Appellate Reports

After State Farm denies homeowner's claim, contract and bad-faith suit is barred by statute of limitations, but suit for unfair business practice under UCL can go forward

By Jeffrey I. Ehrlich

Insurance; Unfair Competition [Bus & Prof Code § 17200]; statute of limitations

Rosenberg-Wohl v. State Farm Fire and Casualty Company (2024) 16 Cal.5th 520 (Cal. Supreme)

Plaintiff purchased a homeowners insurance policy from State Farm that provided coverage for all risks, including fire, except those specifically excluded under the policy. The policy excluded losses from, among other things, "wear, tear, marring, scratching, deterioration, inherent vice, latent defect or mechanical breakdown" and "settling, cracking, shrinking, bulging, or expansion of pavements, patios, foundation, walls, floors, roofs or ceilings." One of the policy conditions provided as follows: "Suit Against Us. No action shall be brought unless there has been compliance with the policy provisions. The action must be started within one year after the date of loss or damage."

On two occasions in late 2018 or early 2019, plaintiff's neighbor stumbled and fell as she descended a staircase at plaintiff's residence. After investigating, plaintiff discovered that the pitch of the stairs had changed, and that the stairs would have to be replaced to fix this issue. She authorized this work to be performed and contacted State Farm on or around April 23, 2019. On August 9, 2019, plaintiff submitted a claim to State Farm, seeking reimbursement for what she had paid to repair the staircase. On August 26, 2019, State Farm denied plaintiff's claim, advising her by letter that there was "no evidence of a covered cause or loss nor any covered accidental direct physical loss to the front exterior stairway" and identifying several exclusions within her policy as potentially applicable.

Plaintiff subsequently made a follow-up inquiry, to which a State Farm claims representative responded in August 2020. After a conversation between plaintiff and the claims representative later that month, the representative advised plaintiff once again that her claim was denied.

Plaintiff sued State Farm for breach of contract and bad faith, but her case was dismissed because she failed to file it within the one-year limitations period. Plaintiff also filed a lawsuit against State Farm under the Unfair Competition Law (UCL), Bus. & Prof. Code § 17200, et seq. That lawsuit alleged, inter alia, that "State Farm has a practice of summarily denying and regularly summarily denies property insurance claims unless State Farm believes the particular claim falls into a category of likely coverage." State Farm allegedly "followed that practice" with plaintiff's claim. According to plaintiff, "[b]ecause State Farm did not investigate Plaintiff's claim, State Farm had no reasonable basis for its determination that coverage should be denied." State Farm's conduct allegedly "was and is designed to deny claimants coverage for all but the most obvious of covered claims, to the detriment of State Farm's policyholders and to its own benefit."

The complaint further alleges that "State Farm has a practice of obfuscating and regularly fails to make clear precisely what the basis is for its denials," as assertedly shown by State Farm's denial letter to plaintiff merely listing "a wide range of excluded risks that were *possibly* applicable" to plaintiff's claim. "Because State Farm did not identify any particular reason for its denial," the complaint alleges, "State Farm deprived plaintiff of any reasonable opportunity to question or challenge the basis of the denial, much less seek out and provide additional information that might be relevant and possibly change State Farm's mind." These practices are alleged to be contrary to State Farm's advertising, which leads consumers "to believe that upon submitting a claim to State Farm, State Farm would investigate the claim made and ..., if denying the claim, will provide the reason(s)." According to plaintiff, "The failure of State Farm to investigate all claims made in a good faith and reasonable manner constitutes ... an unfair business practice" under the UCL, as does "[t]he failure of State Farm to identify the applicable reasons for its denial."

Plaintiff sought declaratory relief, injunctive relief, attorney fees under Code of Civil Procedure section 1021.5, and costs of suit. The complaint specifically disavows any claim for damages. Regarding injunctive relief under the UCL, plaintiff requests an order that would require State Farm, "when adjudicating any property insurance claim presented to it, to give at least as much consideration to the interests of its insured as to its own interests." Although the complaint did not specify the precise declaratory relief plaintiff sought, the pleading is fairly read as requesting a declaration concerning State Farm's allegedly widespread practices of summarily denying claims without proper investigation and not providing sufficiently clear explanations to policyholders regarding why their claims have been denied.

State Farm demurred, arguing that the claim was time barred by the one-year limitation period in the policy.

