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California Court Protects Insurers' Rights To Contest Coverage After Appraisal

By Samuel H. Ruby

A California Court of Appeal has held that upon confirming an appraisal award, a court may not enter a money judgment for the insured if the insurer contests liability for any portion of the award due to coverage limitations. *Devonwood Condominium Owners Association v. Farmers*, -- Cal. App. 4th -- (5/20/08).

Devonwood and Farmers submitted a dispute over the valuation of a fire damage claim to appraisal. Throughout the process, Farmers maintained that certain costs submitted to the panel were not covered and that a deductible would apply to the balance, but neither Farmers nor Devonwood asked the appraisers to decide those coverage issues. The appraisers returned a unanimous award, which explicitly stated that it was "without consideration of any deductible amount or any coverage or other provision . . . which might affect the amount of the insurer's liability."

Devonwood moved to confirm the appraisal award and asked a trial court to enter a money judgment for the full amount of the award, notwithstanding the coverage issue and deductible. Devonwood relied on California Civil Code s 1287.4 (part of the California Arbitration Act), which provides, "If an award is confirmed, judgment shall be entered in conformity therewith." Farmers did not oppose confirmation per se but opposed the requested money judgment. The trial court entered the requested judgment anyway, but on appeal, Farmers prevailed.

The appellate court agreed with Farmers that the money judgment was not "in conformity" with the appraisal award as required by California Civil Code s 1287.4. The court explained that because the scope of an insurance appraisal is limited to determinations of "value" and "the amount of loss," an appraisal award cannot be deemed a determination of all issues affecting an insurer's liability for a claim. Where there are issues regarding coverage, deductibles, or limits, a trial court may not ignore those issues and enter a money judgment for the full amount of the award. Rather, the trial court should merely enter a declaratory judgment that the values and amounts of loss are what the appraisers calculated them to be.

Update: The opinion is now published as 162 Cal. App. 4th 1498, 77 Cal. Rptr. 3d 88.