessing the Likelihood of Liability and Degree of Exposure	22
	1. Reasonable Terms.....	22
IV.	Basic Duties and Defenses.....	42
	H. Duty.....	42

1.	Impact of Sources and Nature	42
2.	Perspective.....	46
I.	Reasonableness—What the Carrier Knew or Should Have Known?	47
J.	Fleshing Out the Standard—Legal Sufficiency Decisions	47
1.	Advice of Counsel Not Controlling	47
2.	Evidence of a Prima Facie Case of Liability Is Not Enough Alone	48
3.	A Mere Difference of Opinion Does Not Prove Liability or the Lack of Liability—It Presents a Fact Question	48
4.	Material Conflicts in Testimony and Other Credibility Issues Can Impact the Reasonableness of the Decision Not to Settle	48
5.	Where Damages Are Certain to Be Heavy	48
K.	Other Factors?	49
L.	Subsidiary Considerations	50
M.	Jury Instructions	50
1.	Bad Result.....	50
N.	Varying the Elements ?	51
O.	Must The Insured Demand That The Carrier Accept The Demand?	51
P.	Is The Insured’s Opposition To Settlement A Defense?	51
Q.	If There Is Alleged Confusion or Vagueness In The Offer, Must The Carrier Ask For Clarification?.....	53
R.	Can The Carrier Urge Technical Defects As Defense To A <i>Stowers</i> Claim If It Did Not Actually Rely On Those Defenses In Refusing To Accept the Offer To Settle At Issue?	54
V.	No Duty Owed to Claimants	54

VI.	When Does The Duty Start and When Does It Stop.....	55
S.	Not Before Insured Is A Party?.....	55
T.	<i>Stowers</i> Duty Post-Judgment?	55
VII.	Too Many Claimants, Insureds and Claims (Covered and Not).....	55
U.	Too Many Claimants—Inadequate Limits.....	56
V.	An Introduction to Soriano	58
1.	Court of Appeals’ Decision.....	58
2.	Supreme Court Decision	60
3.	<i>Soriano</i> as Anachronism—Some Observations on the Future.....	62
W.	Requirements for Soriano Protection	65
X.	Approach of Other States—A Brief Review	67
1.	General Approach	67
Y.	Exhaustion of Limits	68
Z.	Attacks on Reasonableness	70
AA.	Multiple Insureds—Can An Insured Be Left Behind and the Offer Still Activate <i>Stowers</i> ?	71
1.	Other Jurisdictions	71
2.	<i>Travelers v. Citgo</i>	71
3.	Inconsistency With <i>Citgo</i> —Timing of Settlement in Order to Get An Exhaustion Defense.....	77
4.	<i>Davalos</i> —Disqualifying Conflicts of Interest Relating to Multiple Insureds?	77
5.	Other Post- <i>Citgo</i> Decisions.....	79
6.	Pride—Indemnity or Derivative Claims.....	79

7.	<i>Patterson v. Home State County Mutual Ins. Co.</i> —Another New Twist	80
8.	<i>OneBeacon v. Welch</i> —An Insured May Be Left Behind and <i>Stowers</i> Is Still Activated	83
BB.	First-Party Parallels	84
CC.	Special <i>Stowers</i> Problems Presented by Bulk and/or Conditional Offers.....	86
J.	No Duty to Settle Under <i>Stowers</i> as to Uncovered Claims.....	90
DD.	Interpleader	91

I. INTRODUCTION

This paper is intended to explain, and critique in some instances, the Talmudic interpretation of the duty to settle under Texas law. *Stowers* agonistes have been evolving and bedeviling parties and courts in Texas for over 85 years. Despite repeated efforts to straight-jacket the cause of action and severely limit its application, it remains a viable claim and is ever-present in connection with the handling of liability insurance claims in Texas.

