

Quake Action Settles For \$20 Million After \$3.9 Million Compensatory Verdict

LOS ANGELES — A California jury last week ordered Truck Insurance Exchange to pay \$3.9 million in compensatory damages to a homeowners association for its refusal to cover demolition and rebuilding on an earthquake claim. The case settled yesterday for \$20 million (Nordoff Townhomes Homeowners Association v. Farmers Group, et al., No. BC188792, Calif. Super., Los Angeles Co.).

(Verdict Form in Section L. Document #07-000307-116.)

Truck, a subsidiary of Farmers Insurance Group, offered to settle the claim Friday for \$16 million, according to plaintiff counsel. Nordoff Townhomes Homeowners Association rejected the offer. The punitive phase of the trial was scheduled to begin today.

Nordoff, which consists of about 50 largely low-income families, filed a claim with Truck. The carrier initially claimed the damage was cosmetic and was below the \$318,000 deductible. After protests by homeowners, the insurer spent an additional two years investigating the claim and paid \$2.5 million in advances.

Truck refused to pay for demolition and rebuilding of the properties, as Nordoff's engineering experts recommended. Without evidence that the homeowners association spent more than the \$2.5 million, the carrier refused to pay more, according to defense counsel.

Deductible Questioned

Nordoff sued Truck and Farmers for breach of contract, bad faith, fraud and intentional misrepresentation. The trial court found as a matter of law that Truck wrongly calculated Nordoff's deductible. Plaintiff counsel asserts that Truck's change in interpretation and calculation of deductibles in the aftermath of the quake cost thousands of members of the condominium associations and saved Truck more than \$18 million.

During discovery, the court ordered Truck to produce 610 claim files on other condominium associations. Nordoff permitted the carrier to deliver 10 percent of those as a representation of the claims. An analysis by Gary Richman of GRX Consulting reportedly showed widespread claims handling abuse.

Nordoff also obtained internal personnel documents that showed the manager of the California commercial claims for Truck had a goal to reduce the ratio of indemnity payments to premium. Other internal memos revealed questionable practices, according to Nordoff. Additionally, the association asserted that claims managers were treating internal indemnity projections for the quake as budget figures.

Former Farmers claims adjuster Kermith Sonnier, who became a whistleblower, testified he stopped looking for damage when he reached a certain dollar target identified by his supervisor. Sonnier was fired for refusing to underpay earthquake claims. A Los Angeles jury last month found he was unfairly fired and awarded him \$1.46 million in compensatory damages and \$9 million in punitives.

The Nordoff jury found Truck was guilty of malice, oppression and fraud and that an officer or director authorized the conduct. It awarded \$3.9 million in compensatory damages, which represented the cost of demolition and reconstruction. According to plaintiff counsel, the award is the largest earthquake verdict arising out of a commercial claim.

Experts

Plaintiff experts were Gary Richman, claims analyst, Thousand Oaks, Calif.; Paul Roller, former Alaska insurance commissioner, Volcano, Calif.; Stephen Prater, claims handling, San Jose, Calif.; William Thomas, appraisal and construction, Fair Oaks, Calif.; Gary Hart, structural engineer, Los Angeles; David Jackson, seismologist, Los Angeles; Robert Johnson, economist, Los Altos, Calif.; Arthur Trinkle, photogramatrist, Pasadena, Calif.; Gary Fye, claims handling, Austin, Texas; Richard Hanson, economist, Mission Viejo, Calif.; and Ina DeLong, Sacramento, Calif.

MEALEY'S LITIGATION

Defense experts were Boyd Veenstra, claims handling; Gilbert Malmgren, claims analyst; Gary Hernandez, insurance practices; Simon Schreier, project management; Normal Eichel, appraiser; Paul Kayfetz, photogramatrist; Susan Popik, insurance coverage; Joseph Lounie, insurance company business structure; Richard Phillips, structural engineering; and William Freet, structural engineering.

Counsel to Nordoff are Bernie Bernheim and David Parisi of the Law Offices of Bernie Bernheim in North Hollywood, Calif., and Richard Friedman of Friedman, Rubin & White in Port Hadlock, Wash. State Farm is represented by Lorenzo Gasparetti, Jacqueline Jakregui, Peter Laufenberg, Laine Wagenseller and Kurt Peterson of Crosby, Heafey, Roach & May in Los Angeles, Alan Freisleben of Sedgwick, Detert, Moran & Arnold in Irvine, Calif., and Gregory Bistline of Bistline & Co-hoon in Pasadena, Calif. ■