

Navigating the Doctrine of Reasonable Expectations: A Liability Risk for Insurance Agents

PLUS Blog

Posted on July 28, 2025, by plushq

Dana A. Gittleman

A 2024 Pennsylvania appellate ruling underscores the importance of clear communication to mitigate against potential claims of deception under the doctrine of reasonable expectations. When this doctrine is invoked, liability may attach for the insurance agent.

In *Hespen v. Erie Insurance Company, Levy Insurance Company, LLC and Thomas Levy*, 332 A.3d 1229 (Pa. Super. 2024), the Pennsylvania Superior Court rejected the appellants' assertion of the applicability of the doctrine of reasonable expectations. The appellants had entered into a stipulated judgment with the company of a tortfeasor driver who injured Mr. Hespen, accepting an assignment of rights of the company, Karalis Mechanical Services, LLC, against its insurer, Erie, and insurance agency, Levy Insurance Agency, LLC and agent Thomas Levy. Karalis had a commercial general liability policy procured by Levy and underwritten by Erie, and obtained an umbrella business catastrophe policy (BCL) with Erie after the subject automobile accident occurred. Karalis had a separate commercial automobile policy with State Farm at the time.

Erie denied coverage for the accident under the CGL policy, which excluded automobile liability, and under the BCL policy because it

was not in effect on the date of loss and the coverage only applied to automobiles insured by Erie. The trial court granted Erie's and Levy's motions for summary judgment, and appellants appealed on the basis of the reasonable expectations doctrine. That is, whether the trial court had erred in refusing to consider the expectations of the insured, Karalis, and in finding that Karalis did not have an expectation of coverage as a matter of law.

In evaluating this claim, the Pennsylvania Superior Court considered the plain language of the Erie policies themselves, as well as Mr. Levy's conduct regarding insurance procurement. Approximately one year prior to the accident, Mr. Levy provided an Erie Business Auto Policy quote, which would have covered the vehicle involved in the accident. Karalis opted to continue its auto insurance coverage with State Farm based on price and emailed Mr. Levy with this decision and rationale.

The doctrine of reasonable expectations is designed to protect "a non-commercial insured from policy terms which are not readily apparent, and to protect non-commercial insureds from deception by insurance agents." *Hespen*, 332 A.3d at *4 (citing *Matcon Diamond, Inc. v. Penn Nat. Ins. Co.*,

815 A.2d 1109, 1114 (Pa. Super. 2003)). Here, Karalis was a commercial insured, and there was no deception. Indeed, the terms of the Erie policies were unambiguous: Mr. Levy provided a BCL quote as requested, and Mr. Karalis never responded to the quote until after the accident occurred; and even if the BCL policy had been in effect, Erie would not have covered the loss, as Karalis had rejected the Erie auto quote (and thus the auto involved in the accident was not insured by Erie). Moreover, the court was unconvinced by Mr. Levy's note in his computer system about "adding auto" to the commercial policy.

Given the court's rejection of the doctrine of reasonable expectations, appellant's claims against Erie, Levy Agency and Mr. Levy lacked support, and the Court affirmed the trial court's summary judgment rulings.

With respect to the claims against Levy specifically, this case is a reminder of the oft-cited best practice to contemporaneously memorialize customer interactions and communications. Here, Mr. Levy offered auto insurance for Karalis with Erie, which was rejected, and the offer to procure BCL coverage was not accepted until after the accident, despite repeated follow-up by Mr. Levy.

These communications evidenced Karalis' intentions regarding auto insurance and did not support a finding of deception.

This case also bolsters the existing case law governing the application of the doctrine of reasonable expectations, reiterating the criteria articulated in *Matcon, supra*: "This Court has noted that, generally, courts cannot invoke the reasonable expectation doctrine to create an ambiguity where the policy itself is unambiguous. Our Supreme Court has identified only two limited exceptions to this principle: (1) protecting non-commercial insureds from policy terms which are not readily apparent; and (2) protecting non-commercial insureds from deception by insurance agents."

This piece was originally launched on the Marshall Dennehey client newsletter.



Dana A. Gittleman is a shareholder in Marshall Dennehey's Professional Liability Department in Philadelphia where she focuses on the defense of claims and lawsuits brought against insurance agents and brokers, real estate professionals, attorneys, directors and officers, and large product manufacturers.