

Indiana Recognizes Interpleader as a Bad-Faith Safe Harbor

[Blog](#) Avoiding Insurance Bad Faith

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The Indiana Supreme Court's decision in *Baldwin v. Standard Fire Ins. Co.*, 269 N.E.3d 1197 (Ind. 2025) provides clarity for insurers confronted with competing claims that exceed policy limits. In a matter of first impression, the Court held that declining individual demands and pursuing interpleader does not constitute bad faith. The Court specifically recognized interpleader as a safe harbor for insurers facing multiple claims against a single policy.

Background

Bradley Baldwin was severely injured in an automobile accident involving Tommi Hummel. John Hopkins, a passenger in Hummel's vehicle, suffered serious injuries. Another passenger, Jill McCarty, fled the scene before her injuries could be assessed.

Hummel was insured under a Standard Fire automobile liability policy with bodily-injury limits of \$50,000 per-person and \$100,000 per accident. Standard Fire determined that Baldwin's and Hopkins's claims would each exceed the per-person limit. The potential claim by McCarty - of unknown value - remained outstanding.

Baldwin made a policy-limits demand. Hopkins pursued his claim without making a demand. Standard Fire declined Baldwin's demand. It concluded that exhaustion of the policy limits without resolution of McCarty's claim could expose Hummel to personal liability. Faced with competing claims that exceeded the available coverage, Standard Fire filed an interpleader action.

On the eve of trial, Hummel settled with Baldwin for \$700,000 without the insurer's consent. As part of the settlement, she assigned her claims against Standard Fire to Baldwin in exchange for a covenant not to execute. Acting as assignee, Baldwin sued Standard Fire for breach of the duty of good faith and fair dealing and for bad faith. He alleged that Standard Fire should have accepted his policy-limits demand rather than pursuing interpleader to protect against an unasserted third claim. The trial court granted summary judgment for Standard Fire. Baldwin appealed. Ultimately, the case was transferred to the Indiana Supreme Court.

The Question at Issue

Baldwin presented a recurring question for insurers: does filing an interpleader action constitute bad faith when claims exceed policy limits?

The Court's Analysis

The Indiana Supreme Court held that pursuing interpleader does not breach an insurer’s duty of good faith and fair dealing when multiple claims likely exceed available policy limits. In reaching that conclusion, the Court adopted Section 26 of the Restatement (Second) of the Law of Liability Insurance. That section recognizes interpleader as a legitimate means of satisfying an insurer’s duty. The Court explained that an insurer is not required to prioritize one claimant over others when doing so risks exposing the insured to personal liability.

Applying that framework, the Court concluded that the interpleader satisfied the duty of good faith as a matter of law. Standard Fire reasonably declined Baldwin’s policy-limits demand after determining that the claims - asserted and unasserted - could expose Hummel to personal liability. The Court rejected the argument that the insurer was required to “play Solomon” by choosing which claimant to pay .

Having concluded that Standard Fire complied with its duty of good faith and fair dealing, Baldwin’s claim necessarily failed. Under Indiana law, bad faith requires clear and convincing evidence of dishonest purpose, ill will, or self-interested manipulation. It cannot exist absent a breach of the duty of good faith.

Why *Baldwin* Matters for Property Claims

While *Baldwin* arose in a third-party liability context, its reasoning extends well beyond automobile cases. Insurers frequently face competing claims to limited proceeds in catastrophic property losses, condominium or apartment losses, and disputes between mortgage companies and owners. *Baldwin* confirms that resorting to a neutral judicial process for allocating limited funds is a defensible strategy.

Takeaways

For insurers in Indiana, *Baldwin* provides meaningful clarity. The Court confirmed that declining individual demands and pursuing interpleader does not constitute bad faith. In doing so, the Court signaled that insurers are not required to prioritize one claimant over others when policy limits are inadequate. It further suggests that courts may be reluctant to second-guess allocation decisions once the matter is placed in the hands of the judiciary.

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