

**ARBITRATOR RESIGNATION:
REPLACE THE ARBITRATOR OR THE WHOLE PANEL?**

by

Robert M. Hall

[Mr. Hall is a former law firm partner, a former insurance and reinsurance company executive and acts as an insurance consultant and expert witness as well as an arbitrator and mediator of insurance disputes. The views expressed in this article are those of the author and do not reflect the views of his clients. Copyright 2009 by the author. Questions or comments may be addressed to Mr. Hall at bob@robertmhall.com.]

I. Introduction

On occasion, a member of an arbitration panel dies or resigns for health or other reasons. Seldom do arbitration clauses in reinsurance contracts provide for such a contingency. This situation raises a number of questions. If the resigning arbitrator is a party arbitrator, does the party that appointed him or her simply appoint a new arbitrator and go forward or must the arbitration start over with an entire new panel be appointed? Likewise, if it the resigning arbitrator is the umpire, do the party arbitrators simply appoint a new umpire or must the arbitration start over? Obviously, there are time and cost issues with a new panel. Likewise, there are tactical issues *i.e.* one party perceives that it is losing the early skirmishes and wants a new umpire.

The purpose of this article is to review the case law on point in an effort to synthesize a rule as to when a resigning arbitrator can simply be replaced and when the parties must start over with a new panel.

II. Case Law Requiring the Arbitration to Start Over with a New Panel

In *Marine Products Export Corp. v. M.T. Globe Galaxy*, 977 F.2d 66 (2nd Cir. 1992), a party arbitrator died after the panel issued several interlocutory discovery orders but prior to any further hearings of ruling on the merits. That party sought to have the arbitration begun anew with a new panel. The court stated that “the general rule is that where one member of a three-person panel dies before the rendering of an award and the arbitration agreement does not anticipate that circumstance, the arbitration must commence anew with a full panel.”¹ The court went on to rule that the general rule should apply:

[T]he original panel had not rendered a final decision on any question prior to the death of a member of the panel. Nor were there any other circumstances indicating that there should be a deviation from the general rule. As the vacancy here occurred *in medias res* without any agreement by the parties as to the consequences of the vacancy and without any special circumstances, the district court properly ruled in its 1987 and 1992 Decisions that the general rule was applicable.²

A loss allocation dispute provided the backdrop for *In the Matter of the Petition of Ins. Co. of N.A v. Public Service Mutual Ins. Co.*, 2008 U.S. Dist. Lexis 101788 (S.D.N.Y.). The panel heard a summary judgment motion by the cedent that the panel should rule against the reinsurer on its “sole defense” that the claims should have been allocated based on the *Carter-Wallace* formula. The panel found that the claims were not so allocated but that this did not necessarily render the allocation unreasonable and denied the rest of the cedent’s summary judgment motion. After the panel agreed to reconsider this ruling, the party arbitrator for the reinsurer resigned. The court was asked to determine whether the reinsurer’s party arbitrator should be replaced or the entire arbitration should begin anew.

The court acknowledged the general rule in the second circuit and proceeded to bob and weave around a number of exceptions for “special circumstances” noted in § III, *infra*. No partial final orders were in place which would terminate past issues so as to allow a replacement arbitrator to begin with fresh issues. The court found that the issue in the instant case was a relatively straightforward insurance coverage dispute rather than an extended arbitration involving complex business issues and arcane arbitration procedures. The court found no evidence that the resignation was a tactic to manipulate the arbitration process and noted the benefits of having the same panel handle all aspects of the arbitration from start to finish. “Based specifically on the status of the existing arbitration at the time of [the arbitrator’s] resignation,” the court followed the general rule that the arbitration should start anew.³

In *Pemex – Refinacion v. Tbilisi Shipping Co.*, 2004 U.S. Dist. Lexis 17478 (S.D.N.Y.), a party arbitrator died after a ten year proceeding, sixteen separate hearings and the final hearing on the merits but before post-hearing briefing was complete and before the deliberations of the panel. The court followed the general rule stating:

Courts have rejected the general rule and appointed replacement arbitrators after a partial final decision was rendered, but always before proceedings had commenced with respect to the unresolved issues. Given the crucial role that arbitrators play, from assessing the credibility of witnesses to serving as advocates for their respective appointees, it makes sense that it is only in instances where a panel is completely without power to revisit an issue that the Court has approved the appointment of a replacement. . . . Therefore, this is the exact type of case that falls under the “general rule” that [an] arbitration must begin afresh upon the death or incapacitation of a panel member.⁴

The umpire issued a unilateral award after a hearing and Aloha’s party arbitrator subsequently resigned from the panel in *Assoc. of Flights Attendants v. Aloha Airlines, Inc.*, 158 F.Supp.2d 1200 (D. Ha. 2001). Aloha attempted to substitute a party arbitrator who sought to concur with the umpire’s unilateral award. The court found that the unilateral award was improper and that a substitute arbitrator who had not heard the evidence could not participate in the decision. Thus, the arbitration had to begin anew.

