

Title: H.H. Hollero Construction, Inc. vs. Government Service Insurance System and Pool of Machinery Insurers

Facts:

On April 26, 1988, H.H. Hollero Construction, Inc. (petitioner) entered into an agreement with the Government Service Insurance System (GSIS) to undertake the development of Modesta Village Section B. As per the agreement, the petitioner was required to secure Contractors' All Risks (CAR) Insurance from GSIS, resulting in CAR Policy No. 88/085 for land development and CAR Policy No. 88/086 for house construction. The GSIS reinsured CAR Policy No. 88/085 with Pool of Machinery Insurers (Pool). After experiencing three typhoons causing damages, petitioner filed indemnity claims which were denied by GSIS in 1990 on different bases, including the average clause provision and non-renewal of policies.

Petitioner formally contested GSIS's rejection related to Typhoon Saling's damages in April 1991 and filed a Complaint for Sum of Money and Damages against GSIS in the RTC of Quezon City on September 27, 1991. GSIS opposed, arguing prescription based on the 12-month limitation under the policies for filing an action after claim rejection. The RTC denied GSIS's motion to dismiss; GSIS answered and filed a Third Party Complaint against Pool. The RTC ruled in favor of the petitioner, a decision GSIS appealed to the CA. The CA reversed the RTC's judgment on the ground of prescription and dismissed the complaint.

Issues:

1. Whether the letters from GSIS constituted a "final rejection" of the claims, initiating the 12-month prescription period.
2. Whether the complaint filed by the petitioner was barred by prescription under the insurance policies' provisions.
3. The application of the average clause provision without petitioner's explicit consent.

Court's Decision:

1. The Supreme Court ruled that the petitioner's action was barred by prescription. The Court found that the letters from GSIS rejecting the petitioner's claims constituted a "final rejection," thereby starting the countdown of the 12-month prescriptive period for filing a suit.
2. The Court disagreed with the petitioner that the GSIS's letters were only "tentative resolutions" and highlighted that the petitioner recognized these as rejections in their pleadings but delayed taking court action.
3. The Court further noted that the policy provision required the action to be commenced

within 12 months after rejection, and given that more than 12 months had lapsed before filing the complaint, the cause of action had thus prescribed.

Doctrine:

The Supreme Court reiterated the principle that the prescriptive period for an insured's action for indemnity under an insurance policy is reckoned from the "final rejection" of the claim by the insurer. The Court emphasized that the contract terms must be understood in their plain and ordinary sense, and that "final rejection" is deemed the initial denial of the claim, not the denial of a subsequent motion for reconsideration.

Class Notes:

- The insurance contract must be interpreted according to the plain meaning of its terms.
- The 12-month prescriptive period for filing an action under an insurance policy starts from the insurer's "final rejection" of the claim.
- "Final rejection" is considered to be the insurer's initial denial of the claim, not the rejection of any subsequent reconsideration request.
- Parties should timely respond and take action following the receipt of claim denial to avoid the prescription of their action.

Historical Background:

This case underscores the critical importance of understanding the terms and conditions of insurance policies, especially the provisions related to claim filing and the prescription of actions. The dispute arose in the context of property damage claims following natural disasters, highlighting the intersection of contractual obligations, insurance, and disaster recovery in the Philippines. The Supreme Court's decision in this case reiterates established doctrines on the interpretation of insurance contracts and the application of prescriptive periods, providing legal clarity for future similar disputes.