

**VIRGILIO D. IMSON, PETITIONER, VS. HON. COURT OF APPEALS,
HOLIDAY HILLS STOCK AND BREEDING FARM CORPORATION, FNCB
FINANCE CORPORATION, RESPONDENTS.**

G.R. No. 106436. December 08, 1994

Ponente: PUNO, J.

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PUNO, J.:

The case at bench arose from a vehicular collision on December 11, 1983, involving petitioner's Toyota Corolla and a Hino diesel truck registered under the names of private respondents FNCB Finance Corporation and Holiday Hills Stock and Breeding Farm Corporation. The collision seriously injured petitioner and totally wrecked his car.

On January 6, 1984, petitioner filed with the RTC Baguio City[1] a Complaint for Damages.[2] Sued were private respondents as registered owners of the truck; truck driver Felix B. Calip, Jr.; the beneficial owners of the truck, Gorgonio Co Adarme, Felisa T. Co (also known as Felisa Tan), and Cirilia Chua Siok Bieng; and the truck insurer, Western Guaranty Corporation.

The Complaint prayed that defendants be ordered to pay, jointly and severally, two hundred seventy thousand pesos (P270,000.00) as compensatory damages, fifty thousand pesos (P50,000.00) each as moral and exemplary damages, and attorney's fees, litigation expenses, and cost of suit.[3]

Defendants driver and beneficial owners failed to answer and were declared in default.[4] On May 29, 1987, however, petitioner and defendant insurer, entered into a compromise agreement which provided, inter alia:

“1. Defendant Western Guaranty Corporation (Western Guaranty for short) admits that its total liability under the laws and the insurance contract sued upon is P70,000.00;

“2. In full settlement of its liability under the laws and the said insurance contract, defendant Western Guaranty shall pay plaintiff (herein petitioner) the amount of P70,000.00 upon the signing of this compromise agreement;

“3. This compromise agreement shall in no way waive nor prejudice plaintiff's (herein petitioner's) rights to proceed against the other defendants with respect the remainder of his claims;

“4. This compromise agreement shall be a full and final settlement of the issues between plaintiff (herein petitioner) and defendant Western Guaranty in their complaint and answer and, from now on, they shall have no more right against one another except the enforcement of this compromise agreement.”[5]

In consequence of the compromise agreement, the trial court dismissed the Complaint for Damages against Western Guaranty Corporation on June 16, 1987.[6] A copy of the Order of dismissal was received by private respondent Holiday Hills Stock and Breeding Farm Corporation on July 13, 1987. Nearly eighteen (18) months later, said private respondent moved to dismiss the case against all the other defendants. It argued that since they are all indispensable parties under a common cause of action, the dismissal of the case against defendant insurer

must result in the dismissal of the suit against all of them. The trial court denied the motion.

Private respondent Holiday Hills Stock and Breeding Farm Corporation assailed the denial order through a Petition for Certiorari, Prohibition and Mandamus With Restraining Order filed with respondent Court of Appeals. The Petition was docketed as CA-G.R. SP No. 17651. On July 10, 1992, the Court of Appeals,[7] through its Special Sixth Division,[8] reversed the trial court, as it ruled:

“The petitioner (herein private respondent Holiday Hills Stock and Breeding Farm Corporation) cites the doctrine laid down in *Lim Tanhu v. Hon. Ramolete*, 66 SCRA 425, as applied later in *Co v. Acosta*, 134 SCRA 185, to support its averment that the court a quo gravely abused its discretion in refusing to dismiss the case.

“Essentially, the doctrine adverted to essays that in a common cause of action where all the defendants are indispensable parties, the court’s power to act is integral and cannot be split, such that it cannot relieve any of them and at the same time render judgment against the rest.

“We find applicability of the doctrine to the case at bar.

“A cursory reading of the complaint xxx reveals that the cause of action was the alleged bad faith and gross negligence of the defendants resulting in the injuries complained of and for which the action for damages was filed. The inclusion of Western Guaranty Corporation was vital to the claim, it being the insurer of the diesel truck without which, the claim could be set for naught. Stated otherwise, it is an indispensable party as the petitioner (herein private respondent stock and breeding farm corporation) xxx. Private respondent’s (herein petitioner’s) argument that the said insurance company was sued on a different cause of action, i.e., its bounden duty under the insurance law to pay or settle claims arising under its policy coverage, is untenable, for the cited law perceives the existence of a just cause, and according to the answer filed by the Western Guaranty Corporation xxx the proximate cause of the accident was the fault of the plaintiff (herein petitioner), hence it was not liable for damages. There is in fact a congruence of affirmative defense among the answering defendants.

