

# State Of Insurance: Q1 Notes From Pennsylvania

By **Todd Leon** (April 28, 2026)

The first quarter of 2026 has already featured several noteworthy insurance opinions in Pennsylvania, addressing recurring but unsettled legal questions with significant practical consequences.

From causation standards in first-party property claims, to the scope of statutory bad faith liability, to the enforceability of arbitration provisions in uninsured motorist and underinsured motorist disputes, these cases illustrate how Pennsylvania courts continue to refine the boundaries of coverage and dispute resolution. Collectively, they provide important guidance to insurers, policyholders and practitioners navigating an evolving legal landscape.



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## **Stella Property Development v. Auto-Owners Insurance**

On Jan. 28, U.S. Circuit Judge D. Brooks Smith, sitting by designation, issued an opinion for the U.S. District Court for the Western District of Pennsylvania in *Stella Property Development & Event Production LLC v. Auto-Owners Insurance Co.*[1] The case involved a recurring and often outcome-determinative issue in first-party property insurance: how to evaluate coverage when a loss results from a combination of covered and excluded causes. Because the Pennsylvania Supreme Court has not definitively resolved this question, the federal court was required to predict how Pennsylvania's highest court would rule on the issue.

The case arose from damage to the insured's property, the Casimir Cultural Center in Johnstown, following a storm event. The policyholder, Stella Property, contended that wind, a covered peril, caused significant structural damage. The insurer, Auto-Owners, denied coverage, asserting that the condition of the property was primarily attributable to wear and tear, deterioration, and other excluded conditions.

As is common in these disputes, both sides presented competing narratives: Stella framed the loss as a sudden, weather-driven event, while Auto-Owners argued that the loss was the inevitable result of long-term neglect.

On cross-motions for summary judgment filed by the parties, the central legal question was whether the presence of an excluded cause of loss barred coverage or whether the court should instead examine which cause was most responsible for the loss.

In evaluating the issue, Judge Smith focused on the question of how Pennsylvania courts would interpret the so-called efficient proximate cause doctrine, which has not yet been defined in a state court opinion. Under that rule, courts are to look at loss as a causal sequence and determine which peril was the triggering cause. Coverage is mandated where a covered cause sets into motion the chain of events that culminates in damage, even if excluded causes contribute along the way.

In addressing the efficient proximate cause doctrine issue, Stella focused on a different, but similar concept — the "concurrent causation" doctrine. In a "concurrent causation" analysis, courts look at whether covered and excluded perils were independent, concurrent causes of the same loss. Coverage is permitted as long as a covered peril is a "concurrent cause" of

the damage, even if it is not the prime, moving or efficient cause.

Judge Smith opted to follow the generally established efficient proximate cause framework, which required Stella to prove that the windstorm was the "dominant and efficient" cause of the roof damage, and not merely a "remote" or "incidental" cause. In this regard, the court found that the claim for coverage was not defeated simply because wear and tear or inadequate maintenance contributed to the damage to the roof.

In so finding, Judge Smith relied on broad principles of Pennsylvania insurance law. The opinion emphasized that ambiguous policy provisions are generally construed in favor of the insured, and that causation issues are often fact-intensive inquiries not well suited for resolution on summary judgment. The court also noted that Pennsylvania courts have, in analogous contexts, resisted rigid rules that would categorically preclude coverage where a covered risk meaningfully contributed to the loss.

Applying the efficient proximate cause doctrine, the court determined that genuine issues of material fact remained. Specifically, a reasonable fact-finder could conclude that wind, rather than deterioration, was the primary driver of the damage to the building. As a result, the court denied Stella's motion for summary judgment and allowed the case to proceed.

The decision is significant because it signals that Pennsylvania courts will engage in a nuanced evaluation of causation.

This, in turn, elevates the role of expert testimony — such as engineers and meteorologists — in determining the outcome of coverage disputes. Practically, Stella Property makes early dispositive motions more difficult in mixed-cause cases and underscores the importance of policy drafting, particularly the inclusion or absence of clear anticoncurrent causation language. Until the Pennsylvania Supreme Court squarely addresses the issue, decisions like Stella Property will continue to shape the landscape of the case law in the state.

### **Eastern Steel Constructors v. International Fidelity Insurance**

On Feb. 18, the Pennsylvania Supreme Court decided *Eastern Steel Constructors Inc. v. International Fidelity Insurance Co.*, which involved an important question at the intersection of construction law and insurance law: whether a surety issuing a performance or payment bond can be exposed to statutory bad faith liability under Pennsylvania's bad faith statute, Title 42 of the Pennsylvania Consolidated Statutes, Section 8371.[2]

The dispute arose out of a construction project at Pennsylvania State University, in which Eastern Steel, a subcontractor, sought payment under a surety bond issued by International Fidelity to the general contractor for the project, Ionadi Corp.

When Fidelity did not issue full payment for the work it performed, Eastern Steel filed suit against the surety, asserting not only a breach of the bond, but also a claim for statutory bad faith. That claim carried significant consequences, as Section 8371 permits recovery of punitive damages, interest and attorney fees — remedies that go well beyond traditional contract damages. The case thus turned on a threshold legal issue: whether a surety bond qualifies as an insurance policy within the meaning of the statute.

In resolving that issue following oral argument, the court, in an opinion authored by Justice David Wecht, undertook a careful examination of the nature of suretyship as compared to insurance.