In *Cia de Navegacion Omsil v. Hugo Neu Corp.*, 359 F.Supp. 898 (S.D.N.Y. 1973) the party arbitrator for the respondent died after the hearing on the merits but before deliberations. The petitioner sought a

order to the effect that respondent should appoint a replacement arbitrator who could get up to speed by reading the record and then participating in the deliberations. The respondent sought to begin anew. The court ruled in favor of a new arbitration:

[The respondent's party arbitrator's] questions to witnesses and counsel, his comments along the way, his observations during interim deliberations many have subtle and possibly decisive impacts upon the end result. Whatever advantages there were, or might have been, in such representation have now been irretrievably lost to respondent. The two remaining arbitrators, "petitioner's and the neutral, have worked together and been exposed to each other's influence. The results of that may have been good, bad, or nil for respondent. But respondent is unable (as is the court) to know and is unwilling to risk the unknown. It is not fair to impose the risk, which respondent never agreed to accept, by judicial command.⁵

III. Case Law Not Requiring a New Panel

Even in the second circuit, which seems to be the leading advocate of the "general rule" as to starting anew with a new panel, there are a number of exceptions. One is *Zeiler v. Deitsch*, 500 F.3d 157 (2nd Cir. 2007) which involved an extended and complex arbitration before a Jewish religious tribunal consisting of three rabbis. After four years, and a number of orders by the panel, a 2003 Agreement was entered into by the parties detailing the obligations of the parties and naming the three rabbis to the arbitration panel which would resolve any further disputes under such agreement. Subsequently, a tax dispute arose and was referred to the panel and shortly thereafter, a party arbitrator resigned. The party whose arbitrator resigned asked for a new panel and declined to appear before the remaining two members of the original panel. The two member panel rendered a decision against that party.

Initially, the *Zeiler* court reached the somewhat surprising conclusion that the 2003 Agreement did not require all disputes be heard by a three-member panel including a party arbitrator for each side:

Since the 2003 Agreement was executed after the three panel members had been identified, the more natural reading of the 2003 Agreement is that the three members were named only to reflect the choices previously made by the parties and their designated members, not to state a limitation on the authority of the panel to continue in the unexpected event that one of the members might resign.⁶

The court held that the panel continuing with two members, subject to an opportunity of the relevant party to appoint a replacement arbitrator, was appropriate to avoid wasted resources and a manipulation of the process:

The panel had already decided the substantive issues between the two sides. All that remained was determination of the amount of tax liabilities in light of the prior determination of the allocation of those liabilities. To read the agreement to require the proceeding to be halted upon the resignation of one member at that late stage of the proceedings would enable bad faith manipulation of the arbitration process; in an

ongoing and complex arbitration, a party receiving unfavorable interim rulings would have an incentive to invite the member he designated to resign to forestall an anticipated ultimate defeat, or even, as in the pending case, after securing favorable rulings that are confirmable, to precipitate an arbitrator's resignation in the hope of avoiding confirmation of a later unfavorable award. The agreement should not be read to countenance the waste of resources required to redo a protracted arbitration proceeding in the event that one member of the panel died or otherwise became unable to serve during the proceeding. A more sensible reading of the agreement makes the continuation of the remaining members of the panel (with an opportunity for appointment of a replacement) the default position, subject to an explicit agreement of the parties that only a panel with three originally designated members still serving is authorized to render an award, albeit, by majority vote.⁷

Another second circuit exception to the "general rule" is represented by *Trade & Transport, Inc. v. Natural Petroleum Charters Inc.*, 931 F.2d 191 (2nd Cir. 1991). The parties agreed to bifurcate the arbitration as to liability and damages and the panel made a final ruling on liability. Before any further proceedings, a party arbitrator died and the lower court allowed that party to appoint a replacement rather than starting the arbitration anew. The second circuit upheld the replacement on the bases: (1) § 5 of the Federal Arbitration Act allows the court to fill a vacancy on the panel which necessarily includes a vacancy on a pending panel; and (2) the relevant arbitration clause was silent on the means of replacing members of the panel.

