State Of Insurance: Q2 Notes From Pennsylvania

By **Todd Leon** (July 28, 2026)


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In the second quarter of 2026, Pennsylvania courts and lawmakers continued to shape the insurance landscape through judicial decisions and legislative initiatives.

Recent opinions provided guidance on fundamental principles in both first-party and third-party insurance coverage matters, including the distinction between intentional and accidental conduct under commercial general liability policies and the interplay between ensuing loss provisions and policy exclusions in property policies.

At the same time, the General Assembly considered legislation that would establish one of the commonwealth's first comprehensive regulatory frameworks governing insurers' use of artificial intelligence in health insurance decision-making.

Kocher's Water Pumps v. Selective Insurance

In Kocher's Water Pumps & Tanks Inc. v. Selective Insurance Co. of the Southeast, Judge John M. Gallagher of the U.S. District Court for the Eastern District of Pennsylvania held that an insurer had no duty to defend or indemnify its insureds in an underlying tort action arising from an intentional assault.[1]

The June 24 decision reinforced Pennsylvania's long-standing principles that (1) courts determine coverage by examining the factual allegations of the complaint, rather than merely the legal labels attached to the causes of action, and (2) intentional conduct cannot be transformed into a covered occurrence through creative pleading.

In Kocher's, the underlying action stemmed from a dispute over an unpaid business debt.

Per the complaint, business owner Jason Kocher went to the home of the debtor, Michael Klitchko, where Kocher confronted Klitchko and punched him in the face, causing significant bodily injuries. Klitchko asserted claims against Kocher's Water, Jason Kocher, and Jason's wife Melanie for assault and battery, conspiracy, intentional infliction of emotional distress, negligent infliction of emotional distress, vicarious liability against the company, and punitive damages.

Kocher and Kocher's Water sought a declaration that Selective, the commercial general liability insurer for the business, owed them a defense because the complaint included negligence-based claims and alleged vicarious liability.

The court rejected those arguments. The policy provided coverage only for bodily injury caused by an occurrence, defined as an "accident," and included an exclusion for injury that was "expected or intended" from the standpoint of the insured.

Applying Pennsylvania's well-settled four corners rule governing the interpretation of insurance policies, Judge Gallagher focused on the factual allegations rather than the titles of the claims. Because all of Klitchko's alleged injury arose from Kocher's intentional decision to strike Klitchko, the court determined that the complaint did not allege an accidental occurrence that triggered coverage.

In so finding, Judge Gallagher emphasized that Pennsylvania law consistently holds that negligence claims derived from intentional conduct do not create an occurrence simply because they are framed in negligence terms.

Judge Gallagher likewise concluded that neither the negligent infliction count nor the vicarious liability claim asserted by Klitchko altered his conclusion. Although the court recognized that those theories are generally negligence-based, in this suit, both claims depended entirely upon the same intentional assault by Kocher.

Relying on Pennsylvania precedent from both state and federal courts, Judge Gallagher explained that an insured cannot obtain coverage by recasting an intentional assault as negligence or by asserting derivative theories of liability against an employer. Rather, the factual allegations — not the legal theories — controlled the coverage determination.

Because the complaint alleged only intentional conduct falling outside the policy's definition of an occurrence and within the expected-or-intended injury exclusion, the court held that Selective owed neither a duty to defend nor a duty to indemnify.

The opinion serves as another reaffirmation that Pennsylvania courts will look beyond artful pleading and deny coverage where the underlying facts establish intentional misconduct rather than an accidental event.

Campanile v. Hanover Insurance

In Campanile v. Hanover Insurance Co., Judge Harvey Bartle III of the Eastern District of Pennsylvania addressed the scope of the ensuing-loss exception to a homeowners policy's faulty workmanship exclusion and its interaction with a pollution exclusion.[2]

There, although the court agreed with the insureds that the claimed damage constituted an "ensuing loss," it nevertheless entered summary judgment for Hanover because the loss independently fell within the policy's pollution exclusion. The decision provides good guidance on the interpretation of ensuing loss provisions under Pennsylvania law.

In Campanile, the dispute arose after the homeowners hired a contractor, Newton Construction, to perform foundation repairs at their home in Chester. During the work, fine silica dust and debris infiltrated the home's HVAC system and spread throughout the residence, coating virtually every interior surface.

The Campaniles sought insurance coverage for the resulting contamination but did not seek reimbursement for the defective foundation work itself. Hanover denied the claim based on the policy's faulty workmanship and pollution exclusions. The court had previously dismissed the Campaniles' statutory bad faith claim, leaving only the breach of contract claim for resolution.

In deciding the issues presented, Judge Bartle first analyzed the faulty workmanship exclusion, which excluded losses caused by defective construction or repairs but restored coverage for "any ensuing loss" not otherwise excluded.

