

Citing Policyholder's Reasonable Expectations, New Jersey Appellate Court Refuses To Enforce Policy Exclusion (Insurance Law Alert)

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A New Jersey appellate court ruled that although an exclusion in an automobile policy was unambiguous, it was nonetheless unenforceable because it was contrary to the policyholder's reasonable expectations. *Vega v. Travelers Ins. Co.*, 2022 WL 1436461 (N.J. App. Div. May 6, 2022).

The dispute arose when the policyholder sought coverage from St. Paul Protective Insurance Company for injuries sustained in an automobile accident. A St. Paul claims adjuster initially offered the \$100,000 limit on the policy, but several months later rescinded the offer. The adjuster noted that the initial offer was based on a mistaken reading of the policy and that in fact, the policy provided a bodily injury limit of only \$15,000 pursuant to an intra-family exclusion. In ensuing litigation, a New Jersey trial court deemed the exclusion ambiguous and contrary to New Jersey's public policy of compensating victims of car accidents. The appellate court affirmed.

Although the appellate court held that the exclusion was unambiguous, it deemed it unenforceable as contrary to the policyholder's reasonable expectations. In particular, the court explained that the declarations page indicated that the limit was \$100,000 per person for bodily injury and that nothing on the declarations page referenced exclusions that would operate to reduce that limit. While the exclusion was included under a section entitled "Exclusions," the court concluded that it constituted a "hidden trap" that was "buried" in the thirty-eight page policy. Emphasizing that if an experienced adjuster initially believed the policy limit to be \$100,000, a reasonable policyholder would likewise understand coverage to correspond with the limits listed on the declarations sheet, the court stated: "A clearly worded exclusion can still function as a hidden trap if the remainder of the policy, and particularly the declarations sheet, would lead a reasonable policyholder to expect different coverage."

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