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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

BAYLEY CONSTRUCTION,

Plaintiff,

v.

GREAT AMERICAN E&S
INSURANCE COMPANY,

Defendant.

CASE NO. C13-0114JLR

ORDER ON MOTIONS FOR
SUMMARY JUDGMENT

This matter comes before the court on Defendant Great American E&S Insurance Company’s (“Great American”) motion for partial summary judgment (GA Mot. (Dkt. # 16)) and Plaintiff Bayley Construction’s (“Bayley”) motion for partial summary judgment (Bayley Mot. (Dkt. # 30)). This is an insurance coverage action. Great American moves for partial summary judgment that it had no duty to defend Bayley under Bayley’s professional liability insurance policy. (*See generally* GA Mot.) Bayley moves for partial summary judgment that Great American breached its duty to defend,

1 | breached its duty to investigate, denied Bayley’s claim in bad faith, and violated
2 | Washington’s Insurance Fair Conduct Act. (*See generally* Bayley Mot.) Having
3 | considered the submissions of the parties, the balance of the record, the relevant law, and
4 | having heard oral argument, the court DENIES Great American’s motion for partial
5 | summary judgment, and GRANTS in part and DENIES in part Bayley’s motion for
6 | partial summary judgment.

7 | **I. BACKGROUND**

8 | **A. The Policy**

9 | Great American issued an insurance policy to Bayley that included coverage for
10 | professional liability (“Policy”). (Hampton Decl. (Dkt. # 17) Ex. 6 (Policy) at 84.) The
11 | Policy states:

12 | **COVERAGE A – PROFESSIONAL LIABILITY**

13 | The Company will pay on behalf of the INSURED for LOSS and related
14 | LEGAL EXPENSE because of an actual or alleged act, error or omission in
15 | PROFESSIONAL SERVICES, which the INSURED becomes legally
16 | obligated to pay as a result of a CLAIM first made against the INSURED
17 | during the POLICY PERIOD, but only if the INSURED reports the
18 | CLAIM to the Company, in writing, during the POLICY PERIOD or, if
19 | applicable, the EXTENDED REPORTING PERIOD.

17 | *Id.* The Policy defines “professional services” as follows:

18 | **PROFESSIONAL SERVICES** means any professional services stated in
19 | the Declarations, or otherwise scheduled as such onto this Policy in an
20 | endorsement issued by the Company, performed by or on behalf of the
21 | INSURED.

20 | *Id.* at 89. The Declarations provide that “professional services” include the following
21 | services:

22 |

1 PROFESSIONAL SERVICES: Construction Management, Pre-
2 Construction Consulting Services and Design Services.

3 *Id.* at 83. The Policy defines a “claim” as follows:

4 **CLAIM** means:

5 1. . . . a demand, notice or assertion of a legal right alleging liability or
6 responsibility on the part of the INSURED, arising out of . . . an actual or
7 alleged act, error or omission in PROFESSIONAL SERVICES, and shall
8 include but not be limited to lawsuits, orders, petitions or governmental or
9 regulatory actions, filed against the INSURED.

10 *Id.* at 86. The Policy defines a “loss” as follows:

11 **LOSS** means:

12 1. . . . a monetary judgment, award or settlement of:

13 i. compensatory damages; or

14 ii. punitive, exemplary or multiplied damages, civil fines, penalties
15 and assessments, where insurable by law.

16 *Id.* at 88.

17 **B. Events Underlying this Dispute**

18 Bayley was awarded the bid for a renovation project at the James B. Learning
19 Resource Center at Saddleback College (the “Project”) in Orange County, California.
20 (Hampton Decl. Ex. 5 (Contract) at 59.) The municipal owner of the Project was the
21 South Orange County Community College District (“District”). (*Id.*) Bayley served as
22 the general contractor for the Project in exchange for a flat fee of \$12,299,000.00. (*Id.* at
59.)

Bayley engaged Central Tech Air Conditioning (“Central Tech”) as a
subcontractor to perform the heating, ventilation, and air conditioning (“HVAC”) work
on the Project. (*See* Dutcher Decl. (Dkt. # 23) Ex. D. (Subcontract).) An investigation

1 by the District’s labor compliance administrator, Parsons Brinckerhoff, later revealed that
2 Central Tech was illegally paying its workers on the Project less than California’s
3 prevailing wage. (Hampton Decl. Ex. 1 (Request and Notice) at 5-7.) Specifically,
4 although Central Tech issued payroll checks for the prevailing wage, it forced its workers
5 to immediately endorse and return the checks in exchange for a much smaller value of
6 cash. (*Id.*) Central Tech also underreported the hours worked by its employees. (*Id.*)
7 Bayley maintains that it was not complicit in Central Tech’s illegal operations.¹ (Dutcher
8 Decl. ¶¶ 7, 9.)