II. SOURCES OF THE COMMON LAW DUTY

A. Control of Defense and Settlement

In *G.A. Stowers Furniture Co. v. American Indemnity Co.*, 15 S.W.2d 544, 547 (Tex. Comm'n App. 1929, holding approved), the court predicated the duty to settle on the "control" given to and exercised by the carrier under the policy terms:

The provisions of the policy giving the indemnity company ***absolute and complete control of the litigation***, as a matter of law, carried with it a corresponding duty and obligation, on the part of the indemnity company, to exercise that degree of care that a person of ordinary care and prudence would exercise under the same or similar circumstances, and a failure to exercise such care and prudence would be negligence on the part of the indemnity company.

Id.; see also *Rocor Int'l v. Nat'l Union Fire Ins. Co. of Pittsburgh, PA*, 77 S.W.3d 253, 263 (Tex. 2002) (noting the *Stowers* decision is based in part "upon the insurer's control over settlement"). Stated another way, an insurer whose policy does not permit its insured to settle claims without its consent owes to its insured a common law "tort duty." *Ford v. Cimarron Ins. Co., Inc.*, 230 F.3d 828, 831 (5th Cir. 2000)(citing *G.A. Stowers Furniture Co. v. Am. Indem. Co.*, 15 S.W.2d 544 (Tex. Comm'n App. 1929, holding approved)). It would seem that the *Stowers* doctrine is an excellent example of the rule that if a party undertakes a given duty or task, it must act reasonably in its performance.

B. Excess Carriers

Apparently, according to some authorities, the excess carrier must also have taken over the defense of the case. *Keck, Mahin & Cate v. Nat'l Union Fire Ins. Co.*, 20 S.W.3d 692,

701-02 (Tex. 2000). Thus, the failure of the excess carrier in *Keck* to respond to the initial settlement demand of \$3.6 million could not be used as contributory negligence where the offer came prior to tender of the primary limits and prior to takeover of the defense. *Id.*

The *Keck* court held that even if the excess carrier was negligent in failing to "explore coverage issues more diligently, reserved its rights . . . investigated the merits of the third-party claim more thoroughly, hired independent counsel to monitor the third-party claim, supervised its claim adjuster more closely, and demanded to settle the claim months before trial," it was not actionable because it was based on conduct prior to the tender of the primary limits and because in this pre-tender situation the *excess carrier has no duty to defend or indemnify. Id.* The court added that pre-tender, the excess carrier had no duty to monitor the defense or to anticipate that the defense was being mishandled by the primary carrier and the defense counsel selected by the insured, noting the general tort rule that a party has no duty to anticipate the negligence of another. *Id.*

In some other jurisdictions, the courts have recognized that an excess carrier has a duty to settle once the primary limits or any self-insured retention have been tendered, regardless of whether the excess carrier is defending or not. ALLAN D. WINDT, INSURANCE CLAIMS & DISPUTES: REPRESENTATION OF INSURANCE COMPANIES & INSURED, sec. 5:26 (Database updated March 2011). In Texas, however, at least some courts have recognized that the tort duty to settle under *Stowers* does not apply unless the excess carrier is defending. *Emscor Mfg., Inc. v. Alliance Ins. Group*, 879 S.W.2d 894, 909 (Tex. App.—Houston [14th Dist.] 1994, writ denied)(holding that excess insurer can never have a duty to settle). The court in *Emscor* observed: "[W]e note that ***the Stowers doctrine . . . has never been applied to an excess carrier . . .***" *Id.* at 901(emphasis added). The *Emscor* court added: "There is simply no authority in this State establishing a cause of action by an insured against its **excess** insurer for negligence, bad faith, or for unfair and deceptive practices in the handling of a claim brought by a third-party." *Id.* at 909; *accord West Oaks Hosp., Inc. v. Jones*, No. 01-98-00879-CV, 2001 WL 83528, at *10. The court reasoned:

The *Stowers* doctrine has been applied in Texas in only two circumstances—to the insured's right to sue a primary carrier for wrongful refusal to settle a claim within policy limits, see *G.A. Stowers Furniture Co. v. American Indem., Co.*, 15 S.W.2d 544, 547–48 (Tex.Comm'n App.1929, holding

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