Understanding Appeal Bond Exposure: Key Considerations for Claims Professionals

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Authors:

Griffin Terry Sumner

It's a $20 million excess judgment. Your insured needs an appeal bond, but your liability insurance policy only covers $5 million. Are you liable for the full $20 million supersedeas bond amount or just your pro-rata share? In some jurisdictions, you could be on the hook for the entire amount. Many claims professionals have faced this crucial and unwelcome moment: your insured suffers a significant or excess judgment, and now decisions about appeals and supersedeas bonds must be made quickly.

The scope of insurers' bond obligations depends on policy language and varies across jurisdictions, making it essential for claims handling teams to understand both the legal landscape and its practical implications for insurance coverage decisions. The stakes are higher than you think. Without proper guidance, you could unnecessarily face exposure beyond policy limits.

What Is an Appeal Bond?

Understanding what triggers these bond requirements is the first step in managing exposure. An appeal bond (also known as a supersedeas bond) is a type of surety bond that an appellant must post to stay the execution of a judgment while an appeal is pending. The bond provides security to the successful party that the judgment will be paid if the appeal does not succeed. Without the supersedeas bond, the successful plaintiff can collect on the judgment during the appeal process.

Appeal bond requirements vary by jurisdiction: some states require the full judgment plus interest, others require multiples of the judgment, some cap bond amounts, and others exclude punitive damages from bond calculations.

These bond obligations typically surface in high-stakes litigation involving product liability, professional liability, medical negligence, and insurance coverage litigation—precisely the cases where "nuclear verdicts" (judgments in excess of $10 million) are most likely. And claims teams will often encounter bond decisions in cases involving multiple defendants, novel legal theories, or significant punitive damage awards.

Does Your Liability Insurance Policy Create Bond Obligations?

Express policy language: Modern liability insurance policies often contain language creating insurer bond obligations for appeal bond costs. Claims handling teams should carefully review language addressing duty to defend, supplementary payments, defense costs, and claims expenses to determine whether these terms include appeal or supersedeas bonds.

Implied bond obligations: Even without express policy language, some courts have found appeal bond payment obligations—especially where insurers retain defense control. See *Larson v. Dauphin Realty Co.*, 228 F. Supp. 952, 954 (E.D. Pa. 1964).

Appeal Bond Costs vs. Furnishing Bonds: Critical Coverage Distinctions

Courts scrutinize liability insurance policy language carefully when determining insurer bond obligations. The distinction is crucial for insurance coverage analysis:

- **"Bond costs"**: Usually interpreted as premium payments only (1-2% of the bond amount)
- **"Furnishing bonds"**: Broader obligation requiring full collateral and surety indemnification

Most courts have found that an insurer is merely required to pay the supersedeas bond premiums without providing the collateral. In *Graf v. Hospitality Mut. Ins. Co.*, 956 F. Supp. 2d 337 (D. Mass. 2013), the court recognized a critical distinction between the "cost" of bonds and "bond amounts." Similarly, in *James River Ins. Co. v. Interlachen Property Owners Assn.*, 2016 WL 3093383 (D. Minn. 2016), the court held that a policy's requirement to pay the "cost" of bonds as "claim expenses" included only the obligation to pay the bond premiums and not the full amount of the bonds or collateral.

But in *Charter Oak Ins. Co. v. Maglio Fresh Food*, 45 F. Supp. 3d 461 (E.D. Pa. 2014), the court interpreted an insurer's agreement to pay "the costs of bonds" to mean the amount that would be necessary to secure a bond. In that case, the amount to secure included the full amount of the judgment as collateral for the bond.

Insurance Coverage Limits vs. Excess Judgment Exposure

Understanding bond obligations becomes critical when judgment amounts exceed policy limits or include claims outside insurance coverage. How much of the supersedeas bond becomes the insurer's responsibility in these excess judgment scenarios? That depends on the jurisdiction.

Majority rule—limited to insurance coverage: Most jurisdictions have held that an insurer's appeal bond obligations cannot exceed policy limits or policy coverage. Without this approach, a successful claimant could collect the full judgment from the insurer through the bond post-appeal. See *Miami International Realty Co. v. Paynter*, 807 F.2d 871 (10th Cir. 1986); *Fletcher v. Ratcliffe*, 1995 WL 790992 (Del. Dec. 7, 1995).

