

## In The News

# Texas Justices Refuse To Weaken Insurance Defense Rule

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Law360 (March 20, 2020, 6:44 PM EDT) -- The Texas Supreme Court on Friday affirmed a long-standing insurance industry rule and said State Farm's duty to defend its insured in a lawsuit over a fatal ATV crash hinged on the lawsuit itself and the policy documents.

The state's high court said unanimously that the "eight-corners rule," which constrains a decision over an insurer's duty to defend to the "four corners" of the policy and the lawsuit, still stands. The court rejected State Farm Lloyds' argument that for the rule to apply, the policy needs to include language requiring it to defend the policy holder "no matter if the allegations of the suit are groundless, false or fraudulent."

At a hearing in Austin in January, State Farm argued that without the groundless suits provision, the insurer's duty to defend isn't broader than its duty to indemnify — that is, to cover damages that a policyholder pays on claims that are actually proven to be covered by the policy terms.

Janet and Melvin Richards demanded that State Farm defend them against their daughter's personal injury claims that stem from the death of Amanda Meals' 10-year-old son in an all-terrain vehicle accident that occurred while the grandparents were watching him. The grandparents had a homeowners' insurance policy and asked State Farm to defend them in the suit, but the insurer fought the request based on exceptions related to how the injury occurred and who was injured.

The case came before the state justices via a certified question from the Fifth Circuit about whether the absence of the groundless suit language opens an exception to the eight-corners rule. The justices said it does not.

"The eight-corners rule merely acknowledges that, under many common duty-to-defend clauses, only the petition and the policy are relevant to the initial inquiry into whether the petition's claims fit within the policy's coverage," the justices said. "This is how Texas courts have long interpreted contractual duties to defend. If any party is familiar with the overwhelming precedent to that effect, it is a large insurance company."

The eight-corners rule helps provide predictability to insurers about how courts will interpret policy language, according to the justices. And for a long time, Texas courts have upheld the rule despite the presence — or absence — of the policy's "groundless" suit language.

State Farm had argued that when the eight-corners rule initially emerged it was meant to enforce groundless-claim clauses, according to the opinion. While groundless-claim clauses aren't so common anymore, the rule should apply specifically to policies with those clauses, according to the insurer.

The insurer wanted to preserve U.S. District Judge John McBryde's 2018 decision allowing it to introduce outside documents, commonly known as "extrinsic evidence," to deny its duty to defend the grandparents in the suit blaming them for the 2017 fatal crash. Judge McBryde determined two policy exclusions applied, relieving State Farm of its obligation to defend.

The justices' opinion mentioned the Fifth Circuit's observation that neither the circuit "nor any Texas court has previously taken the view of the eight-corners rule articulated by the federal district court" that decided this case. Meals' attorney Nolan C. Knight said the opinion provides certainty for policy holders and that there "was just not a lot of support" for the federal court's decision.

The justices mentioned that the eight-corners rule was first applied in the 1950s.

Ten-year-old Jayden Meals died at the grandparents' Weatherford, Texas, home and Amanda Meals sued the pair alleging they negligently failed to instruct Jayden on how to use the vehicle or require him to wear appropriate safety gear.

State Farm agreed to defend the Richardses while reserving its right to challenge its coverage obligations in court, then filed the current suit in Texas federal court in September 2017.

Over the Richardses' objections, Judge McBryde agreed to set aside the eight-corners rule and consider State Farm's extrinsic evidence. He granted the insurer's motion for summary judgment in May 2018, ruling that State Farm has no duty to defend the Richardses or indemnify them for any judgment that Meals may obtain against them.

The Richardses and Meals then appealed to the Fifth Circuit. After hearing oral arguments, a panel of the appellate court issued an order asking the Texas Supreme Court to weigh in on the case to decide whether the state recognizes a policy language-based exception to the eight-corners rule.

Representatives for State Farm did not immediately respond to a request for comment.

Meals is represented by Nolan Cornelius Knight and Michael Wallace Huddleston of Munsch Hardt Kopf & Harr PC.

The Richardses are represented by Russell Wayne King of King Law Office PC.

State Farm is represented by Theodore Christian Schultz, Mark A. Lindow and Jana Marie Richard of Lindow Stephens Treat LLP.

The case is State Farm Lloyds v. Janet Richards et al., case number 19-0802, in the Texas Supreme Court.

To read more, [click here](#).

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