Lawyer Insights

Supreme Court sinks yacht owner's insurance counterclaim on choice-of-law grounds

U.S. Supreme Court decides choice-of-law provision stands after yacht owner's insurance called for using state law of Pennsylvania over New York law.

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The United States Supreme Court recently held in *Great Lakes Ins. SE v. Raiders Retreat Realty Co., LLC,* that choice-of-law provisions in maritime contracts, including maritime insurance policies, are presumptively enforceable under federal maritime law.

In *Great Lakes*, a policyholder asserted counterclaims against its insurer under the state law of Pennsylvania, where the insurer had filed a federal-court action seeking a declaration of no coverage, even though the choice-of-law provision in the applicable maritime insurance policy designated New York law. The policyholder argued that Pennsylvania had the greatest interest in the dispute, and that enforcing the New York choice-of-law provision in the policy would contravene Pennsylvania's fundamental public policy. The district court dismissed the policyholder's counterclaims, but the Third Circuit reversed. The Supreme Court agreed to hear the case, and we explained here that the Court's decision could have significant ramifications for insurance-coverage disputes both under maritime insurance policies and more generally if the Court adopted broad rules regarding the enforcement of choice-of-law provisions.

The Court narrowly concluded that under maritime law, which is a federal body of law, choice-of-law provisions in maritime contracts are presumptively reasonable unless a recognized exception applies. As support, the Court pointed to longstanding maritime-law precedent in both the Supreme Court and the Courts of Appeals holding that choice-of-law provisions have "the salutary effect of dispelling any confusion," thereby "slashing the 'time and expense of pretrial motions.'" 144 S. Ct. 637, 639 (2024) (citing *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 593-594).

Further, the Court concluded that none of the three established maritime law carve-outs applied. Specifically, under maritime law, the choice-of-law provision has to give way only where (1) the chosen law would contravene a controlling federal statute, (2) the chosen law would conflict with an established federal maritime policy, or (3) the parties cannot furnish a reasonable basis for the chosen jurisdiction.

The Court further concluded that federal maritime law did not recognize the "public policy" exception to choice-of-law provisions that the policyholder proposed, because it is a function of state, rather than federal law. Rather, the Court explained that the policyholder's request to substitute the law of the state with the greatest interest in the dispute (Pennsylvania) for the law of the state designated in the choice-of-law provision (New York) ran afoul of federal maritime law because the "disuniformity and uncertainty"

that would ensue from such an exception "would undermine the fundamental purpose of choice-of-law clauses in maritime contracts: unform and stable rules for maritime actors." 144 S. Ct. at 647.

The Court similarly rejected the policyholder's argument that § 187(2)(b) of the Second Restatement of Conflict of Laws supported applying Pennsylvania law. That rule sets aside a choice-of-law provision that conflicts with "a fundamental policy of a state which has a materially greater interest than the chosen state in the determination of the particular issue." § 187(2)(b). Here, however, the Court summarily found that that rule applied only to interstate cases, and "is a poor fit for maritime cases." 144 S. Ct. at 647.

Given its narrow focus on federal maritime law, the Supreme Court's ruling in *Great Lakes* should not directly govern how courts treat choice-of-law provisions in non-maritime contracts, but it offers some key guidance. First, and foremost, the *Great Lakes* case stands for the fundamental proposition that courts are inclined to enforce choice-of-law provisions in insurance (and other) contracts as written unless a recognized exception exists. This fact highlights the policyholder's obligation to carefully consider the specific terms of its insurance policy, including choice-of-law and forum provisions, before purchasing. Second, the case illustrates that a policyholder should carefully consider whether a recognized exception to applying a choice-of-law provision supports seeking to invoke a different state's law. Significantly, the Court did not reject the notion that choice-of-law provisions might have to give way more frequently in non-maritime cases, including based on "public policy" arguments under § 187(2)(b) or similar grounds.

Indeed, the Court implicitly acknowledged that the policyholder's "public policy" argument likely would have found greater traction in a traditional interstate insurance coverage dispute. That said, the *Great Lake* decision makes clear that litigants should be aware of the circumstances under which courts are willing (or able) to entertain such "public policy" arguments before starting down that path.

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