

Settlement and Its Potential Affects on Insurance Coverage

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Pursuant to Pennsylvania Law, Pennsylvania drivers are required to have auto insurance coverage for their vehicles. The type and amount of auto insurance coverage is selected by each individual through their respective insurance company. There are various selections pertaining to additional coverage one can make such as uninsured/underinsured coverage. Uninsured motorist coverage covers you if the other driver cannot be identified, or has no insurance. Underinsured motorist protection provides supplementary coverage if the other driver does not have enough liability insurance to fully cover your damages.

Historically, when an individual sustained damage in a motor vehicle accident, the individual was required to exhaust each category of insurance coverage before the next insurance policy could be pursued for reimbursement of damages.

In 2008, police officer, Paul P. Schneider suffered injury when his cruiser was struck by a vehicle driven by Ayanna Lee Cooper. Nationwide Insurance Company v. Paul P. Schneider 2008 Pa.LEXIS 2047 (2008). At the time, Ms. Cooper maintained a policy of insurance up to \$15,000.00 in liability coverage. Id. Officer Schneider's employer maintained a policy that included underinsured motorist coverage up to \$1,000,000.00. Id. Officer Schneider settled with Ms. Cooper's insurance company for \$15,000.00. Id. Officer Schneider then pursued an underinsured motorist claim against his employer's insurance policy. Id. Officer Schneider settled his underinsured motorist claim against his employer's insurance company for \$750,000.00, which was \$250,000.00 less than the policy limit.

Two months later, Officer Schneider pursued a claim against his personal automobile insurance carrier, Nationwide Insurance Company. He elected underinsured coverage, his policy provided coverage up to \$200,000.00. Id. Nationwide Insurance Company denied Officer Schneider's claim because his insurance policy contained an exhaustion clause. Id. The clause specifically stated "no payment will be made until the limits of all other auto liability insurance and bonds that apply have been exhausted by payment." Id.

The Supreme Court of Pennsylvania held in Nationwide v. Schneider that "uninsured and underinsured motorist insurance, particularly as it has evolved in Pennsylvania, is not traditional insurance." Id. Thus, the Pennsylvania Supreme Court reviewed the priority scheme set forth in 75 Pa.C.S. § 1733 (a) to determine the applicability of the exhaustion concept. Id. The Supreme Court determined that priority scheme does not require exhaustion of policy limits. Id.

Additionally, the Supreme Court indicated that contractual exhaustion requirements were invalid on account of public policy. Id. The Supreme Court reasoned that "the approach of disfavoring strict enforcement of such clauses has been applied by Pennsylvania courts since 1995 and comports with our strong public policy of encouraging settlements." Id. The Supreme Court cited that Pennsylvania common law has shown similar hostility towards insurance- policy clauses restraining assignments. Id.

As a result of this ruling, Pennsylvania drivers will be able to pursue underinsured/uninsured claims against insurance carriers without having to exhaust each policy election.