

Court Upholds California Department of Insurance's Expansive Interpretation of Claims Practices Statute

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A California appellate court recently reversed the trial court's decision to enjoin the California Insurance Commissioner from enforcing certain regulations regarding unfair claim settlement practices. The Commissioner had found that PacifiCare Life & Health Insurance Company committed over 900,000 acts in violation of the Insurance Code. PacifiCare challenged this finding and convinced the trial court to bar the Commissioner from enforcing three of these regulations.

The first regulation provides that a violation occurs when a prohibited settlement practice is either "knowingly committed on a single occasion," or "performed with such frequency as to indicate a general business practice." PacifiCare argued that the violations must be both knowing and frequent, but the appellate court found the Commissioner's interpretation was in line with existing precedent, and that exempting single acts from enforcement would contravene the statutory intent that the Commissioner require full compliance with all provisions of the Code.

The second regulation defines the word "knowingly" to include implied and constructive knowledge. PacifiCare argued that this went beyond the ordinary meaning of "knowingly" and that it had been used against PacifiCare to punish inadvertent acts, but the appellate court found that this interpretation was reasonable, adding that a facial challenge could not be based on the particular facts of PacifiCare's case.

The third regulation defines the word "willful" without requiring a specific intent to cause harm or violate the law. PacifiCare contended this defeated the purpose of the Code's harsher penalties for willful violations, but the appellate court found that acts to which this definition was applied "are each defined by reference to specific facts and relevant context demonstrating wrongfulness," such that the definition would not cover truly innocent conduct.

PacifiCare has filed a petition for review with the California Supreme Court. We will continue to monitor the docket.