

Peoples Insurance Counsel Division v. State Farm

Year: 2014

Court: Maryland Court of Appeals

Case Number: 21 - September Term 2014

Maryland law does not apply the rule of contra proferentem, accepted by a majority of states – that ambiguous terms in insurance contracts are to be construed strictly against the insurer-drafter; instead, Maryland law treats an insurance contract like any other contract, drafted by parties with equal bargaining power. As a result of this faulty assumption, insurers have an incentive to draft loosely-worded contracts and to deny claims based on strained interpretations of policy terms. Under the facts of this case, the carrier denied a homeowner’s claim for damages arising from the collapse of a carport caused by a large snowstorm; the carrier based its denial of coverage on an arbitrary reading of what constituted a “building” – an undefined term in the policy. The Maryland Attorney General’s Office intervened. In its brief, UP reminded the Maryland Court of Appeals (Maryland’s highest court) that consumers purchase insurance coverage for security and peace of mind. Allowing insurance carriers to deny coverage after a claim is presented, based on a newly-minted description of an undefined policy term, would undermine the consumers’ reasonable expectations and disrupt their security and peace of mind. In addition, the unequal bargaining power between insurer and insured and the adhesive nature of insurance contracts, which are written on standard policy forms and presented to consumers on a take-it-or-leave-it basis, favor application of the contra proferentem rule. For these reasons, UP urged the Court to adopt the rule of contra proferentem and to rule that ambiguous language in insurance policies should be interpreted strictly against the insurers and liberally in favor of coverage.

UP’s brief was drafted pro bono by Elliott Schulder, Esq., Suzan F. Charlton, Esq., Ann P. Engh, Esq., and Catherine H. Curlet, Esq. of Covington and Burling, LLP, Washington D.C. and UP Executive Director Amy Bach, Esq. and Staff Attorney Dan Wade, Esq.

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