9 At the conclusion of its investigation, Parsons Brinckerhoff, on behalf of the
10 District, sent the California Division of Labor Standards and Enforcement a Request for
11 Approval of Forfeiture (“Request”). (Request and Notice at 4.) Bayley received a copy
12 of the Request on January 5, 2012. (*Id.*) The Request delineated Central Tech’s
13 mismanagement, the ensuing investigation, and the amount of unpaid wages and
14 penalties. (*Id.* at 5-7.) The Labor Commissioner approved the Request. (Hampton 2d.
15 Decl. (Dkt. # 33) Ex. 6 (Denial Letter) at 23.)

16 The District served Bayley with a Notice of Withholding Contract Payments
17 (“Notice”) on March 8, 2012. (Request and Notice at 10.) The Notice stated the

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19 ¹ The parties do not dispute that, under California law, a general contractor is responsible for
20 ensuring that all workers on a project—including subcontractors’ employees—receive the prevailing
21 wage. *See, e.g.*, Cal. Labor Code §1774 (“The contractor to whom the contract is awarded, and any
22 subcontractor under him, shall pay not less than the specified prevailing rates of wages to all workmen
employed in the execution of the contract.”) Additionally, Bayley’s contract with the District specified
that the “CONTRACTOR shall pay and shall cause to be paid each worker engaged in work on the
Project not less than the general prevailing rate, regardless of any contractual relationship which may be
alleged to exist between the CONTRACTOR or any subcontractor and such workers.” (Contract at 97.)

1 District's intent to withhold contract payments to Bayley in the amount of the unpaid
2 wages and penalties. (*Id.*) The Notice also set forth Bayley and Central Tech's
3 procedural rights to dispute the withholding. (*Id.*)

4 After receiving the Notice, Bayley sued Central Tech; Central Tech dissolved its
5 business and both principals declared bankruptcy. (Dutcher Decl. ¶ 11.)

6 **C. Bayley's Tender and Great American's Denial**

7 On October 22, 2012, Bayley, via its insurance broker, tendered a claim to Great
8 American under its professional liability policy, and forwarded Great American copies of
9 the Request and the Notice. (Hampton Decl. Ex. 2.) After receiving the claim, Great
10 American requested and received additional information from Bayley, including copies
11 of the contract and subcontract at issue. (*Id.* Ex. 4 at 40-41; Ex. 5 at 43-45.) Great
12 American also retained the firm Morris, Polich and Purdy to attend and report on an
13 upcoming settlement conference and to advise Great American on California labor law.
14 (Hampton 2d. Decl. Ex. 15 (Shippee Depo.) at 65, 67.) On December 18, 2012, Great
15 American sent Bayley a denial letter declining to cover the claim. (*See* Denial Letter.)
16 Bayley initiated this suit on December 19, 2012. (Notice of Removal (Dkt. # 1) at 2).

17 **II. ANALYSIS**

18 Bayley, in its motion for summary judgment, argues that (1) Great American
19 breached its duty to defend, (2) Great American's investigation and denial of coverage
20 constituted bad faith, (3) as a result of Great American's alleged bad faith, Great
21 American is estopped from denying Bayley coverage, and (4) Great American violated
22 Washington's Insurance Fair Conduct Act ("IFCA"). (*See generally* Bayley Mot.) Great

1 American, in its motion for summary judgment, argues that it did not breach its duty to
2 defend Bayley as a matter of law, and that therefore all of Bayley’s claims (with the
3 exception of a claim for procedural bad faith) must fail. (*See generally* GA Mot.) The
4 court addresses each argument in turn below.

5 **A. Summary Judgment Standard**

6 Summary judgment is appropriate if the evidence, when viewed in the light most
7 favorable to the non-moving party, demonstrates “that there is no genuine dispute as to
8 any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ.
9 P. 56(a); *see also Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986); *Galen v. Cnty. of*
10 *L.A.*, 477 F.3d 652, 658 (9th Cir. 2007). The moving party bears the initial burden of
11 showing there is no genuine issue of material fact and that he or she is entitled to prevail
12 as a matter of law. *Celotex*, 477 U.S. at 323. If the moving party meets his or her
13 burden, then the non-moving party “must make a showing sufficient to establish a
14 genuine dispute of material fact regarding the existence of the essential elements of his
15 case that he must prove at trial” in order to withstand summary judgment. *Galen*, 477
16 F.3d at 658. The court is “required to view the facts and draw reasonable inferences in
17 the light most favorable to the [non-moving] party.” *Scott v. Harris*, 550 U.S. 372, 378
18 (2007).

