

FE DE JOYA LANDICHO, IN HER OWN BEHALF AND AS JUDICIAL GUARDIAN OF HER MINOR CHILDREN, RAFAEL J. LANDICHO AND MA. LOURDES EUGENIA LANDICHO, PLAINTIFFS-APPELLEES, VS. GOVERNMENT ...

G.R. No. L-28866. March 17, 1972

Ponente: CONCEPCION, C.J.

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CONCEPCION, C.J.:

Appeal of the Government Service Insurance System hereinafter referred to as GSIS, for the sake of brevity – from a decision of the Court of First Instance of Manila directing said defendant to pay to the plaintiffs-appellees, Fe de Joya Landicho and her minor children, Rafael J. and Maria Lourdes Eugenia, both surnamed Landicho, the sum of P15,800, with interest thereon, at the legal rate, from September 26, 1967, until fully paid, in addition to the sum of P1,000, as and for attorney's fees, and the costs.

The facts are not in dispute. On June 1, 1964, the GSIS issued in favor of Flaviano Landicho, a civil engineer of the Bureau of Public Works, stationed at Mamburao, Mindoro Occidental, optional additional life insurance policy No. OG-136107 in the sum of P7,900. The policy states on its face:

"This insurance is granted subject to the terms and conditions hereinafter set forth and in consideration of the 'Information' therefor and of the payment on the day this Policy takes effect of the monthly premiums stated above, due from and payable by the Insured, and the like payments on the last day of every month during the lifetime of the Insured until maturity of this Policy of until prior death of the Insured."

On page 2 of said policy, condition No. 1 provides, in part:

"1. PAYMENT OF PREMIUMS: -

"* * *. Premiums are due and payable at the Office of the System in Manila or at any of its branches. When any premium or instalment thereof remains unpaid after its due date, such due date is the date of default in payment of premiums. The mere possession of this Policy does not imply that it is in force unless the premiums due thereon are paid on time or the policy has sufficient cash value to keep it in force."

Condition No. 18, on page 8 of the policy, is of the following tenor:

"18. ENTIRE CONTRACT IN THIS POLICY:

"This Policy together with the 'Information' sheet signed by the Insured, a copy of which is attached hereto, is issued under the provisions of Commonwealth Act No. 186, as amended, and constitutes the entire contract.

"All statements made by the Insured shall, in the absence of fraud, be deemed representations and no warranties, and no statement shall void the Policy or be used as a defense to a claim hereunder unless it be contained in written information and a copy of such information be endorsed upon or attached to the Policy when issued."

Before the issuance of said policy, the insured had filed an application, by filling and signing a printed form of the GSIS on the basis of which the policy was issued. Paragraph 7 of said application states:

"7. I hereby declare that all the above statements and answers as well as those I may make to the System's Medical Examiner in continuation of this application, to be true and correct to the best of my knowledge and belief, and I hereby agree as follows:

"a. That this declaration, with the answers to be given by me to the Medical Officer, shall be made the basis of the policy and form part of the same;

"b. That acceptance of my policy issued on this application will constitute a ratification by me of any correction or addition to this application made by the System;

"c. That this application serves as a letter of authority to the Collecting Officer of our Office thru the GSIS to deduct from my salary the monthly premium in the amount of P33.36, beginning the month of May, 1964, and every month thereafter until notice of its discontinuance shall have been received from the System;

"d. That failure to deduct from my salary the monthly premiums shall not make the policy lapse, however, the premium account shall be considered as indebtedness which, I bind myself to pay the System;

"e. That my policy shall be made effective on the first day of the month next following the month the first premium is paid; provided, that it is not more than ninety (90) days before or after the date of the medical examination, was conducted if required."

While still under the employment of the Bureau of Public Works, Mr. Landicho met his death, on June 29, 1966, in an airplane crash in Mindoro. Thereupon, Mrs. Landicho, in her own behalf and that of her co-plaintiffs and minor children, Rafael J. and Maria Lourdes Eugenia, filed with the GSIS a claim for P15,800, as the double indemnity due under policy No. OG-136107, because of the untimely death of the insured owing to said accident. The GSIS denied the claim, upon the ground that the policy had never been in force because, pursuant to subdivision (e) of the abovequoted paragraph 7 of the application, the policy "shall be * * * effective on the first day of the month next following the month the first premium is paid," and no premiums had ever been paid on said policy. Upon refusal of the GSIS to reconsider its stand, this action was filed, on September 22, 1967, in the Court of First Instance of Manila, in which the GSIS reiterated its aforementioned defense. Thereafter submitted by both parties for judgment on the pleadings, upon the ground that the case involves purely questions of law, said court rendered, in due course, its abovementioned decision, from which the GSIS has taken the present appeal.

