

2 Summary of California Law (10th), Insurance

I. INTRODUCTION

A. Generally.

- 1. [§1] In General.**
- 2. [§2] Commentary and Practice Works.**
- 3. [§3] Classes of Insurance.**
- 4. [§4] Insurer's Rights of Subrogation, Contribution, and Indemnity.**
- 5. [§4A] (New) When Duty of Contribution Arises.**
- 6. [§4B] (New) Calculation of Damages in Contribution Action.**
- 7. [§4C] (New) Insurer's Rights of Reimbursement.**

B. Regulation of Insurance.

- 1. [§5] Power To Regulate.**
- 2. [§6] Governing Law.**
- 3. [§7] Department of Insurance and Insurance Commissioner.**
- 4. [§8] Policies Governed by Insurance Code.**
- 5. Rate Control.**
 - (a) [§9] Proposition 103.**
 - (b) [§10] Ratemaking Process.**
- 6. Insolvent Insurers.**
 - (a) [§11] Conservatorship and Liquidation.**
 - (b) Insurance Guarantee Associations.**
 - (1) [§12] In General.**
 - (2) [§13] Liability for Subrogation Claims.**
- 7. Automobile Liability Insurance.**
 - (a) [§14] Financial Responsibility Law.**
 - (b) [§15] Assigned Risk Law.**
 - (c) [§16] Low-Cost Insurance.**

C. Insurance Agents and Brokers.

- 1. [§17] In General.**
- 2. [§18] Licensing and Regulation.**
- 3. [§19] Compensation and Other Rights.**
- 4. [§20] Duties and Liabilities.**

D. Liability for Failure To Insure.

- 1. [§21] In General.**
- 2. [§22] Failure of Insurer To Act on Application.**
- 3. [§23] Third Party Engaging To Procure Insurance.**
- 4. [§24] Transferor of Insured Property.**

E. Conflict of Laws.

- 1. [§25] In General.**
- 2. [§26] Life Insurance.**
- 3. [§27] Fire, Surety, and Casualty Insurance.**

II. FORMATION AND EFFECT OF INSURANCE CONTRACT

A. Formation and Validity.

- 1. General Principles.**

- (a) [§28] Requisites and Elements.
 - (b) [§29] Written Contracts: Policies.
 - (c) [§30] Oral Contracts.
 - (d) [§31] Parties to Contract.
 - (e) [§32] Statutory Requirements for Legibility.
 - (f) [§33] Foreign Language Policies.
 - 2. [§34] Application by Insured.
 - 3. Acceptance or Rejection by Insurer.
 - (a) [§35] In General.
 - (b) [§36] Insurer's Right of Refusal.
 - 4. Interim Contracts: Binders.
 - (a) [§37] In General.
 - (b) [§38] Statutory Regulation.
 - (c) [§39] Life Insurance Applications.
 - (d) [§40] Return of Premium as Precondition to Rejection of Application.
 - (e) [§41] Effect of Ambiguous Terms.
 - (f) [§42] Where Insurer Is Not Designated.
 - (g) [§43] Estoppel To Deny Coverage.
 - 5. [§44] Execution of Policy.
 - 6. Delivery of Policy.
 - (a) [§45] In General.
 - (b) [§46] Constructive Delivery.
 - 7. [§47] Validity.
- B. Construction.**
- 1. Generally.
 - (a) [§48] Governing Rules and Principles.
 - (b) Constituent Parts of Contract.
 - (1) [§49] In General.
 - (2) [§50] Particular Types of Policies.
 - (c) [§51] Policy as Adhesion Contract.
 - (d) [§52] Construction of Policy in Entirety.
 - (e) [§53] Reference to Drafting History, Interpretive Materials, and Advertising.
 - (f) [§54] Effect of Judicial Enlargement of Liability Covered.
 - 2. Unambiguous Provisions: Reference to Plain Meaning.
 - (a) [§55] In General.
 - (b) [§56] Lay Interpretation Governs.
 - (c) [§57] Construction in Context.
 - (d) [§58] Effect of Public Policy.
 - (e) [§59] Illustrations.
 - 3. Ambiguous Provisions: Reasonable Expectations of Insured.
 - (a) [§60] In General.
 - (b) [§61] Relevant Factors.
 - 4. Ambiguous Provisions: Construction Against Insurer.
 - (a) [§62] General Rule Favoring Insured.

(b) [§63] Limitations on Rule.

(c) Exclusionary Clauses: Terms Must Be Conspicuous, Plain, and Clear.

(1) [§64] In General.