19 **B. Duty to Defend**

20 An insurer has a duty to defend “when a complaint against the insured, construed
21 liberally, alleges facts which could, if proven, impose liability upon the insured within the
22 policy’s coverage.” *Truck Ins. Exch. v. VanPort Homes*, 58 P.3d 276, 281-82 (Wash.

1 | 2002). The duty to defend is broader than the duty to indemnify. *Am. Best Food, Inc. v.*
2 | *Alea London, LTD*, 229 P.3d 693, 696 (Wash. 2010) (citing *Safeco Ins. Co. of Am. v.*
3 | *Butler*, 823 P.2d 499, 504-05 (Wash. 1992)). Whereas the duty to indemnify “hinges on
4 | the insured’s *actual liability* to the claimant and *actual coverage* under the policy,” the
5 | duty to defend “arises based on the insured’s *potential* for liability and whether
6 | allegations in the complaint *could conceivably* impose liability on the insured.” *Woo v.*
7 | *Fireman’s Fund Ins. Co.*, 164 P.3d 454, 462-63 (2007) (emphasis in original).

8 | The insurer is relieved of its duty to defend only if the alleged claim is “clearly not
9 | covered by the policy.” *VanPort Homes*, 58 P.3d at 282. “If there is any reasonable
10 | interpretation of the facts or the law that could result in coverage, the insurer must
11 | defend.” *Alea London*, 229 P.3d at 696. If a complaint is ambiguous, a court will
12 | construe it liberally in favor of “triggering the insurer’s duty to defend.” *Woo*, 164 P.3d
13 | at 459. Similarly, an insurer cannot rely on an equivocal interpretation of the case law to
14 | give itself—rather than the insured—the benefit of the doubt. *Id.* at 463.

15 | The duty to defend must be determined only from the complaint, unless (1) the
16 | complaint provides too little factual detail, or (2) the allegations in the complaint are
17 | ambiguous or conflict with information known to or readily ascertainable by the insurer.
18 | *See Woo*, 164 P.3d at 459. Even then, an insurer may only rely on extrinsic facts to
19 | trigger—not deny—the duty to defend. *Id.*

1 **1. Potential for liability**

2 Here, the Response and the Notice, both of which Great American received at the
3 time Bayley tendered its claim, could serve as a functional complaint.² Comparing the
4 Response and Notice to the Policy shows that the facts alleged therein could conceivably
5 impose a covered liability on Bayley.

6 Specifically, the District’s Request seeks approval from the Division of Labor
7 Standards and Enforcement to withhold contract payments to Bayley on the basis of the
8 labor compliance program’s investigation and findings regarding Central Tech. (Request
9 and Notice at 5.) The Request identifies Bayley as the “Affected Contractor,” Central
10 Tech as the “Affected Subcontractor,” and the District as the “Awarding Body.” (*Id.*)
11 The Request provides a “General Description of the Scope of Work of the Entire
12 Project,” stating: “Renovations of Saddleback College Learning Resource Center
13 includes [sic] partial demolition, complete renovation of 100,000 square foot library
14 building, and modernizations” (*Id.*) The Request then details the labor compliance
15 program’s investigation into Central Tech, describes Central Tech’s strategy of
16 underpaying workers and falsifying payment records, summarizes the audit, and
17 recommends wages and penalties due under specific sections of the California Labor
18 Code. (*Id.* at 6-8.) The Request concludes that Bayley and Central Tech owe “Potential
19 Liquidated Damages” of \$427,709.14 and penalties of \$101,750.00. (*Id.* at 5.)

20
21 _____

22 ² The Policy defines a “claim” to include a “demand, notice or assertion of a legal right.”
(Policy at 86.)

1 Similarly, the Notice reiterates that the District’s labor compliance program
2 identified violations of the California Labor Code with respect to the Project resulting in
3 unpaid wages of \$427,709.14 and penalties of \$101,750.00. (*Id.*) The Notice identifies
4 the District as the “Awarding Body,” Bayley Construction as the “Prime Contractor” and
5 Central Tech as the “Subcontractor” on the Project. (*Id.*) The Notice informs Bayley that
6 the District is withholding contract payments in the amount of unpaid wages and
7 penalties. (*Id.*) The Notice provides that Bayley must submit a written Request for
8 Review within 60 days to obtain a hearing, and that failure to respond “will result in a
9 final order which shall be binding.” (*Id.* at 11.)

