Texas Mutual v. Ruttiger: Is *Aranda* Overturned?

R. Brent Cooper

Mary Evelyn Whitehurst

Cooper & Scully, P.C.
900 Jackson Street, Suite 100
Dallas, TX 75202
Telephone: 214-712-9500
Fax: 214-712-9540
brent.cooper@cooperscully.com
maryevelyn.whitehurst@cooperscully.com

Facts

- June 2004 – Ruttiger claimed a work place injury
- TMIC initiated temporary income benefits and began investigating the claim
- Ruttiger's co-workers claimed he was injured playing softball, not at work
- TMIC's claims adjuster only spoke to Ruttiger once and did not review medical records
- July 12, 2004 – TMIC denied the claim, notified Ruttiger of the denial and discontinued benefits

Facts

- October 22, 2004 – Ruttiger requested a Benefit Review Conference (BRC)

- January 6, 2005 – BRC held. Ruttiger and TMIC entered into benefit dispute agreement agreeing the injury was compensable.

- TMIC resumed paying benefits and paid for Ruttiger's hernia surgery

- June 16, 2005 – Ruttiger filed suit while the claim was pending before the Div. of Workers' Compensation (DWC)

- August 1, 2005 – Ruttiger reached MMI with 1% impairment rating

Allegations

- Ruttiger alleged the delay in his treatment was a violation of:

    - Tex. Ins. Code § 21.21 (Now Ins. code 541);
    - The common law duty of good faith and fair dealing (*Aranda*); and
   - DPTA Sec. 17.41 - .63

Claims for Damages

- Loss of credit reputation
- Worsened hernias
- Mental anguish
- Physical impairment
- Pain and suffering
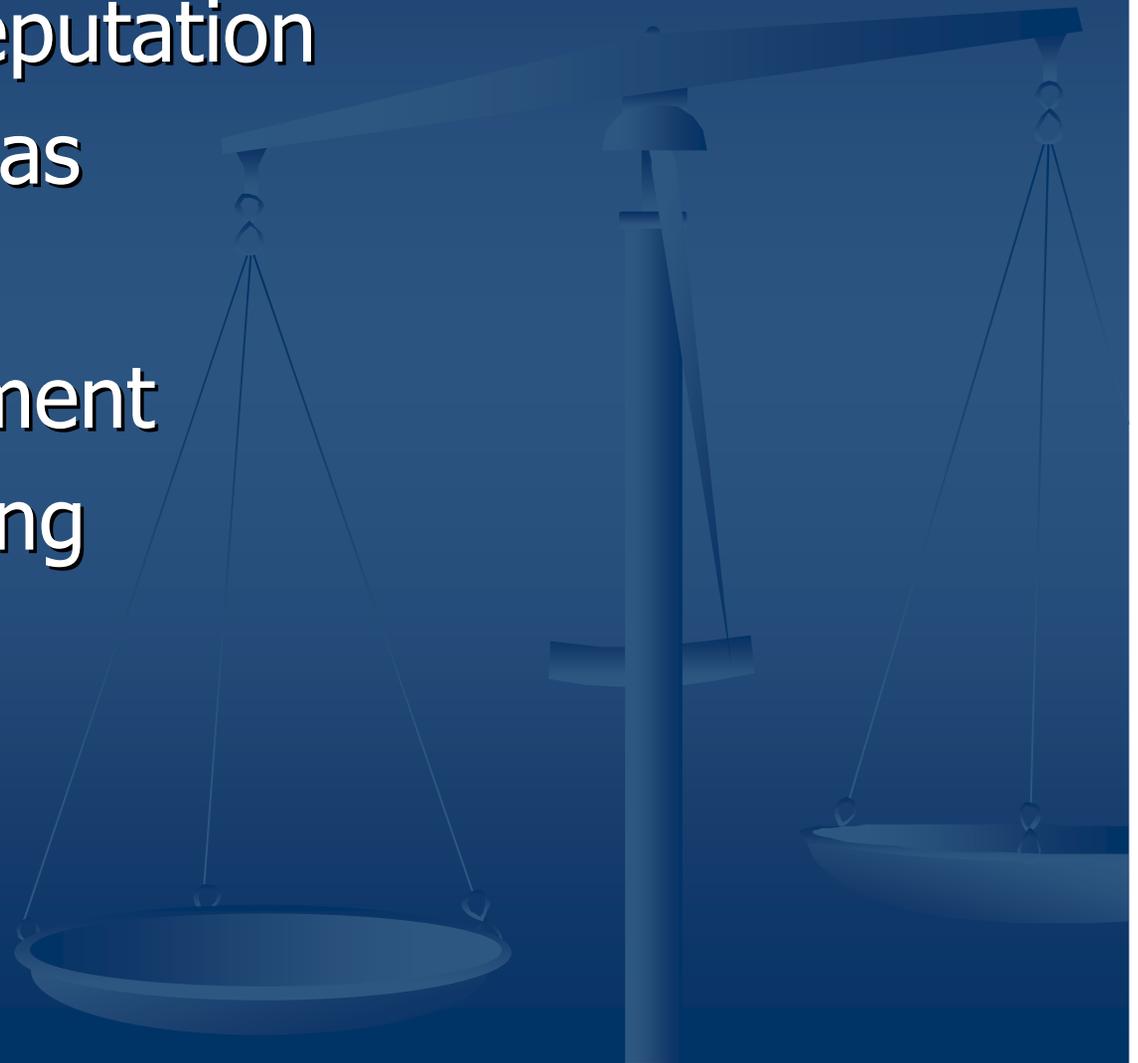
Trial Court Proceedings

