SUPREME COURT OF TEXAS

Janet Richards, Melvin Richards, and Amanda Culver Meals v. State Farm Lloyds

No. 19-0802 · No. No. 19-0802 · Decided March 20, 2020

SUMMARY

The Supreme Court of Texas answered a certified question from the Fifth Circuit concerning whether a federal district court's policy-language exception to the eight-corners rule is permissible under Texas law. The court held that the eight-corners rule does not become inapplicable merely because an insurance policy lacks an express groundless-claims clause. The court reserved judgment on other potential exceptions allowing consideration of extrinsic evidence.

CASE DETAILS

COURT	Supreme Court of Texas
WRITING FOR THE COURT	Justice James D. Blacklock
JURISDICTION	Texas
DECIDED	March 20, 2020
DOCKET	No. 19-0802
DISPOSITION	other
PROCEDURAL POSTURE	The Supreme Court of Texas answered a certified question from the United States Court of Appeals for the Fifth Circuit concerning whether Texas law permits a policy-language exception to the eight-corners rule governing an insurer's duty to defend.
STANDARD OF REVIEW	The court answered a certified question of Texas law and limited its consideration to the question certified; it did not review the underlying summary judgment ruling on the merits.
PRECEDENTIAL VALUE	Published opinion of the Supreme Court of Texas answering a certified question of Texas law; precedential on the certified issue.
PARTIES	Janet Richards, Melvin Richards, Amanda Culver Meals v. State Farm Lloyds

TOPICS

duty to defend · insurance coverage · contract interpretation · declaratory relief insurance · appellate procedure

PRACTICE AREAS

insurance law | insurance coverage | civil procedure

QUESTIONS PRESENTED

1. Whether the policy-language exception articulated in B. Hall Contracting Inc. v. Evanston Insurance Co., under which the eight-corners rule does not apply unless the policy contains a groundless-claims clause, is permissible under Texas law.
2. Whether the Supreme Court of Texas should address the Fifth Circuit's separate Northfield exception permitting limited extrinsic evidence on coverage issues.

HOLDINGS

1. Under Texas law, an insurer does not contract around or eliminate the eight-corners rule merely by omitting from its policy an express agreement to defend claims that are groundless, false, or fraudulent. The policy-language exception articulated in B. Hall Contracting is not a permissible exception.
2. The court did not decide whether the separate Northfield exception, which may permit consideration of extrinsic evidence concerning a fundamental coverage issue that does not overlap with the merits, is permissible under Texas law.

KEY QUOTATIONS

> *"We agree with the appellants. State Farm did not contract away the eight-corners rule altogether merely by omitting from its policy an express agreement to defend claims that are "groundless, false or fraudulent.""* (10-11)

> *"We answer only that the "policy-language exception" to the eight-corners rule articulated by the federal district court in B. Hall Contracting—under which the eight-corners rule does not apply unless the policy contains a groundless-claims clause—is not a permissible exception under Texas law."* (11)

FACTUAL BACKGROUND

Ten-year-old Jayden Meals died in an ATV accident while under the supervision of his paternal grandparents, Janet and Melvin Richards. Jayden's mother alleged that the grandparents negligently failed to supervise and instruct him and that the accident occurred on or near the grandparents' residence. The grandparents' State Farm homeowners policy included a provision requiring State Farm to provide a defense for covered bodily-injury claims, but it did not expressly state that State Farm would defend groundless, false, or fraudulent claims. In the federal coverage litigation, State Farm relied on an accident report and a SAPCR order to invoke policy exclusions, while the grandparents argued that the eight-corners rule barred consideration of extrinsic evidence.

PROCEDURAL HISTORY

Amanda Meals sued Janet and Melvin Richards after Jayden Meals died in an ATV accident while under the grandparents' supervision. State Farm agreed to defend under a reservation of rights, then filed a declaratory-judgment action in the Northern District of Texas seeking a declaration that it had no duty to defend or indemnify. The district court considered extrinsic evidence and granted summary judgment to State Farm, concluding that the eight-corners rule did not apply because the policy lacked a groundless-claims clause. The defendants appealed, and the Fifth Circuit certified the policy-language question to the Supreme Court of Texas.

DISPOSITION

other

REMAND INSTRUCTIONS

None stated. The court answered the certified question and did not decide the underlying coverage dispute or direct a particular disposition in the federal litigation.

CASES CITED

- Pine Oak Builders, Inc. v. Great American Lloyds Insurance Co., 279 S.W.3d 650 (Tex. 2009)
- GuideOne Elite Insurance Co. v. Fielder Road Baptist Church, 197 S.W.3d 305 (Tex. 2006)
- State Farm Lloyds v. Richards, 784 F. App'x 247 (5th Cir. 2019)
- B. Hall Contracting Inc. v. Evanston Insurance Co., 447 F. Supp. 2d 634 (N.D. Tex. 2006)
- Northfield Insurance Co. v. Loving Home Care, Inc., 363 F.3d 523, 531 (5th Cir. 2004)
- Texas Association of Business v. Texas Air Control Board, 852 S.W.2d 440, 444 (Tex. 1993)
- Heyden Newport Chemical Corp. v. Southern General Insurance Co., 387 S.W.2d 22, 24 (Tex. 1965)
- Zurich American Insurance Co. v. Nokia, Inc., 268 S.W.3d 487, 491, 497 (Tex. 2008)
- King v. Dallas Fire Insurance Co., 85 S.W.3d 185, 191 (Tex. 2002)
- Argonaut Southwest Insurance Co. v. Maupin, 500 S.W.2d 633, 635 (Tex. 1973)
- Fortis Benefits v. Cantu, 234 S.W.3d 642, 648-49 (Tex. 2007)
- Piranha Partners v. Joe Neuhoff, __ S.W.3d __ (Tex. 2020)
- Burlington Resources Oil & Gas Co. v. Texas Crude Energy, LLC, 573 S.W.3d 198, 202-03 (Tex. 2019)
- Melody Home Manufacturing Co. v. Barnes, 741 S.W.2d 349, 362 (Tex. 1987) (Mauzy, J., concurring)