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***State Farm Mutual Automobile Ins. Co. v. Fitts*, 120 Nev. Adv. Op. 80,
(November 10, 2004)¹**

ADMINISTRATIVE LAW – CERTIFIED QUESTION

Summary

United States District Court submitted a certified question to the Nevada Supreme Court to determine whether automobile insurers may contractually reduce the time frame allowable for an insured motorist to file for uninsured or underinsured motorist benefits.

Outcome/Disposition

While not eliminating the possibility that such a reduction might be valid if properly presented, the court held that the provision, as presented, is unenforceable, and thereby totally void as against public policy.

Factual & Procedural History

Ike Fitts was injured in an automobile accident, and received a policy-limit settlement with the other driver's liability carrier. Fitts presented his underinsured motorist (UIM) claim 26 months after the accident. Fitts's insurer, State Farm, denied the claim under the policy limitation requiring UIM claim to be filed, or arbitration demanded, within two years of the date of the accident.

Fitts filed suit against his insurer, State Farm Mutual, in state court, alleging breach of contract, violations of the Nevada Unfair Insurance Claim Practices Act, breach of implied covenants of good faith and fair dealing, intentional refusal to pay insurance benefits, and intentional infliction of emotional distress. State Farm removed to Federal District Court. The federal court submitted a certified question to the Nevada Supreme Court, asking:

Is the following insurance policy provision for the uninsured and underinsured motorist coverage enforceable by the issuing carrier: "Under the uninsured motor vehicle coverages, any arbitration or suit against us will be barred unless commenced within two years after the date of the accident."

Discussion

The court recognized the insurer's stake in limiting exposure to UIM claims, in particular claims brought a considerable time removed from the offending accident. However, the important public purpose of UIM demands that attempts to restrict such coverage to less than the statutory 6-year period be viewed with a high degree of scrutiny.

The court allows that an insurer may protect itself from remote claims by implementing explicit, unambiguous, time limitations in its insurance contracts. However, the court also observed that it would be unfair to begin any such time limitation

¹ Summarized by Ira David

before the insured is informed that the other party's carrier has failed to provide the necessary coverage, i.e. that policy limitations are insufficient for the damages incurred.

The limitation as presented would potentially require claimants to file a UIM claim preemptively, i.e. prior to resolution or settlement with the other party's insurance carrier, simply to protect their rights under their insurance contracts. Such a requirement encourages unnecessary litigation, causing higher insurance fees and wasting judicial resources. As such, it is contrary to the public good, and is thereby void.

Conclusion

Where the state already provides a statute of limitations for contract claims, an attempt to further reduce this limitation which dictates filing of potentially moot and valueless claims, such limitations are void as being counter to the public good. The court does not address the question of whether such a provision might be valid, if such limitations were based upon the date where the insured first became aware of the uninsured, or underinsured, status of the other party to the accident, as this question was not raised by any of the parties.