

Colorado Supreme Court Holds Insurers Must Evaluate and Pay Each Separate UM/UIM Component or Risk-Prompt Payment Penalties

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The Supreme Court of Colorado, interpreting the state's prompt-payment statute which provides that an insurer "shall not unreasonably delay or deny payment of a claim for benefits owed to or on behalf of any first-party [insured] claimant," held that an insurer violated the statute when it withheld payment for undisputed medical expenses on the basis of the presence of separate disputed payments.

In the underlying case, Fisher was involved in a car accident where the other motorist was solely at fault. The at-fault driver carried only \$25,000 in liability coverage, but Fisher had a combined UIM coverage limit of \$400,000 from State Farm. Fisher settled his liability claim against the underinsured, at-fault motorist for the \$25,000.00 liability limit. Following that settlement, State Farm offered to settle Fisher's UIM claim for just under \$60,000, which he refused. Fisher then filed suit against State Farm, alleging that State Farm unreasonably delayed or denied payment of his medical expenses.

Although State Farm admitted in a deposition that Fisher's more than \$61,000 in medical bills were reasonable, necessary and causally related to the car accident, State Farm argued that as a matter of law it had not unreasonably delayed payment, because it disputed other portions of the UIM claim. State Farm reached this conclusion by arguing that the prompt payment statute must be harmonized with the state's UIM statute, which provides that "[u]ninsured motorist coverage shall include coverage for damage or bodily injury or death that an insured is legally entitled to collect...." State Farm contended the "legally entitled to collect" language provides for a single, final payment through either a settlement or a judgment against the insurer, and not a piecemeal payment of benefits. Following a jury verdict in favor of Fisher for the \$400,000 UIM policy limit plus the statutory penalty of double medical expenses, State Farm appealed. After the court of appeals affirmed, the Supreme Court of Colorado granted certiorari to resolve whether automobile insurers have a duty to advance partial payments on undisputed portions of a UM/UIM claim even though the complete claim has not been resolved.

The Supreme Court of Colorado found State Farm's arguments unpersuasive for several reasons. First, the court noted that nothing in the prompt-payment statute restricts its application to one payment or the payment of the entire claim. Second, the court agreed with Fisher that holding the prompt-payment statute only applied to an entire claim would ignore the statute's reference to a "covered *benefit*." The court noted the statute states that the delay or denial is unreasonable if it was of a "covered *benefit* without a reasonable basis for that action," and if the legislature wanted the statute to apply to entire claims instead of particular benefits, the legislature could have imposed that limitation. Third, the court reasoned that State Farm's argument would allow for an insurer to avoid liability under the prompt-payment statute as long as it disputed the amount of "benefits owed," no matter how unreasonable the position. Considering these arguments and the plain language of Colorado's prompt payment statute, the Supreme Court of Colorado held "that insurers have a duty to not unreasonably delay or deny payment of covered benefits, even though other components of an insured's claim may still be reasonably in dispute." Therefore, the "duty to not unreasonably delay or deny payment" applies to particular covered benefits, not entire claims.

This case makes it clear that Colorado insurers must break down claims and evaluate the particular benefits within the claims. If any covered benefit is undisputed, the insurer must pay that amount or risk unreasonable delay penalties.