THE
NATIONAL LAW REVIEW

Replacing Life Insurance Policy Triggers Change in Suicide Coverage

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- Insurance Reinsurance & Surety
- Litigation / Trial Practice

- 3rd Circuit (incl. bankruptcy)

Wednesday, October 9, 2019

Replacing life insurance has ramifications. In a recent Third Circuit case, the ramifications resulted in the loss of full policy benefits.

In *Lomma v. Ohio Nat'l Life Ass. Corp.*, No. 18-2675, 2019 U.S. App. LEXIS 30151 (3d Cir. Oct. 8, 2019), the insured had a universal life insurance policy in effect since 1986. In August 2007, she applied with the same insurer to replace the universal policy with a term life policy. The insurer advised her that by replacing her existing policy her suicide coverage may change.

The replacement policy included a suicide exclusion, providing that if the insured killed herself within the first two "contract years," the death benefits would be limited to a return of the premiums paid. In May 2009, the insured committed suicide and the insurer determined that the beneficiaries were entitled to a refund of the premiums only.

The beneficiaries sued for breach of contract. The district court granted summary judgment in favor of the beneficiaries finding that the phrase "contract years" was ambiguous and could have referred to the entire contractual relationship between the insured and insurer. The Court of Appeals, applying Pennsylvania law, reversed, holding that there was no ambiguity: "[m]ere assertions that a party expected coverage will not ordinarily defeat unambiguous policy language excluding coverage." (Punctuation altered; citation omitted). Here, contract years had to be counted from the contract date of the replacement policy.

Although not crucial to the court's decision, it distinguished the terms "policy date" and "issue date." The policy date, according to the court, "is the date a premium is due and triggers when coverage begins," while the issue date is the date the policy "is provided to the insured and triggers the time period in which the insured may cancel the policy."