

Duties insurance companies owe their insureds

By Jennifer A. Cranston



Insurance is one of those things most people pay for and hope they never have to use.

That's because, if you have to call upon your insurance policy, something bad probably happened (like you got sued or a storm damaged your property). Thankfully, the law provides some extra protection by requiring insurance companies to comply with contractual and implied duties.

Duty to pay

The insurance policy itself is a contract. It requires the insurance company to pay for certain specified damages or losses.

For example, if you cause a car accident that injured another person, then your auto insurance policy will require the insurance company to pay for the other person's resultant damages (up to your policy limits).

Duty to defend

Another contractual obligation under a liability insurance policy is the duty to defend. Under this duty, the insurance company pays for your attorney if you get sued. The defense obligation particularly is important to most people because attorneys' fees can add up quickly if you have to pay for them out of your own pocket.

Good faith

In addition to these contractual duties, Arizona law also imposes what is called "the implied duty of good faith and fair dealing." Just like it sounds, this duty requires insurance companies to act in good faith and be fair to their insureds.

The duty of good faith is broad and can require certain actions in response to specific situations.

For example, an insurance company is required to promptly and reasonably investigate a claim made by or against its insured. Also, an insurance company is prohibited from favoring its own interests above the interests of its insured.

If an insurance company breaches the duty of good faith and fair dealing, it can be assessed damages greater than the amount of the insurance policy.

So, although most of us hope to never be sued or suffer injuries, it's nice to know if you do find yourself in such a situation, your insurance company legally is required to protect you and deal with you in a fair and reasonable manner.

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