

Challenges with Insurance and Quick-Pay Option Delay New Jersey Diocese Bankruptcy Proceedings



The Catholic Diocese of Camden in New Jersey is revisiting an \$87.5 million settlement arrangement involving around 300 victims of sexual abuse. This decision comes after a U.S. bankruptcy judge, Jerrold Poslusny, raised concerns about the proposal potentially burdening insurers with inflated or even invalid claims.

Judge Poslusny's recent ruling, issued late on Tuesday, highlighted that the proposed bankruptcy plan's design of a settlement trust appeared to favor claimants in a way that could lead to the payment of exaggerated, fraudulent, or invalid claims, coupled with excessive legal fees.

Covering a Catholic community of 480,000 individuals across six counties in New Jersey, the diocese expressed its intention to promptly revise the bankruptcy plan to address the concerns raised by the judge.

Bishop Dennis Sullivan conveyed optimism about the situation, stating, "The Diocese remains hopeful that it will expeditiously exit the Chapter 11 process based on the roadmap provided through Judge Poslusny's opinion."

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Tancred Schiavoni, who represents insurers in the case, observed that the rejected proposal gave an undue level of influence to plaintiffs' attorneys in shaping the future settlement trust. This particular aspect has been a contentious point in various bankruptcy cases featuring a significant number of abuse claims.

Schiavoni remarked on the broader implications of Judge Poslusny's ruling, suggesting, "The Court's decision provides guidance to other bankruptcy courts struggling with the same concerns about fraudulent claims and bloated contingency fees."

One of the key concerns raised by Poslusny centered on a provision permitting claimants to opt for a swift \$2,500 payment instead of undergoing a comprehensive assessment to ascertain their claim's value. Poslusny highlighted the potential for attorneys to capitalize on this option, potentially acquiring numerous clients with minimal effort—limited to checking boxes on a concise form spanning nine pages. The attorneys could then take up to 40% of each client's expedited payment, depending on the terms of their engagement agreements.

To address these concerns, Judge Poslusny stipulated that if the quick-pay option were to be included in a revised plan, it must be revised to prevent attorneys from taking advantage of survivors or charging excessive fees, in line with New Jersey's guidelines.

In his ruling, Poslusny drew attention to instances where plaintiffs' attorneys had submitted claims that were "invalid on their face," underscoring the need for more safeguards against fraudulent claims and overcompensation within the proposed bankruptcy plan.

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The setback experienced by the Boy Scouts of America serves as a parallel case. Last year, the organization faced a \$2.46 billion bankruptcy settlement that encountered obstacles when a U.S. judge rejected certain aspects of the deal. The settlement was subsequently amended and received approval the following month. The revised Boy Scouts agreement slightly reduced the overall compensation provided to abuse survivors, as it removed a \$250 million settlement earmarked for addressing claims against the Church of Jesus Christ of Latter-day Saints.

The Catholic Diocese of Camden's ongoing efforts to recalibrate the settlement proposal in response to Judge Poslusny's concerns highlight the complex dynamics involved in navigating bankruptcy proceedings related to large-scale abuse claims. The situation underscores the need for meticulous scrutiny of settlement arrangements to ensure fairness for all parties involved.

Don't be a silent ninja! Let us know your thoughts in the comment section below.