- Jury based its verdict on the Ins. Code violations and found TMIC:
    - Breached its duty of good faith and fair dealing;
    - Committed unfair and deceptive trade practices; and
    - Knowingly engaged in unfair and deceptive acts.
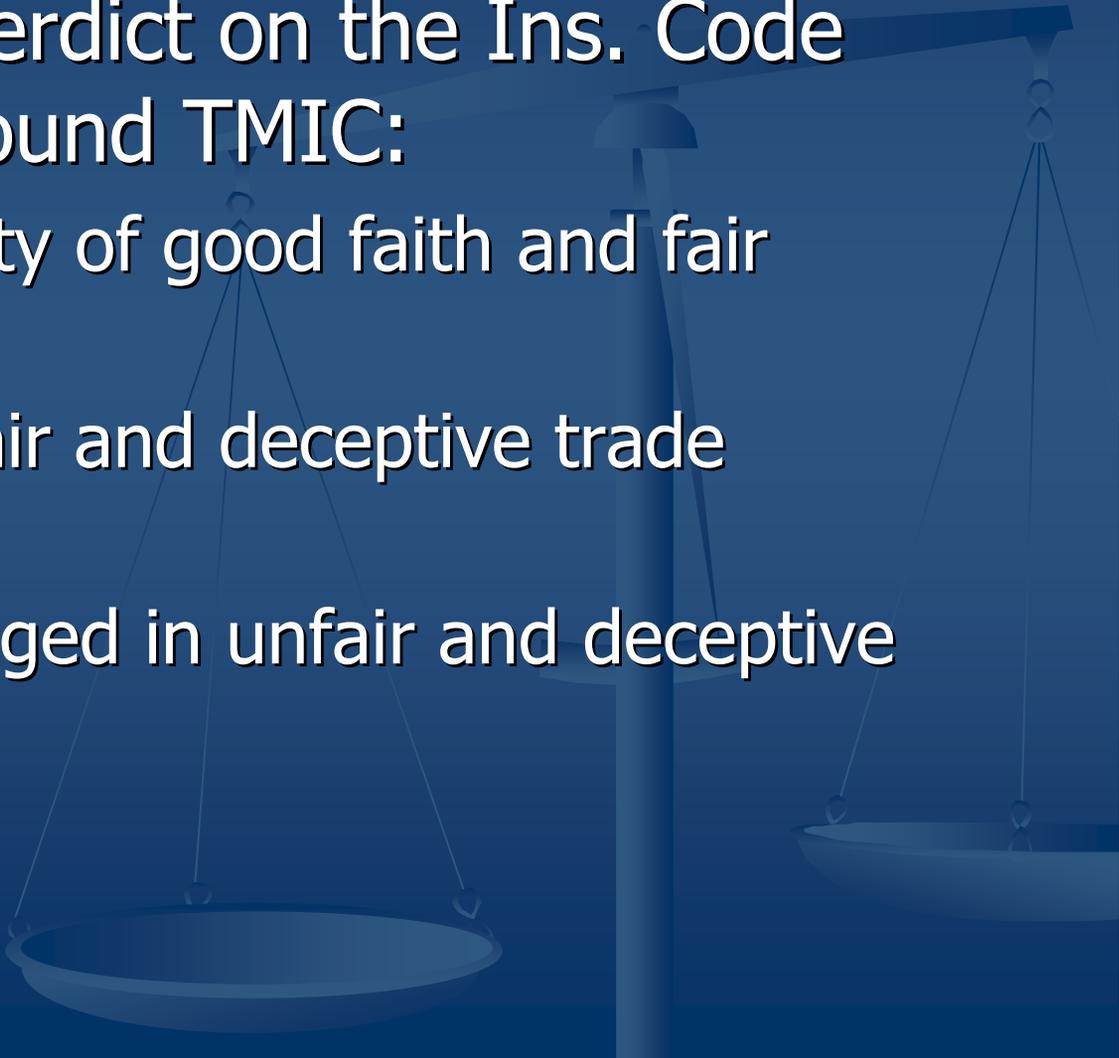
Trial Court Award

- $183,500.00 for:
- Past physical impairment
- Past and future pain and suffering
- Past and future loss of credit
- Past mental anguish
- "additional damages"
- Attorneys' fees
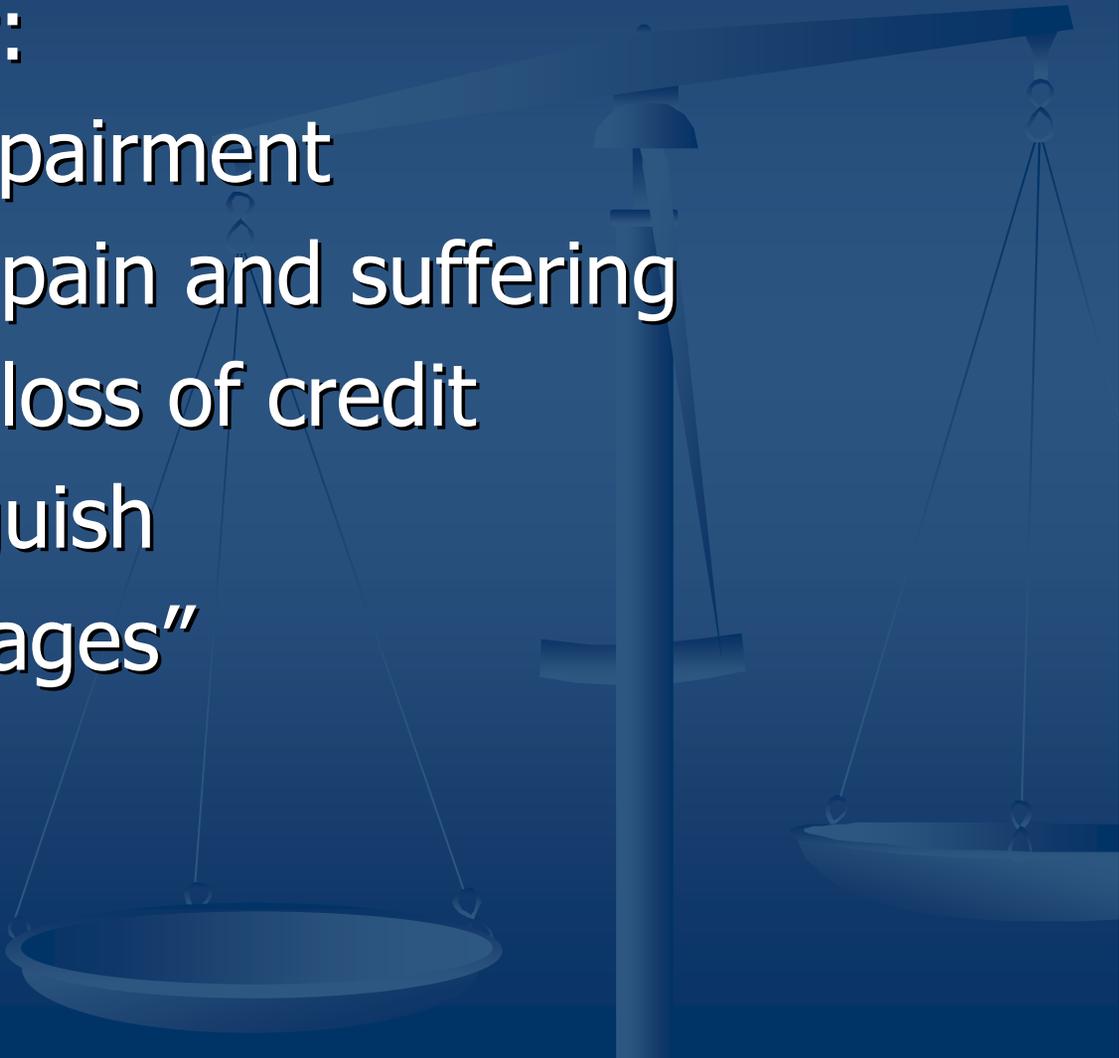
Court of Appeals

