

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) 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.**
 - (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.**
 - 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.
 - 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.
 - 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.