

Texas Supreme Court Reaffirms Broad Construction of Eight-Corners Rule

March 25, 2020 Leslie Thorne

PRACTICES Insurance Recovery

In a unanimous decision, the Texas Supreme Court held on March 20, 2020 that an insurance policy's omission of an express duty to defend "groundless, false or fraudulent" claims does not preclude application of the Eight-Corners Rule. In *Janet Richards, et al. v. State Farm Lloyds*, No. 19-0802, ___ S.W.3d ___ (Tex. 2020), the Court considered a certified question from a Fifth Circuit case involving a dispute between Janet and Melvin Richards ("Policyholders") and their insurer ("State Farm"), stemming from the death of Policyholders' ten-year-old grandchild in an all-terrain vehicle accident. The Policyholders had tendered to State Farm a petition filed against them by the child's mother and State Farm sought a declaratory judgment that it had no duty to defend Policyholders. State Farm argued that: (1) the policy's motor-vehicle exclusion for injuries suffered "while off an insured location" applied because the ATV accident occurred on a public trail; and (2) the policy's "insured exclusion" applied because the child was not a member of Policyholders' household. State Farm submitted the vehicle crash report and a court custody order in support of its summary judgment arguments.

The question before the Fifth Circuit was whether an exception to the Eight-Corners Rule applied to allow State Farm to rely on extrinsic evidence as proof that policy exclusions applied. Whereas the Eight-Corners Rule generally holds that the duty to defend is assessed solely on the "four corners" of the policy and the "four corners" of the petition—regardless of whether the allegations are true or false—State Farm argued that the Rule applied only to policies expressly requiring the insurer to defend "all actions against its insured no matter if the allegations of the suit are groundless, false or fraudulent." Because the Policyholders' policy did not include such language, State Farm argued that the Eight-Corners Rule did not apply and extrinsic evidence could be considered.

On certification, the Texas Supreme Court disagreed and held that the Eight-Corners Rule's applicability did not depend on the presence of a groundless-claims clause. Rejecting State Farm's argument that the Rule was originally intended to enforce express clauses requiring insurers to defend groundless claims, the Court reasoned that its likely purpose was instead to construe the duty to defend more broadly than the duty to indemnify. Thus, while acknowledging that insurance companies may be free to word their contracts to avoid the Eight-Corners Rule, State Farm could not limit the applicability of the Rule "merely by omitting the words 'groundless, false or fraudulent,' or similar words, from this policy." *Janet Richards*, No. 19-0802, at 8.

The opinion is a significant reaffirmation of the breadth of the Eight-Corners Rule in determining whether an insurer's duty to defend is triggered under Texas law; regardless of the presence of a "groundless-claims" clause in the insurance policy or the veracity of the allegations in the petition, Texas courts will generally assess the duty solely by reference to the language in the policy and the allegations in the petition.

[Click here to view the Texas Supreme Court's opinion.](#)