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In a Win for Policyholders, California Supreme Court Broadly Applies Unfair Competition Law's Four-Year Statute of Limitations to Action Challenging Insurer's General Claims Processing Practices

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What happens when a policyholder seeks to bring an action against its insurer for violation of California's Unfair Competition Law (Bus. & Prof. Code, § 17200 *et seq.*, ("UCL")), which has a four-year statute of limitations, but the policy contains a one-year statute of limitations for claims consistent with California Insurance Code section 2071 ("Section 2071")? According to a decision published last week by the California Supreme Court, where the action is not a "claim" on the policy—i.e., it is instead a claim that challenges the insurer's general practices in handling claims for which the insured seeks only declaratory and injunctive relief on behalf of all policyholders—the longer statute of limitations under the UCL applies.

In *Rosenberg-Wohl v. State Farm Fire & Casualty Co.*, the Court concluded the insured's action under the UCL is essentially "preventive" and neither the standard policy language nor the reasons underlying the Legislature's authorization of a one-year statute of limitations period for filing apply. Section 2071, and in turn many fire insurance policies, require any "suit or action on this policy for the recovery of any claim" to be brought within one year of the loss. By contrast, the UCL, under which plaintiff brought her claim, contains a longer four-year statute of limitations. (Bus. & Prof. Code, § 17208).

Here, State Farm provided homeowners insurance to plaintiff covering all risks, including fire, except those specifically excluded under the policy. Following a neighbor's fall on plaintiff's exterior stairs in 2018 and 2019, plaintiff submitted a claim in 2019 for replacement of the stairs that had changed in pitch over the years. State Farm summarily denied her claim in a mere 17 days, claiming there was no evidence of a covered cause or loss. After plaintiff made a follow-up inquiry, in August 2020, State Farm again summarily advised the claim was denied.

Plaintiff proceeded to file a lawsuit alleging State Farm "has a practice of summarily denying and regularly summarily denies property insurance claims unless State Farm believes the particular claim falls into a category of likely coverage," and that State Farm's conduct "was and is designed to deny claimants coverage for all but the most obvious of covered claims, to the detriment of State Farm's policyholders and to its own benefit." The complaint sought declaratory relief, injunctive relief, attorneys' fees under Code of Civil Procedure section 1021.5, and costs of suit, specifically disavowing any claim for damages.

State Farm filed a demurrer, which the superior court sustained, concluding the one-year limitation period applies because the essence of the relief sought relates to the denial of plaintiff's claim. A divided Court of Appeal affirmed, with the majority agreeing "the crux" of plaintiff's action is "grounded upon a failure to pay policy benefits." The dissent, however, found the crux of plaintiff's lawsuit to be "that State Farm is marketing homeowners insurance to the public, promising benefits on defined terms, while its claims



adjustment process is, by design, so superficial (little to no investigation) and obscure (no communication with insureds about the basis for denials) that it manages to avoid paying out on all but the claims that are obviously covered.”

The Supreme Court agreed with the dissent, reversing the judgment of the Court of Appeal and remanding for further proceedings. Although the Court noted prior decisions construing limitations provisions in insurance policies covered by Section 2071 have focused on whether the plaintiff’s suit or action was “on the policy...” the Court also considered the statute as a whole, including the immediately following language “...for the recovery of any claim.”

State Farm argued that the phrase “for the recovery of any claim” should be read to mean “for the recovery of any relief.” The Attorney General (in amicus briefing) and the Supreme Court disagreed, finding that the phrase within Section 2071 “is best understood as concerned with suits or actions seeking a monetary award owing to such a claim.” In other words, the one-year limitation period in Section 2071 applies only to causes of action “that in some manner seek a financial recovery attributable to a claimed loss that was coverable under the policy.” The Court concluded that, here, plaintiff only pursues broad declaratory relief pertaining to State Farm’s alleged claims-handling practices and an injunction to require State Farm to “give at least as much consideration to the interests of its insured as to its own interests,” and such requests “do not directly or indirectly pursue the recovery of benefits under plaintiff’s insurance policy, or for that matter any financial recovery for plaintiff.” Accordingly, the Court held, the one-year deadline found in Section 2071 does not apply to the cause of action under the UCL—the UCL four-year deadline does.

Although the holding represents a win for policyholders, the Court was careful to emphasize that the one-year deadline will still apply to a cause of action for damages that is “inextricably bound” to a denial of coverage even where that cause sounds in tort and plaintiff alleges damages beyond the withheld policy proceeds. The Court left “open the possibility that on different facts, a cause of action that requests only equitable relief nonetheless may be regarded as subject to section 2071’s limitations provision, as found in policies promulgated under the statute.” Nevertheless, whether the lower court will indeed order State Farm to put its insureds on a level playing field with itself with regard to its claims handling practices remains an open question.

In all events, the holding confirms the nuanced nature of the statute of limitations analysis applicable to claims for insurance benefits. Thus, the *Rosenberg-Wohl* decision is an excellent reminder that policyholders seeking disputed insurance benefits should promptly consult experienced coverage attorneys to be certain to preserve their ability to pursue such claims in court.



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