



Alerts

Federal Court Addresses Minnesota's Insurance Standard of Conduct Statute

January 12, 2011

Insurance Coverage Alert

An insured submitted a claim to his insurer for hailstorm damage to the roofs, siding, decking, windows and doors of his buildings. The insurer subsequently sent two adjusters to assess the damage to the insured's property, including one who was familiar with cedar shake roofs. Based on these inspections, the insurer first offered to replace the roofs, but later only agreed to repair them. When the insured complained, the insurer hired an independent adjuster, who determined that the roof could be repaired for approximately \$16,000. An adjuster hired by the insured, however, estimated the cost for the repairs and replacements to be approximately \$205,000.

The insured sued the insurer for breach of contract, unjust enrichment and unreasonable denial of benefits under Minn. Stat. § 604.18. *Davis v. Grinnell*, No. 0:09-cv-02563-JNE-FLN (Dec. 30, 2011 D. Minn.). Section 604.18 provides for extracontractual damages against the insurer if the insurer: (1) lacked a reasonable basis for denying benefits of an insurance policy; and (2) knew of the lack of that reasonable basis or acted in reckless disregard of it. The insurer moved for summary judgment.

The insured argued that the nearly \$200,000 gap between the insurer's tendered coverage and the amount the insured believed he should have been paid was enough to allow his Minn. Stat. § 604.18 claim to proceed. The court disagreed because the plain meaning of the statute required the insured to show that the insurer lacked a reasonable basis for denying benefits of the insurance policy or acted in reckless disregard of that lack of a reasonable basis. The court reasoned that, if a dispute about the amount of benefits, where benefits had not been denied, violated Section 604.18, such a situation would result in a general fee-shifting provision for all insurance claims, which is not what the law stated or did. The court concluded that the evidence did not establish that the insurer's offer to repair the roofs lacked a reasonable basis and that an issue of fact existed as to whether replacement or repair was required under the insurance contract. Accordingly, the court granted the insurer's motion for partial summary judgment and dismissed the Section 604.18 claim.

Practice Note

Insurers that make a claim decision that is well-documented and reasonably based on the evidence should avoid liability under Minn. Stat. § 604.18. As evidenced by this case, a dispute as to the benefits under a policy does not give rise to a claim under Section 604.18.

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