

Pennsylvania Insurer Protected From Unfounded Bad Faith Allegation, Requiring a “Clear Conviction” of Insurer’s Bad Faith

AUTHOR: HAYLEY BOHNERT

CONTRIBUTOR: ANTHONY MARTIN

The Western District of Pennsylvania held that an insurer did not act in bad faith but was well within its rights in denying an insured's claim and voiding his policy. The insured's material misrepresentations caused the court to find that no reasonable jury could conclude that the insurer acted in bad faith in denying the claim.

Mr. Felix submitted a homeowner's insurance claim in excess of \$1 million after a fire ravaged his home. The insurer assigned the case to a special investigations unit after identifying several "red flags" suggesting fraud. For example, the insured's previous home had burned down less than three years earlier under similar circumstances. In carefully assessing his claim, the insurer specifically questioned two significantly costly items the insured included on his proof of loss form – a pair of diamond earrings and a purse. The insured alleged to have lost the earrings and purse in the fire, claiming that he had previously gifted them to his ex-fiancée, but that she had since returned them before the fire. When the special units investigator contacted the ex-fiancée, however, she confirmed that she still possessed the earrings and the purse.

The insurer denied the entire claim because an insured's single fraudulent material misrepresentation can void an entire policy. The insurer then filed a complaint seeking a declaratory judgment that the policy was void, as well as a claim for civil insurance fraud against the insured. In response, the insured filed a counterclaim for breach of contract and statutory bad faith. Following a lengthy dispute over whether the purse and earrings claimed by the insured were truly the ones lost in the fire, the insurer moved for summary judgment on the bad faith claim.

In assessing the strength of the bad faith claim, the court asserted that an insured is required to present evidence "so clear, direct, weighty and convincing as to enable a clear conviction, without hesitation" that the insurer acted in bad faith. Specifically, the court affirmed that an insured must prove: (1) that the insurer failed to conduct a reasonable investigation into the claims or did not have a reasonable basis for denying benefits under the policy; and (2) that the insurer knew of, or recklessly disregarded, its lack of a reasonable basis for denying the claim.

Addressing the first prong of the test for determining bad faith, the court found that no reasonable jury could conclude that the insurer in the Felix case failed to conduct a reasonable investigation into the insured's claims. The insurer discovered contradictory evidence regarding the whereabouts of some of the items included on the proof of loss form as a direct result of its investigation efforts, as well as evidence that the insured tried to contact the individual supplying the contradictory evidence after the investigation was began. The court also rejected the argument that the insurer lacked a reasonable basis for denying the claim because twice the insured had been interviewed under oath. Only through the insurer's own investigation did it discover that similar items as those listed on the proof of loss were still in the hands of the insured's ex-fiancée. Alternatively, even if the insured lacked a reasonable basis for denying the claim- which the court held it did not- the court found that no reasonable jury could find that the insurer knew or recklessly disregarded its lack of a reasonable basis in denying the claim. The insured made several unfounded allegations that the insurer knew it lacked a reasonable basis for denying the claim. For example, the insured complained that (1) the insurer never asked the policyholder to describe the color of the purse or the design of the earrings that he claimed on his proof of loss and that (2) the insured was never asked whether he "was simply mistaken in his belief that the purse he claimed lost in the fire was returned to him after the relationship had ended." The court found there was not even a "scintilla of evidence to support his unfounded conjecture," leading the court to reject the argument that the insurer knew it lacked a reasonable basis for its decision to deny. Consequently, the court granted the insurer summary judgment on the bad faith claim.

Strong evidence was presented in this case indicating the insured made material misrepresentations. The court made it clear that Pennsylvania policyholders opposing summary judgment on a bad faith claim have a high burden of proof in challenging such a motion. If the policyholder fails to establish a "clear conviction" that the insurer acted in bad faith, a motion for summary judgment will be granted in the insurer's favor on the bad faith claim.