

UIM Coverage Update

September 16, 2024

UIM Coverage – Third Circuit (Pennsylvania Law)

Mid-Century Ins. Co. v. Chad Werley, et al.

No. 23-1822, --- F.4th ---, 2024 WL 4049221 (3rd Cir. Sept. 5, 2024)

The U.S. Court of Appeals for the Third Circuit, in reversing the ruling of the U.S. District Court for the Eastern District of Pennsylvania, determined that Mid-Century Insurance Company (Mid-Century) did not have to pay its insureds an additional \$250,000 in underinsured motorist (UIM) benefits under a second multi-vehicle auto policy because the policy's household vehicle exclusion applied to preclude coverage.

This insurance dispute arose when Levi Werley sustained serious injuries in 2019 when he was struck by another vehicle while riding his family's uninsured dirt bike off road. At the time of the accident, Levi was 15 years old and resided with his parents, Chad and Jane Werley. The motorist who struck Levi paid her policy's bodily injury limit of \$100,000. Because Levi's parents did not believe that \$100,000 would be sufficient to cover Levi's damages, they sought UIM coverage from two auto insurance policies that they had purchased from Mid-Century.

Mid-Century paid the \$250,000 UIM benefits under a single-vehicle policy for a Jeep issued to Chad Werley and his daughter but denied coverage under the Multi-Vehicle Policy (MV Policy) that listed Levi's parents as the named insureds. Mid-Century denied coverage under the MV Policy's household vehicle exclusion, which barred payment for "bodily injury sustained by you or any family member while occupying or when struck by any motor vehicle owned by you or any family member which is not insured for this coverage under any similar form." Although the MV Policy did not define "motor vehicle," the Pennsylvania Vehicle Code defines it as "a vehicle which is self-propelled except an electric personal assistive mobility device or a vehicle which is propelled solely by human powers." Mid-Century asserted that the dirt bike was not a "motor vehicle" under this definition.

After denying coverage under the MV Policy, Mid-Century filed a declaratory judgment action against the Werleys seeking a determination that it did not owe UIM coverage under the MV Policy. The parties filed cross-motions for summary judgment. The district court granted the Werleys' dispositive motion, finding that the household vehicle exclusion was invalid and unenforceable under Pennsylvania's Motor Vehicle Financial Responsibility Law (MVFRL) because the Werleys did not knowingly waive inter-policy stacked UM/UIM coverage. Thus, the district court ruled that Levi was entitled to stack coverage even though the dirt bike was uninsured. Mid-Century appealed.

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The Third Circuit Court of Appeals reversed the district court's ruling and remanded the case with instructions to enter judgment in favor of Mid-Century. The appellate court, disagreeing with the district court, found that the uninsured status of the dirt bike was relevant under Pennsylvania law with regard to the issue of stacking. The appellate court predicted that the Pennsylvania Supreme Court would conclude that a household vehicle exclusion in a second policy that an insured seeks to stack on top of a first policy is only invalid if the second policy insures the vehicle involved in the accident, provides UIM coverage on that vehicle, and the household vehicle exclusion excludes coverage for that vehicle.

Because the dirt bike was uninsured, the household vehicle exclusion in the MV Policy was valid and applied to preclude UIM coverage according to the appellate court. The appellate court opined that to hold otherwise would likely result in higher premiums and create a system that is prone to abuse, which in turn would undermine one of the MVFRL's recognized goals: "to stop the spiraling costs of automobile insurance in the Commonwealth."