Full Faith and Credit Prevents Insured's Bad Faith Forum Shopping

Insurance Law Update

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California Court of Appeal

In *R.S. v. PacifiCare Life and Health Ins. Co.,* 194 Cal.App.4th 192 (April 12, 2011), the California Court of Appeal, Second District, held that the insureds' California bad faith claims were barred by the full faith and credit clause of the U.S. Constitution because the claims were compulsory counterclaims that should have been asserted in the insurers' prior declaratory relief action in Missouri.

In 2008, the plaintiffs' health insurers sought to rescind their policies in a declaratory judgment action in Missouri. The insureds filed counterclaims for breach of contract, but dismissed them without prejudice after the court issued a preliminary injunction requiring the insurers to resume payment of benefits. The insureds, residents of both California and Missouri, then filed an action in California alleging breach of contract, bad faith and statutory claims.

In 2010, the Missouri court entered a final judgment in favor of the insureds and ordered the insurers to pay all benefits due under the policies. On the insurers' motion, the California trial court dismissed the bad faith action on the grounds that the insureds' claims were barred by the Missouri judgment.

The California Court of Appeal affirmed. The court held that the U.S. Constitution's full faith and credit clause and California law required enforcement of the Missouri judgment to the same extent that it was enforceable in Missouri. The court found that the claims asserted in the California suit were compulsory counterclaims under Missouri law, and therefore the effect of the judgment in Missouri was to bar the dismissed counterclaims. The court rejected the insureds' argument that Missouri's compulsory counterclaim law was a "procedural" matter distinct from the judgment, and the court refused to create a public policy exception to the full faith and credit clause as applied to sister-state judgments.

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