

Rhode Island Supreme Court Rules That Insurer Does Not Owe Good Faith Settlement Duty To Third-Party Claimants

02.25.19



(Article from *Insurance Law Alert*, February 2019)

For more information, please visit the [Insurance Law Alert Resource Center](#).

The Rhode Island Supreme Court ruled that an insurer's duty to act in good faith with respect to settlement is owed to its policyholder, and absent assignment, does not extend to third-party claimants. *Summit Ins. Co. v. Stricklett*, 2019 WL 190358 (R.I. Jan. 15, 2019).

Stricklett's automobile struck and injured Alves. At the time of the accident, Stricklett was insured by Summit. Summit investigated the claim and determined that Stricklett was not at fault, and therefore notified Alves that it would make no settlement offers. Nearly eight years later, Alves hired new counsel, reinitiated contact with Summit and made a settlement demand of \$300,000. Summit offered its policy limits of \$25,000, which Alves rejected.

Summit sued Stricklett and Alves, seeking a declaration that it had no obligation to pay any amount above policy limits. Alves counterclaimed, arguing that Rhode Island precedent established "a duty of good faith and fair dealing' on the part of an insurer 'that runs to both . . . the first party claimant insured and also to third party claimants.'" The trial court ruled in Summit's favor, finding that Summit owed no duty to Alves because he was not an insured or assignee of the rights of an insured. However, the trial court also stated that "Summit does owe a duty to the Alves[es] to act in a reasonable manner and in good faith in settling the claim against Mr. Stricklett." The trial court concluded that Summit fulfilled this duty.

The Rhode Island Supreme Court affirmed but expressly clarified the "somewhat contradictory holding" of the trial court. The Rhode Island Supreme Court explained that an insurer owes fiduciary obligations only to an insured party or a party to whom insurance rights have been assigned. Rejecting as erroneous the trial court's statement relating to Summit's duty to Alves, the Rhode Island Supreme Court stated: "We believe that this kind of duty on the part of the insurance company to third parties would expand an insurance company's potential liability . . . too far and essentially announce a new, judicially-created cause of action."

Authors and Contacts

[Bryce Friedman](#)

Partner

bfriedman@stblaw.com

+1-212-455-2235

