

Connecticut Supreme Court Rules That Trial Court Improperly Vacated Arbitration Award

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The Connecticut Supreme Court ruled that a trial court improperly vacated an arbitration award by substituting its own judgment for that of the arbitration panel. *Kellogg v. Middlesex Mutual Assurance Co.*, 2017 WL 3526616 (Conn. Aug. 1, 2017).

The dispute arose out of coverage for property damage under a “restorationist” insurance policy. Pursuant to the policy’s appraisal provision, the parties arbitrated a loss valuation dispute. A three-member panel awarded the homeowner approximately \$460,000, which reflected replacement/restoration costs less depreciation. The homeowner moved to vacate the award on the basis that it was defective under Connecticut General Statutes § 52-418. The insurer moved to dismiss. Following a trial on both the motion to dismiss and the merits of the application to vacate, a Connecticut trial court denied the motion to dismiss and vacated the award. The court held that the award violated § 52-418 for two reasons: (1) it prejudiced the homeowner’s “substantial monetary rights” because the award was too low, and (2) the award resulted from the panel’s “manifest disregard” of the terms of the insurance policy. The Connecticut Supreme Court reversed.

Section 52-418(3) provides that an arbitration award shall be vacated if the arbitrators have been guilty of “any other action by which the rights of any party have been prejudiced.” The Connecticut Supreme Court explained that this provision applies only to issues of procedural errors in the arbitration process, and does not extend to the sufficiency of the monetary award. Because there was no claim that the panel committed any procedural errors, the trial court’s decision to vacate based on its disagreement with the panel’s loss valuation was erroneous.

The Connecticut Supreme Court also found error in the trial court’s second basis for vacating. Section 52-418(a)(4) provides that an award should be vacated if the arbitrators have “exceeded their powers or so imperfectly executed them that a mutual, final and definite award upon the subject matter submitted was not made.” The trial court had applied this provision based on its finding that the panel disregarded the insurance policy’s depreciation clause. The Connecticut Supreme Court ruled, however, that interpretation of policy provisions is a task for the panel, not the court, and that in any event, the trial court misapplied state law in interpreting the depreciation provision.

Authors and Contacts

[Bryce Friedman](#)

Partner

bfriedman@stblaw.com

+1-212-455-2235