- Reversed the damages for loss of credit reputation
- Affirmed other aspects of trial court judgment under the Ins. Code
- Did not address whether Ruttiger could recover for DTPA and common law claims
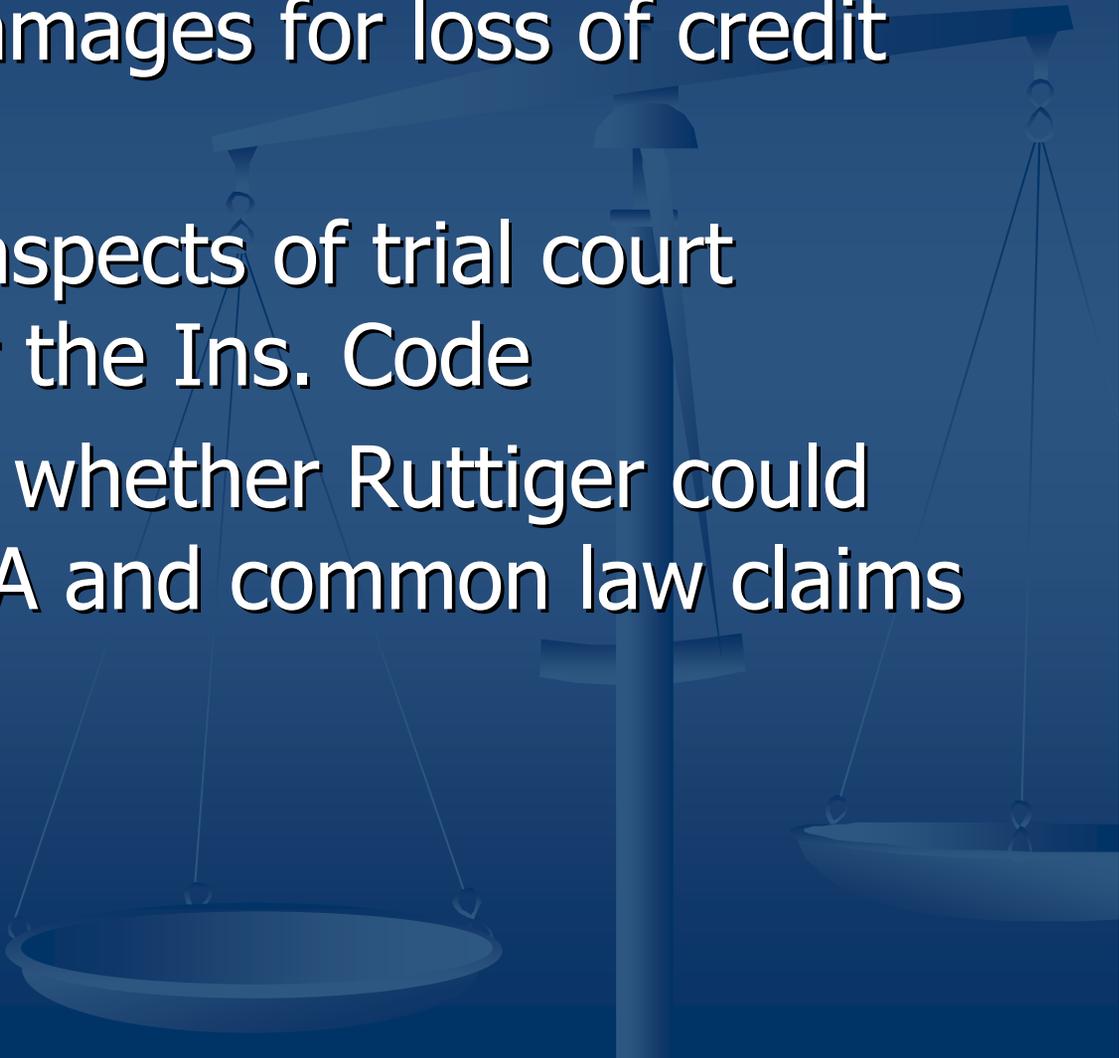
Texas Supreme Court

- Exhaustion of Remedies
- Tex. Ins. Code § 541.060 – "Unfair Methods of Competition and Unfair or Deceptive Acts or Practices"
- Tex. Ins. Code § 541.061 – "Misrepresentation of Insurance Policy"
- Tex. Inx. Code § 542.003 – "Unfair Claim Settlement Practices Prohibited"
- Deceptive Trade Practices Act
- Good Faith and Fair Dealing

Exhaustion of Remedies

- Ruttiger and TMIC entered into a binding benefit dispute agreement at the BRC

- The agreement addressed income and medical benefits and was approved by the DWC

- There were no additional pending disputes between Ruttiger and TMIC

- Ruttiger exhausted his administrative remedies, giving the trial court jurisdiction over the suit

