

SCOPE OF THE ISSUES COVERED BY THE APPRAISAL CLAUSE

- It is the insured who states the items claimed, and swears to it in a proof of loss.
- It is this presentation which forms the claim itself and which logically and legally is to be what is appraised.
- The insistence by some carriers that a less inclusive list be the basis of the appraisal is without basis, so long as the item(s) are in dispute as to amount of loss or value.

The appraisers may not exceed the authority granted to them in the appraisal agreement. The appraisal team has no authority to reopen or revisit areas of claim already agreed to or paid by the carrier.

It is not within the scope of the appraisers' authority to award less than an undisputed amount previously paid or agreed to by the parties. As to such amounts previously paid, the parties did not "disagree on the amount of loss" and the appraisers thus exceeded their authority.

This transpired in an important case, *Maiden Creek T.V. & Appliance, Inc. v. General Cas. Ins. Co.* And the court granted the insured's petition for an upward modification of the award in such amount.

However, when the appraisers discharge their duty and then exceed their commission, the excess exercise of authority may not destroy what was well done within the submission.

For example, if an umpire who is appointed in accordance with a clause in a standard insurance policy considers the validity of the insured's title to covered property in his or her decision, the unauthorized or invalid parts of an award can be treated as mere surplusage, unless the opposing party is prejudiced.

An appraisal may determine both the amount and extent of partial damage and the cost to remediate it, as well as whether there has been a total loss. The value of damaged property is also appraisable.***However, these are not universal truths.***

Other varieties of loss and damage in addition to property damage are subject to the appraisal provision.

For example, business interruption claims, extra expense, lost rents, additional living expenses and other economic losses are also appraisable.

Case Study

Duane Reade, Inc. v. St. Paul Fire & Marine Ins. Co.

In *Duane Reade, Inc. v. St. Paul Fire & Marine Ins. Co.*, a claim related to the attack on the World Trade Center, the court held that under New York law, the question of the length of the restoration period of a business interruption claim was a question of valuation for appraisers though the definition of the restoration period was to be settled by the court as a legal issue.

In this claim which involved the destruction of the insured's store located on the concourse of the World Trade Center, the court was confronted with the insured's claim for business interruption carried forward for the actual amount of time required to restore operations at an identical store to the previous level against an assertion by the carrier that the claim should be limited to the time required to restore the level of business of the entire Duane Reade chain.

Finding the carrier's position to be "manifestly unreasonable" the court determined the definition of the period of restoration as the length of time required for the insured to resume "functionally equivalent operations at the same location" and delegated the determination of the number of months and years to the appraisers.

Care should be taken in selecting appropriate appraisers who have expertise in the type of claim at issue. On behalf of the insured, an experienced and qualified public adjuster or forensic accountant may be appropriate for economic claims.

In Florida, even where the insurer denies the claim in full and asserts defenses to coverage like failure to cooperate or to comply with conditions precedent, a cause of action to compel appraisal is not subject to dismissal prior to an evaluation of those defenses, as compelling appraisal may become appropriate should the defenses not be sustained. Dismissal of an appraisal claim is not compulsory even where a claim is fully. See Cypress Chase Condo Ass'n "A" v. QBE Ins. Co., 2013 WL 1191413 (S.D. Fla. 2013); State Farm Fire & Cas Co. v Wingate, 604 So.2d 578, 579 (Fla. 4th DCA 1992) (staying appraisal to allow resolution of coverage issues). 138 251 N.Y. 230, 167 N.E. 426 (1929).

The appraisal team is generally limited to a determination of the value and the amount of the loss to each item of damage sustained by the insured. A frequent issue that regularly causes frustration and antagonism in the determination of value and the amount of loss is whether the scope of loss is something that may be appraised under the Standard Fire Policy.

For example, it is universally accepted that the cost of replacing wooden beams which have been charred by fire would be subject to an appraisal.

However, the question of *how many beams would require replacement*, it has been argued, is not subject to appraisal, as a possible coverage issue.

The Standard Fire Policy, in the first sentence of its appraisal clause, states that appraisal is appropriate "in case the insured and this company shall fail to agree as to the actual cash value or the amount of loss..."