10 Therefore, from the face of the Response and Notice, Great American was
11 aware that Bayley was serving as the prime contractor on a construction project,
12 that the subcontractor Bayley hired had failed to pay its workers California’s
13 prevailing wage, and that Bayley was facing liability under California law for that
14 failure. The Policy provides coverage for a “loss” due to an “act, error, or
15 omission in professional services,” where professional services are defined as:
16 “Construction Management, Pre-Construction Consulting Services and Design
17 Services,” and “loss” is defined “a monetary judgment, award or settlement” that
18 includes “compensatory damages . . . punitive, exemplary or multiplied damages,
19 civil fines, penalties and assessments.” (Policy at 83, 88.) The facts alleged in the
20 Notice and Response conceivably indicate a “loss”³ due to an “act, error, or

21
22 ³ The penalties assessed under California Labor Code could constitute a “loss.” The

1 omission” by Bayley in conducting “construction management” of the Project that
2 could be covered by the Policy.

3 **2. “Professional services”**

4 Great American’s argument that it owes Bayley no duty to defend is premised on
5 its interpretation of the term “professional services.” (GA Mot. 9-15.) In a nutshell,
6 Great American seeks to define “professional services” as services that “require the
7 exercise of professional skill and judgment” or “specialized knowledge or skill.” (*Id.* at
8 10). In Great American’s view, paying workers the appropriate prevailing wage does not
9 require special skill or judgment, but rather is an obligation common to every public
10 works contractor, and therefore is not a professional service covered by the policy. (*Id.* at
11 1-12.)

12 In the context of a duty to defend analysis, this argument is unavailing. Nothing
13 within the four corners of the Policy necessitates—or supports—Great American’s
14 definition of professional services. To the contrary, the Policy explicitly defines

15
16 withheld contract payments could also constitute a “loss,” because Bayley in effect would be
17 required to pay the prevailing wage twice: Bayley’s flat-sum contract with Central Tech assumed
18 that Central Tech would pay its workers the prevailing wage. (*See* Subcontract at 18; Dutcher
19 Decl. ¶ 13.)

20 Great American’s denial letter points out that the Policy excludes “liquidated damages”
21 from the definition of “loss,” and argues that the Policy is inapplicable because the Notice at one
22 point describes the unpaid wages as liquidated damages. (Denial Letter at 25.) However, the
Notice provides that liquidated damages only become due if the contractor fails to post a bond
within 60 days, and that subsequent administrative proceedings may alter the amount of wages
and penalties due. (Request and Notice at 13-14.) Moreover, the parties continue to dispute the
definition of “liquidated damages” under the Policy, California law, and Washington law. (*See*,
e.g., Bayley Mot. at 13-14, 21-22; Resp. to Bayley Mot. (Dkt. # 32) at 18-19; Reply to Bayley
Mot. (Dkt. # 34) at 9.) Therefore, the mere appearance of the term “liquidated damages” in the
Notice is not an appropriate basis for deciding that Bayley’s claim was “clearly not covered by
the policy.” *See VanPort Homes*, 58 P.3d at 282.

1 professional services as “Construction Management, Pre-Construction Consulting
2 Services and Design Services.” (Policy at 83.) Neither does Great American supply any
3 precedent defining “professional services” in the context of construction management or
4 a prevailing wage claim. Rather, Great American relies on cases from outside
5 Washington State which hold that the submission of medical billing claims under the
6 False Claims Act does not qualify as a “professional service.” *See, e.g., Zurich Am. Ins.*
7 *Co. v. O’Hara Regional Ctr. for Rehabilitation*, 529 F.3d 916, 925 (10th Cir. 2008);
8 *Medical Records Assoc., Inc. v. Am. Empire Surplus Lines Ins. Co.*, 142 F.3d 512, 515-16
9 (1st Cir. 1998)); *Horizon West, Inc. v. St. Paul Fire & Marine Ins. Co.*, 214 F. Supp. 2d
10 1074, 1079 (E.D. Cal. 2002); *MSO Washington, Inc. v. RSUI Grp., Inc.*, C12-6090 RJB,
11 2013 WL 1914482 (W.D. Wash. May 8, 2013). These cases are less than compelling.⁴
12 And an insurer may not rely upon equivocal case law to give itself the benefit of the
13 doubt rather than its insured. *Woo*, 164 P.3d at 463.

14 Moreover, Great American’s interpretation conflicts with other principles of
15 policy interpretation. Under Washington state law: inclusionary clauses in insurance
16 contracts are liberally construed in favor of covering all acts fairly embraced by the

17
18 ⁴ Great American’s reliance on *Bank of California, N. A. v. Opie*, 663 F.2d 977 (9th Cir. 1981) is
19 also not persuasive. Although Great American cites *Opie* for its assertion that professional services
20 require specialized knowledge or skill (GA Mot. at 10), the court in *Opie* required only that: “To be
21 considered a professional service, the conduct must arise out of the insured’s performance of his
22 specialized vocation or profession.” *Opie*, 663 F.2d at 981. Accordingly, the court found that a mortgage
banker’s policy was triggered when the conduct at issue “was clearly part of [defendant’s] usual day-to-
day business operations” in its profession as a mortgage banker. *Id.* Here, tracking subcontractors’ wage
payments could constitute part of Bayley’s day-to-day business operations in its profession as a general
contractor.