Ins. Code § 541.060: Unfair Settlement Practices

- Misrepresentation of a material fact or provision relating to coverage
- Failure to effectuate a prompt, fair, and equitable settlement in good faith
- Failure to promptly provide claimant a reasonable explanation for the denial of the claim or offer of compromise settlement of a claim
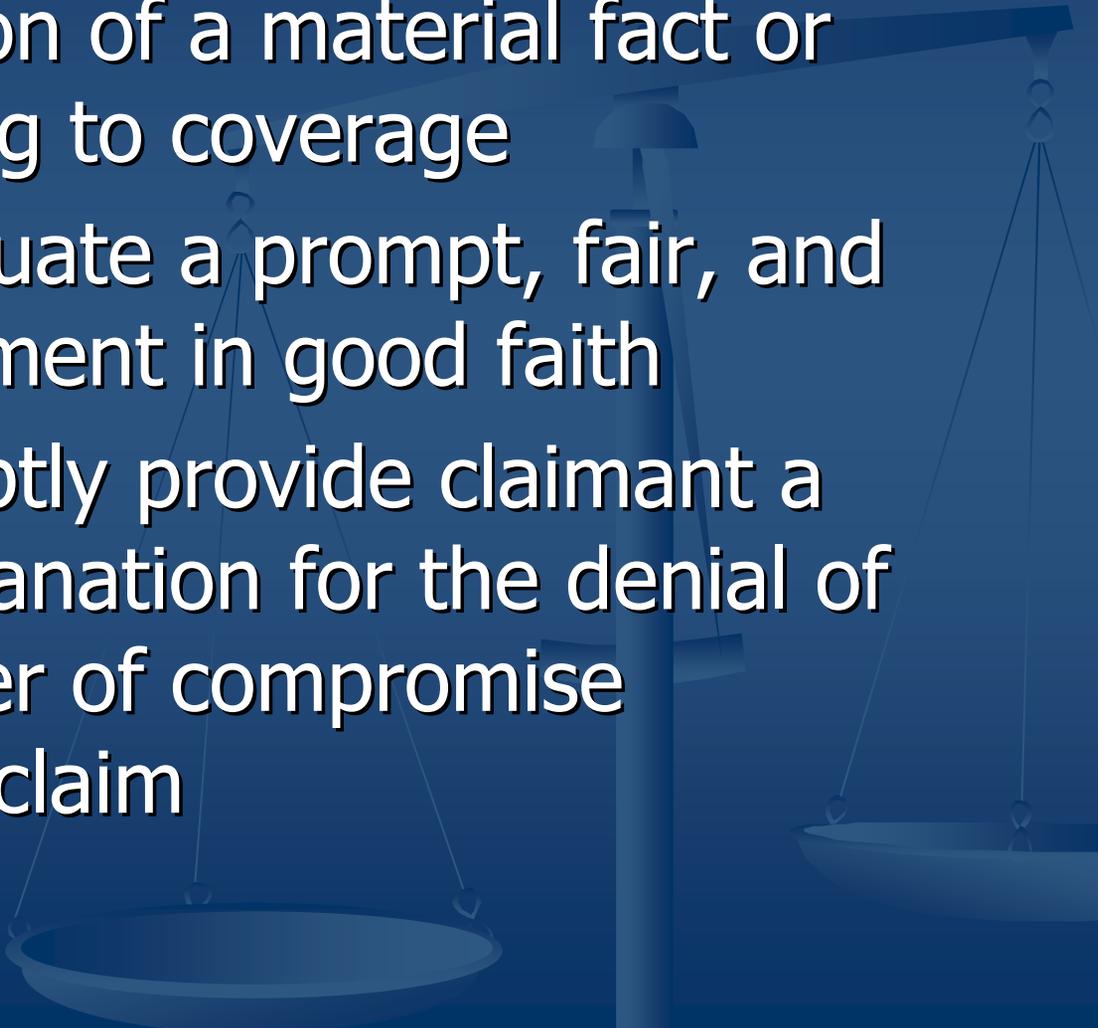
Ins. Code § 541.060

- A cause of action under this section is "incompatible with the provisions" of the Workers Compensation Act.

- The Act provides detailed processes and deadlines for carriers to handle claims disputes.

- Penalties and sanctions under the Act help enforce a carrier's compliance with the Act's requirements.
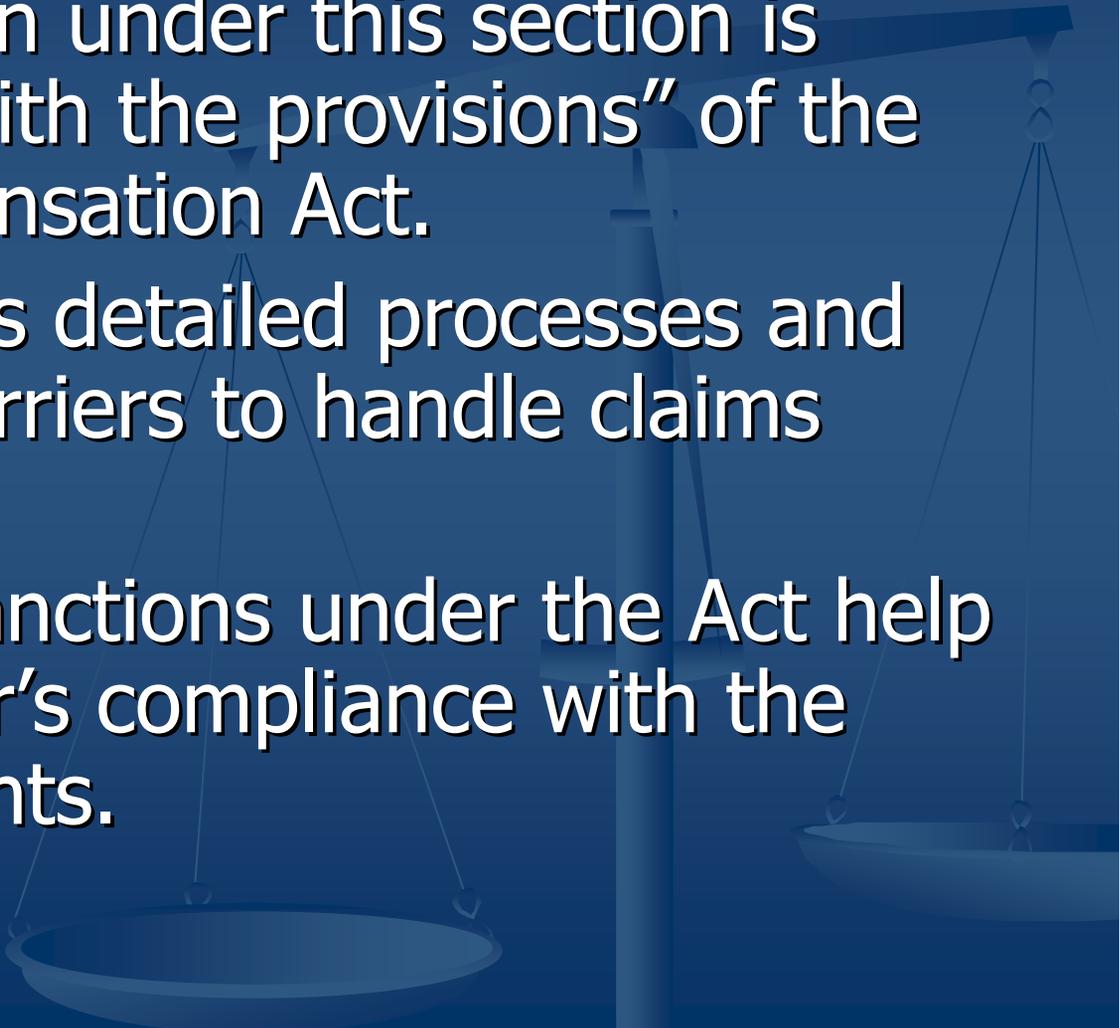
Ins. Code § 541.060

- Ruttiger based his claims on delay of his benefits and surgery.

