

Chauvin v. State Farm & Casualty Co.

Case summary:

The Fifth Circuit affirmed the district court ruling by Judge Vance granting State Farm's Motion to Dismiss pursuant to Rule 12 of the Federal Rule of Civil Procedure. The plaintiffs (individuals and putative class representatives) are Louisiana homeowners, whose homes had been destroyed by Hurricane Katrina and/or Rita, who sued their insurers alleging they were entitled to agreed face value of their homeowner's policies under Louisiana's Valued Policy Law (VPL) pursuant to La. Rev. Stat. Ann. 22:695. All of the insurance policies cover damage caused by wind and rain, but contain a clause excluding coverage for damage caused by flood.

Under Louisiana law, Louisiana's Valued Policy Law only requires an insurer to pay the agreed face value of the insured property if the property is rendered a total loss from a covered peril. The Fifth Circuit noted the following regarding the district court's decision: "In a well-reasoned opinion, the district court granted the insurers' motions. Assuming without deciding that the VPL applied to non-fire perils, the district court first held that, regardless of whether the statutory language of the VPL is considered ambiguous, the homeowners' interpretation would lead to absurd consequences. The court concluded that the focus of the VPL was on establishing the value of the property in the event of a total loss, and was not intended to expand coverage to excluded perils. Thus, the court determined that the VPL does not apply when a total loss does not result from a covered peril."

The Fifth Circuit agreed with the district court that the VPL language was ambiguous. The Fifth Circuit found that according to the Louisiana courts, the VPL was adopted for two main purposes: (1) to keep insurers from writing insurance on property for more than it was actually worth, collecting premiums based on that overvaluation, and later arguing that the property was worth less than the face value when the property was destroyed; and (2) to discourage intentional destruction of property by insureds when they are permitted to over insure their property.

After considering the purposes of the VPL, the Fifth Circuit was "convinced" that the insurers' construction of the VPL best conforms with its legislative purpose and thus, the VPL only requires an insurer to pay the agreed face value of the insured property if the property is rendered a total loss from a covered peril. In particular, the Court noted that a finding that the statute requires insurers to pay the agreed face value of the property, even if an excluded peril (flooding) causes the total loss, runs counter to the VPL's effort to link insurance recoveries to premiums paid. Such an interpretation of the statute would force the insurer to pay for damage resulting from a non-covered peril for which it did not charge a premium.