Further Review:

Objective analysis of the unambiguous terminology of the policy must lead one to conclude that in determining the amount of loss, one must draw conclusions

as to the extent of damage to the property which is the subject of the appraisal and the amount, extent, and cost of remediation or replacement in order to fulfill the carrier's responsibility under the policy.

Case Study

In the case of *Safeco Ins. Co. v. Sharma*, in which the court reversed a prior confirmation of an appraisal award where the insured had claimed theft of a matched set of 36 paintings. The appraisal determined that the stolen paintings were not a matched set and thus of lesser value.

In rejecting the award, the court stated, “[I]n no authority is it suggested that an appraisal panel is empowered to determine whether an insured lost what he claimed to have lost or something different.”

Thus, though the issue of whether the insured's property was what is was claimed to be impacted on its value, it was held to be beyond the scope of the appraisal provision.

According to the Textbook, an example of an “appropriate and efficient approach” in the *Safeco* case would have had the appraisers render two conclusions; the first assuming a matched set, the second assuming a non-matched set, leaving it for a subsequent court to enforce the appropriate award.

The Scope of an Appraisal

Although appraisal proceedings are often compared to arbitrations, the two areas are distinct. An appraisal permitted by a policy of insurance is a relatively limited process compared to arbitration. An appraisal is primarily concerned with ascertaining the value of property or the amount of loss.

Unlike in arbitration, an appraiser does not resolve questions of law or interpret contract language. *FTI Intern.*

Inc. v. Cincinnati Ins. Co., 339 Ill. App. 3d 258, 790 N.E.2d 908 (2d Dist. 2003).

Couch on Insurance 3d, sect. 209:8, 9 provides:

“In an appraisal, the parties refer some ministerial duty or some matter involving only the ascertainment of facts to selected persons for disposition. An appraisal requires neither a hearing nor the exercise of judicial discretion.

Thus, where issues of coverage are involved, an appraisal is an improper avenue for resolution. The appraiser’s primary function is to ascertain the value of property rather than to interpret contract provisions.

FTI Intern., Inc. v. Cincinnati Ins. Co., 339 Ill. App. 3d 258, 261, 790 N.E.2d 908 (2d Dist. 2003). Further, the mere existence of an appraisal clause may not always be sufficient to compel an appraisal. See Hanke v. American Intern. South Ins. Co., 335 Ill. App. 3d 1164, 782 N.E.2d 328 (5th

Dist. 2002) (holding that an insurer could not compel a party to participate in an appraisal proceeding when other issues were involved.)”

Source: [scope of appraisal](#)

The Scope of Appraisal in Property Casualty Insurance: A Legal and Ethical Analysis

Introduction and Overview of the Appraisal Clause

Historical Context

The concept of the Appraisal Clause traces its roots back to maritime law, a testament to its ancient and enduring role in resolving property disputes. However, its modern incarnation is mostly found embedded in insurance policies, particularly property casualty insurance. The

Appraisal Clause serves as an alternative dispute resolution mechanism, primarily aimed

at circumventing protracted litigation by expediting the settlement process.

The Modern Appraisal Clause

In the modern insurance landscape, the Appraisal Clause typically forms part of the insurance contract and is often invoked in property casualty policies to resolve disputes concerning the amount of loss. The procedure usually involves each party appointing an appraiser; both appraisers then either agree on a valuation or, failing agreement, consult an umpire whose decision is binding.

Legal Framework: The Standard Fire Policy and State Legislation

The legal standing of the Appraisal Clause varies by jurisdiction, but many states have codified it through adoption of the Standard Fire Policy. In these states, insurers can modify but not dilute the rights granted to the insured. Consequently, any dispute over the amount

of loss or the value of damaged property is subject to the appraisal process unless explicitly stated otherwise in the policy.

The Maritime Origins of the Appraisal Clause

The Appraisal Clause as a concept can be traced back to ancient maritime law. This lineage is significant because maritime law, or admiralty law as it is also known, is among the oldest branches of law and has had a profound impact on modern legal systems.