- Ruttiger waited 3 months to seek an administrative resolution of his claim (BRC hearing)

- Ruttiger and TMIC entered into a benefit dispute agreement

- Ruttiger had not yet reached MMI or received an impairment rating – so his claim was not settled.
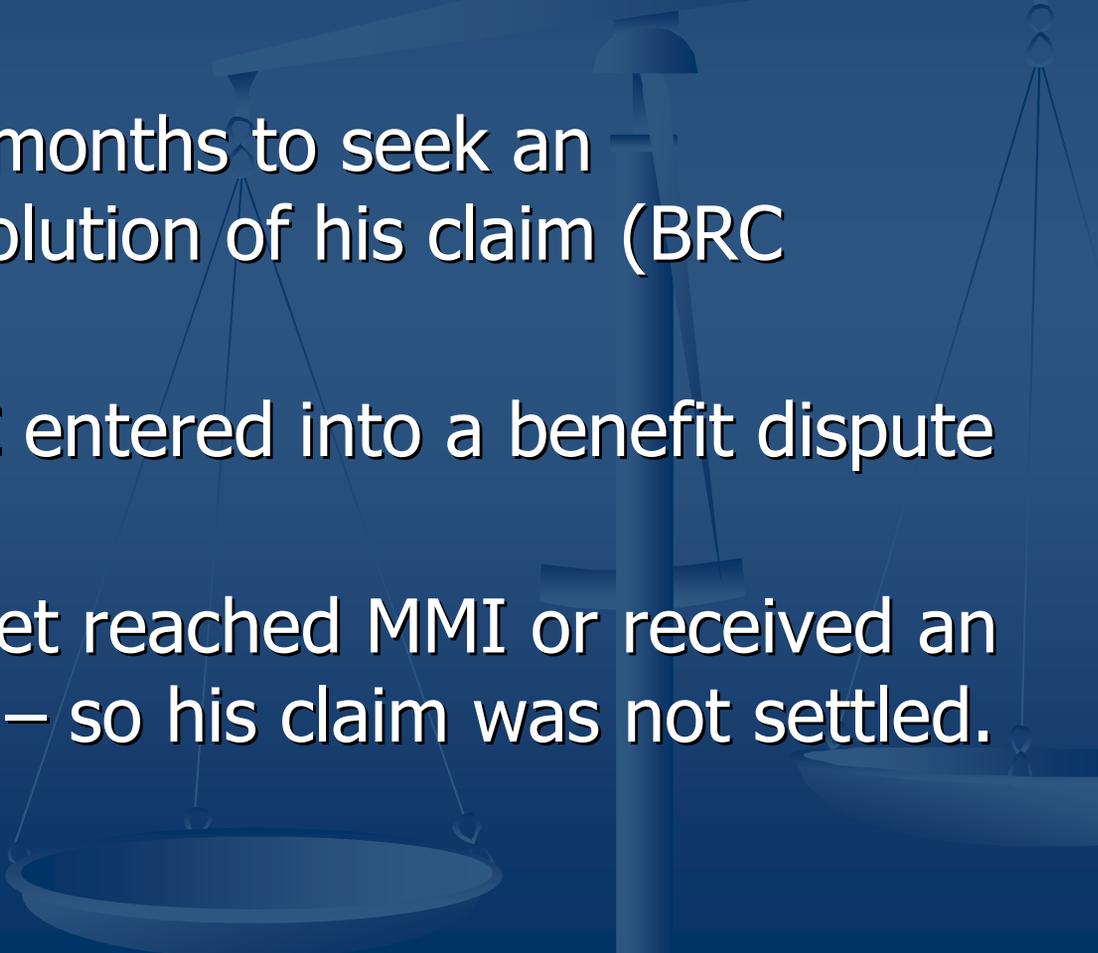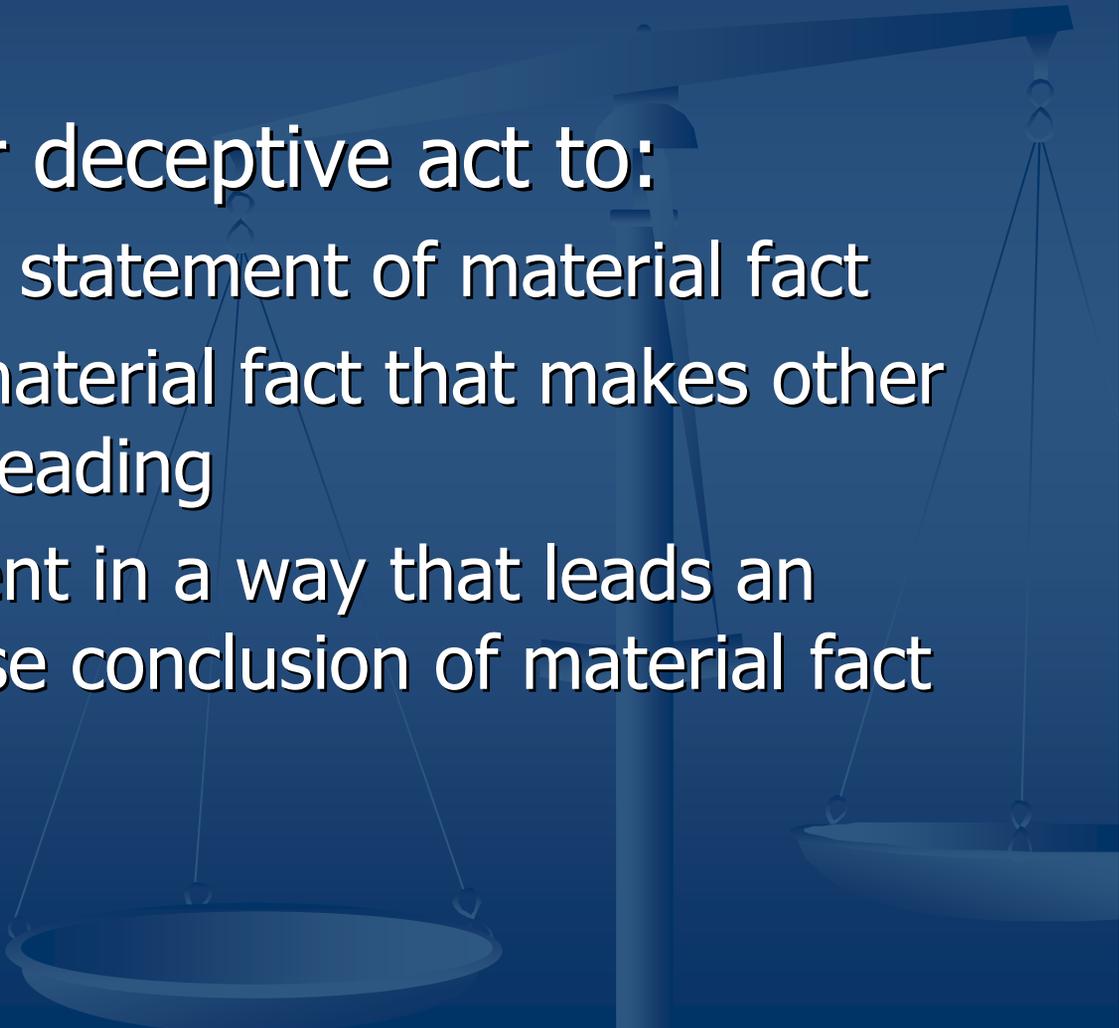
Ins. Code § 541.060

