

### III. INSURANCE LAW

#### Bad Faith Claim Based on Legal Conclusions Dismissed by District Court

In *Canizares v. Hartford Ins. Co.*, 2016 U.S. Dist. LEXIS (E.D.Pa. May 27, 2016), plaintiffs were insured by Hartford under a comprehensive homeowners policy. The policy covered damages to the premises as well as damages to personal property. The plaintiffs paid all premiums when due and had satisfied all conditions of their policy. In February 2015, the plaintiffs discovered that frozen pipes within their home had burst and caused extensive water damage to their home as well as to their personal property. These damages were fully covered under the plaintiffs' insurance policy. Following discovery of the damages, the plaintiffs appropriately notified Hartford of their claim and requested compensation for their losses. Hartford agreed to pay part of the claimed losses but declined to provide all of the demanded compensation.

Plaintiffs sued Hartford in state court, alleging two counts. Count I alleged breach of contract, asserting that Hartford failed to fulfill their contractual obligations by fully compensating the plaintiffs for damage caused to their home by a burst water pipe. Count II alleged a claim for bad faith under 42 Pa.C.S. § 8371. After removing the case to Federal Court on the basis of diversity jurisdiction, Hartford moved to dismiss the plaintiffs' bad-faith claim. Plaintiffs opposed the Motion.

Hartford argued that the plaintiffs' bad-faith claim should be dismissed for failing to allege sufficient facts entitling them to relief. To establish a claim for bad faith under 42 Pa.C.S. 8371, a plaintiff must demonstrate that the insurer (1) lacked a reasonable basis for denying benefits and (2) knew or recklessly disregarded its lack of a reasonable basis. Allegations of mere negligence or bad judgment will not suffice, but rather, a plaintiff is required to show that the insurer breached its duty of good faith through some motive of self-interest or ill will. Any claim for bad faith must be supported by clear and convincing evidence.

The court reviewed the federal court threshold for pleadings under the *Iqbal/Twombly* standard which requires a Plaintiff to plead sufficient factual content to allow a court to draw a reasonable inference that the Defendant is allegedly liable for the misconduct pled. The court observed that the insured's "rudimentary allegations" all contained legal conclusions, "which are not entitled to the assumption of truth." On the one claim coming closest to being adequate, that the insurer failed to respond to the benefits claim in a reasonable time, the court found this inadequate because the complaint failed "to include any specific dates detailing when the claim was submitted and when [the insurer] responded." As such, the court found that because Plaintiff's allegations primarily consisted of legal conclusions, the federal court threshold for pleadings was not met. However, the court dismissed the bad faith claim without prejudice in the event the Plaintiff later discovered information sufficient to factually plead such a claim.