

Insurance and Injury Corner: Interpleader and federal jurisdiction: A more welcoming door to federal court



Jared K. Cook

When an insurance carrier is faced with multiple parties who may claim to have rights to a payment under a policy, a federal interpleader action can be a useful tool to decide all such claims in a single action. A recent decision out of the Fourth Circuit, *AmGuard*

Insurance Co. v. SG Patel & Sons, LLC is a good reminder that the rules for invoking federal jurisdiction in an interpleader case are easier than in the typical diversity jurisdiction case.

Interpleader is a procedure by which a party that holds property other parties claim a right to may compel all the claimants to come and litigate their competing claims in one single action. Historically, only “strict interpleader” was permitted, meaning that the party seeking to interplead had to disclaim any interest of its own in the property.^[2] But the courts also developed the procedure of a bill “in the nature of interpleader,” which permitted the plaintiff to interplead while also making its own claim to the property it held, in addition to the claims of others.

An action in the nature of interpleader may be an especially useful tool for insurance carriers faced with multiple claimants because it allows the carrier to compel claimants to litigate their claims in one proceeding without conceding coverage. For example, if multiple claimants come forward claiming to be beneficiaries to a life insurance policy, the insurer can interplead the claimants and still deny claims under a policy exclusion. In a strict interpleader action, the insurer would have had to concede coverage and thus disclaim any right to the disputed payment in order to interplead.

Many federal civil litigators are familiar with interpleader under Rule 22 of the Federal Rules of Civil Procedure, but the interpleader statute, 28 U.S.C. § 1335, exists independent of Rule 22. Rule interpleader is a rule of joinder that allows a

party to join all claimants. It is more convenient than statutory interpleader because it does not require the plaintiff to deposit the disputed money into the court, or to post a bond, while statutory interpleader does. [4] But despite this, statutory interpleader offers significant advantages: it permits nationwide service of process, it permits the court to discharge the plaintiff of any further liability, and it permits the court to enjoin other claimants from litigating their claims in any other court.

It also provides its own basis for federal jurisdiction. Rule 22 does not confer jurisdiction, and a party that uses Rule 22 interpleader still needs to establish jurisdiction on some other basis — usually diversity under 28 U.S.C. § 1332(a). But the interpleader statute provides jurisdiction and venue requirements that are more liberal than the familiar diversity jurisdiction statute: The amount-in-controversy requirement is only \$500 rather than \$75,000, and it requires only “minimal diversity” — meaning that there are at least two adverse claimants in the suit that are not citizens of the same state — rather than the familiar “complete diversity” requirement under 28 U.S.C. § 1332(a).

The issue in the *Patel & Sons* case was how that diversity requirement applies in a case where all of the claimants are from the same state and the insurer was from a different state.

The carrier in that case insured a convenience store that sold alcohol to a group of underage teenagers, one of whom later crashed the car they were driving, killing one of the group and injuring the rest. The injured passengers and the estate of the one who was killed all made claims against the carrier. They demanded damages up to the full \$3 million policy limit. But the carrier interpreted the policy limits differently and argued that a \$500,000 limit applied. The carrier then began a federal statutory interpleader action against the claimants, depositing the undisputed \$500,000 into the court and posting a bond for the disputed \$2.5 million.

The district court dismissed the action

for lack of jurisdiction because all claimants were citizens of South Carolina. The court held there was no diversity because all of the claimants were from the same state. On appeal, the Fourth Circuit reversed. The court based its decision on the distinction between strict interpleader actions and actions in the nature of interpleader. It acknowledged that in a traditional strict interpleader action, the plaintiff has disclaimed any interest in the disputed property and is therefore not an adverse claimant in the interpleader action. But it went on to observe that in an action in the nature of interpleader, the plaintiff is also making its own claim to the disputed property in addition to the claims of the other claimants, and therefore held that in such an action, the plaintiff is also an adverse claimant and that its citizenship must be considered for purposes of determining whether there is diversity.

Therefore, even though the claimants seeking policy proceeds were all from the same state, the court held that there was jurisdiction under 28 U.S.C. § 1335. Because the carrier argued that a lower policy limit applied, it was effectively claiming a portion of the disputed money and was therefore an adverse claimant. Therefore, because the carrier was from a different state than the other claimants, diversity was satisfied.

Counsel representing carriers faced with multiple claimants may want to keep statutory interpleader in mind as a tool to efficiently resolve claims all at once and avoid conflicting outcomes from different courts. The “vast majority” of all federal interpleader actions filed today invoke traditional diversity jurisdiction,^[7] but counsel considering an interpleader action should remember that federal jurisdiction in an interpleader action may also be available where traditional diversity jurisdiction is not.

Jared K. Cook is an associate with Vahey Law Offices, PLLC, a litigation firm. Mr. Cook focuses his practice in the areas of employment litigation, commercial litigation, federal practice, appeals, and professional ethics. He can be reached at jcook@vahey.com.