



Case Alert

Federal Court Requires Auto Liability Carrier to Cover Suit Involving Independent Contractor Despite “Employee Exclusion”

A recent federal court decision rendered in July of 2017 highlights the importance of worker classification in the transportation industry and the potential insurance implications. In Spirit Commercial Auto Risk Retention Grp., Inc. v. Kailey,¹ the court determined that an “employee exclusion” in a motor carrier’s automobile liability insurance policy did not exclude coverage for liability resulting from the bodily injury of an independent contractor operating the motor carrier’s tractor-trailer. In April of 2014, a team of two drivers hired by the motor carrier, Kailey Trucking Line (KTL), were involved in a collision while operating KTL’s truck. The passenger in the truck, who was not operating the vehicle at the time, was killed in the accident. Subsequently, the spouse of the decedent filed suit against KTL as well as the driver of the truck.

KTL sought coverage for the suit under its automobile liability insurance policy, issued by Spirit Commercial Auto Risk Retention Group, Incorporated (Spirit). However, Spirit took the position that it had no duty to defend or indemnify KTL, and ultimately filed a declaratory judgment action in United States District Court for the Eastern District of Missouri. The policy issued to KTL provided coverage for damages due to bodily injury or property damage caused by an accident resulting from the ownership, maintenance, or use of a covered auto. However, the policy excluded from coverage any bodily injury to an employee or fellow employee of the insured arising out of and in the course of employment of the insured. Accordingly, to the extent that the decedent qualified as an “employee” of KTL, Spirit had no duty to indemnify KTL in the litigation.

In order to determine whether the employee exclusion applied, the Missouri District Court first examined the Federal Motor Carrier Act (FMCA), which is designed to protect against abuses in the trucking industry, and determined that the broad definition of “employee” in the FMCA does not control the interpretation of insurance policies that do not adopt the statutory language. The court then analyzed the law of California (where the KTL trucks were licensed) concerning classification of hired workers, in order to determine whether the decedent was an employee or independent contractor. Under California law, a number of factors are considered in this determination; however, the principal test of the employment relationship is “whether the person to whom service is rendered has the right to control the manner and means of accomplishing the result desired.”

The court ultimately found that KTL did not control the manner and means of the drivers such that they could be classified as employees. Rather, the court found that the factors weighed in favor of classifying the drivers as independent contractors since the drivers were only paid after each trip and were permitted to work for other companies, illustrating KTL’s limited control over the drivers. Because the drivers were classified as independent contractors, the court concluded that the employee exclusion did not apply, and Spirit had a duty to defend and indemnify KTL under the automobile liability policy.

Motor carriers, particularly those that engage independent contractors, should keep in mind that the issue of worker classification, and how those contractors are treated by the motor carrier, could have a profound impact on whether claims are covered under their automobile liability insurance programs. This case also serves as a welcome reminder that it is important for a motor carrier to understand whether the risks associated with its routine business operations are covered within the boundaries of its insurance coverage.

For more information about this case contact H. Scott Williams at hsw@sdvlaw.com or 203-287-2121, or Brendan Holt at bch@sdvlaw.com or 203-287-2124.

1. No. 4:15CV01091 ERW, 2017 WL 2935726 (E.D. Mo., July 10, 2017).