

**USAA TEXAS LLOYDS v.  
MENCHACA**

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- “ When this Court decides a case by announcing a rule of law, the decision serves as “binding precedent ... when the very point is again presented in a subsequent suit between different parties.” *Swilley v. McCain*, 374 S.W.2d 871, 875 (Tex. 1964). Yet as one of history’s most renowned jurists once observed, “seldom will it happen that any one rule will exactly suit with many cases.” 3 WILLIAM BLACKSTONE, COMMENTARIES \*335 (1765). We have similarly acknowledged that “it is at best difficult to avoid some uncertainties in the law because of the varying facts attending the different cases.” *Trapp v. Shell Oil Co.*, 145 Tex. 323, 198 S.W.2d 424, 427 (1946). When our decisions create such uncertainties, “it is our duty to settle the conflicts in order that the confusion will as nearly as possible be set at rest.” *Id.*”

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- **FACTS:**
  - HURRICANE IKE CASE
  - HOMEOWNER’S CLAIM FILED
  - CLAIM ADJUSTED BUT NO BENEFITS PAID BECAUSE CLAIM DID NOT EXCEED DEDUCTIBLE
  - PROPERTY RE-INSPECTED AND FIRST ADJUSTER’S FINDINGS CONFIRMED

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- SUIT FILED AND TRIED TO JURY
  - QUESTION 1 - JURY FOUND NO BREACH OF CONTRACT BY USAA
  - QUESTION 2 - JURY FOUND USAA ENGAGED IN UNFAIR AND DECEPTIVE ACTS
  - QUESTION 3 – JURY FOUND \$11,350 IN DAMAGES
  - THE JURY ALSO FOUND REASONABLE AND NECESSARY ATTORNEY’S FEES OF \$130,000

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- TRIAL COURT ENTERED JUDGMENT FOR MENCHACA
- COURT OF APPEALS (CORPUS CHRISTI) AFFIRMED
- TEXAS SUPREME COURT GRANTED PETITION FOR REVIEW

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- CONFLICT
- *PROVIDENT AMERICAN INSURANCE CO. v CASTANEDA*
- *VAIL v TEXAS FARM BUREAU MUTUAL INSURANCE CO.*

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• “An insurance policy, however, is a unique type of contract because an insurer generally “has exclusive control over the evaluation, processing[,] and denial of claims,” and it can easily use that control to take advantage of its insured. *Arnold v. Nat’l Cty. Mut. Fire Ins. Co.*, 725 S.W.2d 165, 167 (Tex. 1987). Because of this inherent “unequal bargaining power,” we concluded in *Arnold* that the “special relationship” between an insurer and insured justifies the imposition of a common-law duty on insurers to “deal fairly and in good faith with their insureds.” *Id.*”

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• “Similar to that common-law duty, the Insurance Code supplements the parties’ contractual rights and obligations by imposing procedural requirements that govern the manner in which insurers review and resolve an insured’s claim for policy benefits. See, e.g., TEX. INS. CODE § 541.060(a) (prohibiting insurers from engaging in a variety of “unfair settlement practices”). The Code grants insureds a private action against insurers that engage in certain discriminatory, unfair, deceptive, or bad-faith practices, and it permits insureds to recover “actual damages ... caused by” those practices, court costs, and attorney’s fees, plus treble damages if the insurer “knowingly” commits the prohibited act. “

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• “The primary question in this case is whether an insured can recover policy benefits as actual damages caused by an insurer’s statutory violation absent a finding that the insured had a contractual right to the benefits under the insurance policy. Generally, the answer to this question is “no,” but the issue is complicated and involves several related questions. In an effort to clarify these issues, we distill from our decisions five distinct but interrelated rules that govern the relationship between contractual and extra-contractual claims in the insurance context.”

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- A. The General Rule

- The general rule is that an insured cannot recover policy benefits for an insurer’s statutory violation if the insured does not have a right to those benefits under the policy.

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- B. The Entitled-to-Benefits Rule

- The second rule from our precedent is that an insured who establishes a right to receive benefits under an insurance policy can recover those benefits as “actual damages” under the statute if the insurer’s statutory violation causes the loss of the benefits.

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- C. The Benefits–Lost Rule

- A third rule that our precedent recognizes is the rule that an insured can recover benefits as actual damages under the Insurance Code even if the insured has no right to those benefits under the policy, if the insurer’s conduct caused the insured to lose that contractual right.

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- D. The Independent–Injury Rule

- The fourth rule from our precedent derives from the fact that an insurer’s extra-contractual liability is “distinct” from its liability for benefits under the insurance policy.

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- E. The No–Recovery Rule

- The fifth and final rule is simply the natural corollary to the first four rules: An insured cannot recover any damages based on an insurer’s statutory violation unless the insured establishes a right to receive benefits under the policy or an injury independent of a right to benefits.

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- Summary

- That an insured cannot recover policy benefits as damages for an insurer’s statutory violation if the policy does not provide the insured a right to receive those benefits. An insured who establishes a right to receive benefits under the policy can recover those benefits as actual damages under the Insurance Code if the insurer’s statutory violation causes the loss of the benefits. And an insured can recover benefits as actual damages under the Insurance Code even if the insured has no contractual right to those benefits if the insurer’s conduct caused the insured to lose that right.

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– If an insurer’s statutory violation causes an injury independent of the insured’s right to recover policy benefits, the insured may recover damages for that injury even if the insured is not entitled to receive benefits under the policy. But if the policy does entitle the insured to benefits, the insurer’s statutory violation does not permit the insured to recover any actual damages beyond those policy benefits unless the violation causes an injury that is independent from the loss of the benefits. Finally, an insured cannot recover any damages based on an insurer’s statutory violation if the insured had no right to receive benefits under the policy and sustained no injury independent of a right to benefits.

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- Application to Menchaca

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