

Texas Supreme Court Holds Lack of Groundless-Claims Clause in Insurance Policy Does Not Impact the Applicability of the "Eight-Corners Rule"

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On March 20, 2020, the Texas Supreme Court delivered its [opinion](#) in *Richards v. State Farm Lloyds*, addressing a question of Texas law certified from the Fifth Circuit. The certified question concerned Texas' "eight-corners rule," which provides that an insurer's "duty to defend is determined by the claims alleged in the petition and the coverage provided in the policy." *Pine Oak Builders, Inc. v. Great Am. Lloyds Ins. Co.*, 279 S.W.3d 650, 654 (Tex. 2009). Thus, the "eight corners" are comprised of the four corners of the plaintiff's petition and the four corners of the applicable insurance policy. Under the rule, courts determine an insurer's duty to defend by considering the allegations in the plaintiff's pleadings in light of the policy provisions, without evaluating the truth of those allegations. See *GuideOne Elite Ins. Co. v. Fielder Rd. Baptist Church*, 197 S.W.3d 305, 308 (Tex. 2006).

The district court in *Richards* held that the eight-corners rule only applies if the underlying policy contains a "groundless-claims" clause—i.e., language requiring the insurer to defend its insured against all actions, "no matter if the allegations of the suit are groundless, false or fraudulent." *State Farm Lloyds v. Richards*, No. 4:17-CV-753-A, 2018 WL 2225084, at *3 (N.D. Tex. May 15, 2018). The Fifth Circuit asked whether this "policy-language exception" is permissible under Texas law; the Court held it is not.

In reaching its conclusion, the Court noted that it has "never held or suggested that the eight-corners rule is contingent on a groundless-claims clause." Following suit, "Texas courts of appeal have routinely applied the eight-corners rule for many decades, without regard to whether the policy contained a groundless-claims clause. Given that "the eight-corners rule [is] a settled feature of Texas law," insurance companies cannot contract around that rule "merely by omitting the words 'groundless, false or fraudulent,' or similar words, from [the subject] policy." The Court added the caveat that "extrinsic evidence on coverage issues that do not overlap with the merits" may be permissible when "the petition states a claim that could trigger the duty to defend, but the petition is silent on facts necessary to determine coverage." But as the Fifth Circuit did not ask whether this practice was appropriate, the Court expressed no opinion on the matter.