

REPUBLIC OF THE PHILIPPINES, REPRESENTED BY EDUARDO T. MALINIS, IN HIS CAPACITY AS INSURANCE COMMISSIONER, PETITIONER, VS. DEL MONTE MOTORS, INC., RESPONDENT.

G.R. NO. 156956. October 09, 2006

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PANGANIBAN, CJ:

The securities required by the Insurance Code to be deposited with the Insurance Commissioner are intended to answer for the claims of all policy holders in the event that the depositing insurance company becomes insolvent or otherwise unable to satisfy their claims. The security deposit must be ratably distributed among all the insured who are entitled to their respective shares; it cannot be garnished or levied upon by a single claimant, to the detriment of the others.

The Case

Before us is a Petition for Review[1] under Rule 45 of the Rules of Court, seeking to reverse the January 16, 2003 Order[2] of the Regional Court (RTC) of Quezon City (Branch 221) in Civil Case No. Q-97-30412. The RTC found Insurance Commissioner Eduardo T. Malinis guilty of indirect contempt for refusing to comply with the December 18, 2002 Resolution[3] of the lower court. The January 16, 2003 Order states in full:

"On January 8, 2003, [respondent] filed a Motion to Cite Commissioner Eduardo T. Malinis of the Office of the Insurance Commission in Contempt of Court because of his failure and refusal to obey the lawful order of this court embodied in a Resolution dated December 18, 2002 directing him to allow the withdrawal of the security deposit of Capital Insurance and Surety Co. (CISCO) in the amount of P11,835,375.50 to be paid to Sheriff Manuel Paguyo in the satisfaction of the Notice of Garnishment pursuant to a Decision of this Court which has become final and executory.

"During the hearing of the Motion set last January 10, 2003, Commissioner Malinis or his counsel or his duly authorized representative failed to appear despite notice in utter disregard of the order of this Court. However, Commissioner Malinis filed on January 15, 2003 a written Comment reiterating the same grounds already passed upon and rejected by this Court. This Court finds no lawful justification or excuse for Commissioner Malinis' refusal to implement the lawful orders of this Court.

"Wherefore, premises considered and after due hearing, Commissioner Eduardo T. Malinis is hereby declared guilty of Indirect Contempt of Court pursuant to Section 3 [of] Rule 71 of the 1997 Rules of Civil Procedure for willfully disobeying and refusing to implement and obey a lawful order of this Court." [4]

The Facts

On January 15, 2002, the RTC rendered a Decision in Civil Case No. Q-97-30412, finding the defendants (Vilfran Liner, Inc., Hilaria Villegas and Maura Villegas) jointly and severally liable to pay Del Monte Motors, Inc., P11,835,375.50 representing the balance of Vilfran Liner's service contracts with respondent. The trial court further ordered the execution of the Decision against the counterbond posted by Vilfran Liner on June 10, 1997, and issued by Capital Insurance and Surety Co., Inc. (CISCO).

On April 18, 2002, CISCO opposed the Motion for Execution filed by respondent, claiming that the latter had no record or document regarding the alleged issuance of the counterbond; thus, the bond was not valid and enforceable.

On June 13, 2002, the RTC granted the Motion for Execution and issued the corresponding Writ. Armed with this Writ, Sheriff Manuel S. Paguyo proceeded to levy on the properties of CISCO. He also issued a Notice of Garnishment on several depository banks of the insurance company. Moreover, he served a similar notice on the Insurance Commission, so as to enforce the Writ on the security deposit filed by CISCO with the Commission in accordance with Section 203 of the Insurance Code.

On December 18, 2002, after a hearing on all the pending Motions, the RTC ruled that the Notice of Garnishment served by Sheriff Paguyo on the insurance commission was valid. The trial court added that the letter and spirit of the law made the security deposit answerable for contractual obligations incurred by CISCO under the insurance contracts the latter had entered into. The RTC resolved thus:

"Furthermore, the Commissioner of the Office of the Insurance Commission is hereby ordered to comply with its obligations under the Insurance Code by upholding the integrity and efficacy of bonds validly issued by duly accredited Bonding and Insurance Companies; and to safeguard the public interest by insuring the faithful performance to enforce contractual obligations under existing bonds. Accordingly said office is ordered to withdraw from the security deposit of Capital Insurance & Surety Company, Inc. the amount of P11,835.50 to be paid to Sheriff Manuel S. Paguyo in satisfaction of the Notice of Garnishment served on August 16, 2002." [5]

On January 8, 2003, respondent moved to cite Insurance Commissioner Eduardo T. Malinis in contempt of court for his refusal to obey the December 18, 2002 Resolution of the trial court.

