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INSURANCE LAW BULLETIN

Re: Third Circuit Rules Insurer Statements Were Not Proximate Cause Of Lapse Of Life Insurance Policy

The Third Circuit Court of Appeals recently held that a trustee's failure to pay premiums during the grace period, after receiving a lapse notice, was the proximate cause of the loss of a life insurance policy.

A bank was serving as trustee for a life insurance policy. In response to a premium notice, a bank employee called the insurer and received incorrect information regarding the policy's cash value and the need for additional premium payments. When the policy entered the grace period, the insurer sent a lapse notice specifying that additional premiums were due. The bank failed to pay the premiums and the policy lapsed. After the insurer refused to reinstate the policy, the bank sued for breach of contract and breach of the implied duty of good faith.

Following a bench trial, the district court found in favor of the bank, concluding the insurer failed to act in good faith by allowing the policy to lapse after making the misstatements. The Third Circuit reversed, holding the bank's failure to respond to the lapse notice was the proximate cause of the loss.

To learn more about this case or obtain a copy of the Third Circuit's decision, please contact **Bryan D. Bolton**, who represented the insurer in this matter, at 410.659.7754 or bdbolton@fblaw.com. To learn more about our firm, please visit our website at www.fblaw.com.

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