

BAD FAITH BLOG

Tenth Circuit Affirmed Summary Judgment For Insurer On Bad Faith Claims After Finding Legitimate Dispute Of Coverage And No Evidence Of An Inadequate Investigation

AUTHOR: KATRINA L. SMELTZER

The Tenth Circuit affirmed summary judgment in favor of State Farm on the insureds' count for bad faith relating to a property damage claim. The court found State Farm relied upon a legitimate dispute of the scope of coverage in initially denying and delaying agreement to an appraisal. The court further found the insureds had produced no evidence to support their claim State Farm performed an inadequate investigation of the claim. The insureds disputed the findings of State Farm's investigation was insufficient to infer the investigation was inadequate.

Hayes Family Trust v. State Farm Fire and Casualty Co.

The Plaintiffs filed a claim with State Farm following storm damage to their building. The parties could not agree on the amount of the loss, prompting plaintiffs to exercise their alleged right under Oklahoma law to demand an appraisal. State Farm refused the appraisal arguing because the dispute was one of coverage rather than simply the amount of damages, there was no right to an appraisal. Plaintiffs filed suit, and State Farm eventually agreed to an appraisal and made full payment of the loss amount determined in that process. Plaintiffs accepted this amount.

Plaintiffs then filed a second lawsuit against State Farm for breach of contract and bad faith. Specifically, plaintiffs alleged State Farm breached the duty of good faith and fair dealing by delaying an appraisal and by failing to adequately investigate their claim. The district court granted State Farm's motion for summary judgment, and plaintiffs appealed.

On appeal, the court explained that while an insurer has a duty to act in good faith and deal fairly with the insured to ensure that the policy benefits are received, it does not prevent the insurer from resisting payment or resorting to a judicial forum to resolve a legitimate dispute. Whether an insurer acted in bad faith is determined by looking at all facts known or knowable concerning the claim at the time the insured requested the company perform its contractual obligation. The court explained the relevant standard was “unreasonable bad faith.”

The court held State Farm was entitled to summary judgment on the bad faith claim if it acted in accordance with a legitimate dispute concerning coverage and if the plaintiffs failed to produce additional evidence of bad faith to support sending the issue to the jury. The Plaintiffs argued State Farm acted in bad faith by declining the appraisal initially because the policy and the Oklahoma law affording insureds the right to an appraisal used the word “shall”. However, the court found the policy and Oklahoma law did not require an appraisal in a coverage dispute. Thus, the court found there was a legitimate dispute of whether the appraisal was proper and there was no evidence State Farm delayed the appraisal for some other reason.

In regards to the plaintiff’s second claim that State Farm acted in bad faith because it failed to conduct an adequate investigation, the court explained when a bad faith claim is premised on an inadequate investigation, the plaintiff must make a showing that material facts were overlooked or that a more thorough investigation would have produced relevant information that would have delegitimized the dispute. The court found the plaintiffs had not shown State Farm disregarded relevant information. The court further explained while plaintiffs disagreed with investigation’s findings, they had not shown further investigation would have produced additional relevant information or led to a different conclusion. The court affirmed summary judgment in favor of State Farm.