Ruling of the Trial Court

The RTC held Insurance Commissioner Malinis in contempt for his refusal to implement its Order. It explained that the commissioner had no legal justification for his refusal to allow the withdrawal of CISCO's security deposit.

Hence, this Petition. [6]

Issues

Petitioner raises this sole issue for the Court's consideration:

"Whether or not the security deposit held by the Insurance Commissioner pursuant to Section 203 of the Insurance Code may be levied or garnished in favor of only one insured." [7]

The Court's Ruling

The Petition is meritorious.

Preliminary Issue:

Propriety of Review

Before discussing the principal issue, the Court will first dispose of the question of mootness.

Prior to the filing of the instant Petition, Insurance Commissioner Malinis sent the treasurer of the Philippines a letter dated March 26, 2003, stating that the former had no objection to the release of the security deposit to Del Monte Motors. Portions of the fund were consequently released to respondent in July, October, and December 2003. Thus, the issue arises: whether these circumstances render the case moot.

Petitioner, however, contends that the partial releases should not be construed as an abandonment of its stand that

security deposits under Section 203 of the Insurance Code are exempt from levy and garnishment. The Republic claims that the releases were made pursuant to the commissioner's power of control over the fund, not to the lower court's Order of garnishment. Petitioner further invokes the jurisdiction of this Court to put to rest the principal issue of whether security deposits made with the Insurance Commission may be levied and garnished.

The issue is not totally moot. To stress, only a portion of respondent's claim was satisfied, and the Insurance Commission has required CISCO to replenish the latter's security deposit. Respondent, therefore, may one day decide to further garnish the security deposit, once replenished. Moreover, after the questioned Order of the lower court was issued, similar claims on the security deposits of various insurance companies have been made before the Insurance Commission. To set aside the resolution of the issue will only postpone a task that is certain to crop up in the future.

Besides, the business of insurance is imbued with public interest. It is subject to regulation by the State, with respect not only to the relations between the insurer and the insured, but also to the internal affairs of insurance companies.[8] As this case is undeniably endowed with public interest and involves a matter of public policy, this Court shall not shirk from its duty to educate the bench and the bar by formulating guiding and controlling principles, precepts, doctrines and rules.[9]Principal Issue:

Exemption of Security Deposit
from Levy or Garnishment

Section 203 of the Insurance Code provides as follows:

"Sec. 203. Every domestic insurance company shall, to the extent of an amount equal in value to twenty-five per centum of the minimum paid-up capital required under section one hundred eighty-eight, invest its funds only in securities, satisfactory to the Commissioner, consisting of bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of government-owned or controlled corporations and entities, including the Central Bank of the Philippines: Provided, That such investments shall at all times be maintained free from any lien or encumbrance; and Provided, further, That such securities shall be deposited with and held by the Commissioner for the faithful performance by the depositing insurer of all its obligations under its insurance contracts. The provisions of section one hundred ninety-two shall, so far as practicable, apply to the securities deposited under this section.

"Except as otherwise provided in this Code, no judgment creditor or other claimant shall have the right to levy upon any of the securities of the insurer held on deposit pursuant to the requirement of the Commissioner."
(Emphasis supplied)

Respondent notes that Section 203 does not provide for an absolute prohibition on the levy and garnishment of the security deposit. It contends that the law requires the deposit, precisely to ensure faithful performance of all the obligations of the depositing insurer under the latter's various insurance contracts. Hence, respondent claims that the security deposit should be answerable for the counterbond issued by CISCO.

The Court is not convinced. As worded, the law expressly and clearly states that the security deposit shall be (1) answerable for all the obligations of the depositing insurer under its insurance contracts; (2) at all times free from any liens or encumbrance; and (3) exempt from levy by any claimant.

