

[Insurer's Denial of Business Interruption Claim, Since There Was No "Accidental Direct Physical Loss," Affirmed by California Court of Appeal](#)

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On August 4, 2010, the [California Court of Appeal](#) for the [Second Appellate District](#) affirmed a summary judgment in favor of [State Farm](#) in connection with the insurer's denial of a claim under a first party business interruption policy ([MRI Healthcare Center v. State Farm General Insurance Company](#)). The case involved a damage claim to an [MRI](#) machine and loss of income after the machine did not "ramp up" after it was voluntarily "ramped down."

The appellate court affirmed the trial court's ruling that the MRI machine did not sustain "physical loss," nor was the alleged loss the result of an "accident" as required under the policy.

Background

MRI Healthcare Center of Glendale utilized an MRI machine for scanning purposes. To operate properly, the MRI machine had to be kept in a specially designed and constructed room to keep out electrical or radio wave interference. MRI Healthcare had used the MRI machine for more than 14 years before the claimed loss.

As a result of storms, MRI Healthcare's landlord was required to repair the roof over the room housing the MRI machine. These repairs could not be undertaken until the MRI machine was demagnetized, or "ramped down." MRI Healthcare was informed that due to the age of the machine, there was no guarantee that the machine could be successfully "ramped up" again.

After the MRI machine was ramped down and the repairs to the roof were made, the machine failed to ramp back up as previously warned.

MRI Healthcare then submitted a claim to State Farm, alleging that the failure of the MRI machine to ramp back up constituted "damage" which was proximately caused by the storms that damaged the roof. State Farm denied the claim.

Decision

The appellate court found that, under the undisputed facts, MRI Healthcare could not meet the fundamental precondition to coverage of "accidental direct physical loss" to insured property. The court held that the ramp down procedure was the event that damaged the MRI machine, and that it did not cause "physical loss" to the machine.

For there to be a "loss" under the meaning of the policy, the court stated that some external force must have acted upon the insured property to cause a physical change in the condition of the property. The court further found that ramping down of the MRI machine was intentional and not "accidental" as it was not "unintended and unexpected by the insured."

Finally, the court rejected MRI Healthcare's contention that the storms were the "efficient proximate cause" of the loss. The court held that, even if the storms set in motion the course of events leading to the ramp down of the MRI machine, it ultimately was the ramping down procedure itself that was the sole, and predominate, cause of MRI Healthcare's loss.