(2) [§65] Illustrations of Conspicuous, Plain, and Clear Clauses.

C. Performance and Breach.

1. Conditions Precedent.

(a) [§66] In General.

(b) [§67] Payment of Premiums.

2. [§68] Conditions Subsequent.

3. Right to Proceeds.

(a) [§69] In General.

(b) [§70] Third-Party Beneficiaries.

(c) [§71] Recovery by Insurer of Proceeds Paid Under Mistake.

(d) [§72] Change of Beneficiaries or Beneficial Rights.

4. [§73] Breach of Contract.

5. [§73A] (New) Electronic Transactions.

D. [§74] Transfer.

E. (New) Life Settlements.

1. [§74A] (New) In General.

2. [§74B] (New) Licensing.

3. [§74C] (New) Time of Settlement.

4. [§74D] (New) Forms and Disclosures.

5. [§74E] (New) Execution.

6. [§74F] (New) Rescission.

7. [§74G] (New) Prohibited Practices.

8. [§74H] (New) Conflict of Laws.

III. INSURABLE INTEREST

A. [§75] In General.

B. [§76] Property Insurance.

C. [§77] Automobile Insurance.

D. Life and Disability Insurance.

1. [§78] In General.

2. [§79] Insurable Interest of Employers, Benefit Plan Trustees, and Charities.

3. [§80] Insurable Interest of Creditors.

IV. COVERAGE OF POLICIES GENERALLY

A. Basic Principles.

1. [§81] In General.

2. [§82] Burden of Proof.

3. Types of Coverage.

(a) [§83] First-Party and Third-Party Coverage.

(b) Primary and Secondary Coverage.

(1) [§84] In General.

(2) [§85] "Other Insurance" Clauses.

(c) [§86] Individual and Group Coverage.

(d) [§87] Partnership Insurance.

(e) [§88] Reinsurance.

4. Definition and Scope of Terms.

(a) [§89] In General.

(b) [§90] "Accident."

(c) [§91] "Advertising Injury."

(d) [§92] "Bodily Injury."

(e) [§93] "Damages."

(f) [§94] "Family," "Household," or "Residence."

(g) [§95] "Intentional Act."

(h) [§96] "Legally Obligated To Pay."

(i) [§97] "Pollution."

(j) [§98] "Property Damage."

(k) [§99] "Suit."

B. Prohibited Indemnifications.

1. Wilful Acts of Insured.

(a) [§100] In General.

(b) What Constitutes Wilful Act.

(1) [§101] Conduct Intended To Harm or Inherently Harmful.

(2) [§102] Effect of Insanity.

(c) Particular Acts.

(1) [§103] Wrongful Termination.

(2) [§104] Malicious Prosecution.

(3) [§105] Child Molestation.

(4) [§106] Sex Torts Involving Battery or Fraud.

(5) [§107] Sexual Harassment.

(6) [§108] Other Examples.

(d) Distinctions.

(1) [§109] Negligent Act.

(2) [§110] Act Not Committed by Insured.

(3) [§111] Liability Under Surety Bond.

(4) [§112] Independent Coverage.

2. [§113] Punitive Damages.

C. First-Party Insurance.

1. [§114] In General.

2. [§115] Trigger of Coverage.

3. Causation of Loss.

(a) [§116] In General: Efficient Proximate Cause Standard.

(b) [§117] Distinction: Separate Characterization of Excluded Cause.

4. Life Insurance.

(a) [§118] In General.

(b) [§119] Accidental Death Provisions.

(c) [§120] Condition of Insured's Good Health.

(d) [§121] Exclusion for Suicide.

5. Health and Disability Insurance.

(a) [§122] In General.

(a-1) [§122A] (New) Individual Mandate To Obtain Insurance.

- (a-2) [§122B] (New) Eligibility for Coverage.
- (a-3) [§122C] (New) Dependent Coverage.
- (a-4) [§122D] (New) Restrictions on Annual and Lifetime Limits.
- (a-5) [§122E] (New) Termination of Coverage.
- (a-6) [§122F] (New) Insurance Exchanges.
- (a-7) [§122G] (New) Rate Regulation.
- (a-8) [§122H] (New) Review of Insurer Determinations.
- (b) [§123] Total Disability.
- (c) [§124] Inception of Covered Condition.
- (d) [§125] Effect of ERISA.
- (e) HMO Plans.
 - (1) [§126] In General.
 - (2) [§127] Contracts Interfering With Physician-Patient Communication.
 - (3) [§128] Contracts Offering Incentives To Deny Medical Services.
 - (4) [§129] Contracts Restricting Advertising.
 - (5) [§130] Health Care Provider's Bill of Rights.
 - (6) [§130A] (New) Balance Billing of Patients.

