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Iowa Supreme Court Addresses Scope of Appraisal Process

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Appraisal provisions are intended to enable policyholders and insurers to resolve claims regarding the amount of a loss without the need for litigation. Notwithstanding this laudatory purpose, the scope of the appraisal process itself can frequently lead to litigation. In *Walnut Creek Townhome Association v. Depositors Insurance Co.*, 2018 Iowa Sup. LEXIS 57 (Iowa 2018), the Supreme Court of Iowa faced the oft-litigated question of the proper scope of an appraisal when the property damage claim presents issues of causation, valuation and coverage. The court held that while an appraiser may properly “determine the factual cause of damage to insured property to ascertain the amount of the loss,” a court must still decide coverage questions.

In *Walnut Creek*, the insured townhome association retained a roofer to investigate replacing roofing shingles believed to be defective. The roofer recommended that the insured make a warranty claim. Shortly after receiving this recommendation, a wind and hail storm hit. The insured made a claim for hail damage. The insured and its property insurer retained consultants to investigate the claim and determine the cause and extent of the damage. The consultants reached different conclusions, and the insured demanded an appraisal. The insurer participated subject to a coverage reservation of rights. A split appraisal panel (two to one) awarded the insured approximately \$1.5 million. The panel stated that its award was “limited in scope to the amount of loss and damage as a result of a hail and windstorm... [and] did not include an evaluation or determination of coverage, policy exclusions or the relative causation of same.”

The insured and the insurer proceeded to trial on coverage for the award. The trial court held that the policy did not cover the claim based on the policy’s defective product and anti-concurrent causation exclusions, and also held that the appraisers’ findings on causation were not binding. The appellate court reversed, holding that the appraisers’ findings were binding, and that the trial court’s ruling that the exclusions applied was inconsistent with the appraisers’ causation findings. The Supreme Court therefore addressed the question of whether an appraiser “may determine the cause-in-fact of damage to insured property damage (here, roofing shingles) when appraising the amount of the loss from the hailstorm.”

In addressing this question, the court analyzed cases holding that an appraiser may determine causation and cases holding that an appraiser may not consider causation. The court concluded that “[t]he better-reasoned cases [] hold appraisers necessarily address causation when determining the amount of the loss from an insured event.” The court affirmed the rules that an “appraisal does not determine issues of coverage but simply causation” and that “[c]overage issues are for the court.” Applying these rules, the court vacated the trial and appellate court decisions. On remand, the court directed that the trial court “accept the appraisal award to the hail damage loss.” In other words, the “appraisal award is binding on the parties as to the dollar amount of the loss for shingles damage caused by the ... hailstorm, but that amount remains subject to coverage exclusions and limitations.” Accordingly, the trial court would adjudicate the application of the “exclusions for prior deterioration and defective shingles under the anticoncurrent-cause provision.”