

COVERAGE ISSUES IN APPRAISAL CLAIMS: ARIZONA COURT OF APPEALS ISSUES MEMORANDUM DECISION IN ANDERSON V. STATE FARM

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Anderson v. State Farm

Arizona Court of Appeals

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The Arizona Court of Appeals recently released a Memorandum Decision in the case *Anderson v. State Farm*, which addressed when an insurer may challenge the issues of causation and coverage after an appraisal. In *Anderson*, the insured made a claim for storm damage to the roof of their home. The insurer inspected their roof, determined that six roof tiles were damaged by “accidental direct physical loss” but found the damages were within the deductible and issued no payment. The insured responded by submitting a demand for appraisal with a \$143,760.48 replacement cost value estimate. The parties then proceeded to appraisal, which resulted in an award of \$162,296.21 Replacement Cost Value and a \$120,701.29 Actual Cash Value for the damage. The insured then moved to confirm the appraisal award, which was granted by the trial court over the objections of the insurer, who argued that the issues of causation and coverage were still to be determined after the appraisal. The trial court concluded that the “appraisers’ findings of fact as to causation are binding on the parties” and the insurer is “not entitled to go through the appraisal and pick out those items that it believes were not caused by the covered loss event in the guise of litigating the issue of coverage.” The insurer appealed the trial court’s confirmation of the award, which had been reduced to a final judgment including attorney’s fees and costs.

The Court of Appeals disagreed. The Court of Appeals found the appraisers’ award was “limited to the amount of the loss”, and that the “appraisers did not decide that the loss was covered by the policy or determine the cause of the loss” but nonetheless vacated the judgment against the insurer and remanded to the trial court to resolve the causation and coverage issues. The Court of Appeals accepted the argument that issues of causation and coverage could still be litigated after the appraisal award was issued, and explicitly rejected any obligation of the insurer to seek a judicial determination regarding causation and coverage before the appraisal.

Appraisals have become almost routine for all property damage claims in Arizona, although there is limited case law on how they must be conducted. The major takeaway from this decision is insurers can be confident they are not waiving coverage or causation issues by agreeing to submit a claim to appraisal. Insurers can later decline payment of items which are not covered by the policy, even if those are included in the award. Insurers should still proceed cautiously if there are causation or coverage issues, including issuing reservation of rights letters, to potentially litigate them again in a subsequent lawsuit. On that note, the Court of Appeals declined to address how causation and coverage issues should be resolved, leaving those issues for another day.

[DOWNLOAD THE COURT DOCUMENT HERE](#)

[Patrick Gorman](#) concentrates his practice in the areas of bad faith and extra-contractual liability, insurance coverage, professional liability and other general civil litigation matters. In his practice, he represents insurers in bad faith and breach of contract claims, often with allegations of punitive damages, through all phases of litigation in state and federal court. Patrick also represents attorneys, insurance brokers, and accountants in professional malpractice claims.

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