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# LEGAL Dimensions

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# USDC Decision a Reminder that Insurance Policies Must Not Be Interpreted to Result in "Absurd Consequences"

Although an insurance company that in good faith denies a claim of coverage on the basis of a "plausible interpretation of its insurance policy" cannot *ordinarily* be said to have committed an unfair or deceptive act in violation of the Massachusetts Consumer Protection Act, M.G.L. ch. 93A,[1] carriers must be mindful of the old adage, "There is an exception to every rule."

A recent decision by Chief Justice Saylor of the United States District Court for the District of Massachusetts exemplified this in **Pimentel v. AmGuard Ins. Co.**[2] Judge Saylor found that a literal interpretation of the policy language would not protect an insurer from liability under ch. 93A when such an interpretation would lead to "a number of absurd consequences."

Interpretation of language in an insurance contract is no different from the interpretation of any other contract, and thus "the plain, unambiguous language" of the coverage provisions and exclusions are controlling.[3] Every word in an insurance contract serves a purpose and must be given meaning and effect whenever practicable.[4] However, in determining whether there is coverage under a given policy, the court "must ascertain the *fair meaning* of the language used, as applied to the subject matter."[5]

Although an insurer's denial of coverage based on an unreasonable interpretation of policy terms may constitute bad faith, "plausible, although ultimately incorrect" interpretations of an insured's policy coverage do not.[6] In other words, the question in determining whether an insurer has acted in bad faith is not whether the carrier has correctly interpreted its policy language, but whether that interpretation is "within the penumbra of some common-law, statutory or other established concept of unfairness."[7]

This concept of fairness was at the heart

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1 *Lumbermens Mut. Cas. Co. v. Offs. Unlimited, Inc.*, 419 Mass. 462, 468 (1995).

2 No. CV 23-11005-FDS, 2024 WL 4557434 (D. Mass. Oct. 23, 2024).

3 *Ken's Foods, Inc. v. Steadfast Ins. Co.*, 491 Mass. 200, 206 (2023).

4 *Verveine Corp. v. Strathmore Ins. Co.*, 489 Mass. 534, 538–39 (2022).

5 *Aquino v. United Prop. & Cas. Co.*, 483 Mass. 820, 826 (2020) (emphasis added)

6 *Clarendon Nat'l Ins. Co. v. Philadelphia Indem. Ins. Co.*, 954 F.3d 397, 409 (1st Cir. 2020).

7 *Bos. Symphony Orchestra, Inc. v. Com. Union Ins. Co.*, 406 Mass. 7, 15 (1989).

of Judge Saylor's decision in **Pimentel**. In that case, the plaintiff policyholder purchased a new home on June 28th, and purchased a homeowners policy from the defendant carrier on the same day. The policy took effect on June 28th and included coverage for fire losses. A fire occurred one month later, in July, after the plaintiff had filed a homestead declaration and began cleaning and moving some items into the home but before she had moved all her furniture to or spent the night at the property.

The defendant carrier denied coverage for the damage based on policy language stating that coverage applied to the "residence premises," defined as the "dwelling where you reside … on the inception date of the policy period." The carrier's position was that since the plaintiff had not fully moved into the home, she did not "reside" there when the fire occurred and thus coverage did not attach. The plaintiff brought claims for declaratory judgment, breach of contract and violation of Mass. Gen. Laws ch. 93A. Both parties filed cross motions for summary judgment.

In granting summary judgment for the plaintiff on all counts, Judge Saylor held that "at the very least," the policy was ambiguous and thus should be interpreted in favor of the policyholder. The court explained that "no reasonable purchaser of a new homeowner's policy" would anticipate having a "gaping hole" in coverage between the day of the closing and when they fully move in to their new home, as the two events are "not normally the same day."

Additionally, Judge Saylor noted that the carrier's interpretation ignored the "on the inception date of the policy period" language, which, when read literally in line with the carrier's position on "reside" would mean that coverage would still not attach even *after* the policyholder moved in unless that move-in occurred on the same day on which the policy took effect — which "is not a reasonable construction of the policy."

The court also noted that the carrier's interpretation would render the policy's vacancy exclusion, which had previously been interpreted by the SJC as not applying to periods of vacancy applying before the policy period, to be meaningless.[8]

The court held that a more reasonable interpretation of the policy is that coverage would apply to the property as of the inception date, provided that the policyholder intends to occupy the dwelling as a residence (as opposed to a vacation or commercial property), and further provided that the policy's vacancy exclusion would apply if the property was vacant for more than 60 days. Given that the plaintiff did in fact intend to reside in the property, and the property had only been vacant for 24 days since the policy's inception, the court ruled that there was coverage under the policy and thus the carrier had breached the insurance contract by denying such coverage.

As to the plaintiff's 93A demand, the court held that the defendant's interpretation of the policy against the plaintiff was not "plausible" for the reasons noted above, thereby qualifying it as "otherwise oppressive" acts constituting an unfair or deceptive trade practice. Additionally, that the carrier's interpretation would mean that the carrier was collecting a premium for coverage that would never vest, and that the carrier did not provide any warning to the policyholder regarding this lack of coverage, also constituted unfair and deceptive trade practices. However, Judge Saylor did not find sufficient evidence in the record that these violations were "willful," meaning that the plaintiff was not entitled to multiple damages.

Overall, this decision serves as a cautionary tale to insurers that just because they *can* articulate a reason for a denial does not mean that they *should* — a literal reading of policy language can be deemed implausible and in violation of 93A when such a reading is unreasonable. Instead, reading policy language more narrowly or broadly than its literal wording might at first suggest is the appropriate approach when to do so will "better capture the reasonable expectation of the parties — the central object of all contract interpretation."[9]

In particular, carriers should be cautious of an interpretation that could hypothetically result in a policyholder *never* being entitled to coverage, as to charge a premium in exchange for no benefit at all would seem to be *per se* unfair and deceptive. ■

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[8] *See Pappas Enterprises, Inc. v. Commerce & Indus. Ins. Co.*, 422 Mass. 80, 85 (1996).

[9] *Central Intern. Co. v. Kemper Nat. Ins. Co.*, 202 F.3d 372, 375 (1st Cir. 2000).