Hanover argued that the dust contamination was merely part of the defective workmanship itself and therefore not an ensuing loss. Judge Bartle rejected that position, however, and concluded that the phrase "any ensuing loss" unambiguously encompasses consequential property damage that followed from defective workmanship and affected property beyond the work that was improperly performed.

In so holding, Judge Bartle declined to follow the reasoning of a nonprecedential Superior Court decision, and instead predicted that the Pennsylvania Supreme Court would interpret the ensuing loss exception more broadly. Thus, the dust contamination qualified as an ensuing loss arising from the contractor's faulty foundation repairs.

Despite this favorable ruling for the insureds on the ensuing-loss issue, the court held that coverage was nevertheless barred by Hanover policy's pollution exclusion, which applied to losses caused by the discharge, dispersal or release of "pollutants," defined broadly as any solid, liquid, gaseous, or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste.

Although "dust" was not specifically listed, the court found that the definition was illustrative rather than exhaustive and that silica dust plainly qualified as a solid irritant or contaminant.

Relying on Pennsylvania principles of contract interpretation and analogous authority from the U.S. Court of Appeals for the Third Circuit, Judge Bartle concluded that the pollution exclusion independently precluded coverage. Accordingly, the court determined that Hanover was entitled to summary judgment because, although the claimed damage constituted a covered ensuing loss, it was expressly excluded elsewhere in the policy.

H.B. 1925

On May 5, the Pennsylvania House Communications & Technology Committee reported, as amended, H.B. 1925. As described on the General Assembly's website, the bill is

> [a]n Act amending Titles 35 (Health and Safety), 40 (Insurance) and 67 (Public Welfare) of the Pennsylvania Consolidated Statutes, providing for artificial intelligence in facilities, for artificial intelligence use by insurers and for artificial intelligence use by MA or CHIP managed care plans; imposing duties on the Department of Health, the Insurance Department and the Department of Human Services; and imposing penalties.

The prime sponsor of the bill is Rep. Arvind Venkat, D-District 30. There are eight co-sponsors, including one Republican and seven Democrats.

H.B. 1925 is a significant AI regulation bill. If enacted, the statute would regulate how insurers may use artificial intelligence in health insurance decision-making, as opposed to limiting the general use of AI. Specifically, the bill would amend Pennsylvania's Insurance Code and impose new obligations on insurers using AI or algorithmic decision-making tools.

The bill remains under consideration in the General Assembly after advancing from the committee.

For insurers, the legislation would have five principal components.

1. Disclosure of AI Use

Insurers would be required to disclose when AI or automated decision-making tools are used in making coverage-related determinations. The legislation seeks to increase transparency so insureds, providers and regulators understand when AI is influencing insurance decisions rather than relying solely on human judgment.

2. Human Oversight

Perhaps the most important provision of the bill is that it permits the use of AI to assist claims or utilization review decisions, but states that artificial intelligence may not replace human decision-makers. Indeed, the bill would prohibit insurers from relying exclusively on AI to deny or limit coverage, make medical necessity determinations, conduct utilization review or otherwise issue adverse benefit determinations.

Instead, the bill states that a qualified human reviewer must exercise independent judgment before an adverse determination becomes final. The legislation is aimed at preventing automated denials based solely on algorithms.

3. Annual Compliance Statements

Insurers using AI would be required to file annual compliance certifications with the Pennsylvania Insurance Department describing their AI governance and confirming compliance with statutory requirements. This would create an ongoing regulatory oversight mechanism rather than relying solely on complaint-driven enforcement.

4. Nondiscrimination Requirements

H.B. 1925 prohibits insurers from deploying AI in a manner that produces discriminatory or biased outcomes. While the bill does not prescribe a particular auditing methodology, it effectively requires insurers to evaluate AI systems for algorithmic bias and ensure that protected classes are not adversely affected. This mirrors emerging AI governance laws in states such as Colorado.

5. Regulatory Enforcement

The Pennsylvania Insurance Department would receive authority to investigate violations and impose penalties for noncompliance. The department would also oversee insurers' AI compliance filings and enforcement of the statute.

Conclusion

Together, these developments underscore the continuing evolution of Pennsylvania insurance law through both judicial interpretation and legislative action. The recent federal decisions reaffirm established coverage principles while providing important guidance on the application of policy language to increasingly complex claims. Meanwhile, H.B. 1925 reflects the growing focus on regulating the use of artificial intelligence in the insurance industry.

Insurers, policyholders and practitioners should continue to monitor these developments, as they are likely to influence coverage analysis, claims handling and regulatory compliance in the months ahead.

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[1] Kocher's Water Pumps & Tanks, Inc. v. Selective Insurance Co. of the Southeast, 2026 U.S. Dist. LEXIS 140094 (E.D. Pa. June 24, 2026).

[2] Campanile v. Hanover Ins. Co., 2026 U.S. Dist. LEXIS 140604 (E.D. Pa. June 24, 2026).

[3] Chung v. Williams-Foxworth, 2026 WL 699759 (Super. Ct. Pa. March 12, 2026).