

Village Northridge Homeowners Association vs. State Farm Fire & Casualty, et al

Year: 2007

Court: California Supreme Court

Case Number: S161008, Appellate District, Civil No. B188718

The question presented by the case is the following: After settling a first party claim by accepting money from and executing a release of the insurer, may an insured sue the insurer for fraud in inducing the settlement and seek to avoid the release without returning the money the insurer paid? In negotiating the settlement of not only the litigation, but the policy claims as well, State Farm had the duty to tell Village Northridge of the true policy limits. Anything short of that violated its duty of good faith and fair dealing, its obligations under section 790.03(h) (1) and the mandates of section 2695.4(a). Because State Farm violated those mandates, it cannot be allowed to hamstring its insureds by asserting the settlement agreement as a bar to the insured's fraud claim. Although California's public policy of enforcing settlement agreements is important, it is not inviolate. Where as here, an insurer's fraud in procuring a settlement—in violation of its duty of good faith and fair dealing, and in violation of statutory mandates, the public policy supporting enforcement of settlements must give way to the policy of holding insurers responsible for their contractual obligations.

UP's brief was written pro bono for United Policyholders by Sharon J. Arkin.