

Title: Perla Compania de Seguros, Inc. v. Court of Appeals and Milagros Cayas

Facts:

Milagros Cayas was the registered owner of a Mazda bus, insured with Perla Compania de Seguros, Inc. (PCSI). On December 17, 1978, the bus was involved in an accident in Naic, Cavite, injuring several passengers. One passenger, Edgardo Perea, sued Cayas for damages in Civil Case No. NC-794, while three others settled for P4,000 each. Cayas failed to appear at the pre-trial in Perea's case and was declared in default. The court subsequently ruled in favor of Perea, awarding him P10,000 in compensatory damages, P10,000 in exemplary damages, P5,000 in moral damages, and P7,000 in attorney's fees.

To satisfy the judgment, Cayas's property was levied upon and sold. She paid a total of P12,000 to the other injured passengers. Cayas sought reimbursement from PCSI but was denied. Consequently, she filed a complaint against PCSI for the sum of money and damages (Civil Case No. N-4161). The court initially dismissed the case for Cayas's failure to prosecute but later reinstated it. After PCSI failed to file an answer in time, the trial proceeded ex parte, resulting in a judgment ordering PCSI to pay Cayas P50,000 and P5,000 in attorney's fees. This decision was set aside following PCSI's motion, leading to trial and a decision favorable to Cayas.

PCSI appealed to the Court of Appeals, which affirmed the lower court's decision in toto. PCSI then filed a petition for review on certiorari to the Supreme Court.

Issues:

1. Whether Cayas's negligence in Civil Case No. NC-794 absolves PCSI of liability.
2. The extent of PCSI's liability under the insurance policy.
3. Whether PCSI is liable for payments made by Cayas to other passengers without PCSI's consent.
4. The appropriateness of the award of attorney's fees and damages in the trial court's decision.

Court's Decision:

1. ****Negligence of Cayas:****

The Supreme Court did not entertain the issue of Cayas's alleged negligence, affirming the Court of Appeals' findings that this matter was factual and undeserving of further review.

2. ****Extent of Liability:****

The Supreme Court stated that PCSI's liability was explicitly limited to P12,000 per person

and P50,000 per accident under the insurance policy terms. As no law invalidates these limits, PCSI's liability to Perea was capped at P12,000.

3. **Payments to Other Passengers:**

The Court found that Cayas violated the condition requiring written consent from PCSI before making any payments to other claimants. Therefore, PCSI was not liable for the P12,000 paid to the other three passengers.

4. **Attorney's Fees and Damages:**

The Court upheld the lower court's award of attorney's fees amounting to P5,000 to Cayas, as the engagement of counsel was necessary to enforce her rights under the insurance policy. However, it reduced the insurer's liability to P12,000 plus legal interest from the decision's promulgation until fully paid.

Doctrine:

1. **Insurance Policy Limits:** The liability of an insurer is limited to the amounts stipulated in the policy unless such limits are contrary to law.
2. **Conditions Precedent:** Compliance with policy conditions, such as obtaining consent before payment to claimants, is mandatory for recovery under the policy.
3. **Doctrine of Contract Adherence:** Contracts, including insurance contracts, serve as the law between the parties and must be fulfilled according to their clear terms.

Class Notes:

1. **Insurance Law:** Terms of the contract measure the insurer's liability (Stokes vs. Malayan Insurance Co., Inc.).
2. **Contract Law Doctrine:** Art. 1306, Civil Code - Contracts are obligatory, no matter their form, as long as the essential requisites for validity are met.
3. **Civil Law:** Sec. 383, Insurance Code of 1978 - Minimum liability of land transportation vehicle operators for bodily injuries sustained by a passenger is P12,000.
4. **Litigation Procedure:** Importance of appearing in pre-trial proceedings and complying with policy conditions to avoid default judgments.

Historical Background:

The case illustrates the practical application of insurance regulations in the Philippines and highlights the essential nature of adhering to contractual obligations within insurance policies. It also provides context into the procedural rigor required in civil litigation, reinforcing the principle that contracts freely entered into should be honored and enforced

according to their terms. The case serves as a precedent in the interpretation and enforcement of insurance contract terms, recognizing the protection it offers to insurers against potential collusion or unverified claims.