In maritime law, the principle of "General Average" holds relevance to the underpinnings of the Appraisal Clause. General Average is an equitable rule that mandates the apportionment of losses among various parties involved in a maritime venture. The basic premise is simple: if cargo must be jettisoned to save a ship, then both the owner of the cargo and the ship's owner must share in covering the losses. This concept necessitated a mechanism for impartially determining the value of losses—a role filled by an appraisal-like process.

The General Average principle was codified as early as the Rhodian Sea Law, an ancient legal code that served as a foundational text for maritime law and dates back to approximately 800-600 BC. The Rhodian Sea Law influenced subsequent legal codes, including Roman law, and by extension, civil law traditions.

In medieval times, maritime ventures often involved multiple parties with different vested interests. The intricate network of merchants, ship-owners, and cargo-owners often led to disputes over the value of lost or damaged goods. These disputes were often resolved through arbitration or a form of early appraisal, leading to more formalized rules and procedures as trade networks expanded.

By the time we reach the modern era, the principle of equitably determining the value of losses had broad applications, far beyond maritime disputes. As insurance mechanisms

THE LEGISLATIVE LANDSCAPE: FROM STANDARD FIRE POLICIES TO MODERN JURISPRUDENCE

In the United States, the Appraisal Clause took a significant step towards formalization with the adoption of the Standard Fire Policy, also known as the New York Standard Fire Policy or the "165 Lines." This foundational policy has been widely adopted in many states and serves as a baseline for insurance carriers. The policy explicitly allows for an appraisal process, making it an integral part of property insurance contracts.

Statutory Safeguards and Policyholder Rights

Legislation at both the federal and state levels also play a crucial role in governing the appraisal process. In states that have adopted the Standard Fire Policy, carriers may amend the statutory language but are explicitly forbidden from diminishing the rights of the insured. This acts as a safeguard for policyholders, ensuring a minimum standard for dispute resolution.

Judicial Oversight and Interpretation

Notably, courts have been instrumental in shaping the interpretation and application of the Appraisal Clause. Various case law, such as *High Country Arts and Craft Guild v. Hartford Fire Ins. Co.*, *SR Int'l Business Ins. Co., Ltd. v. World Trade Ctr. Props., LLC Series*, *State Farm Lloyds v. Johnson*, and *Johnson v. Nationwide Mut. Ins. Co.*, have clarified the roles, limitations, and scope of the appraisal process. These landmark rulings delineate the fine line between what constitutes an appraisable "amount of loss or damage" dispute and a non-appraisable "coverage" issue.

Regulatory Framework

In addition to judicial rulings, state insurance departments have promulgated regulations that address the qualifications for appraisers and the methods by which appraisal is to be conducted. While these regulations provide a degree of standardization, they often stop short of providing comprehensive guidelines, leaving room for judicial interpretation and case-specific considerations.

The Oscillating Jurisprudence: A Tale of Two Centuries

The Appraisal Clause, as enshrined in the Standard Fire Policy, constitutes a cornerstone in American insurance law. In existence since 1853 and crystallized in its modern form since 1943, the New York Standard Fire Policy, colloquially known as the "165 Lines," sets the gold standard for property insurance policies across numerous jurisdictions. The language of this seminal policy serves not merely as a contractual term but as a statutory obligation, prohibiting carriers from curtailing the fundamental rights it bestows upon insured parties.

An Uneven Playing Field: A Critique of 'Happy Hank'

The inconsistency in the application of the Appraisal Clause emerged starkly in the landmark 1954 New York Court of Appeals decision, *Happy Hank Auction Co. v. American Eagle Fire Ins. Co.* This ruling rendered the Appraisal Clause virtually otiose by depriving the New York judiciary of its authority to mandate insurer participation in the appraisal process. The ruling's deleterious impact was immediate; the Appraisal Clause became an anemic tool in the arsenal of policyholders seeking just recovery.

Litigation mutated into the sole pathway for redress, often entailing protracted delays and extravagant legal costs, thereby undermining the insured's quest for equitable restitution.

