

BAD FAITH BLOG

Iowa Supreme Court Holds No First-Party Bad Faith Against Workers' Comp TPA

AUTHOR: AARON FRENCH

CONTRIBUTOR:

Employee who allegedly suffered an injury in a vehicle collision on a construction site in the course of his employment filed a bad faith action in state court against his employer's workers' compensation insurer and the TPA it hired to investigate, handle, manage, and pay workers' compensation claims. The employee alleged the TPA had no reasonable basis for denying his claims for benefits. After the action was removed to Federal Court the Federal Court certified a question of Iowa law to the Iowa Supreme Court as to whether a TPA could be liable for bad faith failure to pay workers' compensation benefits.

In Iowa, the bad faith cause of action arises from: (1) the special contractual relationship between insurer and insured; (2) the specific statutory and administrative duties imposed on insurers; or (3) some combination of these factors. In analyzing bad faith claims against workers' compensation insurers, Iowa courts have emphasized the statutory and administrative duties of workers' compensation insurers. However, the Iowa Supreme Court found a TPA does not possess a special contractual relationship with the insured nor do the Iowa statutes impose specific statutory and administrative duties on TPAs. Therefore, the Iowa Supreme Court held that under Iowa law, a common law cause of action for bad faith failure to pay workers' compensation benefits is not available against a TPA of a workers' compensation insurer.

The Iowa Supreme Court decision provides a good primer on general first-party bad faith law in Iowa and specifically as it relates to workers' compensation claims. The Iowa Supreme Court declined to follow what it believed to be the only state, Colorado, which had recognized a bad faith claim against a TPA for a workers' compensation insurer. Essentially, the Iowa Supreme Court did not agree with the plaintiff/employee's argument that insurers could essentially delegate all of their duties to TPAs in order to avoid bad faith claims. As the Iowa Supreme Court correctly pointed out insurers could not delegate all of their duties in order to get off the hook. Insurers would still be liable even if they delegated their duties because the TPAs are their agents and vicarious liability applies to the insurer. Moreover Iowa imposes non-delegable duties and administrative regulations on the insurer regardless of any attempt to delegate duties to a TPA.

Insurers who use TPAs to administer claims in Iowa should be aware of this decision as often times TPAs may be initially named as defendants along with insurers in bad faith lawsuits. Insurers may owe contractual defense and indemnity to TPAs. Thus, at least in the context of workers' compensation claims, the Iowa Supreme Court decision supports a Motion to Dismiss if a TPA is named as a co-defendant in a first-party bad faith claim. It remains to be seen if Iowa will extend this decision to TPAs handling claims outside of the workers' compensation arena.

More details at *Samuel De Dios v. Indemnity Insurance Company of North America and Broadspire Services, Inc.*