6. Property Insurance.

- (a) [§131] In General.
- (b) [§132] Exclusions.

7. Surety or Fidelity Insurance.

- (a) [§133] In General.
- (b) [§134] Loss Occurring Over Multiple Policy Periods.

D. Third-Party (Liability) Insurance.

- 1. [§135] In General.
- 2. [§136] No-Fault Insurance Proposals.
- 3. Trigger of Coverage.
 - (a) [§137] In General.
 - (b) "Occurrence" Policies.
 - (1) [§138] In General.
 - (2) [§139] Continuing or Progressive Injuries.
 - (c) "Claims Made" Policies.
 - (1) [§140] In General.
 - (2) [§141] Related Claims.
 - (3) [§142] Awareness Provisions.
 - (d) [§143] Variations of Basic Policy Types.
- 4. [§144] Causation of Loss: Concurrent Proximate Cause Standard.
- 5. Exclusions.
 - (a) [§145] In General.
 - (b) "Expected or Intended" Harm.
 - (1) [§146] In General.
 - (2) [§147] Subjective Test.
 - (3) [§147A] (New) Act by Another Insured.
- 6. [§148] Commercial General Liability (CGL) Insurance.

- 7. Homeowners Liability Insurance.**
 - (a) [§149] In General.**
 - (b) Exclusions.**
 - (1) [§150] Business Pursuits.**
 - (2) [§151] Injuries to Household Members and Residents.**
 - (3) [§152] Automobile-Related Incidents.**
- 8. Professional Liability Insurance.**
 - (a) [§153] In General.**
 - (b) [§154] Legal Malpractice Insurance.**
 - (c) [§155] Medical Malpractice Insurance.**
- 9. [§156] Directors and Officers Liability Insurance.**
- 10. [§157] Products Liability Insurance.**
- 11. [§158] Employers' Liability Insurance.**

V. COVERAGE OF AUTOMOBILE POLICIES

A. Generally.

- 1. [§159] In General.**
- 2. [§160] Property Loss Coverage.**
- 3. [§161] Medical Payments Coverage.**

B. Liability Coverage.

1. In General.

- (a) [§162] Nature of Coverage.**
- (b) [§163] Types of Policies.**
- (c) [§164] Persons and Entities Insured.**
- (d) [§165] Vehicles Insured.**
- (e) [§166] Activities Covered.**
- (f) [§167] Territorial Limits.**
- (g) [§168] Monetary Limits.**

2. Permissive Use.

- (a) [§169] In General.**
- (b) [§170] Coverage Required.**
- (c) Limitations and Exceptions to Requirement.**
 - (1) [§171] In General.**
 - (2) [§172] Exception of Designated Users.**
- (d) [§173] Scope of Insured's Permission.**

3. Exclusions.

- (a) [§174] In General.**
- (b) [§175] Statutory List.**
- (c) [§176] Injuries to Insureds.**
- (d) [§177] Designated Vehicles or Classes of Vehicles.**

4. Effect of Other Insurance.

- (a) [§178] In General.**
- (b) [§179] Statutory Presumptions.**

C. Uninsured Motorist Coverage.

- 1. [§180] Nature and Purpose.**
- 2. Requirement and Amount of Coverage.**
 - (a) [§181] Personal Injury Coverage: Uninsured Motorists.**

(b) Personal Injury Coverage: Underinsured Motorists.

(1) [§182] In General.

(2) [§183] Exhaustion of Other Insurance.

(3) [§184] Reimbursement or Credit to Insurer.

(4) [§185] Conflicting Uninsured Motorist Provisions Are Superseded.

(c) [§186] Collision Coverage.

(d) [§187] Effect of Other Compensation.

(e) [§188] Policy Limits.

(f) [§189] Multiple Policies.

3. Scope and Conditions of Coverage.

(a) [§190] Persons Insured.

(b) [§191] Vehicles Involved.

(c) Statutory Exclusions.

(1) [§192] In General.

(2) [§193] Settlement or Judgment Without Insurer's Consent.

(3) [§194] Occupied Vehicle Owned but Not Covered by Policy.

(4) [§195] Occupied Vehicle Covered by Similar Insurance.

(d) [§196] Policy Exclusions.

(e) [§197] When Vehicle Is Uninsured.

(f) Claims Involving Unknown Owner or Operator.

(1) [§198] Physical Contact.