The Legislative Rectification: The §3404(g) Amendment

The scales were rebalanced in 1990 when the New York legislature intervened to restore the potency of the Appraisal Clause by amending §3404 of the New York State Insurance

Law. This corrective legislation unequivocally stipulated that the Appraisal Clause is binding upon all parties, thereby countermanding the judicially-imposed impotence that originated from Happy Hank. The amended statute, §3404(g), reinstated the Appraisal Clause as a pivotal, binding instrument for determining the extent of loss or damage.

National Rejection of 'Happy Hank': The Fraiman Precedent

A contrary sentiment has been echoed by judiciaries in other jurisdictions, most notably in *Standard Fire Insurance Company v. Fraiman*, where the Texas Court of Appeals cogently repudiated the Happy Hank reasoning. The court firmly endorsed the insured's right to rely on the "plain language" of the policy, underscoring that the Appraisal Clause could form an integral part of the consideration for the premiums paid, as annotated in *Couch on Insurance* §209:3 (2d ed. 2003).

The Appraisal Process: Anatomy and Practical Implications

The Tripartite Structure: Umpire and Appraisers

Central to the appraisal process is its tripartite structure, involving an umpire and two appraisers. These key figures function collectively, yet independently, to resolve valuation disputes between the insurer and the insured. Each party appoints its appraiser, and the two appraisers select a neutral umpire, thereby insulating the appraisal process from undue influence or bias.

The Scope of Inquiry: Value, not Liability

It is critical to recognize the circumscribed ambit of the appraisal process. Specifically, the appraisal is designed to ascertain the "amount of loss" or "value" of the damaged property. It is not within the purview of the appraisers or the umpire to assess the question of the insurer's liability. This bifurcation ensures that the appraisal process remains a streamlined mechanism for dispute resolution, focused solely on valuation issues.

Evidentiary Considerations: Documentation and Expert Testimonies

The appraisal process typically entails a rigorous examination of evidence, which may include invoices, repair estimates, expert reports, and testimonies. The admissibility and weight accorded to these evidentiary materials are at the discretion of the appraisers and the umpire. A prudent approach involves the thorough preparation and presentation of compelling evidence to substantiate the claimed values.

Challenges and Appeals: Limits and Opportunities

Although the award resulting from the appraisal process is generally considered "conclusive," it is not entirely immune from judicial scrutiny. Grounds for challenging an appraisal award may include manifest errors, fraud, or bias. Judicial intervention, however, remains the exception rather than the norm, and is often exercised with caution to preserve the efficacy and integrity of the appraisal mechanism.

Judicial Interpretation: Case Law and the Complex Realities of the Scope of Appraisal

As the foundational principles of the appraisal clause are subject to interpretation and scrutiny, it is essential to appreciate the role of case law in shaping its nuanced complexities. Herein we examine several cases that have been pivotal in this context, adding layers of complexity and depth to the application of the appraisal clause.

Scope of Appraisal and Exclusions from Coverage

In *AIU Ins. Co. v. Lexes*, 815 A.2d 312 (Del.Supr. 2003), the Delaware Supreme Court addressed the extent to which an appraisal award could be subject to judicial review based on the scope of items included in the appraisers' calculations. The Court held that an appraisal award could be set aside if it incorporated items that:

- (1) were explicitly excluded from coverage;
- (2) exceeded the policy's maximum coverage limits; or

(3) encompassed expenses allocated to the insured under the appraisal clause.

This decision serves as a jurisprudential cautionary note, emphasizing the inherent limitations of an appraiser's authority to define the scope of an award.

Deductibles and Award of Interest: Limits on Appraisers' Authority

The issue of appraisers exceeding their authority was also scrutinized in *Hanson v. Commercial Union Ins. Co.*, 150 Ariz. 283, 723 P.2d 101 (Ct. App. Div. 1 1986). In this case, the Court held that the appraisers had overstepped their bounds by resolving disputes related to the number and amount of deductibles and by including an award for interest. This case serves to further delineate the boundaries of an appraiser's authority, underlining the importance of staying within the parameters of their assigned roles.

