

Minnesota Court Holds That Prejudgment Interest Statute Does Not Apply to Appraisal Awards

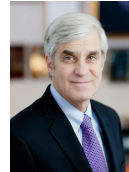
The Minnesota Court of Appeals held in its recent decision, *Poehler v. Cincinnati Ins. Co.*, 874 N.W.2d 806 (2016), that pre-award interest is not recoverable on an appraisal award made pursuant to the terms of an insurance policy, absent an underlying breach of contract or actionable wrongdoing.

The insured James Poehler submitted a claim for fire damage sustained by his home under a homeowner's insurance policy issued by Cincinnati Insurance Company. Cincinnati made its first payment on the policy a week after the fire, and eventually paid the full amount of its original valuation: a total of \$175,663.83. Poehler disagreed with Cincinnati's valuation, and demanded an appraisal pursuant to his policy. Poehler argued for an additional \$170,442.44; Cincinnati argued for an additional \$57,965.90. The appraisers issued an award determining that Cincinnati owed an additional \$88,480.21, which was more than Cincinnati's statement of loss but less than Poehler's.

Poehler filed an action in district court seeking confirmation of the appraisal award, and pre-award interest under Minnesota's prejudgment interest statute, Minn. Stat. § 549.09, subd. 1(b). Cincinnati appealed from the district court's allowance of pre-award interest arguing that payments made pursuant to a written contract, such as an insurance policy, are not "compensatory" damages and, therefore, are not covered by the prejudgment interest statute. As the appraisal award complied with the applicable statutory and contractual requirements for determining the amount of loss, the appraisal award represents only the amount of insured loss, not compensation for a breach of contract or actionable wrongdoing. The Court of Appeals agreed.

The court acknowledged that Minnesota courts have affirmed pre-award interest on insurance awards, but only based on an underlying breach of contract or actionable wrongdoing. In this case, Cincinnati fully complied with the policy's appraisal provision and, therefore, there was no breach of contract or actionable wrongdoing. The court rejected Poehler's argument that the payments owed him under the policy were compensatory damages and therefore eligible for pre-award interest under the prejudgment interest statute. The court noted that "Minnesota's pre-judgment interest statute provides for 'pre-verdict, pre-award, or pre-report interest on pecuniary damages[]'... but explicitly excludes damages that are 'noncompensatory.'" The court rejected plaintiff's argument that because the policy covers "physical loss," which it defines as "accidental physical damage," the appraisal award can be characterized as damages. The court reasoned that damage to property and compensatory damages are manifestly different concepts.

While the court acknowledged that there were public policy arguments in favor of allowing pre-appraisal award interest, it concluded that the opportunity to consider public policy choices was not available to it under the circumstances there, where the law unambiguously addressed the question before it. Essentially, here, since the statute unambiguously refers to damages, and the court found that the appraisal award cannot be characterized as compensatory damages, Poehler's policy arguments were determined unavailing. Thus, the court concluded that the lower district court erred in applying pre-judgment interest to an appraisal award made pursuant to the insurance policy without an underlying breach of contract or actionable wrongdoing.



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