(2) [§199] Notification of Authorities and Insurer.

4. Waiver of Coverage.

(a) [§200] Personal Injury Coverage.

(b) [§201] Collision Coverage.

(c) [§202] Multiple Vehicles.

(d) [§203] Illustrations: Effective Waivers.

(e) [§204] Illustrations: Ineffective Waivers.

5. Procedure.

(a) Statute of Limitations.

(1) [§205] In General.

(2) [§206] Underinsured Motorist Claims.

(3) [§207] Action To Compel Arbitration.

(b) Arbitration.

(1) [§208] Requirement.

(2) [§209] Issues Subject to Arbitration.

(3) [§210] Notice and Hearing.

(4) [§211] Joinder and Consolidation.

(5) [§212] Stay When Workers' Compensation Claim Is Filed.

(6) [§213] Conclusion of Arbitration.

(7) [§214] Award and Review.

(c) [§215] Subrogation of Insurer.

VI. REFORMATION AND TERMINATION OF INSURANCE CONTRACT

A. Reformation.

1. [§216] In General.

2. [§217] Mistake as Ground.
3. [§218] Effect of Accepting or Failing To Read Policy.

B. Cancellation.

1. [§219] In General.
2. [§220] Cancellation by Lender Financing Premiums.
3. [§221] Cancellation in Bad Faith.
4. [§222] Notice of Cancellation.

C. [§223] Nonrenewal.

D. Rescission.

1. [§224] Right To Rescind.
2. [§225] General Limitations.
3. Incontestability Clauses.
 - (a) [§226] In General.
 - (b) [§227] What Constitutes Contest.
 - (c) [§228] Life Insurance.
 - (d) [§229] Disability Insurance.
4. [§230] Exercise of Right.
5. [§231] Misrepresentation or Concealment Affecting Amount of Premium.
6. [§232] Misrepresentation or Concealment of Change in Medical Condition.

E. Automobile Insurance Policies.

1. [§233] Grounds for Termination.
2. [§234] Procedure for Cancellation.
3. [§235] Procedure for Nonrenewal.
4. [§236] Effect of Permitting Policy To Expire.
5. [§237] Required and Prohibited Policy Provisions.

VII. RIGHTS AND OBLIGATIONS AFTER OCCURRENCE OF INSURED EVENT

A. [§238] Indemnification of Insured.

B. Bad Faith Liability.

1. Implied Covenant of Good Faith and Fair Dealing.
 - (a) [§239] Nature of Covenant.
 - (b) Breach of Covenant by Insurer.
 - (1) [§240] In General.
 - (1a) [§240A] (New) Effect of Genuine Dispute.
 - (2) [§241] Tort and Contract Remedies.
 - (3) [§242] Punitive Damages.
 - (c) [§243] Breach of Covenant by Insured: Only Contract Damages.
 - (d) Actionable Conduct.
 - (1) [§244] In General.
 - (2) [§245] Investigation or Evaluation of Claims.
 - (3) [§246] Conduct of Litigation.
 - (4) [§247] Denial of Benefits or Delay in Payment.
 - (e) [§248] Breach of Insurance Contract Is Required.
 - (f) [§249] Commentary and Practice Works.
2. Alternative Theories of Liability.
 - (a) [§250] Breach of Express Terms of Contract.
 - (b) [§251] Traditional Tort Actions.

(c) Unfair Insurance Practices Act.

(1) [§252] Nature and Scope of Act.

(2) No Private Statutory Action.

(aa) [§253] Royal Globe Doctrine.

(bb) [§254] Abrogation of Royal Globe in Moradi-Shalal.

(cc) [§255] Subsequent Developments.

(3) [§256] Estoppel Based on Violation of Act.

C. Insurer's Duty To Settle.

1. Bad Faith Refusal To Settle.

(a) In General.

(1) [§257] Nature of Duty.

(2) [§258] Bad Faith Test of Breach.

(3) [§259] Excess Judgment Required.

(4) [§260] Discovery of Policy Limits.

(5) [§261] Assignment of Cause of Action Against Insurer.

(6) [§262] Rights of Excess Insurer.

(b) Illustrations.

(1) [§263] Duty Not Breached.

(2) [§264] Breach by Insurer That Defends.

(3) [§265] Breach by Insurer That Does Not Defend.

(c) [§266] Effect of Seeking Declaratory Relief.

2. Bad Faith Acceptance of Settlement.

(a) [§267] In General.

(b) [§268] Coercing Insured's Contribution to Settlement.

