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MICHIGAN SUPREME COURT STRIPS HEALTHCARE PROVIDERS OF CAUSE OF ACTION AGAINST NO-FAULT INSURERS

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The recent Michigan Supreme Court decision in *Covenant Medical Center, Inc. v. State Farm Mutual Automobile Insurance Company* (May 25, 2017) makes clear that healthcare providers do not have authority to pursue unpaid medical claims against a no-fault insurance company.

The case stemmed from injuries suffered by Jack Stockford in a car accident. The plaintiff, Covenant Medical Center, treated him on at least three occasions related to those injuries. Covenant sent medical bills to the defendant, State Farm, but State Farm denied coverage and refused to pay them. Unbeknownst to Covenant, Stockford filed suit against State Farm for no-fault and personal protection insurance (PIP) benefits. Stockford and State Farm settled their dispute. In connection with this settlement, Stockford released State Farm from liability of expenses, medical bills and past claims "incurred through January 10, 2013." Thereafter, Covenant filed suit against State Farm seeking payment for services provided to Stockford. State Farm argued that the executed release of liability eradicated Covenant's claim for benefits.

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The trial court agreed with State Farm and concluded that "Stockford's insurer was dependent on the insurer being obligated to pay benefits to the provider on behalf of the insured and that the release ended the insurer's obligation to the pay benefits to or on behalf of its insured under its contract of insurance." The Court of Appeals reversed, concluding that State Farm's liability to Covenant was not extinguished by the settlement and release between State Farm and Stockford. It relied on over twenty years of precedent to conclude that healthcare providers have a cause of action against a no-fault insurer. It determined that a discharge of liability, under these circumstances, "requires the insurer to apply to the circuit court for an appropriate order directing how the no-fault benefits should be allocated." State Farm applied for leave to appeal to the Supreme Court and it was granted to determine whether a healthcare provider has a statutory cause of action against a no-fault insurer.

In its opinion, the Supreme Court concluded that none of the cases the Court of Appeals cited "provide[d] any textual analysis of the no-fault act to support [the proposition that a healthcare provider possesses a statutory cause of action against a no fault insurer.]" In the Supreme Court's opinion, the cases cited misinterpreted the issue, and lacked the statutory analysis necessary to support a cause of action.

After careful analysis, the Supreme Court ruled that the no-fault act does not explicitly allow healthcare providers to bring a direct cause of action against insurers. Two sections of the act mention healthcare providers, but neither of those sections supports a statutory cause of action. The Court reasoned that MCL 500.3112, which provides that PIP benefits are "payable to or for the benefit of an injured person or, in case of his death, to or for the benefit of his dependents" does provide that PIP benefits may be paid to a healthcare provider, but the text does not require "direct payment of healthcare providers or give providers any right to directly sue a no-fault insurer." Further,

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the Court reasoned that no other section of the no-fault act explicitly states that a healthcare provider has a statutory cause of action against a no-fault insurer. Accordingly, the court reversed the judgment of the Court of Appeals and remanded the case to the trial court for entry of an order granting summary disposition to State Farm.

This case presents a timely opportunity for careful consideration of any litigation strategy related to unpaid medical bills. The Supreme Court was careful to note that its decision does not affect an insured's ability to assign his or her right to past or presently due benefits to a healthcare provider. *Cf.* MCL 500.3143. Moreover, the Court did not foreclose the argument that healthcare providers may be third-party beneficiaries of a contract between the insured and the no-fault insurer. Indeed, the court intimated that such inquiries would be on a contract by contract basis.

If you would like to discuss these or any other healthcare law issues, please contact the chair of our Health Care Practice Group, **Bill Shipman**, or **Brandon Dalziel**. For further discussion on this particular case, you can reach out to the author of this article, **Tom Rheaume**.

Case: *Covenant Med. Ctr. v. State Farm Mut. Auto. Ins. Co.*, No. 152758 (Mich. May 25, 2017).

About the Author. Thomas J. Rheaume, Jr. *represents business clients in commercial litigation matters, working on high-stakes and complex litigation matters for clients in the health care and insurance industries. Prior to joining Bodman, Tom served as a law clerk to Justice Stephen J. Markman of the Michigan Supreme Court. As a member of the firm's Appellate Law Practice Group, he has written appellate and amicus briefs in state and federal appellate courts, including the United States Supreme Court.*

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