- The Workers Compensation Act (WCA) dispute resolution provisions are in conflict with Ins. § 514.060

- The WCA provisions are exclusive of those in § 541.060

- There was no cause of action under the Ins. § 541.060

Ins. Code § 542.003: Unfair Claim Settlement Practices Prohibited

- WCA provides specific, substantive procedural requirements for carriers.
- There is no cause of action under § 512.003
- Tex. Sup. Ct. overruled *Aetna Cas. & Sur. Co. v. Marshall* as it pertains to this claim.

Tex. Ins. Code § 541.061: Misrepresentation of Ins. Policy

- It is an unfair or deceptive act to:
  - Make an untrue statement of material fact
  - Fail to state a material fact that makes other statements misleading
  - Make a statement in a way that leads an insured to a false conclusion of material fact

Ins. Code § 541.061

- §541.061 does not specify that it applies to settling claims
- It is not at odds with the DWC dispute resolution processes
- TMIC denied the claim based on Ruttiger not being injured at work – which was within the policy terms
- Ruttiger had no evidence of untrue statements
- Court reversed the lower court award based on insufficient evidence to support the judgment
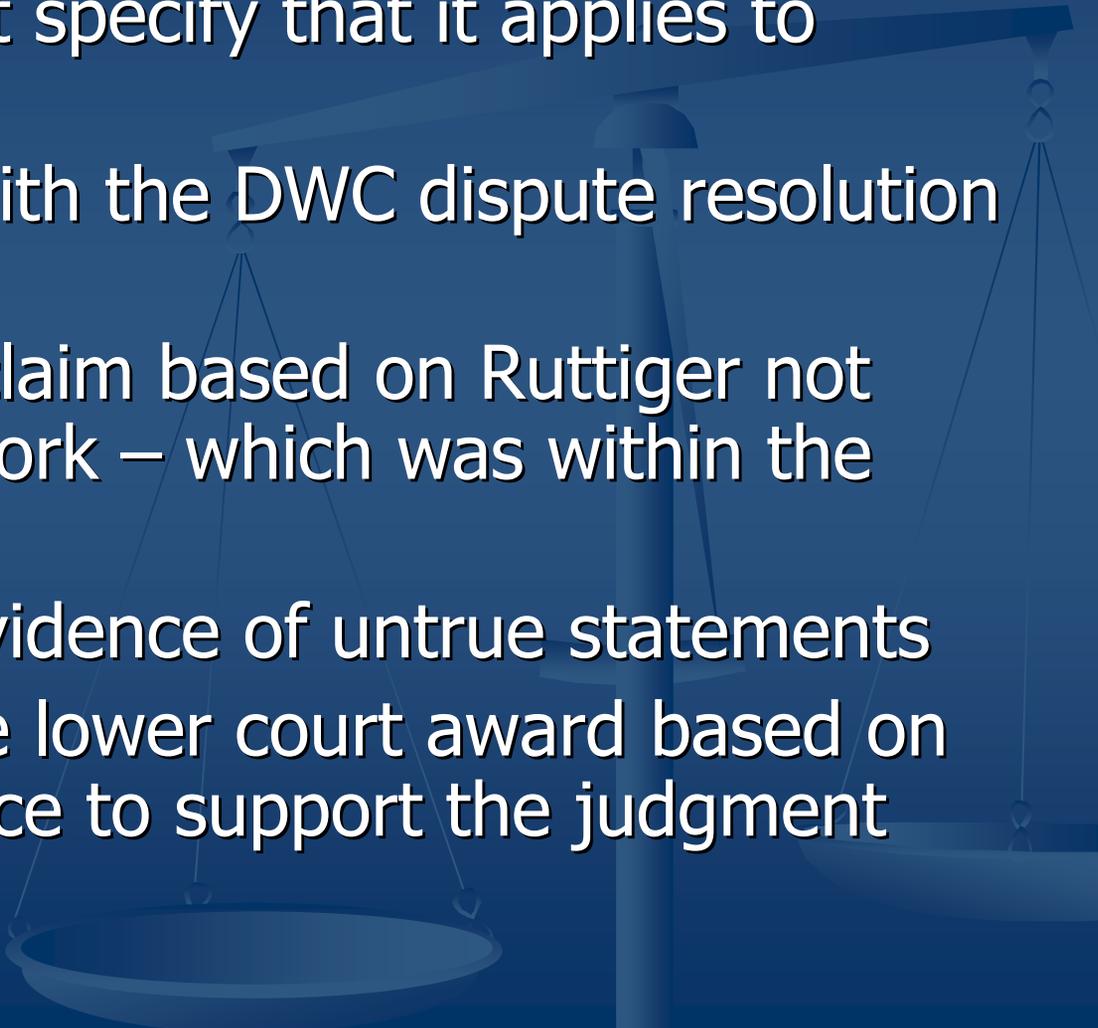
DTPA

- Ruttiger based his DPTA claim on his Insurance Code claims.

- Because the Insurance Code claims are reversed, there is no recovery under DTPA

Good Faith and Fair Dealing

- TMIC argued that *Arnold* and *Aranda* were not warranted because of the provisions of the Workers Compensation Act.