A collective bargaining dispute provided the factual background for *Success Villages Apartments, Inc. v. Amalgamated Local 376*, 357 F.Supp.2d 446 (D.Ct. 2005). A party arbitrator died after the hearing and after the panel's decision had been agreed upon but before the award was delivered. The court upheld the award signed by the two remaining arbitrators noting that the general rule in the second circuit was not applicable: "If, however, the death of one of the arbitrators takes place after the close of the hearings and after all the arbitrators have consulted with each other, but before an award has been made, the remaining arbitrators in all probability retain the authority to make a valid award."⁸

The eighth circuit considered this issue in the decision *In re Arbitration between Dow Corning Corp. v. Safety National Cas. Corp.*, 335 F.3d 742 (8th Cir. 2003). This involved an insurance arbitration between Safety National and its insured, Dow Corning. A week after the panel was appointed, Safety National's party arbitrator resigned due to a conflict and the remaining members of the panel directed Safety National to appoint a substitute, which the lower court upheld. The circuit court upheld the lower court and characterized the fact situation as distinguishing this case from the "so-called general rule" for the following reasons:

First, because the substitution occurred before the substantive arbitration hearing, the substitute party-arbitrator participated fully in the hearing, the panel's deliberations, and the preparation of the panel's decision. Second, the remaining arbitrators made a reasonable decision to allow Safety to choose its substitute party-arbitrator, the method of selecting party-arbitrators prescribed in the agreement to arbitrate. Third, as Dow

Corning well knew, starting over would have deprived Safety of its “win” in the umpire selection process. . . .

Finally, and most importantly, Dow Corning acknowledges that a vacancy in an arbitration panel may be filled in the manner prescribed in the agreement to arbitrate. Here, the remaining arbitrators concluded that the agreement authorized them to proceed with a substitute party-arbitrator. In general, reviewing courts leave procedural issues for the arbitrators to decide.⁹

In *National American Ins. Co. v. Transamerica Occidental Life Ins. Co.*, 328 F.3d 462 (8th Cir. 2003), the reinsurer lost several discovery disputes before its party arbitrator resigned for health reasons. Rather than appoint a replacement, the reinsurer sought to begin anew with a new panel. The lower court directed the reinsurer to appoint a replacement arbitrator. The circuit court upheld the lower court, declining to adopt the “general rule” in the second circuit. Citing to *Trade & Transport, Inc. v. Natural Petroleum Charters, Inc.*, *supra*, the circuit court ruled that under § 5 of the Federal Arbitration Act, the district court had the authority to fill a vacancy on a pending panel.¹⁰

Arista Marketing Associates, Inc. v. The Peer Group, Inc., 720 A.2d 659 (N.J.Sup.Ct.App.Div. 1998) involved an arbitration pursuant the commercial rules of the AAA. One party attempted to appoint its outside counsel as its party arbitrator but he was disqualified by the court. That party then attempted to have the entire panel dismissed and to start the arbitration anew. The court rejected use of the general rule where one party attempted to appoint an arbitrator with evident partiality.

IV. Analysis and Conclusions

One must question what substance remains in the “general rule” that when an arbitrator dies or resigns, the arbitration must begin anew with a newly appointed panel. Even in the second circuit, where the courts routinely acknowledge it, the rule has major exceptions for: (1) the power of the court to appoint replacement arbitrators under § 5 of the Federal Arbitration Act; (2) the avoidance of the time and cost of a brand new proceeding; and (3) the avoidance of manipulation of the arbitration process by engineering a resignation to obtain a new panel i.e. a new umpire. Other courts have rejected the general rule directly or indirectly.

Perhaps the better approach is to allow the appointment of a replacement if the replacement is able to participate live in the testimony, arguments and deliberations with respect to dispositive motions that remain at issue as well as the hearing on the merits. This will provide the replacement arbitrator with the nuance of the issues, the credibility of the witnesses and the interaction with counsel and the other panel members that allows the replacement arbitrator to properly fulfill his or her role.

ENDNOTES

¹ 977 F.2d 66 at 68 citing a lower court case as well as Annotation, *Effect of vacancy through resignation, withdrawal, or death of one of multiple arbitrators on authority of remaining arbitrators to render award*, 49 A.L.R.2d 900 (1956).

² *Id.* (emphasis in the original).

³ 2008 U.S. Dist. Lexis 101788*20.

⁴ 2004 U.S. Dist. Lexis 17478*19-20 (internal citations omitted).

⁵ 359 F.Supp. 898 at 899.

⁶ 500 F.3d 157 at 166-7.

⁷ *Id.* at 167-8.

⁸ 357 F.Supp.2d at 448.

⁹ 335 F.3d 742 at 749 (internal citations omitted).

¹⁰ 328 F.3d 462 at 466.