“Moreover, it is undisputed that the injury caused is covered by the insurance company concerned. Thus, when the said insurer settled its liability with the private respondent (petitioner herein) xxx, the other defendants, as the insured and indispensable parties to a common cause of action, necessarily benefited from such settlement including the defaulted defendants, for as stated in the aforecited cases, it is deemed that anything done by or for the answering defendant is done by or for the ones in default since it is implicit in the rule that default is in essence a mere formality that deprives them of no more than to take part in the trial, but if the complaint is dismissed as to the answering defendant, it should also be dismissed as to them.”[9] (Citations omitted.)

Petitioner now comes to this Court with the following assignments of error:

“A.

RESPONDENT COURT OF APPEALS COMMITTED A REVERSIBLE ERROR IN RULING THAT THE DEFENDANTS IN CIVIL CASE NO. 248-R ARE INDISPENSABLE PARTIES;

“B.

RESPONDENT COURT OF APPEALS COMMITTED A REVERSIBLE ERROR IN RULING THAT IN CIVIL CASE NO. 248-R THERE IS A COMMON CAUSE OF ACTION AGAINST THE DEFENDANTS THEREIN;

“C.

RESPONDENT COURT OF APPEALS COMMITTED A REVERSIBLE ERROR IN RULING THAT IN CIVIL CASE NO. 248-R THE RULING OF THIS HONORABLE COURT IN LIM TANHU VS. RAMOLETE IS APPLICABLE;

“D.

RESPONDENT COURT OF APPEALS COMMITTED A REVERSIBLE ERROR IN RULING THAT THE DOCTRINE OF ESTOPPEL AND LACHES ON MATTERS OF JURISDICTION IS NOT APPLICABLE IN CIVIL CASE NO. 248-R.”

There is merit to the petition.

In the case of *Lim Tanhu v. Ramolete*, 66 SCRA 425, 458-459 (1975) this court held that:

“xxx (I)n all instances where a common cause of action is alleged against several defendants, some of whom answer and the others do not, the latter or those in default acquire a vested right not only to own the defense interposed in the answer of their co-defendant or co-defendants not in default but also to expect a result of the litigation totally common with them in kind and in amount whether favorable or unfavorable. The substantive unity of the plaintiff’s cause against all the defendants is carried through to its adjective phase as ineluctably demanded by the homogeneity and indivisibility of justice itself. xxx The integrity of the common cause of action against all the defendants and the indispensability of all of them in the proceedings do not permit any possibility of waiver of the plaintiff’s right only as to one or some of them, without including all of them, and so, as a rule, withdrawal must be deemed to be a confession of weakness as to all. xxx Where all the defendants are indispensable parties, for which reason the absence of any of them in the case would result in the court losing its competency to act validly, any compromise that the plaintiff might wish to make with any of them must, as a matter of correct procedure, have to await until after the rendition of the judgment, at which stage the plaintiff may then treat the matter of its execution and the satisfaction of his claim as variably as he might please. Accordingly, in the case now before Us together with the dismissal of the complaint against the non-defaulted defendants, the court should have ordered also the dismissal thereof as to petitioners (referring to the defaulting defendants in the case).”

In sum, *Lim Tanhu* states that where a complaint alleges a common cause of action against defendants who are all indispensable parties to the case, its dismissal against any of them by virtue of a compromise agreement with the plaintiff necessarily results in the dismissal of the case against the other defendants, including those in default. The ruling is rooted on the rationale that the court’s power to act in a case involving a common cause of action against indispensable parties “is integral and cannot be split such that it cannot relieve any of them and at the same time render judgment against the rest.”[10]

For *Lim Tanhu* to apply to the case at bench, it must be established that: (1) petitioner has a common cause of action against private respondents and the other defendants in Civil Case No. 248-R; and (2) all the defendants are indispensable parties to the case.

Cause of action has a fixed meaning in this jurisdiction. It is the delict or wrong by which the right of the plaintiff is violated by the defendant.[11] The question as to whether a plaintiff has a cause of action is determined by the averments in the pleadings pertaining to the acts of the defendant. Whether such acts give him a right of action is determined by substantive law.[12]

In the case at bench, it is clear that petitioner has different and separate causes of action against the defendants in the case. The allegations in the Complaint show that petitioner seeks to recover from the truck driver for his wrong which caused injury to petitioner and his car. The cause of action against him is based on quasi-delict

under Article 2176 of the New Civil Code. Quasi-delict, too, is the basis of the cause of action against defendants beneficial and registered owners. But in their case, it is Article 2180 of the same Code which governs the rights of the parties.

However, with respect to defendant Western Guaranty Corporation, petitioner's cause of action is based on contract. He seeks to recover from the insurer on the basis of the third-party liability clause of its insurance contract with the owners of the truck. This is acknowledged by the second paragraph of the compromise agreement between petitioner and defendant insurer, thus:

"2. In full settlement of its liability under the laws and the said insurance contract, defendant Western Guaranty shall pay plaintiff (herein petitioner) the amount of P70,000.00 upon the signing of this compromise agreement."

