

FILIPINAS LIFE ASSURANCE CO., ET AL., PETITIONERS VS. GONZALO P. NAVA, RESPONDENT.*G.R. No. 20552. May 20, 1966*

Ponente: BAUTISTA ANGELO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-20552/>**BAUTISTA ANGELO, J.:**

This is a petition for review of a decision of the Court of Appeals which affirms that of the court a quo (1) rescinding the insurance contracts entered into between plaintiff and defendants, (2) ordering defendant Filipinas Life Assurance Co., to pay plaintiff the amount of P32,072.60 as the total amount paid by said plaintiff on account of his insurance policy; and (3) ordering defendant Insular Life Assurance Co., Ltd. to pay plaintiff the amount of P2,574.00 as the total amount paid by plaintiff on account of his insurance policy.

On January 1, 1936, plaintiff and defendant Insular Life Assurance Co., Ltd. entered into a contract of life insurance with a face value of P5,000.00 for which the insurer issued Policy No. 58999.

On February 28, 1939, plaintiff and defendant Filipinas Life Assurance Co. entered into 17 separate contracts of life insurance for which the insurer issued 17 life insurance policies, one of said policies having a face value of P10,000.00 while the rest a face value of P5,000.00 each, or a total of P90,000.00 Each and everyone of the 18 policies issued by defendants to plaintiff contains a loan clause of the following tenor:

"POLICY LOANS. After three full years' premiums have been paid upon this Policy, if no premium payment is in default, the Company, subject to its then existing rules, will advance on proper assignment and delivery of this Policy and on the sole security thereof a sum equal to, or at the option of the owner less than, the cash value specified in the Schedule of Policy Values, less any existing indebtedness on or secured by this Policy and any unpaid balance of the premium for the current policy-year; provided interest at six per centum per annum on the whole amount of the loan is paid in advance to the end of the current policy-year. At the end of the current policy-year interest at the same rate for one year in advance will be due and payable, and annually thereafter, and if not so paid will be added to the principal and bear the same rate of interest. Failure to repay any such loan or interest shall not avoid this Policy unless the total indebtedness shall equal or exceed the full amount of the loan value available hereunder.

"Any indebtedness on this Policy shall first be deducted from any money payable or in any settlement under this Policy."

On account of the policies above-mentioned, plaintiff had so far paid to defendant Insular Life Assurance Co., Ltd. the following- amounts: from 1936 to December, 1941, P1,544.40, and from January, 1942 to January, 1945, P1,029.60, or a total of P2,574.00; and to defendant Filipinas Life Assurance Co. plaintiff had paid the following amounts: from February, 1939 to December, 1941, P13,976.40, and from January, 1942 to January, 1945, P18,096.20, or a total of P32,072.60. In other words, the total amount paid by plaintiff to defendants on the 18 policies before the war and during the Japanese occupation is P34,646.60.

On April 28, 1948, plaintiff applied to defendants for a loan in the sum of P5,000.00 in line with the loan clause

contained in these policies, but defendants refused to grant the loan on the excuse that certain regulations issued by the Insurance Commissioner on May 20, 1946 required the insurance companies to withhold the payments on premiums made during the Japanese occupation because the same shall be subject to future adjustments "as soon as debtor-creditor relationship is established" and because of such process of "withholding" plaintiff was not entitled to borrow any amount until such adjustment has been made.

On September 30, 1948, plaintiff called the attention of the insurance companies to the decision of our Supreme Court in the case of *Haw Pia vs. China Banking Corporation*[1] establishing and recognizing the relationship of debtor and creditor with respects to payments in fiat currency made during the Japanese occupation on pre-war obligations, but in spite of that fact the insurance companies refused to give to plaintiff the loan he solicited giving as reason the excuse that said decision of our Supreme Court was not applicable to transactions undertaken during Japanese occupation when they relate to life insurance policies. On February 4, 1949, plaintiff reiterated his request for his much-needed loan of P5,000.00, and as said request was again refused by the insurance companies notwithstanding the fact that the total amount of the cash surrender values of the 18 policies issued in his favor reached the sum of P9,468.29, plaintiff commenced the present action on February 10, 1949 before the Court of First Instance of Manila praying for the rescission of the above-mentioned 38 policies and for the refund to him of all the premiums so far paid by him to defendants in the amount of P31,633.80, plus G% interest thereon as damages, and the costs of action.

On November 28, 1951, defendants passed a resolution, which was approved by the Insurance Commissioner, giving full credit to all premium payments made by their policyholders in fiat currency during the Japanese occupation on account of pre-war policies for which, reason they filed an amended answer offering to pay plaintiff the amount of P9,468.29 which represents the aggregate cash surrender values of all the policies in question as of February 10, 1949, but apparently this offer was refused.