1 specified terms, *Hawaiian Ins. and Guar. Co., Ltd. v. Federated Am. Ins. Co.*, 534 P.2d
2 48, 56 (Wash. Ct. App. 1975); policy language is given a “sensible construction as would
3 be given to the contract by the average person,” *Am. Nat’l Fire Ins. Co. v. B & L*
4 *Trucking & Const. Co.*, 951 P.2d 250, 256 (Wash. 1998); and ambiguities in the policy (if
5 any) are resolved in favor of the insured, *Quadrant Corp. v. Am. States Ins. Co.*, 110 P.3d
6 733, 737 (Wash. 2005). Applying these principles, it is not clear that the term
7 “professional services” limits the “construction management” conduct covered by the
8 Policy. *See VanPort Homes*, 58 P.3d at 282 (stating that an insurer is relieved of its duty
9 to defend only if the alleged claim is “clearly not covered by the policy”). At this stage,
10 Great American cannot rely on its own narrow interpretation of “professional services” to
11 deny a defense. *See Alea London*, 229 P.3d at 701.

12 Even assuming that Great American’s interpretation of professional services
13 applied, Great American errs in its application to the instant context. Great American is
14 required to construe the facts liberally in favor of triggering the insurer’s duty to defend.
15 *Woo*, 164 P.3d at 459; *see also Alea London*, 229 P.3d at 696 (“If there is any reasonable
16 interpretation of the facts or the law that could result in coverage, the insurer must
17 defend.”) Although, as Great American argues, paying workers the prevailing wage may
18 not, in the abstract, rise to the level of “professional services” contemplated by the policy,
19 in the context of overseeing a large construction project with multiple subcontractors, it
20 could. *See Opie*, 663 F.2d at 981-82.

21 Here, the Request and Notice show that Bayley was the general contractor on a
22 \$12 million renovation project of considerable scope: the Project encompassed

1 “mechanical, electrical and plumbing systems; interior wall framing, drywall, taping, and
2 painting; formwork and rebar; metal decking and stairway; structural steel installation;
3 roofing; flooring; plastering; underground utilities; skylight installation; ADA upgrades;
4 landscaping; fireproofing.” (Request and Notice at 5.) The forfeiture, however, applies
5 to only one piece of the project: “Sheet Metal/HVAC.” (*Id.*) A liberal and reasonable
6 construction of these facts would be that ensuring subcontractors’ compliance with
7 prevailing wage laws on a project of this scope required professional skill and judgment.⁵

8 Extrinsic evidence, which Great American considered in its denial of coverage,
9 supports this conclusion. (*See Shippee Dep.* at 66 (explaining that Great American’s
10 claims counsel investigated extrinsic evidence)); *see also Vanport Homes*, 58 P.3d at 282
11 (“If coverage is not clear from the face of the complaint but may exist, the insurer must
12 investigate the claim.”) The Contract between Bayley and the District shows that
13 Bayley’s responsibilities as prime contractor were to “provide, furnish, and pay for all the
14 labor, materials, necessary tools, expendable equipment, and all taxes, utility and

15
16 ⁵ In reaching this conclusion, the court does not consider the declaration of Bayley’s expert, Mr.
17 Amento, or the opinion testimony of Bayley’s employee, Mr. Dutcher, regarding the meaning of and skill
18 inherent in “construction management.” (*See Amento Decl.* (Dkt. # 21); *Dutcher Decl.* ¶ 14.) This
19 testimony is irrelevant because the duty to defend is evaluated by comparing the insurance policy to the
20 facts alleged in the complaint.

21 Additionally, Great American moves to strike these declarations, as well as the declaration of Mr.
22 Thorne, because Bayley failed to disclose any experts to Great American before the deadline for expert
disclosures. (*See Reply to GA Mot.* (Dkt. # 26) at 2 (citing *Minute Order Setting Trial Dates and Related
Dates*, (Dkt. # 11).) At oral argument, Bayley’s counsel conceded that Bayley did not disclose Mr.
Amento as an expert witness before the deadline, and that Bayley does not oppose Great American’s
motion to strike Mr. Amento’s declaration. Accordingly, the court strikes Mr. Amento’s declaration (Dkt.
21). Because Bayley did not disclose Mr. Thorne and Mr. Dutcher as experts, the court also strikes the
declarations of Mr. Thorne (Dkt. # 20) and Mr. Dutcher (Dkt. # 23) to the extent these declarations
contain opinion testimony.