Quite clearly then, Lim Tanhu will not apply to the case at bench for there is no showing that petitioner has a common cause of action against the defendants in Civil Case No. 248-R.

But this is not all. Defendants in Civil Case No. 248-R are not all indispensable parties. An indispensable party is one whose interest will be affected by the court's action in the litigation, and without whom no final determination of the case can be had. The party's interest in the subject matter of the suit and in the relief sought are so inextricably intertwined with the other parties' that his legal presence as a party to the proceeding is an absolute necessity.[13] In his absence there cannot be a resolution of the dispute of the parties before the court which is effective, complete, or equitable.[14]

Conversely, a party is not indispensable to the suit if his interest in the controversy or subject matter is distinct and divisible from the interest of the other parties and will not necessarily be prejudiced by a judgment which does complete justice to the parties in court.[15] He is not indispensable if his presence would merely permit complete relief between him and those already parties to the action, or will simply avoid multiple litigation.[16]

It is true that all of petitioner's claims in Civil Case No. 248-R is premised on the wrong committed by defendant truck driver. Concededly, the truck driver is an indispensable party to the suit. The other defendants, however, cannot be categorized as indispensable parties. They are merely proper parties to the case. Proper parties have been described as parties whose presence is necessary in order to adjudicate the whole controversy, but whose interests are so far separable that a final decree can be made in their absence without affecting them.[17] It is easy to see that if any of them had not been impleaded as defendant, the case would still proceed without prejudicing the party not impleaded. Thus, if petitioner did not sue Western Guaranty Corporation, the omission would not cause the dismissal of the suit against the other defendants. Even without the insurer, the trial court would not lose its competency to act completely and validly on the damage suit. The insurer, clearly, is not an indispensable party in Civil Case No. 248-R.

IN VIEW WHEREOF, the instant petition is GRANTED. The Decision, dated July 10, 1992, of the Court of Appeals in CA-G.R. SP No. 17651 is REVERSED AND SET ASIDE. The Complaint in Civil Case No. 248-R is REINSTATED and REMANDED to the trial court for further proceedings. No costs.

SO ORDERED.

Narvasa, C.J., (Chairman), Regalado, and Mendoza, JJ., concur.

[1] The case was raffled off to Branch 5 of the trial court, presided by Judge Salvador J. Valdez, Jr.

[2] Civil Case No. 248-R.

- [3] Petition, Annex “B” (Complaint, Civil Case No. 248-R), pp. 13-14; Rollo, pp. 48-49.
- [4] Petition, Annex “A” (Decision of the Court of Appeals in CA-G.R. SP NO. 17651), pp. 1-2; Rollo, pp. 31-32.
- [5] Petition, Annex “C”, Rollo, p. 51.
- [6] Petition, Annex “E”, Rollo, p. 54.
- [7] Petition, Annex “A”, p. 4; Rollo, p. 35.
- [8] Composed of Associate Justices Emeterio C. Cui (ponente and chairman), Nicolas P. Lapeña, Jr. and Justo P. Torres, Jr.
- [9] Petition, Annex “A”; Rollo, pp. 34-35.
- [10] Ibid.
- [11] *Racoma v. Fortich*, 39 SCRA 520 (1971).
- [12] *Español v. Chairman, Philippine Veterans Administration* (1985).
- [13] See *Co v. Intermediate Appellate Court*, 162 SCRA 390 (1988). See also *Tam Chun Suy v. Court of Appeals*, 212 SCRA 713 (1992); *Quisumbing v. Court of Appeals*, 189 SCRA 325 (1990); *Alberto v. Mananghala*, 89 Phil 188 (1951).
- [14] 67A C.J.S. Parties Sec. 4, citing *Insurance Co. of North America v. Allied Crude Vegetable Oil Refining Corp.* 215 A.2d 579; *Brown v. Lavine*, 358 N.Y.S.2d 579; *Writers Guild of America, West, Inc. v. Screen Gems, Inc.*, 250 C.A. 2d 596; *Hall v. Wood*, 174 N.Y.S.2d 16; *Layne v. Huffman*, 333 N.E.2d 147; and *Morrison Homes Corp. v. City of Pleasanton*, 58 C.A.3d 724.
- [15] Ibid., citing *Peterson v. Sucro*, 93 F.2d 878; and *Colman v. Shimer*, 163 F. Supp. 347.
- [16] Id., citing *Petroleum Anchor Equipment, Inc. v. Tyra*, 406 S.W.2d 891; and *Layne v. Huffman*, op. cit.
- [17] 1 FLORENZ D. REGALADO, *Remedial Law Compendium* (1988), p. 57, citing *Wyoga Gas & Oil Corp. v. Schrack*, 1 Fed. Rules Service, 292.

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