Other jurisdictions have confirmed that bad faith allegations are not a basis to expand an insurer's appeal bond obligations. See *Wilcox v. Bd. of Educ. of Warren Cnty.*, 779 S.W.2d 221, 224 (Ky. App. 1989); *Courvoisier v. Harley Davidson of Trenton, Inc.*, 742 A.2d 542 (N.J. Super. Ct. App. Div. 2000).

Minority rule—full excess judgment exposure: A minority of jurisdictions require insurers to pay for supersedeas bonds covering the full judgment, even when that amount exceeds coverage available under the liability insurance policy. See *Buford Equipment Co., Inc. v. Centennial Ins. Co.*, 857 F. Supp. 1499, 1501 (M.D. Ala. 1994).

Real-world cost implications: Consider a $20 million excess judgment with a $5 million liability insurance policy:

Majority Rule Scenario

- - Bond premium: $200,000–$400,000 (1–2% of bond amount)
  - Insurer exposure: $50,000–$100,000 (pro-rata share based on policy limits)

Minority Rule Scenario

- - Bond premium: $200,000–$400,000
  - Required collateral: $20,000,000 + interest (100% of bond amount)
  - Insurer exposure: $20,200,000–$20,400,000 + interest (full amount)

The difference between paying 1–2% of the bond amount in premiums versus providing 100% of the bond amount as collateral can mean the difference between manageable exposure and catastrophic loss in claims handling.

Consequences of Not Posting Appeal Bonds

Without posting a supersedeas bond, the successful plaintiff can immediately begin collecting on the judgment during the appeal process. This creates several critical problems for insurance coverage and claims handling, as described below.

Immediate execution risk: The plaintiff can pursue collection activities including asset seizure, garnishment, and liens against the judgment debtor. For corporate insureds, this can force immediate liquidity crises or even bankruptcy before the appeal is resolved.

Practical collection challenges: If the appeal succeeds after collection has begun, recovering payments from the plaintiff can be difficult or impossible. Funds may have been spent, assets transferred, or the plaintiff may lack sufficient resources to repay collected amounts.

For insurers, these consequences extend beyond the immediate case. Failure to post bonds when required can damage insurers' relationships with insureds and create insurance coverage disputes about the duty to protect insureds from collection activities. These legal complexities highlight several critical factors for claims teams.

Key Considerations for Managing Bond Obligations

Given the complexity of appeal bond requirements and their potential effect on insurance coverage decisions, understanding your options becomes critical for effective claims handling.

Jurisdictional complexity: Courts follow different rules for bond obligations, and identical liability insurance policy language can yield vastly different exposure depending on jurisdiction. Many claims professionals find that understanding these jurisdictional variations before facing an excess judgment helps inform strategic decisions throughout litigation.

Critical timeline pressures: Appeal bond requirements typically involve strict deadlines—usually 10 to 30 days from judgment entry depending on jurisdiction, with some states requiring immediate action. This compressed timeline means claims teams have limited time to analyze coverage obligations, assess jurisdictional rules, and coordinate with counsel before critical deadlines pass.

Policy language nuances: Experienced adjusters often discover that liability insurance policy language contains bond-related ambiguities that become critical under tight post-judgment deadlines. Understanding these nuances before they become urgent allows for better decision-making when stakes are highest.

Industry Best Practices for High-Exposure Cases

The legal landscape varies dramatically by jurisdiction, and the complexity of bond obligations has led many sophisticated insurers to evolve their approach to high-exposure litigation. Rather than waiting until post-judgment deadlines create pressure, leading claims operations often establish relationships with appellate specialists before critical decisions must be made.

The most successful claims teams recognize that when significant exposure cases involve novel legal issues or adverse rulings, specialized appellate consultation can help them navigate the complex intersection of coverage obligations, jurisdictional variations, and procedural requirements that determine ultimate exposure.

As excess judgments become more common and bond requirements grow more complex, proactive planning becomes essential for protecting both insurers and insureds from unexpected exposure.

Frost Brown Todd's trial and appellate advocates have successfully handled supersedeas bond proceedings in many jurisdictions. For assistance, please contact Griffin Terry Sumner or any attorney with the firm's Insurance Coverage and Bad Faith team.

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