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Illinois Coverage Basics

Illinois Appellate Court Takes Another Big Step toward a More Rational Duty to Defend Standard in State Farm v. Young

Although Illinois appellate decisions on coverage issues have become more volatile and less predictable in recent years, an argument can be made that this has been a positive development for liability insurers. For many years, Illinois provided a relatively hostile environment for insurers on questions concerning coverage. But, in some important ways, that environment has improved in recent years. This edition of *Illinois Coverage Basics* reports on a noteworthy Illinois Appellate Court opinion redefining Illinois' duty to defend rule: State Farm Fire and Casualty Company v. Young, 2012 IL App (1st) 103736.

Prior Illinois Law on the Duty to Defend

Illinois courts have traditionally employed a liberal duty to defend standard that required insurers to provide a defense for many claims that clearly did not fall within coverage. Under the traditional Illinois rules, a liability insurer's duty to defend was based upon the allegations contained in a claimant's complaint, and if any part of the claimant's complaint described a claim that was potentially covered, the insurer was required to defend the entire complaint – both covered counts and counts that were not covered.

In 2010, the Illinois Supreme Court made an important change in the Illinois duty to defend standard. In Pekin Insurance Co. v. Wilson, 237 Ill.2d 446 (2010), the Supreme Court ruled that courts should not be limited to considering the allegations of a claimant's complaint when evaluating an insurer's duty to defend. That ruling ended the decades-long reign of Illinois' traditional "four corners" rule, by allowing courts to look outside the allegations of a plaintiff's complaint when deciding if an insurer owed a duty to defend. But, Pekin Insurance Co. v. Wilson did not change the Illinois rule that an insurer must defend an entire complaint if any part of the complaint potentially falls within coverage. Even after Pekin Insurance Co. v. Wilson, the situation in Illinois is that if a 20-count complaint contains 19 counts that clearly are not covered and 1 count that potentially falls within coverage, the insurer must defend all 20 counts.

The Common Sense Approach of *State Farm Fire v. Young*

The Illinois Appellate Court's recent opinion in State Farm v. Young suggests a fairer, common sense solution to the problem left unresolved by the Illinois Supreme Court's ruling in Pekin Insurance Co. v. Wilson. State Farm v. Young is a classic case in which the claimant alleged some claims that were potentially covered and some claims that obviously were not covered. The Appellate Court decided the duty to defend question by piercing the literal allegations of the claimant's complaint, and disregarding the pleader's conclusory characterizations of the conduct

as "negligent" or "intentional" to determine whether the essential nature of the conduct should trigger coverage.

State Farm v. Young involved a sad set of facts. The complaint alleged that the defendant bought heroin and shared it with the plaintiff's decedent, Gina Dominick, who suffered an overdose. Instead of helping Gina, the defendant severely beat her, and, despite knowing that her condition was critical, he allowed her to die from the overdose and injuries sustained in the beating, and he then left her body in a public lot. In the wrongful death action filed against the defendant following Gina's death, the complaint alleged that the defendant's acts constituted battery but also, in the alternative, mere negligent misconduct.

The defendant, who was insured under a State Farm homeowner's policy, argued that he was entitled to a defense because he had denied the allegations in the wrongful death complaint that charged him with intentional conduct. The Appellate Court rejected that argument outright, ruling that the focus of the duty to defend analysis must be the claimant's complaint, not the defendant's denials in his answer. The Court concluded: "the defendant's abject denials that he purchased heroin, struck Gina, or knew that Gina needed medical help are insufficient to override the well-pleaded facts in the estate's complaint."

The Appellate Court in State Farm v. Young ruled that, although the claimant's complaint alleged that the defendant's conduct was merely negligent, the Court should look to the nature of the alleged conduct rather than the legal theories or labels alleged by the pleader. The Appellate Court held that State Farm did not owe the defendant a duty to defend, despite the negligence allegations in the complaint, and it upheld judgment on the pleadings in favor of the insurer on the duty to defend issue based on the following rationale:

> Although these counts were listed as falling under the legal theory of "negligence," the allegations support only one conclusion … None of the defendant's actions can reasonably be called accidental; even though the acts of the defendant are otherwise characterized as "negligent" in the complaint, Gina's injuries and her eventual death were a "natural and ordinary consequence" of the defendant's failure to get help … Calling what occurred to Gina an "accident" is a tortured interpretation of the word.

State Farm v. Young is an important coverage ruling, because it gives insurers an effective way to deal with complaints that are falsely pleaded in terms of negligence solely for the purpose of triggering insurance coverage. The case supports the proposition that a court should look beyond conclusory allegations of negligence to determine the true nature of the conduct that is alleged. It also clearly shows that an insurer is not always required to defend when one potentially covered claim is alleged in a complaint. This is a good thing for insurers: State Farm v. Young and Pekin Insurance Co. v. Wilson have vastly expanded insurers' ability to achieve fairness in duty to defend disputes.

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