The trial court agreed and dismissed the case. The Court of Appeal affirmed. The Supreme Court reversed.

The parties agree that the limitations language in plaintiff's insurance policy is, for present purposes, equivalent to that found in Insurance Code section 2071, and we interpret the one-year deadline within that statute as inapplicable to the cause of action for declaratory and injunctive relief that plaintiff has alleged under the UCL. Because plaintiff filed suit well within the UCL's four-year limitations period (Bus. & Prof. Code, § 17208), it was timely.

Insurance; illusory coverage

John's Grill, Inc. v. Hartford Financial Services Group, Inc. (2024) 16 Cal.5th 1003 (Cal.Supreme)

Plaintiff operates a restaurant in San Francisco. After suffering substantial losses during the COVID-19 pandemic, it sought coverage under its property insurance policy issued by Sentinel Insurance, which denied coverage. One ground for denial was that the loss or damage claimed by John's Grill did not fall within the insurance policy's "Limited Fungi, Bacteria or Virus Coverage" endorsement. The Limited Fungi, Bacteria or Virus Coverage endorsement generally *excludes* coverage for any virus-related loss or damage that the policy would otherwise provide, but it *extends* coverage for virus-related loss or damage if the virus was the result of certain specified causes of loss, including windstorms, water damage, vandalism, and explosion.

Plaintiffs conceded that they could not meet this limitation, but contended that the limitation was unenforceable because it rendered the policy's promise of virus-related coverage illusory. The Court of Appeal agreed, holding that the promise of coverage was illusory because Plaintiffs had no realistic prospect of benefitting from the virus-related coverage as written. It therefore invalidated the specified cause of loss limitation and allowed Plaintiffs' claims for virus-related losses or damage to proceed.

The Supreme Court reversed. It found that the terms of the Limited Fungi, Bacteria or Virus Coverage endorsement are clear and unambiguous, and since Plaintiffs cannot meet the terms for coverage, it has no claim under the policy. Plaintiffs could not avoid this conclusion by invoking the so-called illusory coverage doctrine. The Court has never recognized an illusory coverage doctrine as such. The doctrine as articulated by Plaintiffs does not appear in the Court's precedents. But even assuming some version of the doctrine may exist under California law, it concluded that an insured must make a foundational showing that it had a reasonable expectation that the policy would cover the insured's claimed loss or damage. Such a reasonable expectation of coverage is necessary under any assumed version of the doctrine.

Here, however, Plaintiffs have not shown they had a reasonable expectation of coverage under the policy for their pandemic-related losses. They therefore failed to establish that the policy created the illusion of coverage that rendered any contrary policy language unenforceable. Moreover, even setting aside this hurdle, and accepting Plaintiffs' articulation of the doctrine, they still cannot demonstrate that the policy's promised coverage was illusory. Even with the specified cause of loss limitation, the policy offered Plaintiffs a realistic prospect for some type of virus-related coverage. For example, it is conceivable that a virus at its premises might result from a windstorm or water damage that carried it there, or by an explosion or vandalism. In sum, under the circumstances here, Plaintiffs cannot invoke the illusory coverage doctrine to transform the policy's *limited* virus-related coverage into *unlimited* virus-related coverage.

Civil Discovery Act; scope of authority to impose sanctions

City of Los Angeles v. Pricewaterhouse Coopers, LLP (2024) __ Cal.5th __ (Cal. Supreme)

The City of Los Angeles filed a lawsuit against a private contractor. The contractor sought discovery relevant to the claims and defenses. After years of stonewalling, the City eventually turned over information revealing serious misconduct in the initiation and prosecution of the lawsuit. The trial court found that the City had been engaging in an egregious pattern of discovery abuse as part of a campaign to cover up this misconduct. The court ordered the City to pay $2.5 million in discovery sanctions.

The Court of Appeal held that the sanctions were not authorized by the Discovery Act, which it construed as conferring authority to sanction the misuse of certain discovery methods, such as depositions or interrogatories, but as conferring no general authority to sanction other kinds of discovery misconduct, including the pattern of discovery abuse at issue here. Reversed. The Court of Appeal's view of the Discovery Act bucked the long-standing view of the authority conferred in the Act to impose sanctions for a pattern of discovery abuse. The trial court was not limited to imposing sanctions for each individual violation of the rules governing depositions or other methods of discovery.

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