

## Texas Supreme Court Rejects Policy Language Exception To Eight-Corners Rule

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Answering a question certified by the Fifth Circuit, the Texas Supreme Court rejected the contention that the eight-corners rule applies only if the policy includes language requiring the insurer to defend “all actions against its insured no matter if the allegations of the suit are groundless, false or fraudulent.” *Richards v. State Farm Lloyds*, 2020 WL 1313782 (Tex. Mar. 20, 2020).

The dispute centered on whether State Farm was obligated to defend its insured against personal injury claims arising out of an ATV fatality. State Farm refused to defend, arguing that the claims were barred by a “motor vehicle exclusion” and an “insured exclusion” in a homeowner’s policy. In seeking a declaratory judgment as to its defense obligations, State Farm submitted two documents: the police report from the accident and a court order from a suit involving the parental/guardian relationship between the deceased child and the grandparents that were supervising him at the time of the accident. A Texas federal district court considered those documents in finding no duty to defend, rejecting the policyholders’ objections under the eight-corners rule. The district court reasoned that the eight-corners rule applied only to policies that explicitly require the insurer to defend all actions, even if “groundless, false or fraudulent.” The court explained that the eight-corners rule did not apply because State Farm’s policy did not include this language, and instead required State Farm to defend “if a claim is made or a suit is brought against an insured for damages because of bodily injury . . . to which this coverage applies.”

The Texas Supreme Court rejected the assertion that the eight-corners rule applies only when the policy includes a groundless-claims clause. The court reasoned that case law did not support such a limitation, stating that “Texas courts of appeal have routinely applied the eight-corners rule for many decades, without regard to whether the policy contained a groundless-claims clause.” The court noted that parties are free to contract around the eight-corners rule, so long as they do so with explicit language. However, the court ruled that merely omitting the words “groundless, false or fraudulent,” or similar verbiage is insufficient to eliminate the eight-corners rule from the duty-to-defend analysis.

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