The main issue therein is whether or not the insurance policy in question has ever been in force, not a single premium having been paid thereon. In support of the affirmative, plaintiffs invoke the stipulation in the policy to the effect that the information contained in the application filed by the insured shall form part of the contract between him and the GSIS, and, especially, subdivisions (c) and (d) of paragraph 7 of said application stating that the same shall serve "as a letter of authority to the Collecting Officer of our Office" — the Bureau of Public Works — "thru the GSIS to deduct from my salary the monthly premium in the amount of P33.36 beginning the month of May, 1964, and every month thereafter," and that "failure to deduct from my salary the monthly premiums shall not make the policy lapse, however, the premium account shall be considered as indebtedness which, I" — the insured — "bind myself to pay the System." [1] The GSIS maintains, however, the negative, relying upon subdivision (e) of the same paragraph No. 7, which provides that the "policy shall be made effective on the first day of the month next following the month the first premium is paid." Under this theory, subdivisions (c) and (d) of said paragraph 7 would not apply unless and until the first premium shall have been actually paid, pursuant to subdivision (e) of the same paragraph.

Although it may not be entirely farfetched, this view is not likely to be in accord with the understanding of many,

if not most, government employees who obtain an optional additional life insurance policy. As a consequence, the actual receipt by them of their full pay — without any deduction for premiums on their optional additional life insurance policies — may not impart to them the warning — which, otherwise, it would necessarily convey — that said policy is not, as yet, in force, for they are liable to believe "that failure to deduct" — from the salary of the insured — "the monthly premiums shall not" - in the language of subdivision (d) — "make the policy lapse" and that "the premiums account shall be considered as indebtedness," to be paid or deducted later, because, after all, the so-called "payment" of premiums is nothing but a "paper" or "accounting" process, whereby funds are merely transferred, not physically, but constructively, from one office of the government to another. In other words, the language of subdivisions (c), (d) and (e) is such as to create an ambiguity that should be resolved against the party responsible therefor — defendant GSIS, as the party who prepared and furnished the application form — and in favor of the party misled thereby, the insured employee.

Indeed, our Civil Code provides:

"The interpretation of obscure words or stipulations in a contract shall not favor the party who caused the obscurity." [2]

This is particularly true as regards insurance policies, in respect of which it is settled that the "terms in an insurance policy, which are ambiguous, equivocal, or uncertain * * * are to be construed strictly and most strongly against the insurer, and liberally in favor of the insured so as to effect the dominant purpose of indemnity or payment to the insured, especially where a forfeiture is involved' (29 Am. Jur., 181), and the reason for this rule is that the 'insured usually has no voice in the selection of arrangement of the words employed and that the language of the contract is selected with great care and deliberation by experts and legal advisers employed by, and acting exclusively in the interest of, the insurance company.' (44 C.J.S., p. 174.)" [3]

The equitable and ethical considerations justifying the foregoing view are bolstered up by two (2) factors, namely:

(a) The aforementioned subdivision (c) states "that this application serves as a letter of authority to the Collecting Officer of our Office" - the Bureau of Public Works - "thru the GSIS to deduct from my salary the monthly premium in the amount of P33.36." No such deduction was made — and, consequently, not even the first premium was "paid" — because the collecting officer of the Bureau of Public Works was not advised by the GSIS to make it (the deduction) pursuant to said authority. Surely, this omission of the GSIS should not inure to its benefit.

(b) The GSIS had impliedly induced the insured to believe that Policy No. OG-136107 was in force, he having been paid by the GSIS the dividends corresponding to said policy. Had the insured had the slightest inkling that the latter was not, as yet, effective for non-payment of the first premium, he would have, in all probability, caused the same to be forthwith satisfied.

WHEREFORE , the decision appealed from should be, as it is hereby affirmed, with costs against the defendant-appellant, Government Service Insurance System. It is so ordered.

Reyes, J.B.L., Makalintal, Zaldivar, Castro, Fernando, Teehankee, Villamor, Barredo, and Makasiar, JJ., concur.

[1] Italics ours.

[2] Art. 1377 thereof.

[3] Calanoc vs. Court of Appeals, 98 Phil. 79, 84. See also, H.E. Heacock Co. vs. Macondray, 42 Phil. 205; Rivero vs. Robe, 54 Phil. 982; Asturias Sugar Central vs. The Pure Cane Molasses Co., 57 Phil. 519; Gonzales vs. La Previsora Filipina, 74 Phil. 165; Del Rosario vs. The Equitable Insurance, 620 O.G. 5400, 5403-04.

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