The court emphasized that, although surety bonds are often issued by insurance companies and may appear similar to insurance products, they are fundamentally different in structure and purpose. More specifically, insurance involves a two-party relationship in which the insurer agrees to assume and spread risk in exchange for a premium. In insurance, the insured transfers the risk of loss, and the insurer bears that risk as part of its business model.

Suretyship, by contrast, is a three-party arrangement involving the obligee (the party protected by the bond — Eastern), the principal (the party whose performance is guaranteed — Ionadi), and the surety (Fidelity). In addition, Penn State was identified as the owner on the particular bond at issue in this case.

According to the court, the surety does not intend to assume ultimate risk. Instead, the surety guarantees the principal's performance and, if it must pay on the bond, typically has a right of indemnification against the principal. In this way, the surety functions more as a financial guarantor than a risk-bearing insurer.

Relying on these distinctions, the court concluded that a surety bond is not an insurance policy for purposes of Section 8371. The court further reasoned that the bad faith statute was enacted to address misconduct in the insurance industry, where unequal bargaining power and the unique nature of insurance contracts justify enhanced remedies. Extending the statute to surety relationships, where the parties are often sophisticated commercial actors and the risk allocation is materially different, would expand the statute beyond its intended scope.

The court also expressed concern about the broader implications of such an expansion. Subjecting sureties to bad faith liability could alter the economics of the surety industry, increase costs and disrupt settled expectations in construction and commercial transactions. Absent clear legislative direction, the court declined to impose those consequences.

Accordingly, the court held that, while Eastern Steel was entitled to proceed with its breach of contract claim against International Fidelity, the company could not pursue statutory bad faith remedies against the surety. The decision reinforces a clear doctrinal boundary in Pennsylvania law: While surety bonds may resemble insurance in some respects, they are not treated as insurance contracts for purposes of statutory bad faith.

### **Chung v. Williams-Foxworth**

On March 12, the Pennsylvania Superior Court decided *Chung v. Williams-Foxworth*, which addressed the enforceability of arbitration provisions in automobile insurance policies, specifically in the context of uninsured/underinsured motorist, or UM/UIM, claims.[3] Although the decision is nonprecedential, its rationale and outcome reflect the continued willingness of Pennsylvania courts to strictly enforce policy-based alternative dispute resolution mechanisms.

The claim at issue involved an effort by one of the drivers involved in a motor vehicle accident, Jooyeun Chung, to seek UM/UIM benefits from her insurer, Travelers Home and Marine Insurance Co. Notably, the Travelers policy included an arbitration clause governing disputes over the insured's entitlement to and the amount of benefits. Despite this provision, Chung initiated litigation in the Pennsylvania Court of Common Pleas, prompting the insurer to seek enforcement of the arbitration requirement.

At its core, the case turned on whether the arbitration clause of the Travelers policy was

valid and applicable to the dispute at hand. Chung raised challenges aimed at avoiding arbitration, arguing that the claim should proceed before the Court of Common Pleas. These arguments touched on issues commonly raised in UM/UIM disputes, including the scope of arbitration clauses and whether certain threshold issues fall within a court's jurisdiction rather than an arbitrator's authority.

The Superior Court reaffirmed Pennsylvania's strong presumption in favor of enforcing arbitration agreements, particularly where the policy language is clear and unambiguous. The appellate court emphasized that arbitration provisions in insurance contracts are binding and must be honored according to their terms. Where the parties have agreed to arbitrate disputes concerning UM/UIM coverage, courts are generally required to compel arbitration rather than adjudicate the merits of the claim.

In rejecting Chung's attempt to proceed in court, the court focused on the breadth of the arbitration clause. It concluded that the issues raised, including questions about entitlement to benefits and the extent of damages, fell squarely within the scope of arbitration as defined by the policy. The court further noted that Pennsylvania law favors arbitration as a means of resolving disputes efficiently and with less judicial involvement, particularly in the insurance context.

Importantly, the decision also reflects the limited role of courts once a valid arbitration agreement is identified. Rather than engaging in a detailed analysis of the underlying claim, the court confined its review to whether arbitration was required. Finding that it was, the court directed that the dispute be resolved through the contractual arbitration process.

While nonprecedential, the case underscores several practical points for insurance practitioners in Pennsylvania. First, arbitration clauses in UM/UIM policies will be enforced as written. Second, attempts to bypass arbitration by reframing issues as judicial questions are unlikely to succeed where the policy language is broad and clear. Finally, the decision highlights the importance of carefully analyzing dispute resolution provisions at the outset of a claim, as they may dictate the forum and procedure for resolving the dispute.

## **Conclusion**

Taken together, these decisions underscore a consistent judicial approach in Pennsylvania grounded in careful analysis of and deference to contractual language, while leaving room for fact-intensive inquiries where appropriate. Whether through the adoption of the efficient proximate cause framework, the clear distinction between suretyship and insurance, or the strict enforcement of arbitration provisions, Pennsylvania courts are signaling an emphasis on predictability and clarity.

As these issues continue to develop, particularly in the absence of definitive guidance from the state's highest court on certain questions, these rulings will play a critical role in shaping litigation strategy and policy interpretation going forward.

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[1] Stella Property Development & Event Production LLC v. Auto-Owners Insurance Co., 2026 WL 221489 (W.D. Pa. January 28, 2026).

[2] Eastern Steel Constructors, Inc. v. International Fidelity Insurance Co., 351 A.3d 766 (Pa. 2026).

[3] Chung v. Williams-Foxworth, 2026 WL 699759 (Super. Ct. Pa. March 12, 2026).