

Federal Declaratory Judgment Act

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To establish federal jurisdiction in a declaratory judgment action, two conditions must be satisfied. First, is the constitutional inquiry - the case must be a 'case or controversy' pursuant to Article III of the US Constitution. Second is the prudential inquiry – declaratory relief must be appropriate. Relief pursuant to the Declaratory Judgment Act also requires the establishment of standing under the statute.

In determining whether there is a case or controversy, the test is whether the alleged facts demonstrate there is a substantial controversy between parties, with adverse legal interests, of such immediacy and existence so to warrant a declaratory judgment.

In *Johnson v. Shree Radhe Corporation, et al* 2018 WL 1409973 (March 21, 2018), the United States District Court focused on statutory standing. There, Plaintiff filed an action in state court alleging injury arising from Defendants' negligence. In addition, he included a claim under the Uniform Declaratory Judgments Act against Defendants, including Auto-Owners Insurance Company, which issued a policy to the remaining Defendants. Auto-Owners removed the case thereby triggering analysis under the Federal Declaratory Judgment Act. Plaintiff moved to remand.

In *Johnson*, the court reiterated that under federal law, a plaintiff is not precluded from standing to sue an insurer simply because he is not a party to the insurance contract. An actual controversy can exist between an insurance company and a third party in certain circumstances. First, in the event the insurance company joins the third party in a case; a common scenario to those familiar with coverage issues. Insurers can generally establish their stake in the outcome of the underlying controversy based upon the injury they could suffer by having to pay a claim for which there is no valid coverage. Next, the court has also found a plaintiff, not a party to the insurance contract, has standing to sue the insurer in the event the plaintiff has secured a judgment against the carrier's insured. In *Johnson*, however, Plaintiff was without a judgment, sought to enforce rights under a policy to which he was not a party, and under which he had no claims pursuant to the policy provisions. As a result of Plaintiff's inability to establish a concrete injury, in the context of the declaratory judgment action, coupled with his inability to demonstrate a substantial controversy

that effected the legal rights of the adverse parties, the court determined Plaintiff lacked standing and remanded the action.

Cheryl D. Shoun is a trial attorney and certified mediator whose experience includes construction law, insurance defense, personal injury defense, employment litigation and medical malpractice. As a frequent writer, she serves as editor for Nexsen Pruet's TIPS: Torts, Insurance and Products Blog.