To be sure, CISCO, though presently under conservatorship, has valid outstanding policies. Its policy holders have a right under the law to be equally protected by its security deposit. To allow the garnishment of that deposit would impair the fund by decreasing it to less than the percentage of paid-up capital that the law requires to be maintained. Further, this move would create, in favor of respondent, a preference of credit over the other policy holders and beneficiaries.

Our Insurance Code is patterned after that of California.[10] Thus, the ruling of the state's Supreme Court on a similar concept as that of the security deposit is instructive. *Engwicht v. Pacific States Life Assurance Co.*[11] held that the money required to be deposited by a mutual assessment insurance company with the state treasurer was "a trust fund to be ratably distributed amongst all the claimants entitled to share in it. Such a distribution cannot be had except in an action in the nature of a creditors' bill, upon the hearing of which, and with all the parties interested in the fund before it, the court may make equitable distribution of the fund, and appoint a receiver to carry that distribution into effect." [12]

Basic is the statutory construction rule that provisions of a statute should be construed in accordance with the purpose for which it was enacted.[13] That is, the securities are held as a contingency fund to answer for the claims against the insurance company by all its policy holders and their beneficiaries. This step is taken in the event that the company becomes insolvent or otherwise unable to satisfy the claims against it. Thus, a single claimant may not lay stake on the securities to the exclusion of all others. The other parties may have their own claims against the insurance company under other insurance contracts it has entered into.

Respondent's Inchoate Right

The right to lay claim on the fund is dependent on the solvency of the insurer and is subject to all other obligations of the company arising from its insurance contracts. Thus, respondent's interest is merely inchoate. Being a mere expectancy, it has no attribute of property. At this time, it is nonexistent and may never exist.[14] Hence, it would be premature to make the security deposit answerable for CISCO's present obligation to Del Monte Motors.

Moreover, since insolvency proceedings against CISCO have yet to be conducted, it would be impossible to establish at this time which claimants are entitled to the security deposit and in what pro-rated amounts. Only after all other claimants under subsisting policies issued by CISCO have been heard can respondent's share be determined.

Powers of the Commissioner

The Insurance Code has vested the Office of the Insurance Commission with both regulatory and adjudicatory authority over insurance matters.[15]

The general regulatory authority of the insurance commissioner is described in Section 414 of the Code as follows:

"Sec. 414. The Insurance Commissioner shall have the duty to see that all laws relating to insurance, insurance companies and other insurance matters, mutual benefit associations, and trusts for charitable uses are faithfully executed and to perform the duties imposed upon him by this Code, and shall, notwithstanding any existing laws to the contrary, have sole and exclusive authority to regulate the issuance and sale of variable contracts as defined in section two hundred thirty-two and to provide for the licensing of persons selling such contracts, and to issue such reasonable rules and regulations governing the same.

"The Commissioner may issue such rulings, instructions, circulars, orders and decisions as he may deem necessary to secure the enforcement of the provisions of this Code, subject to the approval of the Secretary of Finance. Except as otherwise specified, decisions made by the Commissioner shall be appealable to the Secretary of Finance." (Emphasis supplied)

Pursuant to these regulatory powers, the commissioner is authorized to (1) issue (or to refuse to issue) certificates of authority to persons or entities desiring to engage in insurance business in the Philippines;[16] (2) revoke or suspend these certificates of authority upon finding grounds for the revocation or suspension;[17] (3) impose upon insurance companies, their directors and/or officers and/or agents appropriate penalties -- fines, suspension or

removal from office -- for failing to comply with the Code or with any of the commissioner's orders, instructions, regulations or rulings, or for otherwise conducting business in an unsafe or unsound manner.[18]

Included in the above regulatory responsibilities is the duty to hold the security deposits under Sections 191[19] and 203 of the Code, for the benefit and security of all policy holders. In relation to these provisions, Section 192 of the Insurance Code states:

"Sec. 192. The Commissioner shall hold the securities, deposited as aforesaid, for the benefit and security of all the policyholders of the company depositing the same, but shall as long as the company is solvent, permit the company to collect the interest or dividends on the securities so deposited, and, from time to time, with his assent, to withdraw any of such securities, upon depositing with said Commissioner other like securities, the market value of which shall be equal to the market value of such as may be withdrawn. In the event of any company ceasing to do business in the Philippines the securities deposited as aforesaid shall be returned upon the company's making application therefor and proving to the satisfaction of the Commissioner that it has no further liability under any of its policies in the Philippines." (Emphasis supplied)

Undeniably, the insurance commissioner has been given a wide latitude of discretion to regulate the insurance industry so as to protect the insuring public. The law specifically confers custody over the securities upon the commissioner, with whom these investments are required to be deposited. An implied trust[20] is created by the law for the benefit of all claimants under subsisting insurance contracts issued by the insurance company.[21]

As the officer vested with custody of the security deposit, the insurance commissioner is in the best position to determine if and when it may be released without prejudicing the rights of other policy holders. Before allowing the withdrawal or the release of the deposit, the commissioner must be satisfied that the conditions contemplated by the law are met and all policy holders protected.

Commissioner's Actions Entitled to Great Respect

In this case, Commissioner Malinis refused to release the security deposit of CISCO. Believing that the funds were exempt from execution as provided by law, he sought to protect other policy holders. His interpretation of the provisions of the law carries great weight and consideration,[22] as he is the head of a specialized body tasked with the regulation of insurance matters and primarily charged with the implementation of the Insurance Code.

The emergence of the multifarious needs of modern society necessitates the establishment of diverse administrative agencies. In addressing these needs, the administrative agencies charged with applying and implementing particular statutes have accumulated experience and specialized capabilities. Thus, in a long line of cases, this Court has recognized that their construction of a statute is entitled to great respect and should ordinarily be controlling, unless clearly shown to be in sharp conflict with the governing statute or the Constitution and other laws.[23]

Clearly, then, the trial court erred in issuing the Writ of Garnishment against the security deposit of CISCO. It follows that without the issuance of a valid order, the insurance commissioner could not have been in contempt of court.[24]

WHEREFORE, the Petition is GRANTED and the assailed Order SET ASIDE. No costs.

SO ORDERED.

Ynares-Santiago, Austria-Martinez, Callejo, Sr., and Chico-Nazario, JJ., concur.

[1] Rollo, pp. 20-50.

[2] *Id.* at 70-71. Penned by Judge (now Court of Appeals Justice) Noel G. Tijam.

[3] *Id.* at 54-69.

[4] January 16, 2003 Order; rollo, pp. 70-71.

[5] December 18, 2002 Resolution, pp. 15-16; rollo, pp. 68-69.

[6] The case was deemed submitted for decision on February 8, 2005, upon receipt by this Court of petitioner's Memorandum signed by Assistant Solicitor General Karl B. Miranda and Solicitor Marsha C. Recon. Respondent's Memorandum, signed by Atty. Eduardo E. Francisco, was received by the Court on November 26, 2004.

[7] Petitioner's Memorandum, p. 11. Uppercase in the original.

[8] *AFP Mutual Benefit Association, Inc. v. NLRC*, 334 Phil. 712, January 28, 1997, citing *Insular Life Assurance Co., Ltd. v. NLRC*, 179 SCRA 459, November 15, 1989.

[9] *ABS-CBN Broadcasting Corporation v. Commission on Elections*, 380 Phil. 780, January 28, 2000; *Gonzales v. Chavez*, 205 SCRA 816, February 4, 1992.

[10] Maria Clara L. Campos, in her commentary on the Insurance Code of the Philippines, traces the history of the present Insurance Code as follows:

"The forerunner of this [Insurance] Code was the Insurance Act which took effect on July 1, 1915, and which was copied almost verbatim from the California Insurance Act, with the exception of a few provisions which were adopted from the New York Law. x x x. The first Insurance Code took effect on December 18, 1974 and besides incorporating most of the provisions of the Insurance Act with a few changes, it contained many new provisions mostly regulatory in nature. After a number of these new provisions were rendered obsolete by subsequent amendments, the Insurance Code of 1978 was promulgated by Presidential Decree No. 1460, incorporating not only such amendments but also additional changes deemed necessary in order to keep pace with the changing needs and demands of the insurance industry. However, the substantive provisions governing the contract of insurance itself remain for the most part as they were under the Insurance Act." (Campos, *INSURANCE*, [1983], pp. 8-9.)