- *Arnold* - 1987: the relationship between insurer and insured requires a duty of good faith and fair dealing

- *Aranda* - 1988: Insureds may bring actions against insurers for breach of this duty

- WCA - 1989: Remedied the disparity and deficiencies that provided the basis for *Arnold* and *Aranda*

Workers' Compensation Act

- Reduces the disparity between insurers and employees
- Removes insurers' exclusive control over processing claims
- Negates the insurers' ability to unreasonably delay claims
- Provides employees information and an ombudsman program to navigate the claim process
- Provides remedies and penalties if insurers fail to pay benefits promptly
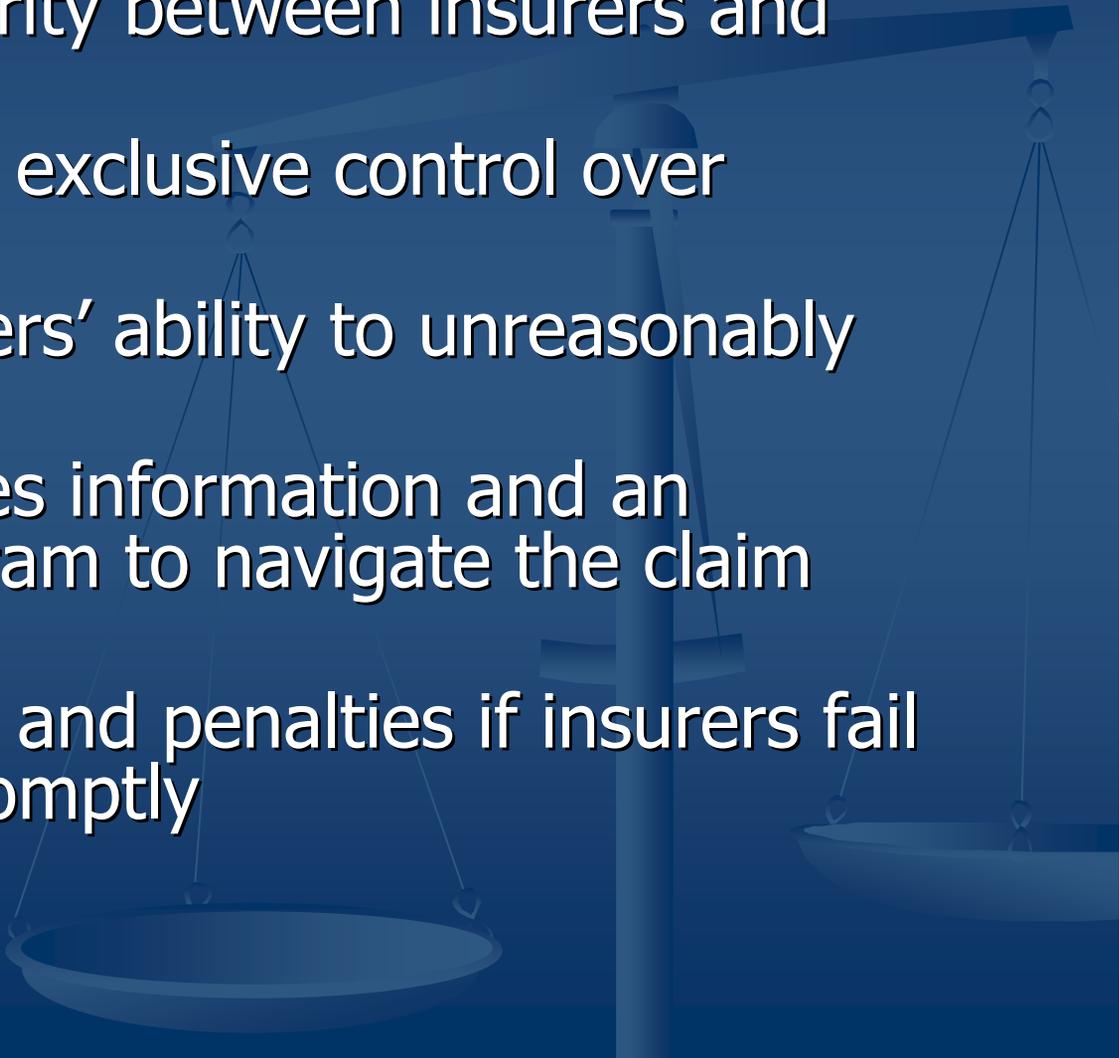
Is Aranda overruled?

- *Aranda* operates outside the administrative processes provided under the Act
- *Aranda* creates tension between the goals and processes of the Act
- Actions under *Aranda*:
    - expose insurers to continued risk of liability,
    - inflate costs for all parties,
    - discourage insurers from contesting questionable claims because of the risk of large damage awards.
- The Act eliminates the need for *Aranda* actions outside the administrative processes
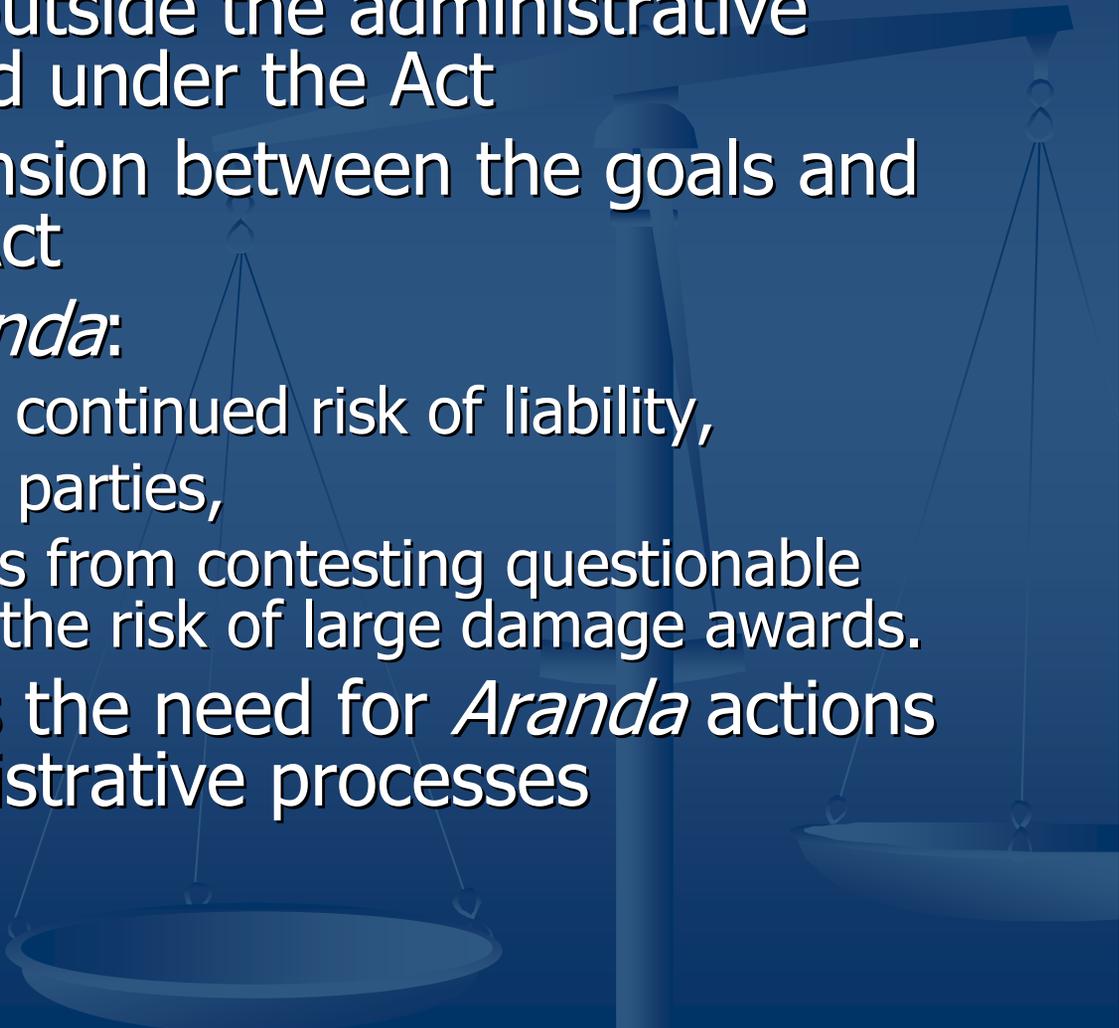
Opinion

