

Arbitration Clause In Reinsurance Contract Does Not Require Original Insured To Arbitrate Claims Against Reinsurer, Texas Appellate Court Rules (Insurance Law Alert)

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A Texas appellate court ruled that an arbitration clause in a reinsurance contract was not binding on the original insured under the “direct benefits estoppel” doctrine. *Travelers Indem. Co. v. Alto ISD*, 2022 WL 1668859 (Tex. Ct. App. May 25, 2022).

Alto School District was insured under a property policy issued by Texas Rural Education Association (“TREA”). In turn, TREA obtained reinsurance for part of the underlying property risk from Travelers. When a dispute arose over the settlement of a claim, Alto sued TREA and Travelers, alleging negligence, common law fraud, misrepresentation and violation of state statutory law. Travelers moved to dismiss or stay, arguing that Alto was required to arbitrate the claims pursuant to an arbitration clause in the reinsurance contract even though Alto was a not a signatory to that agreement. A trial court disagreed and denied the motion, and the appellate court affirmed.

The appellate court rejected Travelers’ assertion that Alto was required to arbitrate its claims against Travelers pursuant to a “direct benefits estoppel” theory, under which a non-signatory may be bound to an arbitration agreement if it seeks to derive a direct benefit from that agreement. The court explained that Alto’s claims were not based solely on the reinsurance contract, and instead arose from general obligations imposed by state statutory and common law. In particular, the court reasoned that Alto’s claims against Travelers stemmed from Travelers’ role as adjuster of the insurance claims and sounded in tort and statutory law, rather than breach of contract. The court emphasized that direct benefits estoppel is not implicated “even if the claim refers to or relates to the contract or would not have arisen but for the contract’s existence.”

Authors and Contacts

Bryce Friedman
Partner

bfriedman@stblaw.com

+1-212-455-2235