After trial, the court a quo rendered judgment the dispositive part of which already appears recited in the early part of this decision. This is the decision that was later affirmed by the Court of Appeals in its decision of November 14, 1962, from which defendants interposed the present petition for review.

In the present petition for review, petitioners now contend that the Court of Appeals erred (1) in ruling that as a consequence of the decision in the *Haw Pia* case petitioners violated the loan clause contained in the insurance policies thereby entitling respondent to their rescission; (2) in ruling that by virtue of Article 1295, of the old Civil Code petitioners should refund to defendant all the premiums paid on his insurance policies as a consequence of their rescission; and (3) in not ruling that, even if respondent is entitled to the rescission of said insurance policies, he can only recover their cash surrender value at the time the complaint was filed on February 10, 1949.

The issues raised will be the subject of separate consideration.

- It is contended that the failure of petitioners to give to respondent the loan of P5,000.00 applied for by him on April 28, 1948 was justified in view of certain regulations issued by the Insurance Commissioner on May 20, 1946 which, among other things/provided that the amount corresponding to occupation premiums paid on pre-war policies as well as those paid on pre-war loans should be withheld subject to adjustment "as soon as debtor-creditor relationship is established", for which reason petitioners were not in a position to grant the loan considering the amount of the fiat currency employed by respondent to pay the premiums during the Japanese occupation, and since this eventuality has not yet occurred it stands to reason that petitioners cannot be made responsible to respondent for their alleged non-compliance with the loan clause contained in the insurance policies issued to respondent.

But, as correctly stated by the Court of Appeals, even assuming the validity of the regulations issued by the

Insurance Commissioner which required the withholding of the payments made in fiat currency of the premiums on insurance policies issued before the war subject to whatever adjustment that may be made after the relationship between debtor and creditor shall have been established, the fact however is that such requirement has already lost its legal effect and value when on April 9, 1948 our Supreme Court rendered its decision in the *Haw Pia* case wherein it was declared, among others, that all payments made in fiat currency during the Japanese occupation in relation with any contractual obligation executed before the war were valid to- all intents and purposes, and yet petitioners apparently did not give any importance to such decision for in their opinion it does not have any application to transactions which have any relation to payment of premiums on life insurance policies. In other words, petitioners maintain that the *Haw Pia* case did not settle the question of valuation of premium payments in Japanese military notes during the war on life insurance policies because what said case merely settled was the validity of payments in fiat currency by a debtor to a creditor. Stated in another way, petitioners are of the opinion that the *Haw Pia* case did not settle the question of the valuation of premium payments in Japanese military notes during the war on life insurance policies because the insured is by no means a debtor of the insurer, nor is the insurer his creditor, considering that there is absolutely no obligation on his part to pay the premiums.

There is no merit in this contention. In the *Haw Pia* case it was ruled in a clear manner that payments made in Japanese military notes on account of contractual obligations entered into before the war are valid payments for all legal intents and purposes, and this ruling was reiterated in other similar cases.[2] And it cannot be denied that a life insurance policy involves a contractual obligation wherein the insured becomes duty bound to pay the premiums agreed upon, lest he runs the risk of having his insurance policy lapse if he fails to pay such premiums. The fact that if the insured had paid in full the premiums corresponding to the first three years of the life of his policy he cannot be considered delinquent that would cause the lapse of his policy if the same contains an automatic premium payment clause, cannot divest such policy of its contractual nature, for the result of such failure would only be for him to pay later the premium plus the corresponding interest depending upon the condition of the policy. But certainly it does not cease to be a contractual liability insofar as the payment of the premium is concerned for whether he likes it or not that premium has to be paid. Just he allows the lapse of his policy. Consequently, the payment of premiums on the life insurance policies made by herein respondent before and during the war up to the time he applied for the loan in question with petitioners should be considered likewise as valid payments upon the theory that such insurance policies are in the nature of a contractual obligation within the meaning of the civil law. In effect, therefore, those payments were made by a debtor to a creditor within the meaning of the requirement of the regulations of the Insurance Commissioner and as such they can offer no excuse to petitioners for refusing to grant the loan as contemplated in the loan clause embodied in the policies in question.

The fact, however, is that the oft-repeated regulations of the Insurance Commissioner are of doubtful validity if their effect is to suspend the effectivity of a provision or clause embodied in a valid insurance policy for that would partake of the nature of a regulation the effect of which would be to infringe or impair a contractual obligation in violation of Section 1 (10), Article III, of our Constitution. In the case of *Lim, et al. vs. Register of Deeds of Rizal*,[3] this Court has held that an administrative official has no power to issue a circular or a regulation the effect of which would be to impair the obligation of contract for that would be violative of our Constitution.

