

Title:

Insular Life Assurance Co., Ltd. vs. The Heirs of Jose H. Alvarez

Facts:

Jose H. Alvarez secured a housing loan from Union Bank of the Philippines (UnionBank) amounting to P648,000.00 on June 18, 1997, with a mortgage on his residential lot. A Group Mortgage Redemption Insurance was procured with Insular Life Assurance Co., Ltd. (Insular Life) with UnionBank as the beneficiary, covering Alvarez under the loan's conditions. Following Alvarez's death on April 17, 1998, UnionBank filed a death claim in May 1998 with Insular Life. Insular Life denied the claim, stating Alvarez was over 60 years old at the time of loan approval, making him ineligible for coverage. UnionBank proceeded to foreclose the mortgaged property due to unpaid loan amortizations and was awarded the property in a public auction on October 4, 1999. The Heirs of Alvarez filed a Complaint for Declaration of Nullity of Contract and Damages, which they later amended to include Insular Life, demanding compliance with the Insurance Policy.

The Regional Trial Court (RTC) ruled in favor of the Heirs of Alvarez, finding no fraudulent intent on Alvarez's part regarding his age at the time of the loan application. UnionBank and Insular Life's separate appeals to the Court of Appeals were denied, affirming the RTC's ruling. UnionBank's Motion for Reconsideration was also denied. Both UnionBank and Insular Life filed Petitions for Review before the Supreme Court.

Issues:

1. Whether Insular Life is obliged to pay the remaining balance of Alvarez's loan following the claim of Alvarez lying about his age at loan approval.
2. Whether UnionBank correctly proceeded with foreclosure following Insular Life's refusal to pay.

Court's Decision:

The Supreme Court denied the petitions, affirmed the Court of Appeals' decision, and held that Insular Life had failed to prove Alvarez engaged in fraudulent misrepresentation regarding his age, which was considered a concealment rather than misrepresentation. Thus, Insular Life's rescission of the insurance contract was improper. Furthermore, UnionBank was not allowed to profit from the wrongful foreclosure since it had contributed to the debacle by not diligently verifying Alvarez's qualifications for the insurance coverage.

Doctrine:

The Court highlighted the distinction between concealment and misrepresentation in insurance contracts. Proof of fraudulent intent is not necessary for rescission due to concealment as section 27 of the Insurance Code dispenses with such proof. However, for rescission due to false representations, clear and convincing evidence of fraudulent intent is required.

Class Notes:

- **Concealment vs. Misrepresentation**: Concealment involves withholding material facts known to one party, with or without intent to defraud, while misrepresentation involves false statements about material facts.
- **Proof of Fraud**: While fraudulent intent must be clearly and convincingly shown in cases of misrepresentation, it is not required in cases of concealment in insurance contracts as per Section 27 of the Insurance Code.
- **Insurance Code Section 27**: "A concealment whether intentional or unintentional entitles the injured party to rescind a contract of insurance."

Historical Background:

This case illustrates the critical role of good faith and transparency between parties in financial and insurance transactions. It underscores the strict application of the Philippines Insurance Code, emphasizing distinctions between concealment and misrepresentation, and clarifies the responsibilities of insurers and insured parties in communicating material facts.