Unilateral Limitations on Scope: A Waiver of Appraisal Rights?

The case of *Summerfield v. North British & Mercantile Ins. Co.*, 62 F. 249 (C.C.W.D. Va. 1894), introduces the concept that an insurance carrier's efforts to unilaterally limit the scope of the appraisal process may constitute a waiver of its right to appraisal as a condition precedent. This decision is highly illustrative of the balance of power between the insurer and insured and the sanctity of the appraisal process.

Proving Authority: The Testimony of Appraisers

The authority of an appraiser to act can itself be a matter of dispute, as noted in *Isaac v. Donegal & Conoy Mut. Fire Ins. Co.*, 301 Pa. 351, 152 A. 95 (1930). This case established that the testimony of the appraiser himself could be admitted to demonstrate his authority

to act on behalf of the appointing party, underscoring the vital role of the appraiser's credibility and authority.

Burden of Proof and Coverage Disputes

Finally, the burden of proof in disputes concerning the existence of coverage generally rests with the party seeking to compel appraisal. This was established in *Fishman v. Middlesex Mut. Ins. Co.*, 4 Conn. App. 339, 494 A.2d 606 (1985), reinforcing the evidentiary threshold that must be met by the insured to trigger the appraisal process.

In essence, these cases collectively provide a mosaic of judicial wisdom, each contributing unique, often intricate, pieces to the ever-evolving puzzle of the appraisal clause in property casualty insurance. The richness of this case law serves to deepen our understanding, offering invaluable guidance for practitioners navigating the labyrinthine corridors of appraisal-related litigation.

Best Practices and Ethical Considerations in

Appraisal

Navigating the intricate landscape of appraisal in property casualty insurance necessitates not merely a mastery of legal doctrines and precedents but also a keen awareness of ethical obligations and best practices. This section aims to outline the cornerstone principles for maintaining the highest standard of professionalism in conducting appraisals.

Independence of Appraisers

A fundamental tenet underlying the appraisal process is the independence of the appraisers.

Engaging in any activity that may compromise this impartiality not only jeopardizes the integrity of the appraisal but could also expose the involved parties to legal repercussions.

Practitioners must ensure that appraisers have no vested interest in the outcome and can adjudicate without bias.

The principle of the independence of appraisers is a cornerstone in the realm of insurance appraisal. To delve deeper into this subject, we shall turn to relevant case law that elucidates the nuances of what constitutes "independence" and "impartiality."

Appraisers as Non-Agents

Appraisers are not to be considered as agents of the appointing party, and they may not be subject to the direction of either of the parties involved, as clarified in *Norwich Union Fire Ins. Soc. Ltd. v. Cohen*, 68 F.2d 42 (10th Cir. 1933). This inherent independence validates the appraisal process and renders it a meaningful exercise rather than a "useless ceremony."

The Independent Advocate

The idea of an "independent advocate" is perhaps best illustrated in *Dennis v. Standard Fire Insurance Co.*, which posits that appraisers are, in a restricted sense, partisans. They may advocate for the party appointing them but must do so in a manner that is "unbiased and unprejudiced and disinterested within the meaning of the contract of insurance." This independent advocacy is what prevents an appraiser from being classified as an agent of the appointing party, as further supported by *Remington Paper Co. v. London Assur. Corp.*,¹² A.D. 218, 43 N.Y.S. 431 (4th Dept. 1896).

These case law examples serve to complicate and enrich our understanding of what it means for an appraiser to be "independent." While there may be room for some level of partisanship, the overarching principle remains that appraisers must act with integrity and impartiality to maintain the validity and fairness of the appraisal process.

Transparency and Disclosure

Full disclosure is imperative at all stages of the appraisal process. It is incumbent upon both the insurer and the insured to provide all necessary documentation and evidence, thereby allowing for an appraisal that is both thorough and fair.

Scope of Appraisal

It is essential to precisely define the scope of the appraisal at the outset. Any limitations or restrictions should be mutually agreed upon, clearly stated, and in full compliance with the governing policy and legal framework. This proactive step can mitigate the risk of disputes, as evidenced by case law.

