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The Fine Line Between Delay and Bad Faith: Insights from the Fifth Circuit.

Blog Avoiding Insurance Bad Faith

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A prompt response is critical when disaster strikes, but as the Fifth Circuit recently ruled, delays may be excusable in certain circumstances. In *First United Pentecostal Church v. Church Mut. Ins. Co.*, No. 23-30779, 2024 WL 4511240 (5th Cir. Oct. 17, 2024), First United Pentecostal Church sued Church Mutual Insurance Company for damages following Hurricanes Laura and Delta. The district court awarded First United over $2 million in unpaid damages, bad faith penalties, and attorney fees, which the Fifth Circuit later reversed, finding that Church Mutual's actions did not meet the statutory standard of arbitrary and capriciousness. The ruling highlights the intricacies of evaluating bad faith in delayed insurance payments and provides valuable insight on how insurers can navigate complex claim disputes

In 2020, Hurricane Laura caused widespread property damage in Louisiana, prompting First United to file a claim with Church Mutual. Three days before the scheduled inspection, Hurricane Delta hit, worsening the damage. After the inspection, Church Mutual took four months to issue two payments totaling just over $191,000, an amount which First United argued was insufficient to cover the repair costs.

First United sued, alleging breach of contract and violations of Louisiana's bad faith insurance statutes, Louisiana Revised Statutes §§ 22:1892 and 22:1973, which require insurers to settle claims within 30 days of receiving satisfactory proof of loss. The district court ruled that Church Mutual acted in bad faith by delaying payment and awarded over $2 million in damages, penalties, and attorney fees.

On appeal, Church Mutual argued that the delays were due to reasonable disputes over the extent of the damage, particularly whether some of the losses predated the storms. This argument was corroborated by the claims file, which noted uncertainty over the extent of the claim until the engineering report was completed. While the Fifth Circuit upheld the damages for the underpaid claim, it reversed the penalties and fees, determining that Church Mutual's actions did not constitute bad faith. The court explained that "when there are substantial, reasonable, and legitimate questions as to the extent of an insurer's liability or an insured's loss, failure to pay within the statutory time period is not arbitrary, capricious or without probable cause" (Id. at *7). The adjuster's change in opinion after receiving the engineering report further supported this conclusion.

The Fifth Circuit's decision highlights that not all delays in claim payments are inherently arbitrary or capricious, especially when there are genuine questions about liability or the extent of the damage. However, this case serves as a reminder for insurers to maintain thorough documentation and clear communication throughout the claims process. Continuous reassessment of claims and prompt handling are essential to avoid unnecessary disputes and ensure that a reasonable basis exists during the investigation of a claim.

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