State Farm Mutual Auto Insurance Company vs. Campbell, Curtis B., et al.

Year: 2002
Court: U.S. Supreme Court
Case Number: 01-1289

UP argued that an award of punitive damages should be linked to reprehensibility of conduct. The Court should not establish a bright line ratio. UP reminded the Court that punitive damages serve the purpose of deterrence from corporate misconduct and should be large enough, depending on the particular factual situation and economic strength of the defendant. After the release of the McKinsey Slides used by Allstate and internal State Farm documents obtained by Campbell in discovery, it became clear that insurers were beginning to use the claims process as a profit center by denying claims in bad faith. Unfortunately, the Campbell decision was unfavorable toward policyholders and other tort plaintiffs and has been extremely influential as state courts determine an appropriate measure of punitive damages. Some courts, such as California, have suggested that even the 9:1 ratio established in Campbell may violate Due Process, often limiting the ratio to 1:1. The practical effect of an purely academic professorial decision such as Campbell is that insurers and other corporate citizens have been reverse incentivized to act in bad faith. Punitive damages are merely a cost, albeit a low cost, of doing business. However, recently, some courts have been increasingly sympathetic to policyholders' arguments that insurers may intentionally deny claims in order to boost revenue and may in fact be implementing training programs for adjusters which include financial incentives for lower payouts. A federal judge in Sims v. State Farm Mut. Auto. Ins. Co., No. 4:13CV00371 (E.D. Ark. Apr. 30, 2014) recently granted a policyholder's discovery order which sought internal company documents regarding State Farm's "Achieving Claims Excellence" ("ACE") program. In his order, Judge Leon Holmes agreed with the policyholder that documents regarding the ACE program were discoverable since they are reasonably related to how the policyholder's claim was handled. The order is best summed up by the following quote: "Individual employee compensation is relevant to Sims's bad-faith claim because it can show whether an employee was rewarded for achieving particular outcomes regarding claims. Similar documents are not needed, however, to show that an

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insurance company has a financial incentive to deny a claim: obviously, it does. Cf. Weese v. Nationwide Ins. Co., 879 F.2d 115, 118 (4th Cir. 1989) (“Nationwide fails to recognize that all first party claims are adversarial. The insurer wishes to minimize payment and the insured wishes to maximize it.”). The full order is attached. UP will be monitoring this case closely.Read more at: http://www.propertyinsurancecoveragelaw.com/2014/05/articles/state-farm/another-good-discovery-order-concerning-state-farm/.

UP's brief was written pro bono by Thomas C. Goldstein (Counsel of Record) and Amy Howe of Goldstein & Howe, PC. Of Counsel: Amy Bach.

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