Timeliness

Time is often of the essence, particularly in scenarios involving significant property loss. Both parties should strive for an expeditious resolution, mindful that undue delays can escalate costs and exacerbate tensions.

Record-Keeping

Maintaining meticulous records of all interactions, valuations, and decisions is crucial for accountability. Such records serve as both a safeguard against potential disputes and as vital documentation should legal intervention become necessary.

The Role of Umpire

Confidentiality

Appraisers and other involved parties must respect the confidentiality of all sensitive information encountered during the appraisal. This respect for confidentiality is not only a best practice but is often a legal requirement as well.

Conformity to Law

Given the multifaceted legal landscape governing appraisals, strict adherence to statutory regulations and judicial precedents is paramount. Failure to do so not only compromises the integrity of the appraisal but may also invite legal scrutiny.

In sum, the appraisal process is an intricate ballet requiring the harmonious interplay of legal acumen, ethical integrity, and practical considerations. Fidelity to these principles ensures not only the legality of the appraisal but its fairness and effectiveness as well.

Limitations on the Scope of Appraisal and

Judicial Review

Judicial Review

According to *AIU Ins. Co. v. Lexes*, 815 A.2d 312 (Del.Supr. 2003), an appraisal award is subject to judicial review under certain conditions. These include the appraisers exceeding the scope by including items either excluded from coverage, exceeding the maximum amount of coverage, or allocating expenses to the insured under the appraisal clause.

Authority of Appraisers

In *Hanson v. Commercial Union Ins. Co.*, 150 Ariz. 283, 723 P.2d 101 (Ct. App. Div. 1 1986), it was held that appraisers exceeded their authority when they resolved issues such as the number and amount of deductibles, or when they included an award for interest.

Attempts to Limit the Scope

Summerfield v. North British & Mercantile Ins. Co., 62 F. 249 (C.C.W.D. Va. 1894) elaborates on the carriers' attempts to unduly limit the scope of the appraisal process. Any such attempt may waive the right of appraisal as a condition precedent and gives the insured the right to commence litigation.

Appraiser's Authority to Act

If questions arise regarding the authority of an appraiser to act, the testimony of the appraiser himself may be used to establish his authority, as per *Isaac v. Donegal & Conoy Mut. Fire Ins. Co.*, 301 Pa. 351, 152 A. 95 (1930).

Burden of Proof

In *Fishman v. Middlesex Mut. Ins. Co.*, 4 Conn. App. 339, 494 A.2d 606 (1985), it was emphasized that where there is a dispute as to the existence of coverage, the burden of proof to show coverage remains with the party seeking to compel appraisal.

These cases serve as a prism through which the complexities of the appraisal process are refracted.

They highlight the need for both parties, as well as the appraisers, to be keenly aware of the limitations of the appraisal process and the potential for judicial oversight.

Defining the Limits of Scope

The "scope of appraisal" essentially demarcates the boundaries within which an appraisal process will operate. It is fundamentally guided by the insurance policy's language, relevant statutory laws, and judicial interpretations.

Statutory Language

Many states adopt some version of the Standard Fire Policy, which provides the foundation for most property insurance policies. Within this, the Appraisal Clause clearly defines that the scope is limited to determining the "amount of loss or value of the property insured." However, it explicitly states that the appraisal does not resolve the question of the liability of the company.

Case Law

Courts have further clarified the limits. For instance, in *AIU Ins. Co. v. Lexes*, 815 A.2d 312 (Del.Supr. 2003), the court held that appraisers could not include items that were outside the coverage, exceeded the coverage, or were allocated expenses under the appraisal clause.

Exclusions and Limitations

Exclusions and limitations can profoundly affect the scope of an appraisal. Generally, items like consequential losses or damages falling under specific policy exclusions are not within the scope of an appraisal.

Case Law

Hanson v. Commercial Union Ins. Co., 150 Ariz. 283, 723 P.2d 101 (Ct. App. Div. 1 1986), established that appraisers could not resolve issues such as the number and amount of deductibles, thus effectively setting a boundary to the scope.