- Join in Parts I, II, III, IV and VI of Opinion
  - Hecht
  - Wainwright
  - Medina
  - Johnson
  - Willett
  - Guzman

- Join in Part V of Opinion
  - Hecht
  - Wainwright
  - Medina
  - Johnson

6 justices agree to remand the case to the Court of Appeals for a decision on whether TMIC breached its duty to Ruttiger.

Concurrence

- Remand to Court of Appeals for decision on whether the Act precludes common-law, *Aranda* "good faith and fair dealing" claims
  - Willett
  - Guzman
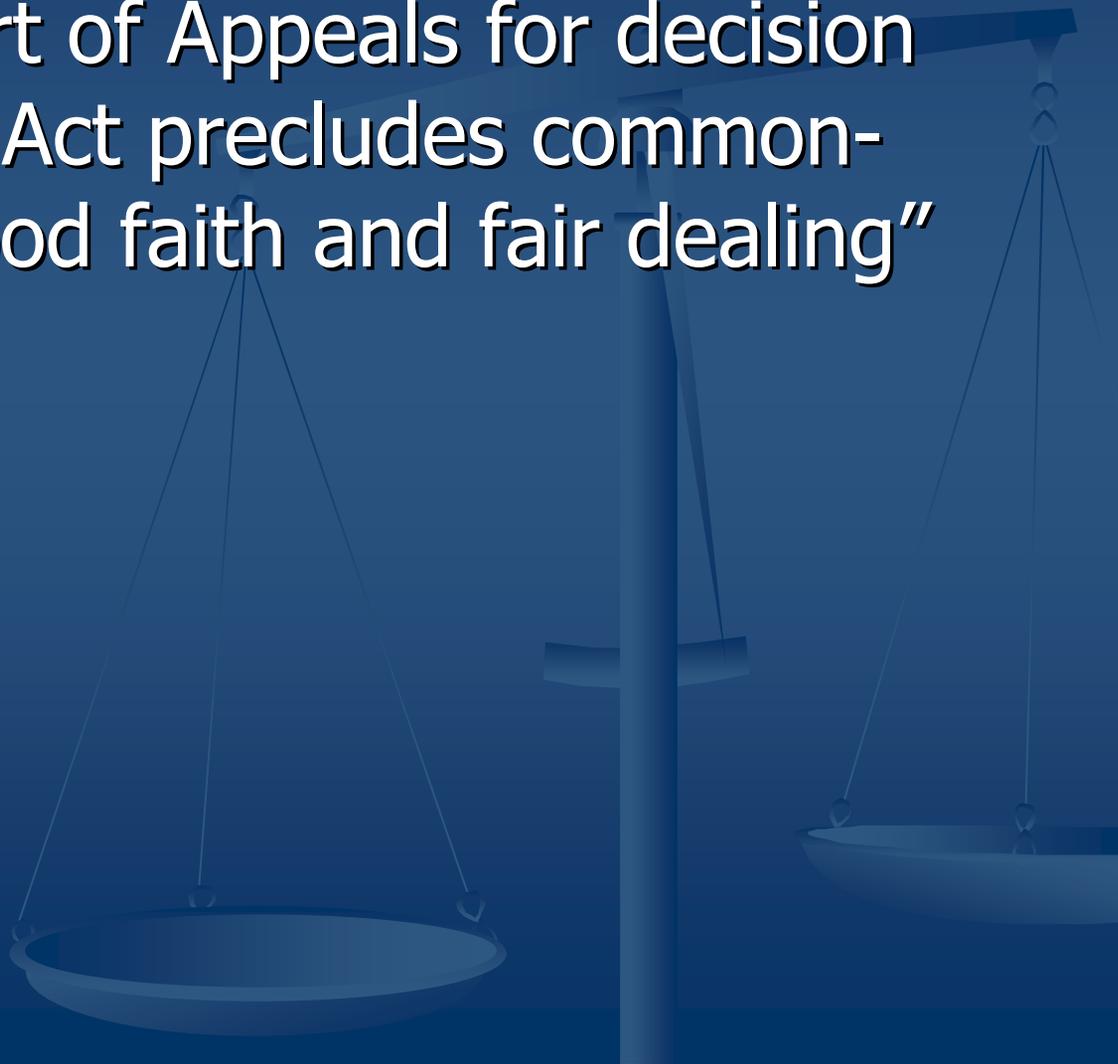
Dissent

- The Act is not exclusive of extra-contractual claims.

- The Act precludes actions against the employer, *not* the insurer, for separate misconduct claims and damages.
  - Jefferson
  - Green
  - Lehrmann

Conclusion

- § 541.060 – no cause of action
- § 541.061 – cause of action allowed
- § 542.003 – no cause of action
- DTPA – claims are reliant on Ins. Code claims
- Good faith and fair dealing – remanded to COA for further proceedings.
  - 4 justices would disallow *Aranda*-style good faith and fair dealing extra-contractual actions and overturn *Aranda*;
  - 2 justices waiting on COA;
  - 3 justices would allow good faith and fair dealing extra-contractual actions

Re-Hearing

- Ruttiger filed his Motion for Rehearing on October 11, 2011 ...