1 transportation services required for construction of the Project,” (Contract at 59), and that
2 Bayley was “solely responsible for the means, methods, techniques, sequences, and
3 procedures of construction,” (*id.* at 68). The Contract also provides that Bayley “shall
4 pay and shall cause to be paid each worker engaged in work on the Project not less than
5 the general prevailing rate of per diem wages determined by the Director, regardless of
6 any contractual relationship which may be alleged to exist between the CONTRACTOR
7 or any subcontractor and such workers.” (*Id.* at 97.) Again, a liberal and reasonable
8 construction of these facts would be that managing the responsibilities assigned under the
9 Contract, including ensuring all subcontractors’ compliance with prevailing wage laws,
10 was a task requiring professional skill and judgment.⁶

11 **3. Conclusion regarding the duty to defend**

12 Summary judgment regarding the duty to defend is appropriate because “the
13 interpretation of language in an insurance policy is a matter of law.” *Black v. Grange*
14 *Ins. Ass’n*, C08-1699Z, 2009 WL 4110300, at *5 (W.D. Wash. Nov. 19, 2009) (quoting

15
16 ⁶ Great American also argues that Bayley was not performing “construction management”
17 because the Contract lists McCarthy Building Companies, Inc. (not Bayley) as “Construction Manager
18 . . . authorized to act on behalf of the District.” (GA Mot at 14 (citing Contract at 4).) But Great
19 American cannot rely on evidence extrinsic to the Notice and Response to deny Bayley coverage. *See*
20 *Woo*, 164 P.3d at 459. Furthermore, there is nothing within the Policy that restricts coverage to an entity
21 with the title “construction manager”—rather, the policy covers the act of “construction management.”
22 *See Opie*, 663 F.2d at 981 (stating that, to determine whether an act constitutes “professional services,”
the court “must look not to the title or character of the party performing the act, but to the act itself.”)
Similarly, there is nothing within the Policy that indicates that the act of “construction management” can
only be performed by one entity per construction project. In fact, Great American’s own employees
concluded that Bayley was “probably” engaging in construction management. The first entry in Bayley’s
claim file, which summarizes a discussion between Great American claims counsel Patricia Shippee and
assistant vice-president Bill North concludes: “contract oversight, making sure your sub pays prevailing
wages may qualify as CM [construction management], not sure, probably.” (Tristan Decl. (Dkt. # 24) Ex.
A at 2.) Therefore, this argument is also unpersuasive.

1 *Allstate Ins. Co. v. Peasley*, 932 P.2d 1244, 1246 (Wash. 1997).) Here, the facts alleged
2 in the Request and Notice indicate a potential for covered liability under the plain
3 language of the Policy. Great American’s argument that the term “professional services”
4 should be interpreted to limit the type of “construction management” acts covered
5 implicates the question of actual liability, rather than the “potential for liability”
6 contemplated in a duty to defend analysis. *See Woo*, 164 P.3d at 463. And even if Great
7 American’s interpretation is assumed to apply, a liberal construction of the facts does not
8 permit the conclusion that Bayley’s professional services claim is clearly not covered by
9 the policy. *See VanPort Homes*, 58 P.3d at 282. Accordingly, the court denies Great
10 American’s motion for summary judgment that Great American had no duty to defend
11 Bayley against the District’s withholding of contract payments, and grants Bayley’s
12 motion for summary judgment that Great American breached its duty to defend.

13 **C. Bad Faith**

14 An insurer acts in bad faith if its denial of coverage is “unreasonable, frivolous, or
15 unfounded.” *Overton v. Consol. Ins. Co.*, 38 P.3d 322, 329 (Wash. 2002). Moreover, a
16 claim for bad faith claims handling remains viable even if an insurer did not breach its
17 duty to defend, pay, or settle. *St. Paul Fire and Marine Ins. Co. v. Onvia, Inc.*, 196 P.3d
18 664, 669 (Wash. 2008). Claims of bad faith “are not easy to establish and an insured has
19 a heavy burden to meet.” *Overton*, 38 P.3d at 329. Whether an insurer acted in bad faith
20 is a question of fact. *Smith v. Safeco Ins. Co.*, 78 P.3d 1274, 1277 (2003). Therefore, if
21 “reasonable minds could differ that the insurer’s conduct was reasonable, or if there are
22

1 material issues of fact with respect to the reasonableness of the insurer’s action, then
2 summary judgment is not appropriate.” *Id.*

