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News

TYLER APPEALS COURT GRANTS MANDAMUS ON INSURER'S MOTION TO SEVER EXTRA-CONTRACTUAL CLAIMS

Newsbrief

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Last week a Texas appellate court conditionally granted a writ of mandamus and directed the trial court to vacate its previous order denying a motion to sever extra-contractual claims.

The dispute in *In Re: AAA Texas County Mutual Insurance Company v. Hon. David Scott Brabham*, No. 12-15-00277-CV, 2016 WL 4395817 (Tex. App. Aug. 18, 2016), arose when the trial court denied a motion to sever and abate extra-contractual claims and compelled AAA to respond to discovery on extra-contractual claims. The underlying case was cause number 2014-1365-A, styled *Thomas Jackson vs. AAA Texas County Mutual Insurance Company* in the 188th District Court of Gregg County, Texas. On June 12, 2013, vehicles driven by Thomas Jackson and Patricia Tompkins were involved in a collision. Jackson filed a claim for underinsured motorist (UIM) benefits with his insurer AAA. Jackson later filed a lawsuit against AAA for breach of contract under the UIM portion of his policy, alleging violations of the Texas Deceptive Trade Practices Act and the Texas Insurance Code, and breach of the duty of good faith and fair dealing. AAA filed a motion to sever and abate the extra-contractual claims. Following a hearing, the trial court denied the motion but ordered that the contractual and extra-contractual claims be heard separately in a bifurcated trial and granted a motion to compel discovery regarding the extra-contractual claims. AAA then sought mandamus.

The court began its analysis by reciting Texas law that mandamus is an extraordinary remedy, but appropriate when a motion to sever and abate extra-contractual claims is denied. AAA argued that the trial court abused its discretion when it denied the motion to sever and abate and compelled discovery and that a bifurcated trial is not sufficient to protect AAA's interests. The appellate court found that although a trial court has considerable discretion, that discretion is not unlimited. Abatement is required when a determination on the breach of contract claim in favor of the insurer will negate the insured's extra-contractual claims. Without the abatement, the parties would be put to the effort and expense of conducting discovery and preparing for trial of claims that may be disposed of in a previous trial.

The court concluded that a bifurcation does not sufficiently protect the interests of an insurer in this context because the order rendered at the end of a bifurcated trial may not be final and appealable. In the context of insurance cases, a breach of an insurance contract claim is separate and distinct from bad faith, Insurance Code, or

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DTPA causes of action and each might constitute a complete lawsuit within itself. An insured may not prevail on a bad faith claim without first showing that the insurer breached the contract. Further, the Texas Supreme Court has recognized that severance may be necessary if the “insurer has made a settlement offer on the disputed contract claim” or if there are “other compelling circumstances.” In the context of UIM coverage, an insurer is under no contractual duty to pay UIM benefits until the insured proves that the insured has UIM coverage, that the other driver negligently caused the accident that resulted in covered damages, the amount of the insured's damages, and that the other driver's insurance coverage is deficient. Thus, an insured generally must first establish that the insurer is liable on the contract before the insured can recover on extra-contractual causes of action against an insurer for failing to promptly pay, failing to settle, or failing to investigate an underinsured motorist insurance claim.

The court conditionally granted the writ because the extra-contractual claims ultimately could be rendered moot and AAA should not be required to put forth the effort and expense of conducting discovery and preparing for a trial on those claims. The court concluded that the trial court abused its discretion when it denied the motion to sever and abate and compelled discovery on the extra-contractual claims.