

January 17, 2005

Judicial Confirmation of Arbitration Award Required to Recover UIM Benefits

On December 20, 2004, the Minnesota Court of Appeals held, in Murray v. Puls, 690 N.W.2d 337, that when a party agrees to settle damages arising from an accident with an underinsured motorist through arbitration and provides a Schmidt v. Clothier notice, judicial confirmation of the arbitration award is required before the insured party can seek underinsured motorist (UIM) benefits from the insurer. Moreover, once the award is confirmed in District Court, the UIM insurer is bound by the underlying arbitration award.

Murray and Puls were involved in an automobile accident in 1995. Murray filed suit in 2001 and also sent notice to Prudential, her UIM insurer. Prudential did not participate in the suit. The suit went to a binding high/low arbitration, and the arbitrator awarded Murray \$217,746.28, plus no-fault benefits already paid. Puls' liability policy limits were \$100,000, so Murray sent a Schmidt v. Clothier notice to Prudential. When Prudential did not substitute its check, Murray demanded the \$100,000 UIM policy limits. Prudential refused to pay, arguing it had no obligation to pay until the arbitration award was confirmed as a judgment. Murray moved to confirm the award in District Court and Prudential intervened to oppose the motion. The Court confirmed the award, finding the parties intended to enter into a "Schmidt-type settlement" with the understanding Murray could later pursue UIM benefits. Puls and Prudential appealed to the Minnesota Court of Appeals.

Prior to receiving UIM benefits, an insured must either: 1) pursue a tort claim to conclusion in District Court; or 2) settle the tort claim for the "best settlement" and provide a Schmidt v. Clothier notice to its insurer. If the judgment or settlement exceeds the at-fault party's liability limits, UIM benefits are available. The Court of Appeals confirmed that arbitration is an appropriate way to arrive at a "best settlement." But, for the first time, the Court held that prior to recovering UIM benefits from a UIM insurer based on an arbitration award, that award must first be confirmed by a District Court. The plain language of Minn. Stat. §§ 572.18 and 572.21 requires judicial confirmation, because arbitration awards are not the equivalent of tort judgments. However, once the award is confirmed, the UIM insurer is bound by the decision of the arbitrator without opportunity to dispute the awarded damages.

This decision highlights the importance for UIM insurers to closely monitor an underlying cause of action, because UIM coverage can be significantly affected by its outcome. If necessary, the UIM insurer should consider intervening in arbitrations or other settlements to make sure its rights are preserved and protected. We will follow this case in the event of an appeal. If you have any questions regarding this case or other automobile-related issues, please contact any member of our Motor Vehicle Practice Group at (952) 831-6544.

Sincerely,

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