3 Here, Bayley asserts three types of bad faith claims against Great American. First,
4 Bayley asserts that Great American’s denial of a defense was unreasonable or unfounded.
5 (Bayley Mot. at 2, 22-23; Reply to Bayley Mot. (Dkt. # 43) at 9-11.) Next, Bayley
6 asserts that Great American’s denial of coverage was unreasonable or unfounded. (*Id.*)
7 Finally, Bayley also asserts that Great American’s handling of the claim was in bad faith
8 because Great American did not conduct a proper investigation. (*Id.*)

9 **1. Denial of a defense**

10 Bayley argues that Great American’s reliance on an “arguable” interpretation of
11 case law to define “professional services” was unreasonable under *Alea London* and
12 therefore constitutes bad faith as a matter of law. (Bayley Mot. at 22.) However, unlike
13 the insurer in *Alea London*, Great American has not ignored contradictory, analogous
14 case law. Moreover, Great American’s denial of coverage was not founded solely on the
15 precedent it cites in its summary judgment motion—Great American’s denial letter also
16 relied on two other justifications.

17 First, Great American concluded that the Request and Notice did not show that
18 Bayley was performing “construction management.” (Denial Letter at 25.) Bayley offers
19 expert testimony regarding the meaning and scope of “construction management.”
20 However, as discussed above in Section II(B)(2), footnote 5, since Bayley did not timely
21 disclose its experts to Great American, the court declines to consider that testimony.
22

1 Second, Great American concluded that the unpaid wages and penalties withheld
2 from Bayley’s contract payments constituted either “liquidated damages” or
3 “disgorgement,” both of which are exceptions to the definition of “loss” covered by the
4 Policy. (Denial Letter at 25-26.) Bayley argues that an adequate investigation by Great
5 American would have revealed that Bayley posted a bond that ostensibly removed the
6 threat of liquidated damages as defined by the California statutes cited in the Notice.
7 (Bayley Mot. at 13-14.) Great American responds that a sum certain such as the unpaid
8 wages nonetheless constitutes “liquidated damages” under Washington law. (Resp. to
9 Bayley Mot. at 18-19.)

10 Great American also brings forth evidence that Bayley’s own insurance brokers
11 were uncertain as to whether Bayley’s claim fell within the professional services policy.
12 For example, Jim Sorte, Vice President and Claims Executive at Bayley’s insurance
13 broker, Parker Smith & Feek, cautioned Bayley that: “The scenario is unique, so it is
14 difficult for us to definitively say that coverage will be triggered under the insurance
15 policies.” (Hampton 2d. Decl. Ex. 7 at 30). When Mr. Sorte explained the situation to his
16 colleague, Jim Hamlin, Mr. Hamlin’s reaction was: “That is completely strange! Never
17 had one such as that in the past.” (Hampton 2d. Decl. Ex. 1 at 6.) Mr. Hamlin
18 concluded: “Not sure either professional or D&O would respond in this case but worth a
19 try I suppose.” (*Id.*)

20 Viewing the facts in the light most favorable to Great American, the court
21 concludes that reasonable minds could differ as to whether Great American’s denial of a
22 defense was unreasonable. This discrepancy should be resolved by the trier of fact.

1 | *Smith*, 78 P.3d at 1277. Accordingly, the court denies summary judgment with respect to
2 | the alleged unreasonableness of Great American’s denial of a defense.

3 | **2. Denial of coverage**

4 | Since the duty to defend is broader than the duty to indemnify, the court denies
5 | summary judgment with respect to the alleged unreasonableness of Great American’s
6 | denial of coverage for the same reasons as stated in the immediately preceding section.

7 | **3. Duty to investigate**

8 | An insurer’s duty of good faith to its insured includes the duty to conduct a
9 | reasonable investigation before denying coverage. *Coventry Associates v. Am. States Ins.*
10 | *Co.*, 961 P.2d 933, 938 (Wash. 1998) (quoting Allan D. Windt, *Insurance Claims &*
11 | *Disputes: Representation of Insurance Companies and Insureds* § 2.05, at 38 (3d
12 | ed.1995).) An insurer “acts without reasonable justification when it denies coverage
13 | based upon suspicion and conjecture.” *Indus. Indem. Co. of the Nw., Inc. v. Kallevig*, 792
14 | P.2d 520, 526 (Wash. 1990) (citing *Safeco Ins. Co. of Am. v. JMG Restaurants, Inc.*, 680
15 | P.2d 409, 418 (1984).)