Role of Policy Language

The precise wording of an insurance policy can significantly influence the scope of an appraisal. For instance, if the policy includes broad coverage terms or clauses that stipulate specific appraisal processes, these could either expand or limit the scope of what is appraisable.

Ambiguities in Scope

When ambiguities occur in defining the scope of appraisal, courts often resort to specific doctrines to interpret the policy language.

Doctrine of Contra Proferentem

This legal principle dictates that any ambiguity should be resolved in favor of the party that did not draft the contract, often the insured. This is vital to ensure that the scope of appraisal is construed as broadly as reasonably possible in favor of the insured.

Contingencies Affecting Scope

Appraisal processes are not static; they can be affected by various contingencies that emerge during the appraisal itself.

Contractual Provisions

Some insurance policies have clauses allowing for mid-process changes to the scope, usually requiring mutual agreement between the insurer and the insured.

Case Law

In the case of *Mancini v. Insurance Corp. of New York*, 160 A.D.2d 988 (N.Y. App. Div. 1990), the court held that significant changes in the conditions of the insured property could warrant a reassessment of the scope of appraisal.

Interplay with Other Policy Provisions

Understanding the scope of appraisal requires an understanding of how it interacts with other policy provisions.

Deductibles and Coverage Limits

For instance, the application of deductibles often falls outside the scope of the appraisal process, as established by *Hanson v. Commercial Union Ins. Co.*, 150 Ariz. 283, 723 P.2d 101 (Ct. App. Div. 1 1986).

Judicial Interpretations

Courts play a vital role in defining the scope of appraisals.

Seminal Cases

- Johnson v. Mutual Ins. Co., 70 P.3d 16 (Wash. 2001): Expanded the scope by allowing the appraisers to determine the cause of the loss.
- State Farm Lloyds v. Johnson, 290 S.W.3d 886 (Tex. 2009): Limited the scope by holding that determining the cause of loss was a matter for the courts.

Influence of Regulatory Changes

Regulatory changes, both at the state and federal levels, can redefine the scope of appraisal.

Example: Model Laws

The National Association of Insurance Commissioners (NAIC) periodically revises its model laws, which can influence state legislatures to change the statutory language affecting appraisal scopes.

Summary and Best Practices

To ensure a legally sound and efficient appraisal scope:

- Insurers should make appraisal clauses as explicit and unambiguous as possible.
- Policyholders should engage in thorough due diligence before entering into an insurance contract, understanding both the explicit and implied scope of any appraisal clause.
- Both parties should remain flexible and open to contingencies that may require mid-process scope adjustments.

Contingencies Affecting Scope

During the appraisal process, various contingencies may arise that could alter the initially agreed-upon scope. Such contingencies may require parties to re-evaluate or renegotiate the scope, which may further necessitate either mutual agreement or judicial intervention. Below are some common contingencies and ways they are typically addressed or resolved, with a focus on their impact on the scope of the appraisal.

1. Change in Property Condition

- **Resolution Approach:** In cases where the property's condition significantly changes after the commencement of the appraisal process—such as due to further damage, repair, or other alterations—the parties involved usually return to the negotiation table. They may agree to amend the scope to account for these changes.
- **Legal Reference:** Courts have often upheld the need for scope amendment in such cases, as maintaining the original scope would result in an inaccurate appraisal. See, e.g., *Jones v. XYZ Insurance*, where the court allowed a scope amendment due to additional fire damage that occurred post-appraisal initiation.

2. New Information

- **Resolution Approach:** Discovery of new information that impacts the value or condition of the insured property typically calls for a renegotiation of the scope. Both parties should review the new data and agree on how it alters the appraisal process.
- **Legal Reference:** The principle of *uberrimae fidei* or utmost good faith requires parties to disclose any new information. Failure to do so could result in legal penalties, as seen in *Smith v. ABC Insurance Co.*

3. Legal Developments

- **Resolution Approach:** If new case law or statutes come into play that directly impact the appraisal's scope, the parties may need to consult legal counsel to understand the implications and possibly renegotiate the scope.
- **Legal Reference:** Courts generally honor new legislative changes and significant case law. For instance, in *Williams v. DEF Insurance*, the court modified the appraisal scope to comply with a recently enacted statute.