It is, therefore, clear from the foregoing that petitioners violated the loan clause embodied in each of the 18 life insurance policies issued to respondent and this violation entitles respondent to rescind all said policies under Section 69 of our Insurance Act, which provides: "The violation of a material warranty, or other material provision of a policy, on the part of either party thereto, entitles the other to rescind."

The citation that petitioners make from Vance on Insurance to the effect that "The general rule is that a breach of the agreement to make the loan does not entitle the insured to rescind the contract," is not controlling in this jurisdiction. Firstly, it was not shown that the insurance laws in the states where said ruling prevails contain a provision identical to Section 69 of our Insurance Law we quoted above, and secondly, the rule cited by Vance is not a rule uniformly followed by all states in the United States, for on this matter there is a marked divergence of opinion. In fact, in a case that occurred in the State of Texas, wherein an insurance company failed to comply with its contractual obligation to give a loan to the insured and so the latter brought an action to rescind the insurance contract, the Court of Civil Appeals of Texas held that the insured had the right to ask for the rescission of said contract and ordered the insurer to refund all premiums paid by him.[4]

- Petitioners likewise contend that even if respondent is entitled to rescind the policies in question he is not entitled to recover all the premiums paid by him to petitioners on account of the 18 life insurance policies in question but merely to their cash surrender value upon the theory that respondent had fully enjoyed the protection of the insurance on his life during the period of the policies to the extent that during that time petitioners had assumed the risk of the death of said, respondent. Petitioners in effect lay stress on the fact that had respondent died in the meantime they would have paid the total sum of 195,000.00 on account of his policies.

This contention has no basis. Considering that our Insurance Law does not contain an express provision as to what the court should do in cases of rescission of an insurance policy under Section 69, the provision that should apply is that embodied in Article 1295 of the old Civil Code, as postulated in Article 16 of the same Code, which provides that on matters which are not governed by special laws the provisions of said Code shall supplement its deficiency. And said Article 1295 provides:

"Art. 1295. Rescission makes necessary the return of the things which were the subject-matter of the contract, with their fruits, and of the price paid, with interest thereon. * * *"

We find, therefore, correct the ruling of the Court of Appeals which orders petitioners to refund to respondent all premiums paid by him up to the filing of the action amounting to P34,644.60.

Petitioners, however, insist that the correct ruling is not what the Court of Appeals has stated but what is hereinafter quoted because such is the weight of authority on the matter. Said the petitioners: "Recovery of the full amount of the premium after the insurer has sustained for sometime the risk of the insurance and the insured has enjoyed the benefit of protection is obviously unjust and is so recognized by the better authorities."

Again, we find this statement incorrect, for, according to American Law Reports Annotated, the ruling above quoted merely represents the minority rule in the United States, the majority rule being that the insured can recover all premiums paid, in some cases with interest, in case of wrongful cancellation, repudiation, termination or rescission of the contract of life insurance.[5]

Nor do we find tenable the contention that because respondent cannot restore to petitioners the "value of the benefit of protection" which he might have received under the 18 life insurance policies in question he is not entitled to rescind them under the provision of Article 1295 of the old Civil Code, because it should be here stated that said article only contemplates a transaction where material things are involved, and do not refer to intangible ones which cannot be the subject of restoration, for to interpret it otherwise would be to defeat the law itself with the result that rescission can never be had under Section 69 of our Insurance Law. And it cannot be denied that petitioners had in turn already derived material benefits from the use of the premiums paid to them by respondent before, during and after the last war from which they must have realized huge profits, and in this light alone petitioners cannot claim prejudice or unfairness if they are ordered to refund the premiums paid by respondent.

- Anent this issue, petitioners point out that the Court of Appeals erred in not ruling that even if respondent is

entitled to the rescission of his 18 life insurance policies he can only recover legally and equitably their cash surrender value at the time the complaint was filed on February 10, 1949.

Inasmuch as this contention is but a corollary to the conclusion we have reached in the discussion of the preceding assignment of error, we believe that further refutation thereof is unnecessary.

Wherefore, the decision appealed from is affirmed. Costs against petitioners.

Bengzon, C.J., Concepcion, Reyes, J.B.L., Barrera, Dizon, Regala, Makalintal and Sanchez, JJ., concur.

Decision affirmed.

[1] 80 Phil., 604.

[2] Hongkong and Shanghai Banking Corporation vs. Luis Perez Samanillo, Inc., 82 Phil., 851; Philippine Trust Company vs. Araneta, 83 Phil., 132.

[3] 46 Off. Gaz., 3665; See also Primioias vs. Fugoso, 45 Off. Gaz., 3280.

[4] Bank Savings Life Insurance Co. vs. Steiner, 81 S. W. 2d. p. 225.

[5] 48 A. L. R., 110-111.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.