16 | Bayley argues that Great American’s investigation was inadequate because Great
17 | American did not research the meaning of the term “construction management” within
18 | the construction industry or inquire as to the level of skill and judgment that Bayley
19 | exercised in its role as general contractor for the Project. (Bayley Mot. at 5-6, 14-17
20 | (citing testimony from Great American’s 30(b)(6) deponent, Ms. Patricia Shippee).) To
21 | support its argument that Great American’s investigation was unreasonable as a matter of
22 | law, Bayley cites cases in which, for example, the claims handler “conducted no

1 investigation at all,” *Aecon Bldgs., Inc. v. Zurich N. Am.*, 572 F. Supp. 2d 1227, 1237
2 (W.D. Wash. 2008), and in which the insurer “offer[ed] no support for the notion that *any*
3 investigation preceded its determination as to [coverage],” *Travelers Cas. & Sur. Co. of*
4 *Am. v. Spectrum Glass Co., Inc.*, C11-1324-JCC, 2012 WL 3780356 (W.D. Wash. Aug.
5 31, 2012). That is not the case here.

6 Here, Great American provides evidence that, after Bayley’s tender, Great
7 American requested, received, and reviewed additional information and documents from
8 Bayley, including a copy of the Contract, a copy of the Subcontract, and transcripts of
9 depositions (Hampton Decl. Ex. 4 at 40-42; *id.* Ex. 5 at 43-45), consulted with Bayley’s
10 insurance broker Jim Sorte at Parker, Smith, and Feek regarding the claim (Shippee Dep.
11 at 68), and retained California labor law firm Morris Polich & Purdy to advise on
12 California labor law (*id.* at 65), participate in a settlement conference between Bayley
13 and the District (*id.* at 65), and draft a legal coverage opinion (*id.* at 67). All in all, Great
14 American’s investigation lasted almost two months. (*See* Hampton Decl. Ex. 2 at 1;
15 Denial Letter at 1.)

16 Viewing the facts in the light most favorable to Great American, the court finds
17 that Great American has raised a triable issue of fact with respect to the reasonableness of
18 its investigation. Accordingly, the court denies Bayley’s motion for summary judgment
19 that Great American breached its duty to investigate.

20 **D. Estoppel**

21 Typically, if an insured prevails on a bad faith claim, the insurer is estopped from
22 denying coverage. *Aecon Bldgs.*, 572 F. Supp. 2d at 1234 (citing *Mut. of Enumclaw Ins.*

1 | *Co. v. Dan Paulson Const., Inc.*, 169 P.3d 1, 10 (Wash. 2007)); *but see St. Paul Fire*, 196
2 | P.3d at 669 (no presumption of harm for procedural bad faith when no coverage is due).
3 | Because the court denies Bayley’s motion for summary judgment that Great American
4 | acted in bad faith, the court also denies Bayley’s motion for summary judgment on
5 | estoppel.

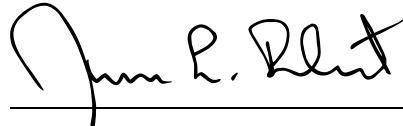
6 | **E. The IFCA**

7 | The IFCA establishes a cause of action for “[a]ny first party claimant to a policy
8 | of insurance who is unreasonably denied a claim for coverage.” RCW 48.30.015(1).
9 | Bayley asserts that Great American’s alleged violations of the WAC automatically
10 | constitute a violation of the IFCA. (Bayley Mot. at 23); *but see Lease Crutcher Lewis*
11 | *WA, LLC v. Nat’l Union Fire Ins. Co. of Pittsburgh, PA*, C08-1862RSL, 2010 WL
12 | 4272453 (W.D. Wash. Oct. 15, 2010) (holding that a violation of the WAC is not a per se
13 | violation of the IFCA). Bayley argues that Great American violated the WAC because
14 | (1) Great American failed to conduct a reasonable investigation as required by WAC
15 | 284-30-330(4), and (2) Great American’s denial letter failed to “provide a reasonable
16 | explanation of the basis . . . for denial of a claim” as required by WAC 284-30-330(13).
17 | (Baylet Mot. at 23.) The court has already found that there are genuine issues of
18 | material fact regarding both of these topics. *See* Section II(C)(1) (discussing the denial
19 | letter); Section II(C)(3) (discussing the investigation). The court has also already found
20 | that there are genuine issues of material fact as to whether Great American’s denial of
21 | coverage was unreasonable. *See* Section II(C)(2). Therefore, the court denies summary
22 | judgment on the IFCA claim.

1 **III. CONCLUSION**

2 For the foregoing reasons, the court DENIES Defendant Great American's motion
3 for summary judgment (Dkt. # 16). The court GRANTS Plaintiff Bayley Construction's
4 motion for summary judgment (Dkt. # 30) on the duty to defend only, and DENIES the
5 motion in all other respects.

6 Dated this 1st day of November, 2013.

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10 JAMES L. ROBART
United States District Judge

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