3. [§269] Reimbursement of Insurer for Settlement of Uncovered Claims.

D. Insurer's Duty To Defend.

1. [§270] Insurer's Obligation and Right of Control.

2. Scope of Duty.

(a) [§271] Potential for Coverage Test.

(b) [§272] Duty Is Broader Than Duty To Indemnify.

(c) Manner of Determining Duty.

(1) [§273] Declaratory Relief.

(2) [§274] Use of Evidence Extrinsic to Complaint.

(d) [§275] Inception and Duration of Duty.

(e) [§275A] (New) Duties Under Multiple Policies.

3. Duty in Particular Actions.

(a) [§276] Action Requiring Resolution of Legal Question.

(b) [§277] Action Based on Emotional or Physical Distress From Uncovered Loss.

(c) [§278] Criminal Action.

(d) [§279] Wrongful Termination Action.

(e) [§280] Action Based on Sexual Misconduct.

(f) [§281] Action Under Workers' Compensation Policy.

(g) Other Circumstances.

(1) [§282] Duty To Defend.

(2) [§283] No Duty To Defend.

4. **[§284] Insurer's Reservation of Rights.**
 5. **Defense After Exhaustion of Policy Limits.**
 - (a) **[§285] In General.**
 - (b) **[§286] Effect of Several Primary Policies.**
 6. **Independent Counsel Where Conflict of Interest.**
 - (a) **[§287] In General.**
 - (b) **[§288] Existence of Conflict of Interest.**
 - (c) **[§289] Time of Appointment.**
 - (d) **[§290] Selection and Payment.**
 - (e) **[§291] Rights and Duties in Course of Litigation.**
 7. **Defense of Action in Entirety.**
 - (a) **[§292] Duty of Insurer.**
 - (b) **[§293] Reimbursement for Defense of Uncovered Claims.**
 - 7A. **[§293A] (New) Reimbursement on Determination That Insurer Had No Duty To Defend.**
 8. **[§294] Courtesy Defense of Uninsured Defendant.**
 9. **Manner of Conducting Defense.**
 - (a) **[§295] Duty To Exercise Due Care and Good Faith.**
 - (b) **[§296] Funding of Defense.**
 10. **Effect of Failure or Refusal To Defend.**
 - (a) **[§297] Action Defended by Insured.**
 - (b) **[§298] Insured Unable To Defend.**
 - (c) **[§299] Recovery of Tort Damages.**
 - (d) **[§299A] (New) Where No Contractual Duty To Defend Exists.**
 11. **[§300] Assignment of Cause of Action Against Insurer.**
- E. Insurer's Liability to Injured Person.**
1. **[§301] Liability on Judgment Against Insured.**
 2. **Action by Injured Person Against Insurer Directly.**
 - (a) **[§302] General Rule: No Action Without Judgment.**
 - (b) **[§303] Exception: Suit Under Special Legislation.**
 - (c) **[§304] Exception: Suit as Third-Party Beneficiary Under Traditional Contract Principles.**
 3. **[§305] Effect of Stipulated Judgment.**
 4. **Bad Faith Liability.**
 - (a) **[§306] In General.**
 - (b) **[§307] No Liability for Failure To Settle.**
 - (c) **[§308] Liability for Withholding Amounts Owed on Judgment.**
- F. Defenses of Insurer.**
1. **[§309] In General.**
 2. **[§310] Defenses Against Insured Are Available Against Injured Party.**
 3. **[§311] Defense of Fraud.**
 - 3A **[§311A] Effect of Postclaims Underwriting by Health Care Service Plan.**
 4. **Defense of Noncooperation.**
 - (a) **[§312] Nature of Cooperation Clause.**
 - (b) **[§313] Prejudice Required.**
 - (c) **[§314] Failure To Disclose Information.**

- (d) [§315] Failure To Assist in Trial Preparation.
 - (e) [§316] Absence From Trial.
 - 5. Defense of Violation of Other Policy Conditions.
 - (a) [§317] Notice and Proof of Loss.
 - (b) [§318] Notice of Accident or Claim.
 - (c) [§319] Submission to Examination Under Oath.
 - (d) [§320] Prohibition Against Voluntary Payments.
 - 6. [§321] Defense of Federal Preemption Under ERISA.
 - 7. [§322] No Defense of Comparative Bad Faith.
 - 8. [§323] Effect of Transgressions by Fewer Than All Insureds.
 - 9. Waiver of, or Estoppel To Assert, Defenses.
 - (a) [§324] In General.
 - (b) [§325] Denial of Coverage on Limited Grounds.