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Indiana Supreme Court Adopts "Safe Harbor" Interpleader Approach When Insurer Faced with Multiple Claims and Insufficient Policy Limits

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Recently, in *Baldwin v. Standard Fire Ins. Co.*, 2025 Ind. LEXIS 680 (Ind. Oct. 21, 2025), the Indiana Supreme Court addressed an insurance carrier's options where insurance coverage is insufficient to satisfy multiple claimants and the dilemma faced by the insurance carrier in attempting to resolve such claims. Where an insurer is faced with multiple claims which are likely to exceed the available policy limits, what is an insurer to do? One option is to seek individual settlements, but this approach risks exhausting policy limits before satisfying all claimants. Another option is to refrain from individual settlements in hopes of attaining a global settlement, but this approach may fail and expose the insured to increased personal liability. Either option creates risks for the insured and thus exposes the insurer to a later claim that it breached its duty of good faith and fair dealing to its insured, or even that it acted in bad faith. In *Baldwin*, the insurer facing this dilemma filed an interpleader action naming all known claimants, depositing the policy limits with the trial court, and continued to defend its insured against all claims. In such circumstances, the Indiana Supreme Court held that such choice did not reach the insurer's duty of good faith and fair dealing to its insured and did not amount to bad faith.

By way of background, in June 2018, Tommi Hummel crashed into a vehicle driven by Bradley Baldwin. Baldwin received severe injuries and was taken to a local hospital. Hummel and one of her passengers, John Hopkins, were airlifted to a different hospital, while the second passenger in Hummel's car, Jill McCarty, fled the scene seemingly unharmed. Hummel had an auto insurance policy with Standard Fire, which provided bodily injury liability coverage of up to $50,000 per person, capped at $100,000 per accident. Standard Fire's post-accident investigation determined that Hummel potentially faced multiple claims from Hopkins, McCarty, and Baldwin, which would likely exceed the available policy limits.

Three months after the accident, Baldwin sued Hummel and her husband for injuries sustained from Hummel's alleged negligence. Standard Fire retained counsel to defend the Hummels as required by the policy. Two months after suing the Hummels, Baldwin made a "time-limited settlement demand" for the $50,000 per-person policy limit. Standard Fire, which controlled all settlement decisions under the policy, rejected Baldwin's demand. Standard Fire determined that Baldwin's and Hopkin's claims were certain to exceed the $50,000 limit, thus prematurely exhausting the $100,000 policy limit, and leaving the Hummels potentially uninsured for any claim asserted by McCarthy. Standard Fire elected to file an interpleader action with the trial court, naming Baldwin, Hopkins, and McCarty as interested parties to the insurance policy proceeds. Standard Fire determined that interpleader was the best option because it was the best way to protect the Hummels given the three potential claimants, two of which could exceed policy limits.

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Meanwhile, in Baldwin's suit against the Hummels, Baldwin demanded $700,000 to settle his claims. Standard Fire declined, but the Hummels, without Standard Fire's required consent, agreed to settle with Baldwin for the full $700,000 demand. The Hummels assigned to Baldwin any claims they might have against Standard Fire in exchange for Baldwin's agreement not to enforce his judgment against them. Baldwin thereafter filed amended counterclaims against Standard Fire in the interpleader action, alleging Standard Fire breached its duty of good faith and fair dealing to the Hummels by rejecting the initial settlement demand for $50,000. Baldwin further alleged Standard Fire acted in Bad faith toward the Hummels and should pay punitive damages.

The trial court granted summary judgment for Standard Fire, finding that Standard Fire did not breach a duty to any insured, and that Standard Fire was released from further liability and owed no further obligations to any defendants. The court of appeals reversed the trial court's entry of summary judgment on two issues. The appellate court first held that a genuine issue of material fact existed on whether Standard Fire breached its duty of good faith and fair dealing when it declined Baldwin's initial settlement demand. Second, relying on the attestations of Baldwin's expert witness, the panel held that a genuine issue of material fact also existed on whether Standard Fire acted in bad faith toward the Hummels. Standard Fire appealed to the Indiana Supreme Court.

The Supreme Court of Indiana had to address whether Standard Fire acted properly in rejecting Baldwin's initial settlement demand and in filing an interpleader action to deal with the potential of multiple claimants against the Hummels insurance policy. With only sparse case law in Indiana, the Court reviewed other jurisdictions to identify best practices for insurers dealing with multiple claimants and insufficient policy limits. The Court ultimately adopted Section 26 of the Second Restatement of Liability Insurance as the governing standard in Indiana. This standard requires that insurers try to limit an insured's overall liability exposure and provides insurers with a "safe harbor" for limiting their own liability through an interpleader action.

Applying the new standard, the Court first determined that Standard Fire did not breach the duty of good faith and fair dealing when it rejected Baldwin's initial settlement demand. The Court found that Standard Fire's conduct in filing the interpleader action, naming all known potential claimants, depositing the full policy limits, and continuing to provide a defense to its insured, fell squarely within the safe harbor provision for interpleader. The Court noted that the requirements to qualify under this "safe harbor" are straight forward: an insurer facing multiple claims against a single policy limit may satisfy its good-faith duty by interpleading the policy limits to the court, naming all known claimants, and, if the insurer has a duty to defend, continuing to defend the insured until the litigation ends.

The Court rejected Baldwin's argument that Standard Fire was ineligible for the safe harbor because it did not timely file its interpleader action. Baldwin asserted that Standard Fire needed to file and pursue the interpleader action within the timeframe to respond to Baldwin's offer of settlement and deposit the policy proceeds at the time of filing the interpleader. The Court rejected this argument, noting that Section 26 contains no "timeliness" requirement, and Standard Fire's interpleader action fully complied with all applicable deadlines under Indiana's trial rules.

Baldwin also questioned Standard Fire's basis for filing an interpleader action, claiming the decision to file interpleader breached the duty of good faith because "any reasonably prudent [insurer] would have accepted [his] settlement demand and risked the excess exposure of McCarty's unknown and merely potential claim." The Court found that under the safe harbor provision, claiming that the insurer could have eliminated more liability by a different settlement strategy was no basis for finding a breach of duty.

The Court found Standard Fire properly invoked interpleader's safe harbor by depositing policy limits, naming all claimants, and providing a defense, thereby fulfilling its duties to its insured as a matter of law. As such, the Court found Standard Fire was entitled to summary judgment on the good faith and fair dealing claim.

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Finally, the Supreme Court of Indiana turned to Baldwin's bad-faith claim, finding that it failed as a matter of law. The Court recognized that in Indiana, a bad faith claim derives from a breach of the duty of good faith claim; a claimant must first prove that the insurer breached their duty of good faith before they may establish the right to punitive damages by proving the insurer acted in bad faith.

Baldwin's primary evidence of bad faith was an insurance expert's attestation that Standard Fire's decision to reject Baldwin's initial settlement demand and file an interpleader was the epitome of bad faith. The Court found this evidence failed on the record given the Court's conclusion that Standard Fire did not breach its duty of good faith and fair dealing with its interpleader action. The Court concluded that there could be no bad faith if an insurer did not violate its duty of good faith.

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