

Supreme Court Rules That Policyholder Cannot Evade Federal Jurisdiction Under Class Action Fairness Act by Stipulating to Damages Below Jurisdictional Minimum

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What you need to know:

The Supreme Court ruled that plaintiffs cannot evade federal court jurisdiction by stipulating that class-wide damages are less than the Class Action Fairness Act's \$5 million jurisdictional minimum.

What you need to do:

Insurers may wish to use the Court's ruling, which makes it harder for plaintiffs to avoid federal court jurisdiction over large class actions, to oppose motions to remand to state court.

Background

A policyholder filed a class action complaint in Arkansas state court asserting that the insurer breached homeowners insurance policies by underpaying claims. The insurer removed the action to federal court under the Class Action Fairness Act of 2005. CAFA provides that federal trial courts have original jurisdiction over class actions if, among other things, the "matter in controversy exceeds the sum or value of \$5,000,000." It further provides that to determine the amount in controversy, the "claims of the individual class members shall be aggregated." The plaintiff sought to defeat federal court jurisdiction – and thereby force a remand to state court – by stipulating that he would seek to recover less than \$5 million on behalf of the class. The trial court concluded, based on the insurer's evidence, that the amount in controversy exceeded \$5 million. The court nonetheless remanded the case to state court, concluding that the plaintiff's stipulation was binding and showed that the aggregate damages claimed on behalf of the putative class did not exceed \$5 million. The Eighth Circuit denied permission to appeal. The US Supreme Court vacated the judgment. *See Standard Fire Ins. Co. v. Knowles, No. 11-1450, 2013 U.S. LEXIS 2370 (U.S. Mar. 19, 2013).*

The Court's Ruling

The Supreme Court held, in a unanimous ruling, that:

- Nonbinding stipulations must be ignored when determining the amount in controversy under CAFA. The Court ruled that the stipulation was not binding on absent class members because a plaintiff who files a proposed class action cannot legally bind members of the proposed class before the class is certified.
- The Court ruled that, because a pre-certification stipulation binds only the named plaintiff, it cannot "reduce the value of the putative class members' claims." This is because "a nonbinding, amount-limiting, stipulation may not survive the class certification process." If such a case were remanded to state court, the stipulation could be nullified in the state court class certification

proceedings, in order to protect the interests of absent class members – for example, by a ruling that the named plaintiff inadequately represented class members by imposing an artificial cap on the class’s recovery. The effectiveness of the stipulation was therefore “contingent,” and federal jurisdiction cannot be based on contingent future events.

- The Court ruled that to allow plaintiffs to evade federal court jurisdiction by purporting to stipulate to damages below \$5 million would “treat a nonbinding stipulation as if it were binding, exalt form over substance, and run directly counter to CAFA’s primary objective: ensuring ‘Federal court consideration of interstate cases of national importance.’” It would also permit artful pleading, such as dividing large class actions into multiple class actions each seeking less than the jurisdictional minimum, and litigating those cases in state rather than federal court – which would “squarely conflict” with the statute’s objectives. The Court accordingly held that federal courts should “ignore” stipulations purporting to limit damages to below the jurisdictional minimum under CAFA.

Conclusion

The Supreme Court held, in a unanimous ruling, that a plaintiff cannot evade federal court jurisdiction by stipulating that class-wide damages are less than the \$5 million jurisdictional minimum under the Class Action Fairness Act. The Court’s reasoning suggests that it will not be receptive to further efforts to circumvent federal court jurisdiction under CAFA by limiting the plaintiffs’ claims.

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