

Choice of Law Coverage Update

July 1, 2025

Choice of Law – Texas

Transform Holdco LLC v Starr Indem. & Liab. Co.

No. 05-23-00339-CV, 2025 WL 1677242 (Tex. App. June 13, 2025)

The Texas Court of Appeals held that New York law applied to claims for common law bad faith, violations of the Texas Insurance Code and breach of contract after an Illinois-based policyholder's merchandise was damaged in Texas, due to a tornado.

Transform Holdco LLC (Transform), whose principal place of business is Illinois, obtained a policy from Starr Indemnity & Liability Company (Starr), incorporated in Texas and with a principal place of business in New York, to insure merchandise that Transform bought out of the Sears Holdings Corporation bankruptcy. The policy did not contain a choice-of-law provision.

In 2019, a tornado struck Transform's distribution center in Garland, TX and damaged merchandise stored there. Transform filed a claim with Starr for the damaged merchandise. Starr refused to pay the claim and did not issue a formal coverage denial letter. However, emails from Starr asserted that the Garland, TX warehouse was not listed on any schedules for the policy, and the policy did not cover unnamed locations. Transform argued the policy covered its merchandise regardless of location.

Transform filed suit against Starr in a Texas trial court claiming breach of contract, violation of the Texas Insurance Code, common-law bad faith, promissory estoppel, and alternatively, violation of the Illinois Insurance Code. The trial court held that New York law governed, which does not recognize common law bad faith causes of action, does not have a private statutory claim available to insureds like in Texas or Illinois, and does not permit recovery of attorney fees for breach of contract. Transform then appealed.

In examining choice of law as to the tort claims, the appellate court reviewed Texas' most significant relationship test, which weighs: (a) the location where the injury occurred; (b) the location where the conduct causing the injury occurred; (c) the domicile, residence, nationality, place of incorporation and place of business of the parties; and (d) the location where the relationship, if any, between the parties is centered.

The appellate court affirmed the trial court's determination that New York had the most significant relationship to the tort claims because 1) the financial injury of a denied insurance claim would likely be most severe at Transform's headquarters in Illinois; 2) Starr's claim manager who denied Transform's claim and drafted the unsent formal coverage denial letter was located in New York; 3) Transform's and

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Starr's principal places of businesses favored either Illinois or New York, respectively; and 4) Starr handled the claim and would have made indemnity payments from its New York headquarters. Based on these factors, the appellate court concluded that it was not erroneous for the trial court to apply New York law.

With regard to Transform's contractual claims of breach of contract, the appellate court weighed the following factors to determine which state had the most significant relationship to contract issues: (a) the place of contracting; (b) the place of negotiation of the contract; (c) the place of performance; (d) the location of the subject matter of the contract; and (e) the domicile, residence, nationality, place of incorporation and place of business of the parties.

The appellate court reasoned that neither the place of contracting nor the place of negotiation favored any one state where the parties conducted both from different states. Similarly, the court reasoned that the place of performance and location of the subject matter were national in scope and, thus, did not favor any one state. Finally, the parties' places of incorporation favored either New York or Illinois. Thus, the parties could have anticipated suit would be filed in New York and that New York law would apply. The appellate court concluded that the trial court correctly applied New York law based on its analysis of these factors.

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