The Court has held that rulings and general principles on insurance recognized in the state of California have persuasive authority in the Philippines. (*Ang Giok Chip v. Springfield Fire and Marine Insurance Co.*, 56 Phil. 375, December 31, 1931 and *Gercio v. Sun Life Assurance Co. of Canada*, 48 Phil. 53, September 28, 1925).

[11] 153 Cal. 183, March 9, 1908, per curiam (citing *San Francisco Savings Union v. Long*, 123 Cal. 107, December 20, 1898, per Temple, J.).

[12] *Id.*

[13] *The United Harbor Pilots' Association of the Philippines v. Association of International Shipping Lines, Inc.*, 440 Phil. 188, November 13, 2002.

[14] See *J.L.T. Agro, Inc. v. Balansag*, 453 SCRA 211, March 11, 2005.

[15] *Go v. Office of the Ombudsman*, 413 SCRA 608, October 17, 2003; *Almendras Mining Corporation v. Office of the Insurance Commission*, 160 SCRA 656, April 15, 1988.

[16] *INSURANCE CODE*, Secs. 186-187; see *Almendras Mining Corporation v. Office of the Insurance*

Commission, *supra*.

[17] *Id.*, Secs. 241 and 247.

[18] *Id.*, Sec. 415.

[19] "Sec. 191. No insurance company organized or existing under the government or laws other than those of the Philippines shall engage in business in the Philippines unless possessed of paid-up unimpaired capital or assets and reserve not less than that herein required of domestic insurance companies, nor until it shall have deposited with the Commissioner for the benefit and security of the policyholders and creditors of such company in the Philippines, securities satisfactory to the Commissioner consisting of good securities of the Philippines, including new issued of stock of 'registered enterprises,' as this term is defined in Republic Act No. 5186, otherwise known as the Investment Incentives Act, as amended, to the actual market value of not less than the minimum paid-up capital required of domestic insurance companies: Provided, That at least fifty per centum of such securities shall consist of bonds or other evidences of debt of the Government of the Philippines, its political subdivisions and instrumentalities, or of government-owned or controlled corporations and entities, including the Central Bank. x x x."

[20] Articles 1440 and 1441 of the Civil Code provide thus:

"Art. 1440. A person who establishes a trust is called a trustor; one in whom confidence is reposed as regards property for the benefit of another person is known as the trustee; and the person for whose benefit the trust has been created is referred to as the beneficiary.

"Art. 1441 Trusts are either express or implied. Express trusts are created by the intention of the trustor or of the parties. Implied trusts come into being by operation of law."

[21] Cesario P. Topiangco raises the issue of actual ownership and discusses the effects of placing security deposits in the custody of the Insurance Commissioner as follows:

"Doubt has arisen as to whether the government securities, particularly Central Bank Certificates of Indebtedness, now in the possession of insurance companies as part of their investment portfolio are really owned by such companies. Placing these securities in the custody of the Insurance Commissioner would minimize, if not entirely, erase such doubt. Besides, an insurance company in the verge of insolvency would find it difficult to dispose of such securities." (Topiangco, COMMENTARIES AND JURISPRUDENCE ON THE INSURANCE CODE OF THE PHILIPPINES, [1992], p. 167).

[22] *The United Harbor Pilots' Association of the Philippines v. Association of International Shipping Lines, Inc.*, *supra* note 13 at 202.

[23] *Union Bank of the Philippines v. Securities and Exchange Commission*, 411 Phil. 94, June 6, 2001; *Nestle Philippines, Inc. v. Court of Appeals*, 203 SCRA 504, November 13, 1991; *Asturias Sugar Central, Inc. v. Commissioner of Customs*, 140 Phil. 20, 1969.

[24] *Factoran, Jr. v. Court of Appeals*, 378, Phil. 282, December 13, 1999.

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