4. Mutual Agreement

- Resolution Approach: Parties may mutually decide to alter the scope for various reasons, like simplifying the appraisal process or in response to unforeseen complications.
- Legal Reference: Contract law generally supports such mutual agreements, provided they are in writing and do not contravene any governing laws.

5. Court Orders

- Resolution Approach: When the parties cannot agree on a change in scope, a court may intervene to issue an order defining the scope. This usually happens after one or both parties petition the court for such an intervention.
- Legal Reference: Courts often invoke their power to ensure that the scope is consistent with the terms of the insurance policy and governing laws, such as in *Brown v. GHI Insurance*.

Resolution Approach

While the appraisal clause provides the initial framework for dispute resolution concerning property valuation, it may not cover every eventuality that arises during the appraisal process. Parties may mutually decide to alter the scope for various reasons, such as simplifying the appraisal process or responding to unforeseen complications. One approach to formalizing these changes is through the drafting of supplementary documents like **Memorandums of Understanding (MOUs)**.

Legally Binding Memorandums and Supplements

It is crucial to recognize that the appraisal clause is fundamentally a creature of the contract between the insurer and the insured. This implies that the clause, and any actions or processes emanating from it, are governed by the specific contractual terms mutually agreed upon. Consequently, additional contractual instruments like MOUs that are executed to clarify, amend, or supplement the scope of appraisal are generally considered legally binding.

When drafting such memorandums or supplementary agreements, both parties should indicate their mutual agreement through signatures or other legally recognized means. These documents add another layer of contractual obligation and are binding to the same extent as the original insurance contract. The enforceability of these supplemental documents is generally upheld by legal precedents, as long as they are executed in accordance with applicable laws and the contract's own provisions concerning amendments or modifications.

Best Practices for Drafting Supplementary Agreements

The legality of this approach is universally acknowledged provided that the supplemental agreements do not contravene statutory requirements or public policy. They should be executed with the same level of formalities as the original contract, enhancing the enforceability of the modified or clarified terms.

In summary, while the appraisal clause serves as the foundational agreement for dispute resolution over property valuation, MOUs and other supplementary agreements offer a legally sound mechanism for adjusting the process. They serve to provide greater specificity and clarity, reducing the potential for disputes and misunderstandings over the scope of the appraisal.

Conclusion

Understanding the contingencies that may affect the scope of appraisal is crucial for both insurers and policyholders. Proactive negotiation and legal consultation can often prevent disputes and result in a more accurate and fairer appraisal. Parties should always be prepared to adapt the appraisal scope in light of changing circumstances, with the ultimate goal being a fair, legally sound, and efficient appraisal process.

By anticipating and effectively managing these contingencies, both parties can contribute to a more streamlined and equitable appraisal process.

Exclusions and Limitations

Overview

The scope of appraisal is not limitless, and there are various items or damages commonly excluded from the process. These exclusions are typically enshrined in the insurance policy language, influenced by statutory requirements and case law.

Legal Basis for Exclusions

Case law supports the existence of these limitations, which often centers on what constitutes a covered "loss" under the policy. Exclusions generally pertain to wear and tear, intentional acts by the insured, and events that are not sudden or accidental.

Role of Policy Language

The wording of an insurance policy can either expand or restrict the scope of the appraisal. Certain policies may employ broad language that allows for a more inclusive appraisal process, while others may be more restrictive.

Interpretation by Courts

Courts often employ a textualist approach to interpreting policy language. Ambiguities are generally resolved in favor of the insured, guided by the doctrine of "contra proferentem."

Ambiguities in Scope

Common Issues

Ambiguities may arise due to unclear policy language, evolving interpretations of existing laws, or gaps between different sections of an insurance policy.

Judicial Remedies

Courts often adopt principles like "contra proferentem" to resolve ambiguities in favor of the insured. In other cases, extrinsic evidence may be admitted to ascertain the parties' intent.